TIM S.p.A.
Form 6-K
April 26, 2019

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 APRIL 2019

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

2018

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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 part of the Core Domestic Business segment, operates in the area of products and services for Information Technology, covering the traditional areas of the office and retail world, as well as the innovative world of IoT, M2M and Big Data.

INWIT S.p.A. operates in the electronic communications infrastructure sector, specifically in relation 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)

The Telecom Italia Sparkle group operates In the international field in the development of 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, the Tim Brasil group offers fiber optic data transmission using full IP technology, such as DWDM and MPLS and residential broadband services.

Tim Brasil Serviços e Participações S.A.

Tim Participações S.A.

TIM S.A.

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BOARD OF DIRECTORS

Chairman	Fulvio Conti (independent)
Chief Executive Officer and General Manager	Luigi Gubitosi
Directors	Alfredo Altavilla (independent)
	Paola Bonomo (independent)
	Giuseppina Capaldo (independent)
	Maria Elena Cappello (independent)
	Massimo Ferrari (independent)
	Amos Genish
	Paola Giannotti de Ponti (independent)
	Marella Moretti (independent)
	Lucia Morselli (independent)
	Dante Roscini (Lead Independent Director)
	Arnaud Roy de Puyfontaine
	Rocco Sabelli (independent)
	Michele Valensise (independent)
Secretary to the Board	Agostino Nuzzolo

BOARD OF STATUTORY AUDITORS

Chairman	Roberto Capone
Acting Auditors	Giulia De Martino Anna Doro Marco Fazzini Francesco Schiavone Panni

Alternate Auditors	Andrea Balelli Antonia Coppola Franco Dalla Sega Laura Fiordelisi
Independent Auditors	PwC S.p.A.

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KEY OPERATING AND FINANCIAL DATA - TIM GROUP

Consolidated operating and financial data (*)

(millions of euros)		2018	2017	2016	2015	2014
Revenues		18,940	19,828	19,025	19,719	21,574
EBITDA	(1)	7,403	7,790	8,002	7,006	8,785
EBIT before goodwill impairment loss		3,151	3,291	3,722	3,203	4,529
Goodwill impairment loss		(2,590)			(240)	
EBIT	(1)	561	3,291	3,722	2,963	4,529
Profit (loss) before tax from continuing operations		(777)	1,777	2,799	453	2,350
Profit (loss) from continuing operations		(1,152)	1,287	1,919	50	1,420
Profit (loss) from Discontinued operations/Non-current assets held for sale				47	611	541
Profit (loss) for the year		(1,152)	1,287	1,966	661	1,961
Profit (loss) for the year attributable to Owners of the Parent		(1,411)	1,121	1,808	(70)	1,351
Spectrum & capital expenditures		6,408	5,701	4,876	5,197	4,984

Consolidated financial position data(*)

(millions of euros)	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014
Total Assets	65,619	68,783	70,446	71,268	71,596
Total Equity	21,747	23,783	23,553	21,249	21,584
- attributable to Owners of the Parent	19,528	21,557	21,207	17,554	18,068
- attributable to non-controlling interests	2,219	2,226	2,346	3,695	3,516

Total Liabilities		43,872	45,000	46,893	50,019	50,012
Total Equity and Liabilities		65,619	68,783	70,446	71,268	71,596
Share capital		11,587	11,587	11,587	10,650	10,634
Net financial debt carrying amount	(1)	25,995	26,091	25,955	28,475	28,021
Adjusted net financial debt	(1)	25,270	25,308	25,119	27,278	26,651
Adjusted net invested capital	(2)	47,017	49,091	48,672	48,527	48,235
Debt Ratio (Adjusted net financial debt/Adjusted net invested capital)		53.7%	51.6%	51.6%	56.2%	55.3%

Consolidated profit ratios(*)

		2018	2017	2016	2015	2014
EBITDA/Revenues	(1)	39.1%	39.3%	42.1%	35.5%	40.7%
EBIT/Revenues (ROS)	(1)	3.0%	16.6%	19.6%	15.0%	21.0%
Adjusted Net Financial Debt/EBITDA	(1)	3.4	3.2	3.1	3.9	3.0

(*) Since January 1, 2018, the TIM Group has adopted: the IFRS 9 accounting standard (Financial Instruments) retrospectively - using the specific exemptions in the standard and without restating comparative figures of previous periods - and the IFRS 15 accounting standard (Revenue from contracts with customers), using the modified retrospective method. Consequently, operating and financial data of previous years have not been restated. In addition, as allowed by IFRS 9, the TIM Group decided to continue to apply the hedge accounting provisions contained in IAS 39 instead of those of IFRS 9. Further details are provided in the Note Accounting Policies to the Consolidated Financial Statements at December 31, 2018 of the TIM Group.

(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)	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014
Headcount (excluding headcount relating to Discontinued operations/Non-current assets held for sale)	57,901	59,429	61,229	65,867	66,025
Headcount relating to Discontinued operations/Non-current assets held for sale				16,228	16,420

Headcount, average number in the Group[(1)]

(equivalent number)	2018	2017	2016	2015	2014
Headcount (excluding headcount relating to Discontinued operations/Non-current assets held for sale)	54,423	54,946	57,855	61,553	59,285
Headcount relating to Discontinued operations/Non-current assets held for sale			2,581	15,465	15,652

Financial performance measures

TIM S.p.A.

(euros)		2018	2017	2016
Share prices (December average)				
- Ordinary		0.55	0.73	0.79
- Savings		0.47	0.60	0.64
Dividends per share	(2)			
- Ordinary				
- Savings		0.0275	0.0275	0.0275
Pay Out Ratio	(2) (*)	13%	9%	10%
Market capitalization (in million euros)		11,153	14,779	15,901

Market to Book Value	(**)	0.61	0.74	0.84
Dividend Yield (based on December average)	(2) (***)			
- Ordinary				
- Savings		5.86%	4.55%	4.27%

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(euros)	2018	2017	2016
Basic earnings per share ordinary shares	(0.07)	0.05	0.08
Basic earnings per share savings shares	(0.07)	0.06	0.09
Diluted earnings per share ordinary shares	(0.06)	0.05	0.08
Diluted earnings per share savings shares	(0.06)	0.06	0.09

(1) Includes employees with temp work contracts.
(2) For 2018, the ratio was calculated on the basis of the proposed resolutions submitted to the shareholders meeting held on March 29, 2019. 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, 2018).
(*) 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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ADOPTION OF THE NEW IFRS 9 AND IFRS 15 STANDARDS

On November 22, 2016, Regulation (EU) No. 2016/2067 was issued, which adopted IFRS 9 (*Financial Instruments*) at EU level, relating to the classification, measurement, derecognition and impairment of financial assets and liabilities, and hedge accounting.

As allowed by the accounting standard, the Tim Group:

- did not restate the comparative information provided in the year of first application, also due to the complexity of reformulating values at the beginning of the first year presented without the use of factors known later; therefore, the effects deriving from the first application of IFRS 9 were recognized in equity at January 1, 2018;

- decided to continue to apply the hedge accounting provisions contained in IAS 39 instead of those of IFRS 9.

The different classification of financial assets had no substantial impact for the TIM Group on the measurement of those assets, while the introduction of the *expected credit loss* model replacing the *incurred loss* model required by IAS 39, resulted in a reduction of 107 million euros in consolidated equity at the transition date of January 1, 2018.

On September 22, 2016, Commission Regulation (EU) No. 2016/1905 was issued, which adopted IFRS 15 (*Revenues from contracts with customers*) and the related amendments at EU level. On October 31, 2017, clarifications to IFRS 15 were adopted through Commission Regulation (EU) No. 2017/1987.

IFRS 15 replaces the standards that formerly governed 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*).

The TIM Group has applied the modified retrospective method with the recognition of the cumulative effect of the first-time application of the standard as an adjustment to the opening balance of equity for the period when the standard is adopted, without restating prior periods.

The comprehensive net impact (including tax effects) of the adoption of IFRS 15 on consolidated equity at January 1, 2018 (transition date) was positive for 19 million euros and mainly connected with the combined effects of:

- the change in the types of contract costs that are deferred;

- the new approach to recognizing activation and installation revenues and the recognition of contract assets connected with the earlier recognition of revenues from bundle offers.

Further details are provided in the Note Accounting Policies to the Consolidated Financial Statements at December 31, 2018 of the TIM Group.

To enable the year-on-year comparison of the economic and financial performance for the year 2018, this Report on Operations also shows comparable financial position figures and comparable income statement figures, prepared in accordance with the previous accounting standards applied (IAS 39, IAS 18, IAS 11, and relative Interpretations).

FINANCIAL AND NON-FINANCIAL HIGHLIGHTS

In terms of economic and financial performance in 2018:

Consolidated revenues amounted to 18,940 million euros; comparable consolidated revenues amounted to 19,109 million euros, showing a drop of 3.6% compared to 2017, mainly due to the effects of the major depreciation of the Brazilian real, which lowered the contribution of the Brazil Business Unit to consolidated revenues, which are denominated in euros; in organic terms the Group s consolidated revenues increased by 0.1%.

Consolidated revenues for the fourth quarter of 2018 amounted to 4,863 million euros. The comparable figure (4,892 million euros) shows a drop of 5.0% (-2.5% in organic terms).

EBITDA was equal to 7,403 million euros; Comparable EBITDA amounted to 7,713 million euros, down by 1.0% on 2017 (+2.6% in organic terms), with an EBITDA margin of 40.4%, +1.1 percentage points on the figure for 2017 (40.4% in organic terms, +1.0 percentage points).

EBITDA for 2018 reflected a negative impact totaling 408 million euros relative to non-recurring net expenses.

EBITDA for 2017 reflected non-recurring expenses for a total of 883 million euros.

In the absence of these impacts, organic EBITDA would have been equal to 8,121 million euros, down by 3.4% over 2017, with an EBITDA margin of 42.4% (-1.6 percentage points).

EBITDA for the fourth quarter of 2018 amounted to 1,625 million euros. Comparable EBITDA amounted to 1,683 million euros, up by 6.7 million euros compared to the fourth quarter of 2017 (+10.9% in organic terms).

EBIT amounted to 561 million euros; comparable EBIT amounted to 727 million euros, down -77.9% on 2017 (-77.3% in organic terms).

The EBIT was pulled down by 2,590 million euros relating to the goodwill impairment loss attributed to the Core Domestic Unit and International Wholesale: specifically, as at September 30, 2018, a goodwill impairment loss of 2.0 billion euros was recognized for the goodwill assigned to the Core Domestic Unit; during preparation of the annual financial statements, the impairment test was repeated and an additional impairment loss of 450 million euros for the Core Domestic Unit was recognized - bringing the overall impairment loss for 2018 to 2,450 million euros - as well as an impairment loss of 140 million euros for the goodwill assigned to International Wholesale.

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Excluding this impairment loss as well as the negative impact of non-recurring net expenses totaling 408 million euros (912 million euros in 2017, at constant exchange rates), the change in EBIT would have been -9.5%.Consolidated EBIT for the fourth quarter of 2018 amounted to -56 million euros. Comparable EBIT amounted to -35 million euros (457 million euros in the fourth quarter of 2017).

Consolidated net loss for the year attributable to Owners of the Parent amounted to 1,411 million euros (while a net profit of 1,121 million euros was posted in 2017). The positive contribution from operating activities and the recognition of deferred tax assets in Brazil was offset by the aforementioned goodwill impairment loss of the Core Domestic Unit and International Wholesale, as well as other non-recurring net expenses and the effects of IFRS 9 and 15 application. Excluding those impacts, consolidated net profit for 2018 attributable to Owners of the Parent would have amounted to over 1.4 billion euros.

Capital expenditures in 2018 amounted to 6,408 million euros. On a comparable basis, they amounted to 6,558 million euros (5,701 million euros in 2017), showing an increase of 857 million euros. In particular, the increase deriving from higher investments in mobile phone licenses - and in particular the purchase by the Domestic Business Unit in the last quarter of 2018 of the rights to use 5G frequencies (2,399 million euros) - was offset by lower capital expenditures in fixed and mobile domestic networks, also due to the coverage levels achieved with current technology, as well as the fluctuations in Brazilian exchange rates.

Adjusted net financial debt amounted to 25,270 million euros at December 31, 2018, a decrease of 38 million euros compared December 31, 2017 (25,308 million euros): cash flow generation from operations and financing activities in 2018 was affected by the payment of 739 million euros of income taxes, 477 million euros relative to the portion of the award amount due for 2018 for rights to use 3700-3800 MHZ and 26.5-27.5 GHZ frequencies in Italy and the payment of dividends for a total of 256 million euros.

Financial highlights for the year

(millions of euros)		2018	2018 comparable (a)	2017 (b)	% Change (a-b)	% Change Organic
Revenues		18,940	19,109	19,828	(3.6)	0.1
EBITDA	(1)	7,403	7,713	7,790	(1.0)	2.6
EBITDA Margin		*39.1%*	*40.4%*	*39.3%*	*1.1pp*	
Organic EBITDA Margin		*39.1%*	*40.4%*	*39.4%*	*1.0pp*	
EBIT before goodwill impairment loss		3,151	3,317	3,291	0.8	

Goodwill impairment loss		*(2,590)*	*(2,590)*			
EBIT	(1)	561	727	3,291	(77.9)	(77.3)
EBIT Margin		*3.0%*	*3.8%*	*16.6%*	*(12.8)pp*	
Organic EBIT Margin		*3.0%*	*3.8%*	*16.8%*	*(13.0)pp*	
Profit (loss) for the year attributable to Owners of the Parent		(1,411)	(1,298)	1,121		
Capital expenditures & spectrum		6,408	6,558	5,701	15.0	

		12/31/2018	12/31/2017	Change Amount
Adjusted net financial debt	(1)	25,270	25,308	(38)

Details are provided under Alternative Performance Measures .

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Financial highlights for the fourth quarter

(millions of euros)		4th Quarter 2018	4th Quarter 2018 comparable (a)	4th Quarter 2017 (b)	% Change (a-b)	% Change Organic
Revenues		4,863	4,892	5,149	(5.0)	(2.5)
EBITDA	(1)	1,625	1,683	1,577	6.7	10.9
EBITDA Margin		*33.4%*	*34.4%*	*30.6%*	*3.8pp*	
Organic EBITDA Margin		*33.4%*	*34.4%*	*30.3%*	*4.1pp*	
EBIT before goodwill impairment loss		534	555	457	21.4	
Goodwill impairment loss		*(590)*	*(590)*			
EBIT	(1)	(56)	(35)	457		
EBIT Margin		*(1.2)%*	*(0.7)%*	*8.9%*	*(9.6)pp*	
Organic EBIT Margin		*(1.2)%*	*(0.7)%*	*8.6%*	*(9.3)pp*	
Profit (loss) for the period attributable to owners of the Parent		(543)	(528)	88		

Details are provided under Alternative Performance Measures .

* * *

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 2018 materiality matrix, which summarizes the point of view of the Company and stakeholders, also identified the Sustainable Development Goals which the Group considers it can significantly contribute to, through its own operations.

Such non-financial reporting stands alongside the company s positioning in major sustainability indices, which in 2018 saw the TIM Group included, for the 15th consecutive year, in the Dow Jones Sustainability Indices World (DJSI World) and Europe (DJSI Europe), and its inclusion in the Euronext Vigeo World 120, Eurozone 120 and Europe 120 indices.

For more details of TIM s approach to sustainability and results achieved, see the 2018 Sustainability Report - Non-Financial Disclosure.

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Non-recurring events - other one-off items

In the years 2018 and 2017, the TIM Group recognized non-recurring net operating expenses connected to events and transactions that by their nature do not occur on an ongoing basis in the normal course of operations and which have been shown because their amount is significant. Such expenses include the goodwill impairment loss, 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, as well as items related to adjustments relative to previous years.

In detail:

(millions of euros)	2018	2017
Non-recurring expenses (Income)		
Revenues		
Adjustments of revenues from previous years	62	
Other income		
Effect of Brazil BU tax recovery	(37)	
Acquisition of goods and services and Change in inventories		
Expenses related to agreements and the development of non-recurring projects	15	10
Employee benefits expenses		
Expenses related to restructuring and rationalization and other expenses	233	697
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	135	176
Impact on EBITDA	408	883
Goodwill impairment loss on Core Domestic and International Wholesale	2,590	
Impairment losses on intangible assets		30
Impact on EBIT	2,998	913

Non-recurring net expenses in 2018 included:

- the goodwill impairment loss attributed to the Core Domestic unit and International Wholesale (2,590 million euros);

- expenses related to company restructuring processes (233 million euros);

- sundry expenses for 135 million euros including provisions to cover a fine of 74.3 million euros levied for alleged infringement of Article 2 of Italian Decree Law 21 of March 15, 2012 (the Golden Power rule) under a ruling of May 8, 2018. TIM lodged an appeal with the Lazio Regional Administrative Court (TAR), requesting the precautionary suspension of the decision. In July 2018, the TAR granted the application and suspended payment of the fine, setting a date for the appeal to be heard;

- the adjustment of some contractual liabilities in order to align them with their estimated period end value. Specifically, liabilities relative to prepaid contracts were adjusted by a total of 62 million euros, wholly attributable to previous financial years;

- the positive effect of the Brazil Business Unit tax recovery, equal to 37 million euros, following the favorable outcome of the tax dispute relative to the unconstitutional grounds of the law that entailed the inclusion of ICMS indirect tax in the base for calculating taxes on PIS and COFINS revenues.

Non-recurring expenses in 2017 chiefly included provisions for the start-up of the company restructuring plan of TIM S.p.A..

For comparative purposes only and to provide a better understanding of business performance in the reporting period, besides non-recurring transactions, one-off items are highlighted which, by their nature, are not linear or recurring, in the reporting period or the comparative period. Such above-mentioned items exclusively pertain to the Domestic market, are not subject to auditing and are produced for explanatory purposes only.

In 2017, positive one-off items for a total of 112 million euros were posted, relative to the differential impact arising from the revised estimate of the settlement value of some contractual liabilities with customers and suppliers.

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CONSOLIDATED OPERATING PERFORMANCE

Revenues

Revenues amounted to 18,940 million euros in 2018.

Comparable revenues on the same accounting basis amounted to 19,109 million euros, down by 3.6% (-719 million euros) on 2017 (19,828 million euros); the decrease is mainly attributable to the Brazil Business Unit (-543 million euros), due to the depreciation of the Brazilian real of approximately 20% compared to 2017, and the Domestic Business Unit (-169 million euros). Without the negative exchange rate effect[(1)], the Brazil Business Unit saw growth of +189 million euros (+5.0%) and the organic change in consolidated revenues for the Group was up by 0.1% (+27 million euros).

Revenues for 2018 include a non-recurring adjustment of -62 million euros relating to previous financial years.

The breakdown of revenues on the same accounting basis for 2018 by operating segment is shown below, with comparative data provided for 2017.

	2018 comparable		2017		Change		
(millions of euros)		% of total		% of total	amount	%	% organic
Domestic	15,185	79.5	15,354	77.4	(169)	(1.1)	(1.0)
Core Domestic	*14,161*	*74.1*	*14,249*	*71.9*	*(88)*	*(0.6)*	*(0.6)*
International Wholesale	*1,272*	*6.7*	*1,349*	*6.8*	*(77)*	*(5.7)*	*(4.7)*
Brazil	3,959	20.7	4,502	22.7	(543)	(12.1)	5.0
Other Operations							
Adjustments and eliminations	(35)	(0.2)	(28)	(0.1)	(7)		
Consolidated Total	19,109	100.0	19,828	100.0	(719)	(3.6)	0.1

EBITDA

EBITDA amounted to 7,403 million euros for 2018.

Comparable EBITDA for 2018 totaled 7,713 million euros (7,790 million euros in 2017), showing a drop of 77 million euros (-1.0%); the EBITDA margin stood at 40.4% (39.3% in 2017; +1.1 percentage points).

Organic EBITDA rose by 192 million euros (+2.6%) compared to 2017, with the organic EBITDA margin posting an increase of 1.0 percentage points, from 39.4% in 2017 to 40.4% in 2018.

Organic EBITDA, net of the non-recurring component, amounted to 8,121 million euros (8,404 million euros in 2017). Specifically EBITDA for 2018 reflected a negative impact totaling 408 million euros referring to non-recurring expenses as already described.

For further details, see the Note Non-recurring events and transactions in the Consolidated Financial Statements as at December 31, 2018 of the TIM Group.

1 The average exchange rates used for the translation into euro (expressed in terms of units of local currency per 1 euro) were 1.18121 in 2018 and 1.12946 in 2017 for the US dollar. For the Brazilian real, the average exchange rates used were 4.30628 in 2018 and 3.60584 in 2017. 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.

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The drop essentially referred to the Brazil Business Unit for -347 million euros and was mainly driven by the negative exchange rate effect for 353 million euros. Excluding that effect, the item would have been positive and equal to approximately 6 million euros.

Employee benefits expenses (3,105 million euros; 3,084 million euros on comparable basis; 3,626 million euros in 2017):

(millions of euros)	2018 comparable	2017	Change
Employee benefits expenses - Italy	2,744	3,248	(504)
Ordinary employee expenses and costs	2,520	2,551	(31)
Restructuring and other expenses	224	697	(473)
Employee benefits expenses Outside Italy	340	378	(38)
Ordinary employee expenses and costs	331	378	(47)
Restructuring and other expenses	9		9
Total employee benefits expenses	3,084	3,626	(542)
EBITDA Margin	*16.1*	*18.3*	*(2.2)pp*

The net decrease of 542 million euros was mainly driven by:

the decrease of 473 million euros for restructuring expenses and allocations to employee and other provisions of the Italian component. Specifically, a plan was launched at the end of 2017 for executive and non-executive staff to adopt, among others, Article 4(1 7-ter) of Law 92 of June 28, 2012 (the Fornero Law , which provides for early retirement arrangements). During 2018, Plan take-up was greater than initially forecast, while Decree Law 4 of January 28, 2019, which introduced significant changes in social security, allows wider accessibility in terms of recourse to assisted pensions. Therefore, estimates for staff leaving in 2019-2020 were revised, with additional non-recurring provisions being allocated for a total of 204 million euros; In 2017, provisions were already set aside for non-recurring expenses totaling 697 million euros;

lower ordinary employee expenses for the Italian component, which fell by 31 million euros, mainly due to the benefits delivered by the reduction of the average salaried workforce by -1,447 employees (excluding the component relating to the solidarity agreement), which only in part were offset by the termination, at the start of 2018, of the defensive solidarity agreements applied by TIM S.p.A.. The solidarity agreement was renewed in June 2018 for a further 12 months;

the decrease of 47 million euros in the component outside Italy of ordinary employee expenses, mainly due to the balance between the impact of the change in exchange rates and local remuneration dynamics of the Brazil Business Unit.

Other operating income (341 million euros; 341 million euros on comparable basis; 523 million euros in 2017):

(millions of euros)	2018 comparable	2017	Change
Late payment fees charged for telephone services	60	59	1
Recovery of employee benefit expenses, purchases and services rendered	27	22	5
Capital and operating grants	39	51	(12)
Damages, penalties and recoveries connected with litigation	29	40	(11)
Partnership agreements and other arrangements with suppliers	22	129	(107)
Estimate revisions and other adjustments	73	188	(115)
Other	91	34	57
Total	341	523	(182)

Other operating income includes, *inter alia* :

contribution fees resulting from partnership agreements and other agreements with suppliers, designed to develop collaboration, in order to strengthen and stabilize industrial, commercial and real estate relations over time;

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the non-recurrent item of 37 million euros recorded in 2018 by the Brazil Business Unit and concerning the positive effect of the tax recovery following the favorable outcome of the tax dispute relative to the unconstitutional grounds of the law that entailed the inclusion of ICMS indirect tax in the base for calculating taxes on PIS and COFINS revenues;

positive one-off items for a total of 112 million euros in 2017, relative to the differential impact arising from the revised estimate of the settlement value of some contractual liabilities with customers and suppliers.

Other operating expenses (1,259 million euros; 1,236 million euros on comparable basis; 1,208 million euros in 2017):

(millions of euros)	2018 comparable	2017	Change
Write-downs and expenses in connection with credit management	495	400	95
Provision charges	189	228	(39)
TLC operating fees and charges	286	356	(70)
Indirect duties and taxes	125	111	14
Penalties, settlement compensation and administrative fines	73	33	40
Association dues and fees, donations, scholarships and traineeships	12	15	(3)
Other	56	65	(9)
Total	1,236	1,208	28

Other operating expenses included a non-recurring component of 135 million euros (176 million euros in 2017), 108 million euros relative to the Domestic Business Unit, mainly referred to the fine levied on May 8, 2018 in application of the Golden Power rule (Italian Decree Law no. 21 of 15/3/2012) and 27 million euros to the Brazil Business Unit for expenses concerning litigation.

Depreciation and amortization

Depreciation and amortization amounted to 4,255 million euros.

On the same accounting basis, depreciation and amortization amounted to 4,399 million euros, breaking down as follows.

(millions of euros)	2018 comparable	2017	Change
Amortization of intangible assets with a finite useful life	1,743	1,793	(50)
Depreciation of property, plant and equipment owned and leased	2,656	2,680	(24)
Total	4,399	4,473	(74)

Net impairment losses on non-current assets

This item amounted to 2,586 million euros in 2018 and mainly refers to the overall goodwill impairment loss of 2,590 million euros, recognized during the year and related to the Domestic Business Unit.

In accordance with IAS 36, goodwill is not subject to amortization, but is tested for *impairment* on at least an annual basis, when preparing the company s consolidated financial statements. At September 30, 2018, with reference to the Core Domestic CGU, internal and external events and circumstances had arisen that led the company to carry out impairment testing on the CGU and brought a recognition of an Impairment loss relative for an amount of 2,000 million euros.

In the 2018 Financial Statements, the annual impairment test resulted in an additional impairment loss of 450 million euros on the goodwill attributed to the Core Domestic CGU - bringing the total impairment loss for the financial year 2018 to 2,450 million euros - as well as an impairment loss of 140 million euros on the goodwill attributed to the International Wholesale CGU.

With reference to the Brazil Cash Generating Units, the Impairment test exercise did not show any impairment losses to the Goodwill allocated to the said CGUs.

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In 2017, net impairment losses on non-current assets amounted to 37 million euros and mainly consisted of write-downs of intangible assets.

Further details are provided in the Note Goodwill to the Consolidated Financial Statements at December 31, 2018 of the TIM Group.

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EBIT

EBIT amounted to 561 million euros for 2018.

Comparable EBIT for 2018 totaled 727 million euros (3,291 million euros for 2017), a drop of 2,564 million euros (-77.9%) compared to 2017; the EBIT margin stood at 3.8% (16.6% in 2017).

Organic EBIT was down by 2,476 million euros (-77.3%), with an organic EBIT margin of 3.8% (16.8% in 2017).

Organic EBIT, net of the non-recurring component, amounted to 3,725 million euros (4,115 million euros in 2017), with an EBIT margin of 19.4% (21.6% in 2017).

EBIT for 2018 reflected the negative impact of non-recurring net expenses, including the aforesaid impairment loss on goodwill of the Core Domestic unit and International Wholesale totaling 2,998 million euros (912 million euros in 2017, at constant exchange rates).

Organic EBIT is calculated as follows:

(millions of euros)	2018	2017	Change amount	Change %
REPORTED EBIT	561			
Effect of adoption of new accounting standards	166			
COMPARABLE EBIT on the same accounting basis	727	3,291	(2,564)	(77.9)
Foreign currency financial statements translation effect		(88)	88	
Changes in the scope of consolidation				
ORGANIC EBIT	727	3,203	(2,476)	(77.3)
of which non-recurring income/(expenses)	(2,998)	(913)	(2,085)	
Foreign currency translation effect on Non-recurring Income/(Expenses)		1	(1)	
ORGANIC EBIT, excluding Non-recurring items	3,725	4,115	(390)	(9.5)

Exchange rate fluctuations mainly related to the Brazil Business Unit.

Income/(expenses) from investments

In 2018, this item showed a positive figure of 10 million euros and mainly included the dividends paid to TIM S.p.A. by the company Emittenti Titoli.

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 was completed that year.

Finance income (expenses), net

Finance income (expenses) show a net expense of 1,348 million euros (expense of 1,495 million euros in 2017): the improvement was mainly driven by lower finance expenses, connected to the reduction in the Group s average debt exposure and a drop in interest rates from the refinancing operations carried out over the last 12/18 months.

Income tax expense

This item amounted to 375 million euros, a drop of 115 million euros on 2017 (490 million euros). Specifically, the figure for 2018 benefited from approximately 200 million euros contributed by the Brazil Business Unit, from the recognition of deferred tax assets related to the tax recoverability of past losses recorded in previous years that had become recoverable based on the expected profits. This impact was offset by the Parent TIM S.p.A. s higher taxes, in relation to the impact of certain items in the 2018 financial year which have no tax relevance (mainly driven by the goodwill impairment loss and other non-deductible sundry expenses and minor benefits).

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Profit (loss) for the year

This item breaks down as follows:

(millions of euros)	2018	2018 comparable	2017
Profit (loss) for the year	(1,152)	(1,038)	1,287
Attributable to:			
Owners of the Parent:			
Profit (loss) from continuing operations	(1,411)	(1,298)	1,121
Profit (loss) from Discontinued operations/Non-current assets held for sale			
Profit (loss) for the year attributable to Owners of the Parent	(1,411)	(1,298)	1,121
Non-controlling interests:			
Profit (loss) from continuing operations	259	260	166
Profit (loss) from Discontinued operations/Non-current assets held for sale			
Profit (loss) for the year attributable to Non-controlling interests	259	260	166

The net loss for 2018 attributable to Owners of the Parent amounted to 1,411 million euros (while a net profit of 1,121 million euros was posted in 2017). The positive contribution from operating activities and the recognition of deferred tax assets in Brazil was offset by the aforementioned goodwill impairment loss of the Core Domestic Unit and International Wholesale, as well as other non-recurring net expenses and the effects of IFRS 9 and 15 application. Excluding those impacts, consolidated net profit for 2018 attributable to Owners of the Parent would have amounted to over 1.4 billion euros.

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

DOMESTIC

(millions of euros)	2018	2018 comparable (a)	2017 (b)	Change amount	Change (a-b) %	% organic
Revenues	15,031	15,185	15,354	(169)	(1.1)	(1.0)
EBITDA	5,955	6,221	6,171	50	0.8	0.9
EBITDA Margin	*39.6*	*41.0*	*40.2*		*0.8pp*	*0.8 pp*
EBIT	16	177	2,772	(2,595)	(93.6)	(93.6)
EBIT Margin	*0.1*	*1.2*	*18.1*		*(16.9)pp*	*(16.9)pp*
Headcount at year end (number)	48,200		49,851	(1,651)	(3.3)	

(millions of euros)	4th Quarter 2018	4th Quarter 2018 comparable (a)	4th Quarter 2017 (b)	Change amount	Change (a-b) %	% organic
Revenues	3,849	3,874	4,042	(168)	(4.2)	(4.2)
EBITDA	1,216	1,263	1,116	147	13.2	13.1
EBITDA Margin	*31.6*	*32.6*	*27.6*		*5.0 pp*	*5.0 pp*
EBIT	(235)	(216)	265	(481)		
EBIT Margin	*(6.1)*	*(5.6)*	*6.6*		*(12.2)pp*	*(12.2)pp*

Fixed

	12/31/2018	12/31/2017	12/31/2016
Physical accesses at period end (thousands) (1)	18,212	18,995	18,963
of which retail physical accesses at period end (thousands)	*10,149*	*11,044*	*11,285*
Broadband accesses at period end (thousands) (2)	11,184	10,154	9,206
of which Retail broadband accesses at period end (thousands)	*7,575*	*7,641*	*7,191*
Network infrastructure in Italy:			
copper access network (millions of km pair, distribution and connection)	114.4	114.6	114.4
access and carrier network in optical fiber (millions of km - fiber)	16.4	14.3	12.6
Total traffic:			
Minutes of traffic on fixed-line network (billions):	58.3	64.0	69.1
Domestic traffic	46.2	50.7	55.6
International traffic	12.1	13.3	13.5
Broadband volumes (PBytes) (3)	9,394	7,848	5,774

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

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Mobile

	12/31/2018	12/31/2017	12/31/2016
Lines at period end (thousands) (1)	31,818	30,755	29,617
Change in lines (%)	3.5	3.8	(1.3)
Churn rate (%) (2)	26.3	26.2	22.8
Total traffic:			
Outgoing retail traffic (billions of minutes)	57.0	51.4	44.9
Incoming and outgoing retail traffic (billions of minutes)	85.4	78.1	69.6
Browsing traffic (PBytes) (3)	686.8	417.5	258.5
Average monthly revenues per line (in euros) ARPU (4)	11.5	12.5	12.4

The figure includes the SIM cards used on platforms for delivering Machine-to-Machine services.

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.

National traffic excluding roaming.

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

Revenues for 2018 amounted to 15,031 million euros. Comparable revenues on the same accounting basis amounted to 15,185 million euros for 2018, down by 169 million euros on the previous year (-1.1%). Revenues for 2018 include a non-recurring adjustment of -62 million euros relating to previous financial years.

In the fourth quarter, revenues recorded a drop of 168 million euros (-4.2% compared to the fourth quarter of the 2017).

The revenues from services amounted to 13,834 million euros (-166 million euros over 2017, equal to -1.2%), impacted by the effects of a changed regulatory and competitive scenario (30-day pricing restored, entry of a fourth mobile operator and a reduction in the prices of some wholesale services).

In detail:

- revenues from services for the fixed-line market amounted to 9,951 million euros, remaining stable with respect to 2017 despite stronger market competition. Such stabilization was due to higher retail ARPU, higher revenues from ICT solutions (+99 million euros compared to 2017, +14.8%) and from innovative services for data connectivity (+306 million euros, +14.4%), also driven by growth in Ultrabroadband customers (+1.0 million on 2017) that at the end of 2018 reached 3.2 million (5.4 million including wholesale lines). These dynamics offset the natural decline in revenues from traditional voice services (-334 million euros), due to the decrease in traditional accesses and lower regulated prices on some wholesale services (-65 million euros);

- revenues from services for the Mobile market were equal to 4,513 million euros (-142 million euros, equal to -3.1% on 2017) and were affected to a greater extent by the changed regulatory and competitive scenario, with a downturn in calling and broadband ARPU.

Revenues from product sales, including the change in work in progress, amounted to 1,351 million euros in 2018 (-3 million euros on the previous year).

EBITDA

EBITDA for the Domestic Business Unit for 2018 amounted to 5,955 million euros.

Comparable EBITDA for 2018 totaled 6,221 million euros, up by 50 million euros compared to 2017 (+0.8%), with an EBITDA margin of 41.0% (+0.8 percentage points compared to the previous year).

Organic EBITDA rose by 53 million euros (+0.9%) compared to 2017, with the organic EBITDA margin posting an increase of 0.8 percentage points, from 40.2% in 2017 to 41.0% in 2018.

Organic EBITDA, net of the non-recurring component, amounted to 6,629 million euros (7,050 million euros in 2017). Specifically EBITDA for 2018 reflected a negative impact totaling 408 million euros referring to non-recurring expenses as already described.

In the fourth quarter of 2018, organic EBITDA amounted to 1,263 million euros, showing an increase of 146 million euros (+13.1%) compared to the fourth quarter of 2017, with the EBITDA margin posting an increase of 5.0 percentage points, rising from 27.6% in the fourth quarter of 2017 to 32.6% for 2018.

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Organic EBITDA is calculated as follows:

(millions of euros)	2018	2017	Change amount	Change %
REPORTED EBITDA	5,955			
Effect of adoption of new accounting standards	266			
COMPARABLE EBITDA on the same accounting basis	6,221	6,171	50	0.8
Foreign currency financial statements translation effect		(3)	3	
Changes in the scope of consolidation				
ORGANIC EBITDA	6,221	6,168	53	0.9
of which non-recurring income/(expenses)	(408)	(882)	474	
ORGANIC EBITDA - excluding Non-recurring items	6,629	7,050	(421)	(6.0)

In 2017, EBITDA also reflected some one-off items for a total of 112 million euros, relative to the differential impact arising from the revised estimate of the period end value of some contractual liabilities with customers and suppliers.

The changes in the main cost items, on the same accounting basis, are shown below:

(millions of euros)	2018 comparable	2017	Change
Acquisition of goods and services	6,289	6,235	54
Employee benefits expenses	2,761	3,266	(505)
Other operating expenses	742	704	38

In particular:

Acquisition of goods and services (6,360 million euros; 6,289 million euros on comparable basis; 6,235 million euros in 2017):

(millions of euros)	2018 comparable	2017	Change
Acquisition of goods	1,733	1,628	105

Revenues due to other TLC operators and costs for telecommunications network access services	1,562	1,614	(52)
Commercial and advertising costs	792	751	41
Power, maintenance and outsourced services	876	949	(73)
Rent and leases	397	414	(17)
Other service expenses	929	879	50
Total acquisition of goods and services	6,289	6,235	54
% of Revenues	*41.4*	*40.6*	*0.8*

This item increased by 54 million euros compared to 2017. 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 commercial and advertising costs, offset by a reduction in costs for energy and outsourced services, as a result of streamlining actions taken during the year.

Employee benefits expenses (2,781 million euros; 2,761 million euros on comparable basis; 3,266 million euros in 2017): went down by 505 million euros, driven chiefly by the same factors affecting the Italian employee benefits expenses component at Group level, to which readers are referred.

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Other operating income (273 million euros; 273 million euros on comparable basis; 471 million euros in 2017):

(millions of euros)	2018 comparable	2017	Change
Late payment fees charged for telephone services	49	48	1
Recovery of employee benefit expenses, purchases and services rendered	27	22	5
Capital and operating grants	33	44	(11)
Damages, penalties and recoveries connected with litigation	28	39	(11)
Partnership agreements and other arrangements with suppliers	22	97	(75)
Estimate revisions and other adjustments	75	192	(117)
Other income	39	29	10
Total	273	471	(198)

Other operating income includes, among others, contribution fees resulting from partnership agreements and other arrangements with suppliers designed to develop the collaboration between the parties, in order to strengthen and stabilize industrial, commercial and real estate relations over time. In the 2017 financial year, Other income included the aforementioned one-off items for a total amount of 112 million euros.

Other operating expenses (763 million euros; 742 million euros on comparable basis; 704 million euros in 2017):

(millions of euros)	2018 comparable	2017	Change
Write-downs and expenses in connection with credit management	372	313	59
Provision charges	109	155	(46)
TLC operating fees and charges	48	55	(7)
Indirect duties and taxes	94	91	3
Penalties, settlement compensation and administrative fines	73	33	40
Association dues and fees, donations, scholarships and traineeships	11	13	(2)

Sundry expenses	35	44	(9)
Total	742	704	38

Other operating expenses include a non-recurring component of 108 million euros (176 million euros in the 2017 financial year), mainly referring to the fine imposed on May 8, 2018 in the application of Decree Law 21 of 3/15/2012 (Golden Power rule). The item also includes higher provision charges for bad debts (+10 million euros) compared to 2017 mainly attributable to difficulties and delays in collections from some South American and Mediterranean Basin operators.

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EBIT

EBIT for the Domestic Business Unit for 2018 amounted to 16 million euros.

Comparable EBIT for 2018 totaled 177 million euros (2,772 million euros in 2017), showing a drop of 2,595 million euros, with the EBIT margin at 1.2% (18.1% in 2017).

Organic EBIT was down by 2,594 million euros.

Organic EBIT, net of the non-recurring component, amounted to 3,175 million euros (3,683 million euros in 2017), with an EBIT margin of 20.8% (24.0% in 2017).

EBIT for 2018 reflected the negative impact of non-recurring net expenses, including the aforesaid impairment loss on goodwill of the Core Domestic unit and International Wholesale totaling 2,998 million euros (912 million euros in 2017, at constant exchange rates).

Consolidated EBIT for the fourth quarter of 2018 amounted to -235 million euros; Comparable EBIT amounted to -216 million euros (265 million euros in the fourth quarter of 2017).

Organic EBIT is calculated as follows:

(millions of euros)	2018	2017	Change amount	Change %
REPORTED EBIT	16			
Effect of adoption of new accounting standards	161			
COMPARABLE EBIT on the same accounting basis	177	2,772	(2,595)	(93.6)
Foreign currency financial statements translation effect		(1)	1	
Changes in the scope of consolidation				
ORGANIC EBIT	177	2,771	(2,594)	(93.6)
of which non-recurring income/(expenses)	(2,998)	(912)	(2,086)	
ORGANIC EBIT, excluding Non-recurring items	3,175	3,683	(508)	(13.8)

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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 4G Retail, 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, TI Trust Technologies and Olivetti Scuola Digitale (formerly Alfabook) and Telsy.
  - 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, TI 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 2018 for the Domestic Business Unit are presented in the following tables, broken down by market/business segment and compared to 2017, on the same accounting basis.

Core Domestic

(millions of euros)	2018 comparable	2017	Change amount	%
Revenues	14,161	14,249	(88)	(0.6)
Consumer	*7,573*	*7,737*	*(164)*	*(2.1)*
Business	*4,721*	*4,656*	*65*	*1.4*
Wholesale	*1,787*	*1,690*	*97*	*5.8*
Other	*80*	*166*	*(86)*	*(51.8)*
EBITDA	6,127	6,029	98	1.6
EBITDA Margin	*43.3*	*42.3*		*1.0pp*
EBIT	335	2,736	(2,401)	(87.8)
EBIT Margin	*2.4*	*19.2*		*(16.8)pp*
Headcount at year end (number)	47,455	49,095	(1,640)	(3.3)

In detail:

Consumer: revenues for 2018 in the Consumer segment were equal to 7,573 million euros, down on the performance of the previous year (-164 million euros, -2.1%), in contrast to the growth registered in 2017, due to the changed competitive and regulatory scenario (entry of a fourth mobile operator, 30-day pricing restored). The same trend seen in total revenues also applied to revenues from services, which amounted to 6,834 million euros, down by 1.6% compared to the previous year (-114 million euros). In particular:

Mobile revenues amounted to 3,835 million euros (-1.5% on the previous year); revenues from services fell by 122 million euros (-3.7% over 2017), with a more marked slowdown in the fourth quarter compared to the trend observed the previous year, attributable to the changed regulatory and competitive scenario;

revenues from the Fixed-line market totaled 3,696 million euros, down over the previous year (-3.0%), but with revenues from services in line with 2017; this trend reflected a decrease in accesses, offset by higher ARPU levels.

Business: revenues for the Business segment amounted to 4,721 million euros, up by 65 million euros on 2017 (+1.4%) attributable to revenues from services (+1.4%). In particular:

Mobile revenues show a positive performance compared to 2017 (+1.8%), driven mainly by higher revenues from services (+1.2%) and, in particular, growth in new digital services (+2.7% on 2017);

Revenues from the fixed-line market rose by 41 million euros (+1.1% over 2017), thanks to the performance of services (+1.4%); lower prices and revenues from traditional services (connected with the technological shift towards VoIP systems and solutions) were more than offset by steady growth in revenues from ICT services (+14.7%).

Wholesale: revenues for the Wholesale segment in 2018 came to 1,787 million euros, up by 97 million euros compared to 2017 (+5.8%). Cuts to regulated prices, which lowered revenues by 65 million euros, were mainly offset by growth in access, driven by the Ultra-Broadband segment.

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International Wholesale

(millions of euros)	2018 comparable	2017	amount	Change %	% organic
Revenues	1,272	1,349	(77)	(5.7)	(4.7)
of which third party	*1,084*	*1,152*	*(68)*	*(5.9)*	*(4.7)*
EBITDA	111	154	(43)	(27.9)	(26.5)
EBITDA Margin	*8.7*	*11.4*		*(2.7)pp*	*(2.6)pp*
EBIT	(144)	37	(181)		
EBIT Margin	*(11.3)*	*2.7*		*(14.0)pp*	*(14.0)pp*
Headcount at year end (number)	745	756	(11)	(1.5)	

Revenues for the International Wholesale Cash-Generating Unit for 2018 totaled 1,272 million euros, showing a drop of 77 million euros on the 2017 figure (-5.7%). This trend is mainly related to the downturn in revenues from traditional telephone services and to the expiry of long-term contracts relative to the Mediterranean Basin area (IP/Data services).

The International Wholesale Cash-Generating Unit comprises the Telecom Italia Sparkle group companies; a share of the TIM group goodwill was allocated to the CGU. In the 2018 Financial Statements, the value of the assigned goodwill was written down for an amount of 140 million euros following the impairment test.

Further details are provided in the Note Goodwill to the TIM Group Consolidated Financial Statements at December 31, 2018.

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BRAZIL

	(millions of euros)			(millions of Brazilian reais)			Change	
		2018			2018			
		comparable	2017		comparable	2017	amount	%
	2018	(a)	(b)	2018	(c)	(d)	(c-d)	(c-d)/d
Revenues	3,943	3,959	4,502	16,981	17,050	16,234	816	5.0
EBITDA	1,467	1,511	1,635	6,316	6,508	5,894	614	10.4
EBITDA Margin	*37.2*	*38.2*	*36.3*	*37.2*	*38.2*	*36.3*		*1.9pp*
EBIT	564	569	535	2,428	2,449	1,931	518	26.8
EBIT Margin	*14.3*	*14.4*	*11.9*	*14.3*	*14.4*	*11.9*		*2.5pp*
Headcount at year end (number)					9,658	9,508	150	1.6

The average exchange rates used for the translation into euro (expressed in terms of units of Real per 1 euro) were 4.30628 for 2018 and 3.60584 for 2017.

	(millions of euros)			(millions of Brazilian reais)			Change	
		4th Quarter			4th Quarter			
		2018	4th Quarter		2018	4th Quarter		
	4th Quarter	comparable	2017	4th Quarter	comparable	2017	amount	%
	2018	(a)	(b)	2018	(c)	(d)	(c-d)	(c-d)/d
Revenues	1,025	1,030	1,113	4,457	4,479	4,257	222	5.2
EBITDA	417	427	465	1,807	1,856	1,758	98	5.6
EBITDA Margin	*40.5*	*41.4*	*41.3*	*40.5*	*41.4*	*41.3*		*0.1pp*
EBIT	186	188	195	807	813	729	84	11.5
EBIT Margin	*18.1*	*18.2*	*17.1*	*18.1*	*18.2*	*17.1*		*1.1pp*

	2018	2017
Lines at period end (thousands) (*)	55,923	58,634
MOU (minutes/month) (**)	123.4	109.7

ARPU (reais)	22.4	20.2

(*) Includes corporate lines.
(**) Net of visitors.

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Revenues

Revenues for 2018 amounted to 16,981 million reais. Comparable revenues for 2018, amounting to 17,050 million reais, were up by 816 million reais (+5.0%) on the previous year.

Revenues from services, on the same accounting basis, amounted to 16,205 million reais, rising by 731 million reais on the 15,474 million reais posted for 2017 (+4.7%).

Revenues from product sales, on the same accounting basis, came to 845 million reais (760 million reais for 2017, +11.2%). The increase reflects the change in the sales policy, which is now focused more on value than on increasing sales volumes. The main goals of the new strategy are to increase purchases of new connected devices giving TIM customers access to broadband services on 3G/4G networks and to support new retention offerings for higher-value postpaid customers.

On the same accounting basis, Mobile Average Revenue Per User (ARPU) for 2018 was equal to 22.4 reais, up by +11% on the figure for 2017 (20.2 reais), due to a general repositioning towards the postpaid segment and new commercial initiatives aimed at increasing data usage and the average spend per customer.

Total lines in place at December 31, 2018 amounted to 55.9 million, a decline of 2.7 million compared to December 31, 2017 (58.6 million). The lower figure was driven entirely by the prepaid segment (-5.1 million), only partially offset by growth in the post-paid segment (+2.4 million), in part due to the consolidation underway in the market for second SIM cards. Postpaid customers accounted for 36.2% of the customer base at December 31, 2018, an increase of 5.8 percentage points on December 2017 (30.4%).

Revenues for the fourth quarter of 2018 amounted to 4,457 million reais. Comparable revenues were equal to 4,479 million reais, an increase of 5.2% compared to the same period of the previous year (4,257 million reais).

EBITDA

EBITDA for 2018 amounted to 6,316 million reais.

Comparable EBITDA for 2018 amounted to 6,508 million reais, up by 614 million reais on the previous year (+10.4%). 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.

The EBITDA margin, on the same accounting basis, rose by 1.9 percentage points on 2017 to reach 38.2%.

The Brazil Business Unit reported net non-recurring income in 2018 of 2 million reais, mainly relative to the positive effect of the favorable outcome of the tax dispute concerning the unconstitutional grounds of the law that entailed the inclusion of ICMS indirect tax in the base for calculating taxes on PIS and COFINS revenues (159 million reais at an EBITDA level), which was mainly offset by the recognition of expenses related to the forecast revision of labor litigation arising in previous years.

EBITDA, net of the non-recurring component, was equal to 6,506 million reais.

EBITDA for the fourth quarter of 2018 amounted to 1,807 million reais. On the same accounting basis, the figure came to 1,856 million reais, showing growth of 98 million reais on the fourth quarter of 2017. The EBITDA margin for the fourth quarter of 2018 stood at 41.4%, up by 0.1 percentage points on the same period of the previous year (41.3%).

The changes in the main cost items are shown below:

	(millions of euros)		(millions of Brazilian reais)		
	2018 comparable (a)	2017 (b)	2018 comparable (c)	2017 (d)	Change (c-d)
Acquisition of goods and services	1,821	2,168	7,842	7,816	26
Employee benefits expenses	317	353	1,364	1,274	90
Other operating expenses	488	500	2,102	1,805	297
Change in inventories	(14)	6	(59)	20	(79)

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EBIT

EBIT for 2018 amounted to 2,428 million reais. Comparable EBIT for 2018 rose to 2,449 million reais, up by 518 million reais (+26.8%) on the same period of the previous year (1,931 million reais). Growth was mainly driven by higher EBITDA (+614 million reais) and slightly higher depreciation and amortization (96 million reais).

Net of the non-recurring component, EBIT was equal to 2,447 million reais.

EBIT for the fourth quarter of 2018 amounted to 807 million reais. On the same accounting basis, the figure came to 813 million reais, showing growth of 84 million reais on the fourth quarter of 2017 (+11.5%). The EBIT margin for the fourth quarter of 2018 stood at 18.2%, up by 1.1 percentage points on the same period of the previous year (17.1%).

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MAIN COMMERCIAL DEVELOPMENTS

DOMESTIC

Consumer

TIM is driving the country s digital revolution, continuing to invest in innovation through the development of fixed and mobile ultrabroadband networks, platforms and highly customized quality services based on customer needs. TIM is also committed to spreading a digital culture for leisure, offering **innovative, flexible and increasingly convergent products that boast the best multimedia content**, with films, TV series, music, video games, sports news and major events, delivered through decoders, smart TVs, the Web and mobile apps.

In 2018, TIM continued to develop the fixed consumer market, with its new convergent, quadruple play deal for families **TIM Connect**,launched in April at a price starting from 26.90 euros/month. The deal offers a fiber connection with download speeds of up to 1000 Mbps and upload speeds of up to 100 Mgbs, including a free-loan modem and Timvision. The **Gold** version, at a price of 29.90 euros/month, also includes unlimited calls from home to landline numbers and national mobile numbers; while the **Black** version, at a price of 39.90 euros, offers 1,000 minutes of calls from a mobile telephone and 5 GB of data traffic, plus international calls to all zone 1 landline numbers.

All new TIM Connect deals also offer the **TIM Expert** service. For an additional charge, customers receive the expert assistance of a TIM engineer in their home when activating the deal, to test and optimize the performance of their new Internet connection. To support the launch of the new TIM Connect deals, additional promotions were offered and renewed during 2018; these include the **promo Limited Edition** or **Winter Edition** (with an extra 2 euros/month off the basic price for new customers), and specific promotions for customers purchasing deals online.

To support fixed-mobile convergence, TIM launched the **TIM 100%**promotion in March, targeting its most loyal customers that choose TIM as the operator for both their home and mobile connection, with 5 GB of data traffic free each month. In July, the promotion was extended to cover 3 SIM cards of TIM, even if not held in the name of the main SIM card owner, and the fixed network, for even greater benefits.

Throughout 2018, TIM continued **to support the use of new fiber technology,** with offers for customers that already have ADSL and can use the FTTCab service, to migrate towards the new technology, at no additional cost.

As regards the drop in customers due to transitions from fixed lines to the mobile segment, the new **TIM Flexy** offer was launched in November, targeting second-home owners in particular. TIM Flexy is the first deal for fixed network browsing at speeds of up to 200 Mbps, to use even for just one weekend. This solution, which is perfect for second-home owners and for homes used for occasional weekends away or short breaks is offered as a pay-as-you-go deal starting from 5.90. TIM Flexy is the solution for customers who want to connect from home when they want for two, seven or thirty days. The Internet deal offers unlimited traffic, with no voice service.

Further developments were made in 2018 to bring Fixed-line Consumer deals in line with the obligations of AGCOM decisions, including Decision 292/18/CONS (which establishes a new system to identify various types of Internet accesses based on the type of connection between the exchange and the user location), and Decision 348/18/CONS (which establishes measures on access to an open Internet, with specific reference to the freedom of choice of handsets).

As regards the mobile sector, TIM continued to support the **development of 4G and 4.5G ultrabroadband** during 2018, achieving important goals - and first and foremost its **download speed record** in Ookla tests. Important progress was also made in terms of coverage: at national level, 4G technology has now reached more than **7,300 municipalities**, **covering over 98%** of the population. 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**.

TIM s technological leadership was confirmed with its **acquisition of 5G frequencies**, which are fundamental for the future development of mobile services that can revolutionize the lives of citizens, consumers and businesses alike, steering the country towards a dimension in which everything is smarter and more connected: from public safety to transport, from environmental monitoring to health, tourism and culture, and even applications for media, education and virtual reality. TIM has already run numerous live trials with 5G in Turin, Bari and Matera, and in the Republic of San Marino, where it has already implemented services for a Smart City, health, tourism and culture.

Technological leadership means a **competitive edge** for TIM, which is fundamental for making it mark in a highly competitive market. By making the most of the distinctive quality **of the 4G and 4.5G network**, TIM has been able to continue its **value strategy** and focus on the quality of its offering, maintaining a **premium position** on the market.

Another essential aspect of its business strategy in 2018 was customer **retention**, with the focus on reducing churn rates and stabilizing 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. Plus, to increase awareness and satisfaction, **TIM Party was launched** - the retention program for all TIM customers that can only be accessed online.

The program has three levels:

- extensive benefits for all customers joining the program;

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- specific benefits for clusters selected based on how long customers have been with TIM and the presence of several TIM services (3Play, 4Play);
- competitions with prizes.

TIM Party, with its innovative, differentiated format, aims to increase customer retention, the penetration of 3-4Play services, the digital customer base as well as approval levels.

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.

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.

Business

TIM s work in the Business market during 2018 focused on four main areas:

- supporting positive growth in the Fixed-line and Mobile customer bases, in keeping with trends in the various segments (fixed-line, mobile and IT) and gradually increasing revenues;
- further consolidating the Customer Base retention process with structural action targeting offers as well as Customer Experience, through a more for more policy that makes the most of TIM s profile as an integrated operator;
- further consolidating commercial monitoring of the market, above all by increasing the proximity of direct and indirect sales channels;
- extending leadership in the ICT market by increasing products targeting over-the-network services and data deals for the large customer segment and through off-the-shelf cloud computing solutions for SMEs, based on a multi-cloud approach.

The main goals of 2018 were protecting the Customer Base and consolidating TIM s position as a national player that can meet the IT needs of SMEs, large companies and the public administration. These goals were pursued by maintaining a distinctive product offering and consolidating the commercial front end, which has also been functional in the gradual migration of the services mix used by customers towards more updated models based on the extensive adoption of fixed network Fiber/VoIP connectivity, mobile network LTE and Cloud solutions. Considerable effort has gone into developing the ARPU, through bundle deals and by leveraging professional services that are distinctive and highly visible.

For the fixed-line network in particular towards the SOHO-SME segment, TIM has further simplified its offering, focused on Fiber and VoIP solutions. The growth in ARPU and loyalty has been supported by bundle deals for Unified Communication services (Tim Comunicazione Integrata Smart), together with mobile network and IT services, delivering major opportunities for end users in terms of efficiency and new business development.

With a view to improving customer care management, new customer segmentation was developed, combining customer value with technology, and pre-retention actions based on predictive models were stepped up.

For high-end customers, the main new feature was the launch of the first offer of SD-WAN, which gives users greater flexibility in managing their bandwidth needs. The proposition of cloud computing services was stepped up further, offering - alongside consolidated VoIP and advanced Collaboration service -the cloud-on premise deal with SIP trunking as part of the TIM Comunicazione Integrata, in synergy with the development of IT services.

The award of the Consip LAN 6 agreement drove the development of projects in the last part of the year to update the local connectivity of the public administration sector.

The development of the Information Technology offering focused 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 2017, to promote the adoption of SPC Cloud Lotto 1 solutions for the Public Sector, in particular cloud-based IaaS, PaaS, SaaS solutions, with important projects being started by numerous major local public authorities in 2018.

The integration of connectivity deals with public cloud services managed by TIM was exemplified by the launch of the TIM Safe Web secure DNS deal, integrated with all basic Internet connectivity bundles for the SOHO-SME segment, protecting over 500,000 customer accesses from over 450 million fraudulent events or IT threats. A project was set up to develop multi-cloud IT services provided by TIM, through strategic partnerships with leading providers of IT Cloud over the top services. The IT offering for SMEs continued to be developed with the Digital Store Market Place featuring around 160 solutions for SMEs, also developed by partners in the TIM Open environment, using both a horizontal and vertical approach to new e-commerce, e-payment, security, and video control solutions, to give just a few examples.

In terms of Mobile services, the Mobile Ultra-Broadband service over the LTE and VoLTE networks continued to be developed in 2018, while also expanding the offering with VAS and IT bundle solutions, with a more money for more value mindset. During the year, the total acquisition of lines went up considerably, despite a competitive market where the presence of a newcomer was more than offset by the performance in MNP and M2M acquisitions.

For our high-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 with All-Risk Assistance.

Lastly, Olivetti continued to optimize its more traditional offering in the office and retail sectors in 2018, channeling its products into a single business line to transform them from a simple hardware component into a hub delivering integrated digital solutions (cash registers and multifunction printers in particular). This optimization also targeted more innovative areas of the world of IoT, M2M and Big Data. Excellent results in smart metering and tracking were achieved.

BRAZIL

In 2018, 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 digital services (music, e-reading and video streaming), all with a view to stabilizing future revenue flows and proactively managing the ongoing consolidation of the market for second SIMs.

The main sales initiatives included:

- the launch of a new range of recurring bundle offers (TIM Pre TOP) for the prepaid segment, which offer comprehensive and differentiated solutions for voice and data services, and packages of unlimited social networks for a specific period (two weeks);

- New TIM Controle: TIM Controle with social networks was launched in the third quarter. The offer now includes unlimited social networks for three months, a 5 GB data package and unlimited calls to any carrier, costing 49.99 reais per month. The offer was launched through a major media campaign, featuring top artists with great appeal to the target audience;

- Fixed: The focus on investing in FTTH (Fiber To The Home) expansion continues, with higher speed offers and optimal connection stability. TIM began to invest in this type of technology in the fourth quarter of 2017, closing the fourth quarter of 2018 with the number of households with FTTH available representing 24% of the total coverage;

- TIM Casa Internet, which uses WTTX technology to offer residential broadband through the mobile network, is available in 123 cities.

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MAIN CHANGES IN THE REGULATORY FRAMEWORK

DOMESTIC

In this section we report the main changes in the regulatory framework in 2018 in the Domestic region.

As regards the Antitrust proceedings (A514, I799 and I820), as well as the proceedings regarding the 28-day invoicing, see the Note Disputes and pending legal actions, other information, commitments and guarantees in the TIM Group Consolidated Financial Statements at December 31, 2018.

Wholesale fixed-line markets

Fixed network access market analysis

On February 20, 2017, AGCom launched the fourth cycle of access market analysis (resolution 43/17/CONS) to review the obligations and economic terms of wholesale access services for the 2018-2021 period.

The market analyses also take into account TIM s voluntary legal separation project relative to the fixed access network, notified to AGCom on March 27, 2018.

On January 18, 2019, AGCom put the result of coordinated access market analyses to a public consultation (resolution 613/18/CONS), proposing the following:

- confirmation of TIM as operator with significant market power (SMP) on the access market for all of Italy with the exclusion of Milan, where the regulation was repealed ex ante;
- positive assessment of the project to separate the TIM access network, but with a limited impact on how obligations will evolve, as AGCom believes elements of vertical integration still exist (in the project notified to AGCom, the network company NetCo is held 100% by TIM);
- elimination of the obligation to guide the cost of wholesale prices in municipalities considered contestable (up to 45 in the 1st year with annual update possible, based on developments in alternative infrastructures and the market); these prices are tested ex ante for replicability;
- wholesale subscription charges for copper and fiber for 2018 the same as 2017;
- gradual increase in the full unbundling price (ULL) and bitstream price on copper in the 2019-2021 period;

- sub loop unbundling (SLU) price stability in the 2019-2021 period;
- gradual decrease in fiber access prices (VULA FTTC and FTTH) and price differentiation of the bandwidth in the 2019-2021 period, depending on whether the access line is on a copper or NGA network;
- repeal of current replicability obligations in public tenders;
- reduction in times for giving notice of the closure of exchanges whose duration depends on NGA network coverage (including FWA technology) in the area where the exchange is present;
- possibility to use vectoring in FTTC cabinets where sub loop unbundling (SLU) is not used by alternative operators;
- elimination of current asymmetries in procedures to change operator between processes to return to TIM and changing from TIM to alternative operators.

It is estimated that AGCom will reach a final decision between June and July 2019, after the deadline for the national consultation and subsequent opinions issued by the European Commission and AGCM.

Infratel Tenders for the subsidizing of Ultra-broadband networks

On April 4, 2018, Infratel launched a consultation on the public investment plan for gray areas . As stated in the consultation document, the aim of public intervention in gray areas is to support investment projects in networks able to provide symmetrical 1 Gbps upload and download speeds, thereby delivering step change innovation in current networks. The consultation process is required by EU regulations governing state aid, before the formal notification of the plan to the European Commission. State aid measures can only be implemented with the prior approval of the Commission.

On April 19, 2018, Infratel announced a third call for tenders for contracts worth a total of 103 million euros to cover the remaining white areas of the ultra-broadband network not covered by private service providers, all located in Calabria, Apulia, and Sardinia. TIM did not make any technical/price proposals. On December 19, 2018, the contract was awarded to Open Fiber.

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Wholesale mobile network markets

Mobile termination market analysis

On January 22, 2018, AGCom published its final decision on mobile network termination market analysis (resolution 599/18/CONS). AGCom decided to:

- identify the twelve operators, including Iliad, that provide or will provide termination services for voice calls on the mobile network (MNO and Full MVNO) as operators with significant market power (SMP);
- confirm use of the cost model indicated in Decision 60/11/CONS to establish termination prices for the 2018-2021 period, also establishing symmetric rate conditions for all SMP operators (0.98 eurocents in 2018, 0.90 eurocents in 2019, 0.76 eurocents in 2020, 0.67 eurocents in 2021) based on a WACC equal to 8.55%;
- require price control for the supply of interconnection kits, for all SMP operators, retroactively as from 2018;
- withdraw the obligation for TIM, Vodafone and WindTre to recognize costs in the accounts;
- confirm the absence of the obligation to control termination prices for calls originating from outside the European Economic Area (EEA); however, SMP operators cannot adopt termination rates that are higher than those applied to Italian operators by operators in non-EEA countries where rates are regulated.

Retail fixed-line markets

Universal Service

In May 2018, TIM challenged the Lazio Regional Administrative Court ruling that dismissed TIM s appeal against Resolution 456/16/CONS with the Council of State. In that decision, AGCom rejected TIM s proposal for a price adjustment to voice offers (basic voice telephone service) and introduced a strict procedure for future variations in Universal Service prices.

On June 15, 2018, AGCom Resolution 88/18/CIR accepted that all operators should contribute to the net cost of the universal service for 2009, for a total of 11.61 million euros, of which 5.6 million euros payable by Other Operators. In relation to 2008, AGCom also accepted the existence of a cost, the amount of which, however, does not justify the activation of the contribution mechanism.

Following the conclusion of assessment activities to review the net cost of Universal Service for the years 2006 and 2007, which resulted in Decision 145/17/CONS, on July 3, 2018, AGCom Decision 89/18 /CIR launched a public consultation process on the applicability of the mechanism for distributing and assessing the net cost of the Universal

Service for those years, which ended on November 15.

Authority fees

AGCom contribution fee

In March 2018, TIM conditionally paid an amount of 18.5 million euros for the 2018 AGCom contribution fee. The amount was calculated by applying a rate of 0.00135 to the revenues posted in the Company s 2016 Financial Statements, as required by the guidelines set out in AGCom Decision 426/17/CONS.

Privacy and personal data protection

General Data Protection Regulation

On May 25, 2018, the General Data Protection Regulation (Regulation (EU) No. 2016/679 GDPR) came into force. The GDPR is directly applicable in all Member States of the European Union, superseding, in Italy, the provisions of the Data Protection Code that are incompatible with the new regulation.

To ensure the compliance of personal data processing with the GDPR within Group companies, TIM carried out the activities envisaged in the adjustment plan by the May 25, 2018 deadline, involving almost all relevant TIM departments and Group Companies for around 18 months. In particular the activities carried out led to:

- the appointment of the Data Protection Officer and the setting up of related touch points for data subjects in relation to the processing of their data;
- the appointment of internal Privacy Officers, employees with specific duties and instructions to assist the Company s senior management in implementing their obligations;
- the updating and issuing of numerous policies and procedures, including those defining the obligations in relation to data breaches (extended to all types of personal data), privacy impact assessments (for processing high privacy risk data), customer profiling, data subject rights request management;
- the adjustment of the TIM compliance catalog to render it compliant with the processing activity register;

- the updating of the numerous disclosures on personal data processing, provided by TIM and other Group companies to the various types of data subjects (e.g. customers, employees, visitors);

- the revision of procedures in the event of the assignment of activities to third parties (e.g. suppliers and business partners) to ensure compliance with the legislation.

A specific training project was then designed to raise awareness in the various company departments and to illustrate the policies and procedures in place for the application of the GDPR. Eight training courses involving around 600 TIM and Group company employees were held.

Further training initiatives related to privacy were aimed at personnel moving to commercial departments, to ensure correct understanding and application of privacy obligations in relation to sales and telemarketing activities, as well as at personnel overseeing the execution of obligatory services for the judiciary.

BRAZIL

Revision of the model for the provision of telecommunications services

In April 2016, the working group composed of the Ministry of Science, Technology, Innovation and Communications (MCTIC) and Anatel published its final report with a diagnosis on the telecommunications industry and proposed guidelines for the revision of the Brazilian regulatory model. A bill (PLC 79/2016) was then presented to the National Congress of Brazil to propose amendments to the General Telecommunications Law. Although the bill was passed by both chambers of Congress, the opposition challenged the legislative procedure followed in the Supreme Court, where the bill remained blocked for months. At the beginning of October 2017, the bill PLC 79/2016 was referred back to the Senate pending voting. Its approval is expected to be held over the course of 2019.

In October and November 2017, the Ministry of Science, Technology, Innovation and Communications (MCTIC) held a public consultation to review the general telecommunications policy proposing the setting of guidelines and objectives for the provision of telecommunications services, for the technological development of digital services and broadband infrastructure, and for the spread of smart cities. The Public Consultation was memorialized in Decree 9,612/2018 (Connectivity Plan) and established a series of guidelines for implementation of the new rules of conduct, paid granting of spectrum authorization and regulatory acts in general, including: (i) expansion of high capacity telecommunications transport networks; (ii) increased coverage of mobile broadband access networks; and (iii) broadening the coverage of fixed broadband access network in areas with no Internet access offer through this type of infrastructure. It also establishes that the implemented network will be subject to sharing from its entry into operation, except when there is appropriate competition in the respective relevant market.

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

Revision of Competition Rules

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

Anatel has established a number of asymmetrical obligations on all markets for operators with a Significant Market Power (SMP).

In July 2018, Anatel published the new PGMC revising some points and defining two new markets:
(i) interconnection for mobile services; and (ii) high capacity data transmission.

TIM Brasil has been identified as the SMP operator for: (i) mobile network terminals; (ii) national roaming; and (iii) high capacity data transport (in five municipalities).

The measures adopted for the SMP operator on these markets include:

- a reduction in mobile termination rates based on a price cap system and partially maintaining a Bill & Keep mechanism, until the next review of the PGMC;

- the obligation for non-SMP operators to offer national roaming services.

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

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

700 MHz and Analog TV switch off

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

Since 2016, the spectrum has been freed up for mobile operations in 4,467 municipalities and all Brazilian capitals already have the mobile service in 4G technology, operating in the range. These municipalities cover approximately 85% of the Brazilian population. Currently about 2,620 cities are in operation and 1,379 cities were shut down. By 2019, the schedule for completion of the remaining 1,103 cities remains.

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.

Strategic Digital Transformation and the Internet of Things

Between December 15, 2016 and February 5, 2017, the MCTIC conducted a public consultation process to discuss the public procedure for solutions enabling Machine to Machine (M2M) and Internet of Things (IoT) services for the Brazilian market. The final consultation report was published in November, with the objective of addressing regulatory and tax matters, as well as aspects of public procedure, investment, and education issues. A decree outlining a national IoT plan is expected to be published in 2019.

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

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

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Data protection

On August 14, 2018, the Brazilian President promulgated the General Data Protection Law (Law 13,709/2018). The new law, as promulgated by the President, is closer to the GDPR, including significant extra-territorial application and considerable fines of up to 2% of the Company s global turnover of the previous financial year.

In December 2018, Provisional Measure 869/2018 passed by the former President amended Law 13,709 to create the National Data Protection Authority, within the structure of the Presidency of the Republic, which implies greater control by the State and, among other topics, extending the entry into force of the Law to 24 months. By this date all legal entities will be required to adapt their data processing activities to these new rules.

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COMPETITION

DOMESTIC

The market

During 2018, the Italian TLC market was affected by a downturn in value due to tougher competition in the mobile 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.

The Italian telecommunications market has always been highly competitive; in particular core competition with other operators in the sector is still the factor that has the greatest impact on market trends. Telecommunications operators must also face the challenges from Over the Tops (OTT) and device manufacturers, that operate in the new 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.

During 2018, the bidding for the award of frequencies for 5G services took place, which led, following various higher bids, to an overall outlay for telecommunications companies of over 6.5 billion euros, well above the minimum bid price:

- TIM and Vodafone were awarded the biggest part of the spectrum, 10+10 MHz at 700 MHz, 80 MHz in the 3.6-3.8 GHz band respectively (the most requested to launch good-quality 5G services) and 200 MHz in the 27 GHz band, consolidating their competitive positioning in terms of bandwidth owned and quality of service offered;
- WindTre was limited to acquiring a 20 MHz part at 3.6-3.8 GHz and a 200 MHz part in the 27GHz band;
- Iliad was awarded the 10+10 MHz to 700 MHz part, reserved for a new entry operator, a 20 MHz to 3.6-3.8 GHz part and a 200 MHz to 27 GHz part;
- Fastweb was awarded a 200 MHz to 27 GHz part.

Based on performance capabilities in terms of speed, latency and number of connected devices, 5G is a great opportunity for telecommunications companies with the necessary bandwidth to open new vertical markets (automotive, smart agriculture, logistics, cloud robotics), provide new services, start up new production processes and increase the efficiency of optimized product management.

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).

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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 for the development of Fiber to the Home (FTTH) connections in 271 large Italian towns by 2022, reaching around 9.6 million homes through an investment of 3.8 billion euros.

After obtaining 3.5 billion euros of funding in July 2018, the development of the Open Fiber network was stepped up considerably, opening up to 71 Italian towns (as of January 2019), including many major Italian cities, such as Milan, Turin and Bologna, where Metroweb (acquired in December 2016) had previously expanded, besides other cities such as Bari, Cagliari, Catania, Naples, Padova, Perugia, Venice, Genoa, Palermo and Florence, and other smaller towns that are mainly satellite areas of Milan, Turin and Bologna.

In the meantime, according to media reports, main competitors in the TLC retail market have signed an agreement with Open Fiber to link their new ultra-broadband (UBB) 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 three public calls for tenders over the last three years for the development of a UBB network to deliver services to around 7,500 municipalities across 19 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;
- 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;
- in the third call for tenders, Open Fiber won all three lots in the three regions involved (Apulia, Calabria and Sardinia) covering around 880 municipalities.

In January 2019, there were nearly 1,174 work sites open for the first two Infratel/Open Fiber contracts, of which 977 for fiber optic connections and 197 for wireless connections (FWA).

Therefore the development of Open Fiber Plans both in major Italian cities and market failure areas will drive a significant shift in infrastructure competition, with the development of various competitive dynamics depending on the overlap and reach of available ultrabroadband 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.

In December 2018, fixed accesses in Italy were estimated to be around 20.3 million (including OLO Infrastructured and FWA-Fixed Wireless Accesses) down slightly on the previous year. Competition in the access market led to a gradual reduction in TIM s market share.

As concerns the Broadband market, at December 31, 2018, 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 86% 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.

Moreover, 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 on the Italian mobile telecommunications market in 2018 was marked by the entry of the French operator Illiad, that launched its own service in May, becoming the fourth infrastructured operator in Italy, alongside TIM, Vodafone and WindTre.

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With a particularly aggressive price and data volume offering, Illiad has rapidly won over customers and consequently gained a market share to the detriment of other infrastructured operators, mainly WindTre and Vodafone, while TIM has shown a greater resilience, thanks also to the contribution from the *second brand* virtual operator, Kena Mobile, launched during 2017. To best respond to the competitive threat of Illiad, Vodafone also launched its own *low-cost* operator in June 2018, with the ho.mobile brand.

At the same time, mobile virtual operators (MVO), of which PosteMobile is the most important player, also reported a growth trend, taking market share away from infrastructured operators.

This tougher competition following Illiad s entry to the market resulted in a new drop in the spend on services, after several years of relative stability.

BRAZIL

Macroeconomic trends witnessed in the last quarter of 2018 confirm a recovery scenario expected for 2019, although forecasts for 2018 have been progressively decreased throughout the year, especially due to political uncertainty regarding the election process. Thus, main scenario is still a slow economic recovery scenario, after a severe recession notably during 2015-16 period. Unemployment has been falling slowly, while inflation returned to a more contained level (below 4% for 2018).

Although some political uncertainty still exists, especially regarding the ability of the new government to fulfill the economic liberal agenda promised during the election process, the market has acknowledged such liberal guidelines presented so far as a pro-business agenda, in the form of a recent hike in the Brazilian stock market (Bovespa +18% from September 30, 2018 until January 15, 2019) and currency appreciation (BRL +8.4% over the same period).

Despite improving financial indicators (such as stock market and currency ratio), economic conditions are still challenging, as budget deficit and growing debts (for central government, Federal States and municipalities) present a risk that can only be addressed by structural reforms that need the congress approval. Present government acknowledges that need and put reforms as a top priority for the first months of the government to put the economy growing consistently for the coming years.

The mobile telecommunications sector has seen some 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, especially for the first half of 2018.

In the Prepaid segment, the main objective of market players has been to raise recurrence rates on the use of services by leveraging the ongoing SIM card consolidation process in the market, by encouraging migration to weekly (and monthly) plans or hybrid plans (Controle postpaid) by offering a range of bundled service packages to meet different needs of customers (unlimited voice calls or data packages). The aim of the strategy is to improve the mix of the customer base and ensure greater stability (reducing churn rates) and growth in ARPU. The prepaid base has grown 12.3% YoY (up to November 2018, last data available).

In the Postpaid mobile segment, growth in the customer base was driven primarily by the hybrid Controle segment (in particular by the migration of Prepaid customers), even though pure Postpaid lines also registered a certain growth based on offer segmentation strategies that introduce distinctions in the use of data services (for example 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). The postpaid base grew by +13.2% YoY (up to November 2018, last data available).

Service quality is still an element of differentiation. Telecommunication providers that have invested more in the development of 4G networks (coverage and capacity) and in the improvement of processes shaping customers experience will have a greater ability to apply premium prices, as customers raise their expectations and place growing importance on the quality of data services and higher value content.

The fixed-line broadband market posted growth of approximately 8.5% in 2018 (up to November 2018, last data available), driven mainly by smaller market players, which tend to offer better download speeds and/or are in areas in which incumbents have limited infrastructure. Penetration rates across the population are still quite low (approximately 43% of households) when compared to several other countries, which means there are good opportunities for medium-term growth, underpinned by the improving macroeconomic situation.

In this context, since 2017, TIM Brasil adopted a business strategy for TIM Live to leverage its fiber network infrastructure, offering ultra broadband Internet services, through FTTC and notably FTTH, not only in some of the largest cities of Brazil, but also in cities where opportunities arise for such high-quality service. Therefore, TIM Live has expanded to cover 12 cities by the end of 2018, and this is expected to grow even more in the following years. TIM Live service not only offers very fast Internet connections, but it is also acknowledged as the best fixed Internet service in Brazil by Netflix, and customer satisfaction rates rank among the best for the service in the country. For smaller cities, TIM has launched its WTTx service, which delivers broadband services through the LTE mobile network, leveraging TIM s leading 4G coverage to address increasing demand for residential broadband, especially in areas with poor fixed infrastructure by local incumbent.

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CONSOLIDATED FINANCIAL POSITION AND CASH FLOWS PERFORMANCE

NON-CURRENT ASSETS

Goodwill: this item fell by 2,693 million euros, from 29,462 million euros at the end of 2017 to 26,769 million euros at December 31, 2018 due to the 2,590 million-euro impairment loss recognized on goodwill of the Core Domestic and International Wholesale cash-generating units following the impairment testing conducted at December 31, 2018. Testing was carried out in line with the method used for past impairment testing, in particular comparing the value in use of the Core Domestic and International Wholesale Cash-Generating Units compared to their carrying amount at the same date; the figure was also adversely affected by exchange differences on goodwill allocated to the Brazil Business Unit[(1)].

Further details are provided in the Note Goodwill to the Consolidated Financial Statements at December 31, 2018 of the TIM Group.

Other intangible assets: these rose by 1,697 million euros, from 7,192 million euros at the end of 2017 to 8,889 million euros at December 31, 2018, representing the balance of the following items:

impact of the adoption of the new version of IFRS 15 as from January 1, 2018 (-110 million euros);

capex (+3,647 million euros);

amortization charge for the year (-1,599 million euros);

disposals, exchange differences, reclassifications and other changes (for a net negative balance of 241 million euros).

Tangible assets: these fell by 401 million euros, from 16,547 million euros at the end of 2017 to 16,146 million euros at December 31, 2018, representing the balance of the following items:

capex (+2,761 million euros);

changes in finance leasing contracts (+70 million euros);

depreciation charge for the year (-2,656 million euros);

disposals, exchange differences, reclassifications and other changes (for a net negative balance of 576 million euros).

CONSOLIDATED EQUITY

Consolidated equity amounted to 21,747 million euros (23,783 million euros at December 31, 2017), of which 19,528 million euros attributable to Owners of the Parent (21,557 million euros at December 31, 2017) and 2,219 million euros attributable to non-controlling interests (2,226 million euros at December 31, 2017).

In greater detail, the changes in consolidated equity were the following:

(millions of euros)	12/31/2018	12/31/2017
At the beginning of the year	23,783	23,553
Effect of the adoption of IFRS 15 and IFRS 9	(88)	
At the beginning of the year, restated	23,695	23,553
Total comprehensive income (loss) for the year	(1,694)	457
Dividends approved by:	(281)	(230)
TIM S.p.A.	*(166)*	*(166)*
Other Group companies	*(115)*	*(64)*
Issue of equity instruments	2	(6)
Other changes	25	9
At the end of the year	21,747	23,783

(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 4.43664 at December 31, 2018 and 3.96728 at December 31, 2017.

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CASH FLOWS

Adjusted net financial debt stood at 25,270 million euros, down by 38 million euros compared to December 31, 2017 (25,308 million euros).

The table below summarizes the main transactions that had an impact on the change in adjusted net financial debt for 2018:

Change in adjusted net financial debt

(millions of euros)	2018	2017	Change
EBITDA	7,403	7,790	(387)
Capital expenditures on an accrual basis	(4,009)	(5,071)	1,062
Capital expenditures for mobile telephone licenses / spectrum	(2,399)	(630)	(1,769)
Change in net operating working capital:	1,194	(126)	1,320
Change in inventories	*(99)*	*(30)*	*(69)*
Change in trade receivables and net amounts due from customers on construction contracts	*(49)*	*379*	*(428)*
Change in trade payables (*)	*(150)*	*40*	*(190)*
Change in payables for mobile telephone licenses / spectrum	*1,886*	*(257)*	*2,143*
Other changes in operating receivables/payables	*(394)*	*(258)*	*(136)*
Change in employee benefits	(208)	437	(645)
Change in operating provisions and Other changes	96	96	
Net operating free cash flow	2,077	2,496	(419)
of which operating free cash flow connected with the purchase of mobile telephone licenses / spectrum	*(513)*	*(887)*	*374*
% of Revenues	*11.0*	*12.6*	*(1.6)pp*
Sale of investments and other disposals flow	18	33	(15)

Share capital increases/reimbursements, including incidental costs	22	16	6
Financial investments flow	(6)	(12)	6
Dividends payment	(256)	(235)	(21)
Increases in finance leasing contracts	(70)	(68)	(2)
Finance expenses, income taxes and other net non-operating requirements flow	(1,747)	(2,419)	672
Reduction/(Increase) in adjusted net financial debt from continuing operations	38	(189)	227
Reduction/(Increase) in net financial debt from Discontinued operations/Non-current assets held for sale			
Reduction/(Increase) in adjusted net financial debt	38	(189)	227

(*) 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 2018 was particularly impacted by the following:

Capital expenditures and for mobile telephone licenses / spectrum

Capital expenditures and for mobile telephone licenses / spectrum are broken down by operating segment as follows:

			2018				
	2018		comparable		2017		Change
(millions of euros)		% of total	(a)	% of total	(b)	% of total	(a-b)
Domestic	5,518	86.1	5,634	85.9	4,551	79.8	1,083
Brazil	890	13.9	924	14.1	1,150	20.2	(226)
Adjustments and eliminations							
Consolidated Total	6,408	100.0	6,558	100.0	5,701	100.0	857
% of Revenues	*33.8*		*34.3*		*28.8*		*5.5pp*

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With the introduction of IFRS 15, Mobile customer acquisition costs, relating to contracts with minimum-duration lock-in clauses, are no longer capitalized and depreciated. Instead they are classified as deferred contract costs and subsequently recognized in the income statement over the term of the contract.

On the same accounting basis, capital expenditures in 2018 totaled 6,558 million euros (5,701 million euros in 2017).

In particular:

- the Domestic Business Unit reported expenditures equal to 5,634 million euros (4,551 million euros in 2017). Net of the acquisition of rights to use 5G frequencies (2,399 million euros) at the end of 2018 and the renewal of the GSM license in 2017 (630 million euros), capital expenditures were down by 686 million euros, mainly attributable to the coverage levels of fixed and mobile networks already achieved;

- the Brazil Business Unit posted 924 million euros of capex in 2018, 226 million euros less than for 2017. Without the impact of fluctuations in exchange rates (-187 million euros), the change was a negative 39 million euros. Capital expenditures of the Business Unit were targeted primarily at strengthening mobile ultra-broadband network infrastructure and developing the fixed broadband business of TIM Live.

Change in net operating working capital

The positive change in net operating working capital of 1,194 million euros (negative for 126 million euros in 2017) was mainly related to higher operating payables (1,922 million euros) following the acquisition of rights to use mobile telephone frequencies in Italy (5G): in 2018 TIM made the first payment tranche, for an amount of approximately 480 million euros, the remaining tranches, as established by the Italian government in the 2017 budget law, will be due for payment based on pre-established quotas between 2019 and 2022.

Change in employee benefits

In 2018, the change amounted to -208 million euros and mainly refers to uses for staff leaving the company, already allocated in previous years and the change in the provision for non-executive personnel affected by the application of Article 4(1-7ter) of Italian Law 92 of June 28, 2012, the Fornero Law , following the higher number of staff leaving in 2018 and the consequent revised estimate of staff leaving for the years 2019-2020, also taking into account the social security changes made by Decree Law 4 of January 28, 2019.

In 2017, the change in employee benefits was affected mainly by the allocation of 689 million euros of provisions for non-recurring expenses, offset by drawdowns totaling 177 million euros in relation to restructuring plans previously in place.

Sale of investments and other disposals flow

This item shows a positive figure of 18 million euros and mainly refers to disposals of assets within the normal operating cycle.

In 2017, the item posted a positive balance of 33 million euros, mainly reflecting the disposal of 17 million euros of tangible assets and the collection of a deferred 13 million euros of the sale price of a non-controlling interest sold in previous years.

Share capital increases/reimbursements, including incidental costs

These totaled 22 million euros in 2018 and essentially consisted of contributions from an external shareholder of the Group for new capital issued by a subsidiary (16 million euros in 2017).

Increase in finance leasing contracts

In 2018, this item was equal to 70 million euros (68 million euros in 2017) and mainly refers to the higher value of finance lease assets and related higher financial payables recognized mainly following the recognition of vehicle lease agreements as finance leases, in accordance with IAS 17, for the Domestic Business Unit.

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

The item shows a net requirement of 1,747 million euros in total, mainly driven by the payment flows, in 2018, of outflows connected to components of financial income and expense, and the change in non-operating payables and receivables, as well as the lower financial debt payable for property leases, under the revised estimated life of leases renegotiated under the real estate restructuring and rationalization plan underway (215 million euros).

Sales of receivables to factoring companies

As regards the reduction of adjusted net financial debt by 38 million euros, we report that sales without recourse of trade receivables to factoring companies completed during 2018 resulted in a positive effect on adjusted net financial debt at December 31, 2018 of 2,004 million euros (2,000 million euros at December 31, 2017).

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Net financial debt

Net financial debt is composed as follows:

(millions of euros)	12/31/2018 (a)	12/31/2017 (b)	Change (a-b)
Non-current financial liabilities			
Bonds	18,579	19,981	(1,402)
Amounts due to banks, other financial payables and liabilities	4,740	5,878	(1,138)
Finance lease liabilities	1,740	2,249	(509)
	25,059	28,108	(3,049)
Current financial liabilities (*)			
Bonds	2,918	2,221	697
Amounts due to banks, other financial payables and liabilities	2,787	2,354	433
Finance lease liabilities	208	181	27
	5,913	4,756	1,157
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale			
Total gross financial debt	30,972	32,864	(1,892)
Non-current financial assets			
Securities other than investments			
Financial receivables and other non-current financial assets	(1,594)	(1,768)	174
	(1,594)	(1,768)	174
Current financial assets			
Securities other than investments	(1,126)	(993)	(133)

Financial receivables and other current financial assets	(340)	(437)	97
Cash and cash equivalents	(1,917)	(3,575)	1,658
	(3,383)	(5,005)	1,622
Financial assets relating to Discontinued operations/Non-current assets held for sale			
Total financial assets	(4,977)	(6,773)	1,796
Net financial debt carrying amount	25,995	26,091	(96)
Reversal of fair value measurement of derivatives and related financial liabilities/assets	*(725)*	*(783)*	*58*
Adjusted net financial debt	25,270	25,308	(38)
Breakdown as follows:			
Total adjusted gross financial debt	29,432	31,149	(1,717)
Total adjusted financial assets	(4,162)	(5,841)	1,679
(*) of which current portion of medium/long-term debt:			
Bonds	*2,918*	*2,221*	*697*
Amounts due to banks, other financial payables and liabilities	*1,477*	*1,371*	*106*
Finance lease liabilities	*208*	*181*	*27*

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.

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To provide a better representation of the true performance of Net Financial Debt, in addition to the usual indicator (renamed Net financial debt carrying amount), the TIM Group reports a measure called Adjusted net financial debt , 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 of 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 of IFRS 13 Fair Value Measurement) from the measurement of derivatives and related financial assets/liabilities.

Gross financial debt

Bonds

Bonds at December 31, 2018 totaled 21,497 million euros (22,202 million euros at December 31, 2017). Repayments totaled a nominal 21,021 million euros (21,775 million euros at December 31, 2017).

Changes in bonds over 2018 are shown below.

(millions of original currency)	Currency	Amount	Issue date
New issues			
Telecom Italia S.p.A. 750 million euros 2.875% (1/28/2026)	Euro	750	6/28/2018

(millions of original currency)	Currency	Amount	Repayment date
Repayments			
Telecom Italia S.p.A. 593 million euros 4.750% (1)	Euro	593	5/25/2018
Telecom Italia S.p.A. 677 million US dollars 6.999% (2)	USD	677	6/4/2018
Telecom Italia S.p.A. 582 million euros 6.125% (3)	Euro	582	12/14/2018

Net of buy-backs totaling 157 million euros made by the company in 2015.
Net of the securities bought back by TIM S.p.A. (323 million USD) on July 20, 2015.
Net of buy-backs totaling 168 million euros made by the company in 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, 2018 was 203 million euros, down by 1 million euros compared to December 31, 2017 (204 million euros).

On January 11, 2019, TIM S.p.A. issued a bond for 1,250 million euros, maturing on April 11, 2024, with coupon equal to 4.000%, issue price 99.436%, repayment price 100%. The issue is part of the maturing debt optimization and refunding process.

Revolving Credit Facility and Term Loan

The following table shows committed credit lines available at December 31, 2018.

(billions of euros)		12/31/2018 Agreed	12/31/2018 Drawn down	12/31/2017 Agreed	12/31/2017 Drawn down
Revolving Credit Facility	maturing May 2019			4.0	
Revolving Credit Facility	maturing March 2020			3.0	
Revolving Credit Facility	maturing January 2023	5.0			
Total		5.0		7.0	

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On January 16, 2018, two syndicated *Revolving Credit Facilities* existing at December 31, 2017 were closed in advance and replaced by a new syndicated *Revolving Credit Facility* for a total of 5 billion euros, maturing on January 16, 2023, currently not drawn.

At December 31, 2018, TIM had bilateral Term Loans for 1,475 million euros and overdraft facilities for 250 million euros, drawn down for the full amount.

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 7.62 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, stood at approximately 4.4%.

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 at December 31, 2018 of the TIM Group.

Current financial assets and liquidity margin

The TIM Group s available liquidity margin amounted to 8,043 million euros, equal to the sum of:

- Cash and cash equivalents and Current securities other than investments totaling 3,043 million euros (4,568 million euros at December 31, 2017), also included 545 million euros of *repurchase agreements*, of which 450 million euros maturing in January 2019 and the remaining portion maturing in March 2019;

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

This margin is sufficient to cover Group financial liabilities falling due over the next 24 36 months.

In particular:

Cash and cash equivalents amounted to 1,917 million euros (3,575 million euros at December 31, 2017). 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 1,126 million euros (993 million euros at December 31, 2017): These forms of investment represent alternatives to the investment of liquidity with the aim of improving returns. They included a total of 558 million euros of Italian treasury bonds purchased by TIM S.p.A. (252 million euros), Telecom Italia Finance S.A. (296 million euros) and Inwit S.p.A. (10 million euros), as well as 387 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 181 million euros of investments in 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 2018, adjusted net financial debt increased by 80 million euros compared to September 30, 2018 (25,190 million euros): income tax payments and the payment of 477 million euros relative to the portion of the award amount due for 2018 for rights to use the 3700-3800 MHZ and 26.5-27.5 GHZ (5G) frequencies basically offset the positive cash generation from operations and financing activities.

(millions of euros)	12/31/2018 (a)	9/30/2018 (b)	Change (a-b)
Net financial debt carrying amount	25,995	26,127	(132)
Reversal of fair value measurement of derivatives and related financial assets /liabilities	*(725)*	*(937)*	*212*
Adjusted net financial debt	25,270	25,190	80
Breakdown as follows:			
Total adjusted gross financial debt	29,432	30,001	(569)
Total adjusted financial assets	(4,162)	(4,811)	649

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CONSOLIDATED DATA TABLES OF DETAIL

The TIM Group Consolidated Financial Statements for 2018 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 and consolidation policies adopted are consistent with those applied for the TIM Group Consolidated Financial Statements at December 31, 2017, except for the new standards adopted as of January 1, 2018, the impact of which is illustrated in the Note Accounting Policies Adoption of the New IFRS 9 and IFRS 15 Standards , to which readers are referred for more details.

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 the year 2019 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 2018 and in 2017.

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Separate Consolidated Income Statements

(millions of euros)	2018	2018 comparable (a)	2017 (b)	Change (a-b) amount	%
Revenues	18,940	19,109	19,828	(719)	(3.6)
Other income	341	341	523	(182)	(34.8)
Total operating revenues and other income	19,281	19,450	20,351	(901)	(4.4)
Acquisition of goods and services	(8,186)	(8,089)	(8,388)	299	3.6
Employee benefits expenses	(3,105)	(3,084)	(3,626)	542	14.9
Other operating expenses	(1,259)	(1,236)	(1,208)	(28)	(2.3)
Change in inventories	102	102	35	67	
Internally generated assets	570	570	626	(56)	(8.9)
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	7,403	7,713	7,790	(77)	(1.0)
Depreciation and amortization	(4,255)	(4,399)	(4,473)	74	1.7
Gains (losses) on disposals of non-current assets	(1)	(1)	11	(12)	
Impairment reversals (losses) on non-current assets	(2,586)	(2,586)	(37)	(2,549)	
Operating profit (loss) (EBIT)	561	727	3,291	(2,564)	(77.9)
Share of profits (losses) of associates and joint ventures accounted for using the equity method	(1)	(1)	(1)		
Other income (expenses) from investments	11	10	(18)	28	
Finance income	1,056	1,047	1,808	(761)	(42.1)
Finance expenses	(2,404)	(2,388)	(3,303)	915	27.7
Profit (loss) before tax from continuing operations	(777)	(605)	1,777	(2,382)	

Income tax expense	(375)	(433)	(490)	57	11.6
Profit (loss) from continuing operations	(1,152)	(1,038)	1,287	(2,325)	
Profit (loss) from Discontinued operations/Non-current assets held for sale					
Profit (loss) for the year	(1,152)	(1,038)	1,287	(2,325)	
Attributable to:					
Owners of the Parent	(1,411)	(1,298)	1,121	(2,419)	
Non-controlling interests	259	260	166	94	56.6

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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)		2018	2017
Profit (loss) for the year	(a)	(1,152)	1,287
Other components of the Consolidated Statement of Comprehensive Income			
Other components that will not be reclassified subsequently to Separate Consolidated Income Statement			
Financial assets measured at fair value through other comprehensive income:			
Profit (loss) from fair value adjustments		(5)	
Income tax effect			
	(b)	(5)	
Remeasurements of employee defined benefit plans (IAS 19):			
Actuarial gains (losses)		19	10
Income tax effect		(5)	(1)
	(c)	14	9
Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method:			
Profit (loss)			
Income tax effect			
	(d)		
Total other components that will not be reclassified subsequently to Separate Consolidated Income Statement	(e=b+c+d)	9	9
Other components that will be reclassified subsequently to Separate Consolidated Income Statement			
Financial assets measured at fair value through other comprehensive income(*):			
Profit (loss) from fair value adjustments		(14)	63
Loss (profit) transferred to the Separate Consolidated Income Statement		(4)	(62)

Income tax effect		2	2
	(f)	(16)	3
Hedging instruments:			
Profit (loss) from fair value adjustments		362	(854)
Loss (profit) transferred to Separate Consolidated Income Statement		(336)	826
Income tax effect		(7)	(3)
	(g)	19	(31)
Exchange differences on translating foreign operations:			
Profit (loss) on translating foreign operations		(554)	(830)
Loss (profit) on translating foreign operations transferred to Separate Consolidated Income Statement			19
Income tax effect			
	(h)	(554)	(811)
Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method:			
Profit (loss)			
Loss (profit) transferred to Separate Consolidated Income Statement			
Income tax effect			
	(i)		
Total other components that will be reclassified subsequently to Separate Consolidated Income Statement	(k=f+g+h+i)	(551)	(839)
Total other components of the Consolidated Statement of Comprehensive Income	(m=e+k)	(542)	(830)
Total comprehensive income (loss) for the year	(a+m)	(1,694)	457
Attributable to:			
Owners of the Parent		(1,784)	527
Non-controlling interests		90	(70)

(*) Including, for 2017, Available-for-sale financial assets .

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Consolidated Statements of Financial Position

(millions of euros)		12/31/2018 (a)	12/31/2017 (b)	Change (a-b)
Assets				
Non-current assets				
Intangible assets				
Goodwill		26,769	29,462	(2,693)
Intangible assets with a finite useful life		8,889	7,192	1,697
		35,658	36,654	(996)
Tangible assets				
Property, plant and equipment owned		14,251	14,216	35
Assets held under finance leases		1,895	2,331	(436)
		16,146	16,547	(401)
Other non-current assets				
Investments in associates and joint ventures accounted for using the equity method		16	17	(1)
Other investments		49	51	(2)
Non-current financial assets		1,594	1,768	(174)
Miscellaneous receivables and other non-current assets		2,291	2,422	(131)
Deferred tax assets		1,136	993	143
		5,086	5,251	(165)
Total Non-current assets	(a)	56,890	58,452	(1,562)
Current assets				
Inventories		389	290	99
Trade and miscellaneous receivables and other current assets		4,706	4,959	(253)
Current income tax receivables		251	77	174

Current financial assets				
Securities other than investments, financial receivables and other current financial assets		*1,466*	*1,430*	*36*
Cash and cash equivalents		*1,917*	*3,575*	*(1,658)*
		3,383	5,005	(1,622)
Current assets sub-total		8,729	10,331	(1,602)
Discontinued operations/Non-current assets held for sale				
Total Current assets	(b)	8,729	10,331	(1,602)
Total Assets	(a+b)	65,619	68,783	(3,164)

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(millions of euros)		12/31/2018 (a)	12/31/2017 (b)	Change (a-b)
Equity and Liabilities				
Equity				
Equity attributable to Owners of the Parent		19,528	21,557	(2,029)
Non-controlling interests		2,219	2,226	(7)
Total Equity	(c)	21,747	23,783	(2,036)
Non-current liabilities				
Non-current financial liabilities		25,059	28,108	(3,049)
Employee benefits		1,567	1,736	(169)
Deferred tax liabilities		192	265	(73)
Provisions		876	825	51
Miscellaneous payables and other non-current liabilities		3,297	1,678	1,619
Total Non-current liabilities	(d)	30,991	32,612	(1,621)
Current liabilities				
Current financial liabilities		5,913	4,756	1,157
Trade and miscellaneous payables and other current liabilities		6,901	7,520	(619)
Current income tax payables		67	112	(45)
Current liabilities sub-total		12,881	12,388	493
Liabilities directly associated with Discontinued operations/Non-current assets held for sale				
Total Current Liabilities	(e)	12,881	12,388	493
Total Liabilities	(f=d+e)	43,872	45,000	(1,128)
Total Equity and Liabilities	(c+f)	65,619	68,783	(3,164)

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Consolidated Statements of Cash Flows

(millions of euros)		2018	2017
Cash flows from operating activities:			
Profit (loss) from continuing operations		(1,152)	1,287
Adjustments for:			
Depreciation and amortization		4,255	4,473
Impairment losses (reversals) on non-current assets (including investments)		2,589	50
Net change in deferred tax assets and liabilities		(195)	(147)
Losses (gains) realized on disposals of non-current assets (including investments)		1	(11)
Share of losses (profits) of associates and joint ventures accounted for using the equity method		1	1
Change in provisions for employee benefits		(208)	437
Change in inventories		(99)	(30)
Change in trade receivables and net amounts due from customers on construction contracts		(49)	379
Change in trade payables		(163)	(605)
Net change in current income tax receivables/payables		(210)	(515)
Net change in miscellaneous receivables/payables and other assets/liabilities		(178)	80
Cash flows from (used in) operating activities	(a)	4,592	5,399
Cash flows from investing activities:			
Purchase of intangible assets		*(3,647)*	*(2,292)*
Purchase of tangible assets		*(2,831)*	*(3,477)*
Total purchase of intangible and tangible assets on an accrual basis		(6,478)	(5,769)
Change in amounts due for purchases of intangible and tangible assets		*1,947*	*455*
Total purchase of intangible and tangible assets on a cash basis		(4,531)	(5,314)

Capital grants received		108	82
Acquisition of control of companies or other businesses, net of cash acquired			
Acquisitions/disposals of other investments		(3)	(4)
Change in financial receivables and other financial assets (excluding hedging and non-hedging derivatives under financial assets)		96	466
Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of			
Proceeds from sale/repayment of intangible, tangible and other non-current assets		16	30
Cash flows from (used in) investing activities	(b)	(4,314)	(4,740)
Cash flows from financing activities:			
Change in current financial liabilities and other		394	(1,188)
Proceeds from non-current financial liabilities (including current portion)		2,546	2,630
Repayments of non-current financial liabilities (including current portion)		(4,426)	(3,426)
Changes in hedging and non-hedging derivatives		(110)	997
Share capital proceeds/reimbursements (including subsidiaries)		22	16
Dividends paid		(256)	(235)
Changes in ownership interests in consolidated subsidiaries			(4)
Cash flows from (used in) financing activities	(c)	(1,830)	(1,210)
Cash flows from (used in) Discontinued operations/Non-current assets held for sale	(d)		
Aggregate cash flows	(e=a+b+c+d)	(1,552)	(551)
Net cash and cash equivalents at beginning of the year:	(f)	3,246	3,952
Net foreign exchange differences on net cash and cash equivalents	(g)	(63)	(155)
Net cash and cash equivalents at end of the year:	(h=e+f+g)	1,631	3,246

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Additional Cash Flow information

(millions of euros)	2018	2017
Income taxes (paid) received	(739)	(1,100)
Interest expense paid	(1,978)	(2,899)
Interest income received	871	1,636
Dividends received	2	1

Analysis of Net Cash and Cash Equivalents

(millions of euros)	2018	2017
Net cash and cash equivalents at beginning 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
Net cash and cash equivalents at end of the year:		
Cash and cash equivalents from continuing operations	1,917	3,575
Bank overdrafts repayable on demand from continuing operations	(286)	(329)
Cash and cash equivalents from Discontinued operations/Non-current assets held for sale		
Bank overdrafts repayable on demand from Discontinued operations/Non-current assets held for sale		
	1,631	3,246

The additional disclosures required by IAS 7 are provided in the Note Net Financial Debt to the TIM Group Consolidated Financial Statements at December 31, 2018.

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OTHER INFORMATION

Average salaried workforce

(equivalent number)	2018	2017	Change
Average salaried workforce Italy	45,058	45,648	(590)
Average salaried workforce Outside Italy	9,365	9,298	67
Total average salaried workforce [1]	54,423	54,946	(523)

(1) Includes employees with temp work contracts: the average headcount was 0 in 2018 versus 2 in 2017 (1 in Italy and 1 outside Italy).

Headcount at year end

(number)	12/31/2018	12/31/2017	Change
Headcount Italy	48,005	49,689	(1,684)
Headcount Outside Italy	9,896	9,740	156
Total headcount at year end [1]	57,901	59,429	(1,528)

(1) No employees with temporary work contracts at 12/31/2018 and 12/31/2017.

Headcount at year end Breakdown by Business Unit

(number)	12/31/2018	12/31/2017	Change
Domestic	48,200	49,851	(1,651)
Brazil	9,658	9,508	150

Other Operations	43	70	(27)
Total	57,901	59,429	(1,528)

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SOCIAL AND ENVIRONMENTAL IMPACT OF OPERATIONS AND THEIR ECONOMIC ASPECTS

Environmental and social changes underway pose economic risks, but also business opportunities for TIM, that has a leading role in the economy of the main countries where it operates; In an increasingly digital world, the ability to find a sustainable dimension among the new business models, new service classes, new operating procedures and new professional dimensions that are transforming the way we live and work and reshaping systems and economic relations is of strategic importance.

The analysis process conducted in 2018, in order to identify material issues relative to the social, environmental and economic impacts business activities have both in and outside the Company, showed that opportunities related to the digital transformation of companies, the public administration and citizens services are material issues for the Group. The analysis also showed how essential it was for TIM to play a lead role in developing digital expertise and knowledge in its own dimension and in a capacity as enabler for a new digital society. There has also been a renewed focus on human rights, in all forms, and on environmental issues, such as reducing greenhouse gases, which the Group can contribute to with products that enable businesses and households to reduce their energy consumption, and with services to help cities lower their own 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/Disclosure of non-financial information.

IMPROVING THE EFFICIENCY OF ENVIRONMENTAL COSTS - REDUCING ENERGY CONSUMPTION

TIM is one of the biggest electricity users nationally, consuming around 1.87[1] TWh of energy per year.

Technological developments continued in 2018, related mainly to the NGAN (Next Generation Access Network) implementation plan and LTE technology, are generally leading to an increase in energy consumption. 2018 in particular saw a significant boost given to the technological development of the fixed-line and mobile network and significant growth in new installations in the internal and external market in the field of Information Technology, with a consequent increase in energy demand.

TIM pro-actively managed to offset its energy consumption related to technological development, through continual research into efficiency and the optimization of solutions adopted, achieving:

- net total decrease in energy consumption in 2018 of the Domestic Business Unit approximately 28 GWh compared to 2017;

- an increase in own production of electricity through the co-generation and tri-generation of approximately 25 GWh by the Domestic Business Unit in 2018, compared to the previous year, for an output of around 132 GWh, thanks to optimized plant operation.

In economic terms, the overall savings of the Domestic Business Unit from the reduction in consumption and own energy produced can be estimated to be approximately 7.3 million euros over the course of the year.

During the year, TIM maintained ISO 50001 certification for sites covered by the Energy Management System. In 2018, certification was extended considerably: besides the historic site in Bologna, in via Stendhal and the Data Center in Rozzano 1 and 2, certification was also obtained for Rozzano 3 - thus completing the entire Data Center at Rozzano - and for the exchange in the center of Piacenza, as well as the Data Processing Centers at Padova and Bologna Roveri. TIM therefore achieved the objective it had set the previous year to add an exchange to the certification on top of the already certified buildings. The energy efficiency of TIM was also recognized through the awarding of Energy Efficiency Certificates (EEC, also known as White Certificates): During 2018, 18,000 EECs were awarded, sold with revenues equal to approximately 6 million euros. As proof of its commitment to energy, TIM received the 2018 Energy Manager award for the tertiary sector from FIRE (the Italian Federation for a Rational Use of Energy) in association with ENEA and Key Energy.

EFFICIENCY IMPROVEMENT PROCESS, SOCIAL COST OPTIMIZATION 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 dialog 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

1 This does not include the electricity used by OLOs.

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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:

- these include the use in 2016 2017 of Defensive Solidarity Contracts, as required by the Jobs Act, extended up to June 2019, 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 2018, the benefit on the cost of labor obtained from solidarity contracts was 81 million euros for the Group (117 million euros in 2017), all relating to the Parent Company;

- redundancy in accordance with Law 223/91 and Article 4 of the so-called Fornero Law, with participation on a voluntary basis.

GROWTH OPPORTUNITIES

ICT services for environmental protection and improving citizens quality of life are seeing positive growth rates. TIM customers already have a range of solutions available to them to cut energy consumption, reduce red tape, and increase security for citizens.

TIM s services for the environment (described on timbusiness.it) include:

- 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. Energy saving can be estimated to be approximately 10% only as regards the adoption of metering & reporting functions. For TIM ENERGREEN alone, sales in 2018 amounted to approximately one million euros, increasing by 30% over 2017;

- videoconferencing solutions, a market which is extremely dynamic, reported a turnover of approximately 11 million in 2018. 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;

vertical solutions - from telemedicine to smart agriculture - are also available on the market, directly or indirectly contributing to reducing consumption and emissions by optimizing and improving the efficiency of activities.

MATERIALITY ANALYSIS

As already stated, in compliance with Italian Legislative Degree 254/2016 and the requirements of the Global Reporting Initiative Standards, TIM conducted a materiality analysis in 2018 with the aim of identifying material topics as regards the socio-environmental and economic impacts of its business activities both within and outside the company.

Process to identify the material topics

In keeping with the methodology started in 2017, TIM assessed the validity of the material issues identified the previous year, adopting evolved semantic analysis techniques, to analyze a larger number of information sources in order to identify and map sector topics, and also continued its analysis of big data, in order to collect external points of view.

The taxonomy[5] to adopt in the semantic engine was updated, using the same sustainability and digital references as those in 2017, in more recent versions and expanding the number. In particular:

- Global Reporting Initiative Standard, ISO 26000, Sustainable Development Goals and specialist assessments[6];

4 Law 92/2012 www.gazzettaufficiale.it/eli/id/2012/07/03/012G0115/sg

5 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.

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

Italian Digital Agenda, Objectives of the European Digital Single Market and dedicated indexes[7], besides regulatory references which are relevant for TIM and its stakeholders.

The semantic engine analyzed all the national and international sources of information, public and non-public sources, internal and external to TIM[8] with different interactions leading to the definition of a list of topics based on the occurrences[9] 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 2017 tree .

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.

As stated, collecting external points of view was facilitated by the use of innovative tools such as semantics and big data analysis,[10] as well as digital collaboration tools[11] .

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;
- stakeholder engagement;
- integrating economic, social and environmental aspects in governance and the strategic plan;
- supporting the development of digital skills in the community (in schools, in the public administration, in businesses);
- developing the resilience of areas to disasters and calamities;
- consolidating social and environmental aspects in the supply chain;
- managing the workforce and employment development;
- managing the health and safety of workers;
- developing personnel competencies;
- service quality;

online protection of minors (cyber bullying, child pornography, gambling);

safeguarding privacy and personal data protection and security;

contributing to and taking initiatives to fight climate change in company policies, strategies and processes;

reducing the environmental impact of TIM s operations;

increasing the use of energy from renewable sources in company processes;

electromagnetism;

digital inclusion in society;

developing digital infrastructures with next-generation networks;

promoting and safeguarding human rights;

reducing inequalities and promoting equal opportunities in the Company.

This approach has enabled TIM to expand stakeholder engagement and dynamically observe topics in order to measure their trends over time.

Results at a glance

At the end of the analysis, TIM attributed a relevance score based on the occurrence of the topics[12].

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

8 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).

9 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.

[10] In keeping with activities of the previous years, stakeholders involved in engagement activities were surveyed, in addition to many other entities, for a total of approximately 500, concerning 8 categories of TIM stakeholders. Three types of sources were identified for the analysis:

- documents issued by stakeholders (in particular sustainability reports);
- statements issued on company websites;
- discussions on social networks concerning the themes identified thanks to TIM Data Room activities.

[11] Digital instruments were used for engagement. In particular:

- a questionnaire was given to stakeholders, via the platform, from the categories: customers, suppliers, competitors, institutions, environment, community, persons, also collecting suggestions and feedback;
- TIM s vendor assessment platform was used to specifically focus on the category of suppliers;
- information on TIM customers views on the proposed issues was obtained from the TIM.com site.

[12] 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.

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The activity resulted in the following materiality matrix:

The key issues for the Group and its stakeholders reflect the Sustainable Development Goals which TIM believes it can help achieve to a greater extent through its own personnel, technologies and services, adopting business policies that promote and safeguard human rights and the environment.

Specifically, the relevant Goals are:

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. 16: Peace, justice and strong institutions.

Service quality is the topic which registered the greatest increase, overall, compared to 2017. **Fair corporate conduct** was instead the most relevant issue for external stakeholders; **Safeguarding privacy and personal data protection and security**, **Developing digital infrastructures with next-generation networks** and **Supporting the development of digital skills in the community (in schools, in the public administration, in businesses)** all ranked higher than 2017.

Reducing the environmental impact of TIM s operations is one of the most significant topics due to the important contribution TIM can provide through its solutions as a leading ICT company and through its adoption of strategies and policies to contain its energy consumption and greenhouse gas emissions.

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, 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

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 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 2018 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, underway for several years now, 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 drive 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;
- by interacting with the start-up world in order to catalyze the latter s capacity for innovation through the **TIM #Wcap acceleration program**;
- by 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 specifically, innovation management is overseen, with different missions, by the **Technology Architectures & 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 centers of expertise on the topic;

traditional and digital **partners**, for the joint go2market of digital services;

research centers and universities, for cooperation and joint projects. In 2018, 18 research contracts came into effect, for a total value of 840,000 euros;

Standardization Bodies and Associations: TIM is still very active within the main Standardization Bodies and Associations, with 27 memberships in 2018, for a cost of 900,000 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;

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. In particular, two specific consortiums were set up in 2018. KIC U-Move, the Community for Knowledge and Innovation in urban mobility, promoted by the European Institute of Innovation and Technology (EIT), with the support of the EU, in order to promote urban mobility, and Competence Industry Manufacturing 4.0 (CIM 4.0), set up in December 2018 after the award of the Ministry of Economic Development Industry 4.0 contract, to help fast track the process to transform a considerable section of the production system at local and national level, and act as an integrated hub for the dissemination of expertise and good practices, offering training and on-site experience, in technological and industrial sectors in Piedmont and other Italian regions. The Ministry of Economic Development will fund the consortium projects over the next three years.

TIM s technological evolution is based on CTO Technology Strategy, which identifies technology strategy in terms of guidelines, specific technologies and roadmaps to adopt in the long term. The three-year technological plan is the reference policy for the Group and includes the technological evolution plans of subsidiaries. The plan sets out the main external factors that may affect company strategies (regulation, standards, suppliers, other market operators) and establishes the company entities involved, the applicable technological architecture and evolution of specific technologies, along with relative roadmaps for deployment or assessment. The qualitative and/or quantitative goals address the long term and have been given an annual framework. They are defined so that they can be objectively measured in compliance with quality standards (ISO 9001) and environmental standards (ISO 14001), and operational innovation processes, in the same way as TIM processes, in general, are based on TMF s reference standard E-Tom.

Overall, in 2018 TIM committed around 1,300 people to working on technological innovation and engineering in Italy, for an overall investment for the Company of 1,165 million euros, which is equivalent to around 8% of revenues.

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

In October 2018, the tender of the Ministry of Economic Development for the award of user rights to 694 790 MHz, 3600 3800 MHz, and 26.5 27.5 GHz band frequencies for 5G mobile telecommunications services was completed, with an overall undertaking for TIM of 2,399 million euros. The rights to 3600-3800 MHz and 26.5-27.5 GHz band frequencies were assigned on a definitive basis in January 2019, while the rights to 694-790 MHz band frequencies will be made available in July 2022. 5G allows 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[13] and URLLC[14] 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.

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. Many initiatives dedicated to 5G took place during 2018, including the inauguration of the first Innovation Hub in Rome, which is the very cornerstone of the agreement. Another important event was held in Turin, at Palazzo Madama, with two days when TIM opened its doors to the public with live demos of 5G services, including automotive, digital tourism, Industry 4.0 and smartcity services, which will soon be available on the network. In Turin, TIM will develop the first 5G network in Italy, thanks to an agreement with the local authorities, following on from three important projects started in 2017 - Torino 5G, San Marino 5G and Bari-Matera 5G - for 5G coverage of these municipalities, involving over 55 partners.

In 2018, these projects continued, consolidating activities to provide coverage, with San Marino becoming the first European microstate to be covered by 5G.Research and partnerships with organizations and universities involved for Bari-Matera were also set up and activities will continue in 2019.

Over the next few years, 5G will be the revolution that everyone can experience in their daily lives.

Main applications will target:

- the automotive and transport sector with vehicle-to-vehicle and vehicle-to-infrastructure connectivity, aimed at increasing safety and energy saving; connectivity for infotainment; self-driving vehicles and related aspects;

- industry 4.0, i.e. the digital transformation of industry; the systematic addition of sensors to products, to produce data to improve production and processes; the evolution of the supply chain to enable real-time management of relations with suppliers and end customers;

- the world of new media, with changes in user trends and new formats, including virtual and enhanced reality solutions;

healthcare, with remote assistance, to enable specialists to assist patients with chronic diseases from afar;

public safety, with mobile video surveillance solutions that can integrate data and images for a far broader vision, guaranteeing greater public security levels than the past;

assistance for tourists who can have information and multimedia content on their visits at their fingertips, thanks to sensors on their smartphones;

the information sector in general which can ensure live connections with a better video quality without complex instruments, thanks to a greater bandwidth availability, combined with a reduced latency.

[13] Massive Machine Type Communication
[14] Ultra Reliable and Low Latency Communications

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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. In 2018, more than 180 companies and customers visited the Lab, and among them, around fifty construction companies agreed a partnership with TIM allowing them to use the Lab s facilities free of charge.

Research with Universities

The Open Innovation activities (understood as R&D participatory behavior) for 2018 were largely concentrated on the new Innovation model pursued at TIM and guided by top management. Research and development activities in 2018 focused on infrastructure issues and application solutions with a particular emphasis on opportunities afforded by 5G.

As already stated, the financial commitment amounted to 840,000 euros, involving 70 TIM technicians and 60 university researchers dedicated to specific research, including:

- research projects on cognitive computing, artificial intelligence solutions and 5G in partnership with Turin Polytechnic;
- the academic research partnership as part of the Ministry of Economic Development Bari-Matera 5G project involved TIM, together with academic organizations, in the full 5G coverage of cities scheduled for 2019, with 10 application areas started and over 70 use scenarios. In 2021, the entire metropolitan area of the 2 cities will be covered;
- research projects started also in partnership with the University of Catania under the technology/innovation plan to fast-track the market delivery of the entire IoT ecosystem and 5G development activities.

Funded research activities

TIM has always been active in innovative and research initiatives funded by the European Commission and by national public administrations. This has enabled it to obtain funding of nearly 14 million euros over the 2016-2018 period and to take part in projects with a high innovation content, thanks to which it has been able to develop and consolidate its own know-how in sectors with a fast-paced technological evolution, working together with leading European, North American, Korean and Japanese research centers. In this area, it has been involved in activities carried out as part of funded projects concerning 5G, virtualization and intelligent mobility services, furthering its expertise and gaining a prominent position in the international sphere.

Patents and Intellectual Property Rights

During 2018, the Group s portfolio of patents grew to include new patents filed (TIM ranks sixth as the Italian company for number of European patents filed), and was also streamlined, eliminating some patents that were no longer worth investing in, given advances in technological progress.

The patenting areas relate to the whole ICT sector, with areas of excellence in the mobile sector, where TIM is one of the six leading Telcos worldwide.

Specifically, TIM s portfolio of patents included 3,256 patents held by TIM in 2018, of which 2,754 granted in 41 countries around the world and 502 published in 15 patent offices, relative to some 600 inventions.

A total of 11% of the patented inventions stem from work with universities and research institutes, from 1997 to the present day.

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 19 license-holders) and granted several licenses to 42 companies.

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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 areas of focus include: identifying technological innovation for the network and the evolutionary needs for new technologies and devices, setting architectural guidelines, and 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 25 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.

In January 2017, a **new TIM Lab Innovation Center** 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 hosts technicians and researchers and can 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 2018, 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, more than 22 million reais were invested in the 2016/17 period, also for new lab premises, in addition to the 4 million reais in 2018; based on the 2019-2021 plan, further investments of 12 million reais have been allocated.

The Innovation & Technology department continued to work 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 the following groups:

- new generation networks;
- positive environmental and social impacts;
- Open Lab initiatives.

Next 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.

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Another important consideration in this scenario is that over 94% 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[15] in order to manage the spectrum cleaning and avoid interference problems with the analogue TV transmission service. 82% of the LTE devices employed by the current users of TIM Brasil services are enabled for the 700 MHz bandwidth.

At the end of 2018, over 1,400 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[16]. 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 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 2018, over 2,500 cities could use this service.

Projects with positive environmental and social 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, optimizing 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%. 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, which were launched in 2018 in the city of Santa Rita do Sapucai.

Since 2018, TIM Brasil together with Nokia and BR Digital, has offered connectivity services in rural areas, not only enabling agrobusiness commercial applications, but also the digital inclusion of sector employees and residents in small towns.

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.

[15] Entidade Administradora de Processo de Redistribuição e Digitalização de Canais de TV e RTV
[16] IMS: IP Multimedia Subsystem, solutions focused on functional tests, specific analyses and interoperability with the so-called legacy system

Moreover, in October 2018, TIM joined up with a new work team in the Telecom Infra Project (TIP) together with Vodafone and other mobile operators, called DCSG (Disaggregated Cell Site Gateway). This project is an opportunity to define a common set of requirements to produce devices that are more open, flexible and cost-effective.

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CONSOLIDATED NON-FINANCIAL STATEMENT

TIM, as a Relevant Public Interest Entity (PIE), has 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, 2018

For details of subsequent events, see the specific Note Events Subsequent to December 31, 2018 in the Consolidated and Separate Financial Statements as at December 31, 2018 of the TIM Group and TIM S.p.A., respectively.

BUSINESS OUTLOOK FOR THE YEAR 2019

The strategy of the TIM 2019-2021 Plan marks a major break with the past, focusing on execution as a key factor in TIM s organic transformation, together with strategic initiatives capable of freeing up value. The Plan s objectives are the relaunch of the Domestic business, with a focus on the quality, size and technical skills of TIM, and the strengthening of business in Brazil, taking advantage of growth opportunities (e.g. residential broadband and ultra-broadband connectivity) and continuing the repositioning of customers towards postpaid offers, leveraging 4G leadership.

On the **Domestic market** the Consumer segment begins with consolidated competitive advantages (quality, size and technical skills), to bring rationality to both the Fixed and Mobile market, using network quality and product reliability to leverage optimized profitability and expand the range of offered services. By 2021, ultra-broadband penetration will reach 80% of the broadband customer base (up from 45% in 2018).

The **Business segment** will put itself forward as a reference supplier and top ICT quality partner for SMEs and as a leading ICT solutions provider for large customers. Revenues from ICT services will grow significantly, reaching 48% of total revenues of the Large Business segment by 2021 (up from 39% in 2018).

The **Wholesale segment** will defend its access market share and confirm its leadership in ultra-broadband coverage. Fiber access will double compared to 2018.

The **Telecom Italia Sparkle group** will expand its infrastructure and grow enterprise networking and the cloud; partnerships to accelerate growth and expand strategic options will also be assessed.

In **Brazil**, the mobile customer base will continue to migrate towards postpaid offers, increasing from 36% in 2018 to around 50% in 2021. The fiber development program (backbone, backhauling and FTTH) will also continue and residential ultra-broadband customers will be at 1.2 million in 2021. Cost rationalization and digital transformation will be a leverage to support margin improvement, with an EBITDA margin of at least 40% by 2020.

TIM s strategy aims to reduce debt through cash generation growth in the domestic market, achieved through stabilization of revenues, a streamlined costs structure and working capital and invested capital optimization. A dedicated department will ensure cost efficiencies are made and, through already identified actions, will allow for a reduction in the reducible cost base of 8% in 2021 compared to 2018; invested capital optimization will also take place through network sharing. To this end TIM and Vodafone Italia signed a memorandum of understanding in February 2019 and agreed to start exclusive negotiations on a partnership project to share the active component of the 5G network, assess the possibility of sharing active devices on the 4G network and expand the current passive sharing agreement.

The technological approach outlined in the new TIM plan puts modernization, simplification and artificial intelligence at the heart of future capital expenditure. TIM will build a completely new and automated 5G network, continuing with the disposal and consolidation of redundant assets (e.g. data centers and exchanges).

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The main financial targets of the 2019-2021 plan are as follows, it should also be remembered that the 2019 forecasts assume an operating performance affected by competitive dynamics that have already impacted increasingly the whole of 2018. These dynamics will have full effect on 2019, influencing the Year on Year comparability of the coming periodic financial reports and will determine the highlight of a recovery trend only during the second part of the year.

TIM Group:

- Total Equity Free Cash Flow (2019/2021) of around 3.5 billion euros with the possibility of further growth through non-organic activities currently not included;
- Group debt of around 22 billion euros in 2021 before non-organic operations (on the same accounting basis as 2018).

Domestic:

- Slightly declining revenues from services (low single-digit) during the period with the aim of stabilizing them from 2020;
- Organic EBITDA in low single-digit/mid single digit decline in 2019 and low single-digit growth for both 2020 and 2021;
- Capex equal to about 3 billion euros per year.

Brazil:

- Revenues from services growing by 3-5% in 2019 and mid single-digit growth in 2020 and 2021;
- EBITDA growth (mid/high single digit) in 2019 with the confirmed EBITDA margin target of at least 40% in 2020;
- Cumulative capex totaling around 12.5 billion reais in 2019/2021.

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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 2019 could moreover be affected by risks and uncertainties caused by a multitude of factors, the majority of which are beyond the Group s control.

These include, but are not limited to, the change in market context, entry of new potential competitors in the fixed and mobile field, start of proceedings by the authorities and delays in new strategy implementation, with effects at this moment not foreseeable in terms of strategic choices and development timing of the already announced triennial objectives, which may lead, in some cases, to a different progression in timing in respect of that initially foreseen or achievement of the objectives through new and more joined-up methods.

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 in an analytical way.

STRATEGIC RISKS

Risks related to macro-economic factors

The TIM Group s economic and financial situation depends on the influence of numerous macroeconomic factors such as economic growth, political stability, consumer confidence, and changes in interest rates and exchange rates in the markets in which it operates. In 2018 economic growth in the euro area suffered an unexpected slowdown, suggesting that growth for the year would be lower than in 2017. The slowdown in the Italian economy was more evident than in other European countries: GDP recorded two consecutive negative quarter-on-quarter changes in the second half of the year. 2018 closed with an average growth of 0.9% in real terms, against a growth of 1.6% recorded in 2017, and growth for 2019 is expected at an even lower rate compared to 2018.

The slowdown in Italian growth reflects the deceleration in exports (in particular towards its main trading partner, Germany, which in turn recorded a sharp downturn in the third quarter), and expected normalization of monetary policies. On the domestic front, the uncertainty related to budget policy and possible repercussions on the financial markets and confidence of households and businesses had a considerable impact.

In Brazil, the expected results may be significantly affected by the macroeconomic and political situation. After two years of negative GDP growth one of the deepest and longest recessions in its history Brazil returned to growth in 2017 (+1%). In December the Central Bank slightly reduced its GDP growth forecasts for 2018, from 1.4 % estimated in September to 1.3%, due mainly to the performance of public accounts. The elections which ended with the new president voted in with a considerable popular majority should help to attenuate the political uncertainty and boost the confidence of households and businesses, creating a climate that is far more favorable for the economy to recover. Short and medium term growth forecasts remain tied to pension reforms and the introduction of a more efficient public spending system, which is not an easy task for the new president.

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, also beyond the Plan period.

Iliad launched its new mobile service at the end of May with the objective of capturing 10 15% of the market, adopting the same strategies it currently employs on the French market. In addition, Open Fiber and Infratel started up plans for the development of an UBB 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.

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OPERATIONAL RISKS

Operational risks inherent in our business relate, on the one hand, to failures in systems and/or network platforms, loss of critical or commercially sensitive data, possible inadequacies in internal processes, external factors, frauds, employee errors and errors in properly documenting transactions; 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 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 the Group s 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;
- 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 related to business continuity

The TIM Group s success depends heavily on the ability to ensure the continuous and uninterrupted delivery of the products and services we provide through the availability of processes and the relating supporting assets, which are sensitive to various internal and external threats. TIM has adopted a Business Continuity Model System framework in line with international standards, to analyze and prevent these risks.

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.

Risks of internal/external fraud

Technological progress means that increasingly sophisticated tools and techniques, which are quick acting and have a considerable economic impact are available for fraudulent activity.

Conventional phenomena such as subscription, interconnection, and commercial fraud currently generate the highest part of *revenue loss* and will continue to be significant in the near future, however new types of Internet-style fraud will gradually gain more ground (Internet spamming/phishing, service reselling, VoIP bypass, etc.). Furthermore, some specific types of provided services (e.g. wholesale interconnection, voice or data services) are potentially at risk of third party use for the construction of fictitious transaction schemes, tax avoidance offenses and/or international money laundering.

By way of example only, Fraud Management covers:

- traffic or marketing-related fraud;
- fraud connected with procurement processes and the supply of goods and services;
- computer fraud;
- fraud related to the use and disclosure of confidential information;
- tax and/or financial fraud;

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which are:

- identified by specific controls during routine working activities, or reported from sources inside/outside the company;
- committed by entities outside the company, or by or with the assistance of employees (internal fraud).

The TIM Group has an established organizational model based on the governance of fraud and a separate operational governance system for managing and combating fraud.

The procedure to combat external fraud, drawing on company processes at risk of the offenses contemplated in Italian Legislative Decree 231/01 being committed, sets out internal control mechanisms, including instructions on how employees and Company staff/partners (including suppliers) must behave (Prevention). In the Detection stage, potential cases of fraud are identified and after a preliminary check of the possible grounds the cases may be subject to Investigation and Tackling. To complete the fraud management end-to-end cycle, the results of actions taken are assessed with monitoring and any actions to improve the fraud management process are identified.

Likewise, internal fraud is managed in compliance with constraints in trade union agreements banning the remote control of employees work, and involves monitoring and checking access to company systems only for operational purposes, and access to registration data only in the case of identified anomalies.

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 on the result of negotiations on the divorce agreement with the EU, which is even more uncertain, after the House of Commons voted against the British Prime Minister s Brexit plan in January 2019.

Brexit and possible future scenarios connected to the outcomes of negotiations could cause further instability on global financial markets in an international context that is already affected by the trade dispute between the US and China.

The potential effects of Brexit could adversely affect our financial conditions, our business and the related earnings and cash flows.

REGULATORY AND COMPLIANCE RISKS

Regulatory risks

The electronic communications industry is highly regulated. As such, new decisions by the Communications Authority (AGCom) may lead to changes in the regulatory framework that may affect the expected results of the Group and the guidance announced to the market. In addition, the position held by TIM In the fixed-line markets and the structure of the mobile markets results in high levels of scrutiny from the Italian Antitrust Authority (AGCM) over competition in the sector.

The main elements that introduce uncertainty are:

- lack of predictability in start-up timing and consequent final decisions in new proceedings by AGCom and AGCM;
- AGCom decisions with retroactive effect (for example, the revision of prices applicable to past years and the effectiveness and actual implementation of repricing policies, also following administrative rulings);
- AGCom decisions that can influence the technological choices, with potential impact on the timing of return on infrastructure investment;
- any AGCM decisions that can limit TIM s competitive capacity (for example, in terms of minimum retail prices to guarantee replicability);
- any inadequacy in the implementation of processes and systems for the management of regulated services, identified by AGCom or AGCM.

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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 and is monitored by the dedicated internal control system.

Compliance with Commission Regulation (EU) 2016/679 (General Data Protection Regulation, GDPR), directly applicable as from May 25, 2018 and enacted in Italy by Legislative Decree no. 101/2018 is particularly important. This Regulation has increased administrative fines considerably compared to the Data Protection Act previously in effect, and in some cases fines of up to 20 million euros may be administered, or in the case of companies, of up to 4% of their global annual turnover of the previous year, if this amount is higher than 20 million euros. Starting from the operating model already in use with pre-existing privacy regulations, the TIM Group has taken necessary action to comply with the GDPR.

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INFORMATION FOR INVESTORS

TIM S.p.A. SHARE CAPITAL AT DECEMBER 31, 2018

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 2018 average prices)	11,153 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 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	BRTIMPACNOR1
Bloomberg	TIT IM	TITR IM	INW IM	TIMP3 BZ
Reuters	TLIT.MI	TLITn.MI	INWT.MI	TIMP3.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, 2018, supplemented by communications received and other available sources of information (ordinary shares):

(1) Evidence of the ownership interests disclosed for the TIM shareholders meeting on May 4, 2018.
(2) Paul E. Singer is a General Partner of Elliott Capital Advisors LP. This ownership interest is held indirectly through the subsidiaries Elliott International LP, Elliott Associates LP and The Liverpool Limited Partnership.

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MAJOR HOLDINGS IN SHARE CAPITAL

Taking into account the entries in the Shareholders Book, communications sent to Consob and to the Company pursuant to Italian Legislative Decree 58 of February 24, 1998, Article 120, and other available sources of information, the relevant holdings of TIM S.p.A. s ordinary share capital are as follows:

Outcomes of communications as per Article 120 of Legislative Decree 58 of February 24, 1998

Holder	Type of ownership	Percentage of ownership
Vivendi S.A.	Direct	23.94%
Paul E. Singer	Indirect	8.85%
Cassa Depositi e Prestiti S.p.A. (*)	Direct	4.26%

(*) Ownership interest referred to April 10, 2018.

Besides the above information, reported before December 31, 2018:

The Canada Pension Plan Investment Board notified the direct and indirect availability, on January 21, 2019, of an amount of ordinary shares equal to 3.13% of the total ordinary shares of TIM S.p.A..

Paul E. Singer notified the indirect availability, on January 31, 2019, through the subsidiaries Elliott International LP, Elliott Associates LP and The Liverpool Limited Partnership, of an amount of ordinary shares equal to 9.55% of the total ordinary shares of TIM S.p.A.;

Cassa Depositi e Prestiti S.p.A. notified the direct and indirect availability, on February 18, 2019, of an amount of ordinary shares equal to 5.03% of the total ordinary shares of TIM S.p.A..

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 14, 2018, the Court of Milan appointed Monica Iacoviello, as common representative of the holders of the Notes for the Loan Telecom Italia S.p.A. Euro 1,250,000,000 5.375 per cent. Notes due 2019 issue, up until the maturity and redemption of the bonds (January 29, 2019).

RATING AT DECEMBER 31, 2018

At December 31, 2018, the three rating agencies Standard & Poor s, Moody s and Fitch Ratings rated TIM as follows:

	Rating	Outlook
STANDARD & POOR S	BB+	Stable
MOODY S	Ba1	Stable
FITCH RATINGS	BBB-	Negative

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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

On May 16, 2018, the Board of Directors of TIM S.p.A. acknowledged that the grounds for considering Vivendi the entity exercising direction and coordination powers over TIM no longer applied. Furthermore, on June 25, 2018, the Board of Directors of TIM approved amendments to the internal procedure governing transactions with related parties, and updated the relative related-party boundary to reflect the new situation, whereby Vivendi no longer qualifies as the de facto controlling entity over TIM. The procedure was lastly updated by the Board of Directors with some improvements on July 24, 2018.

In accordance with Article 5, paragraph 8 of Consob Regulation 17221 of March 12, 2010 concerning Related-party transactions and the subsequent Consob Resolution 17389 of June 23, 2010, no significant transactions were conducted in 2018, as defined by Article 4, paragraph 1a of the aforementioned regulation, that had a material impact on the financial position or the performance of the TIM Group and TIM S.p.A. in 2018.

In addition, there were no changes or developments with respect to the related party transactions described in the 2017 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 2018.

Related-party transactions, when not dictated by specific laws, were conducted at arm s length. They were performed in compliance with the internal procedure, which sets forth rules designed to ensure the transparency and fairness of the transactions in accordance with Consob Regulation 17221/2010. The current procedure is available on the website www.telecomitalia.com, under the Group section/Governance System channel.

For information on related-party transactions, see the Financial Statements and Notes to the Consolidated Financial Statements and Separate Financial Statements Related-party transactions and direction and coordination activity .

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ALTERNATIVE PERFORMANCE MEASURES

In this Report on Operations, in the TIM Group Consolidated Financial Statements and in the Separate Financial Statements of the Parent, TIM S.p.A., for the year ended December 31, 2018, in addition to the conventional financial performance measures established by IFRS, certain alternative performance measures are presented for a better understanding of the performance of operations and financial position. Such measures, which are also presented in other periodical financial reports (annual and interim) should, however, not be construed 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 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 into EBITDA and EBIT, respectively. Such indicators are used by TIM in internal presentations (business plans) and in external presentations (to analysts and investors) in order to illustrate the results from operations also through the comparison of the operating results of the financial year being reported with those of the previous years.

Net Financial Debt: TIM believes that the Net Financial Debt represents an accurate indicator of its ability to meet its financial obligations. It is represented by Gross Financial Debt less Cash and Cash Equivalents and other Financial Assets. 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.

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

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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 liabilities/assets

E=(C + D) Adjusted net financial debt

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

Non-recurring events - other one-off items

In 2018 and 2017, 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 the goodwill impairment loss, 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, as well as items related to adjustments relative to previous years.

In detail:

(millions of euros)	2018	2017
Non-recurring net expenses		
Revenues		
Adjustments of revenues from previous years	62	
Acquisition of goods and services and Change in inventories		
Expenses related to agreements and the development of non-recurring projects	13	8
Employee benefits expenses		
Expenses related to restructuring and rationalization and other expenses	221	692
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	108	176
Impact on EBITDA	404	876
Impairment loss on Goodwill	2,686	
Impairment losses on intangible assets		30
Impact on EBIT	3,090	906

Non-recurring net expenses in 2018 included:

- the goodwill impairment loss attributed to domestic activities (2,686 million euros);

- expenses related to company restructuring processes (221 million euros);

- the adjustment of some contractual liabilities in order to align them with their estimated period end value. Specifically, liabilities relative to prepaid contracts were adjusted by a total of 62 million euros, wholly attributable to previous financial years;

- sundry expenses for 121 million euros including provisions to cover a fine of 74.3 million euros levied for alleged infringement of Article 2 of Italian Decree Law 21 of March 15, 2012 (the Golden Power rule) under a ruling of May 8, 2018. The Company lodged an appeal with the Lazio Regional Administrative Court (TAR), requesting the precautionary suspension of the decision. In July 2018, the TAR granted the application and suspended payment of the fine, setting a date for the appeal to be heard.

Non-recurring expenses in 2017 chiefly included provisions for the start-up of the company restructuring plan of TIM S.p.A..

For comparative purposes only and to provide a better understanding of business performance in the reporting period, besides non-recurring transactions, one-off items are highlighted which, by their nature, are not linear or recurring, in the reporting period or the comparative period. Such above-mentioned items exclusively pertain to the Domestic market, are not subject to auditing and are produced for explanatory purposes only.

In 2017, positive one-off items for a total of 112 million euros were posted, relative to the differential impact arising from the revised estimate of the settlement value of some contractual liabilities with customers and suppliers.

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OPERATING PERFORMANCE

(millions of euros)	2018	2018 comparable (a)	2017 (b)	Change (a-b) amount	%
Revenues	13,902	14,055	14,099	(44)	(0.3)
EBITDA	5,608	5,876	5,801	75	1.3
EBIT margin	40.3%	41.8%	41.1%	0.7 pp	
EBIT	(241)	(77)	2,567	(2,644)	
EBIT margin	(1.7)%	(0.5)%	18.2%	(18.7)pp	
Profit (loss) before tax	(1,420)	(1,258)	1,398	(2,656)	
Profit (loss) for the year	(1,854)	(1,749)	1,087	(2,836)	
Licenses & capital expenditures	5,043	5,159	4,095	1,064	26.0
Net financial debt	29,360		29,210	150	0.5
Headcount at year end (number)	42,656		44,281	(1,625)	(3.7)

Revenues

Revenues amounted to 13,902 million euros.

The application of IFRS 15 resulted in the recognition of lower revenues by 153 million euros.

Excluding that effect, revenues for 2018 amounted to 14,055 million euros, down by 44 million euros (-0.3%) on 2017.

This result is impacted by the effects of the changed regulatory and competitive scenario (30-day pricing restored, entry of a fourth mobile operator), particularly in the Consumer segment.

Revenues for 2018 include a non-recurring adjustment of -62 million euros relating to previous financial years.

The sales segments show the following changes compared to 2017:

(millions of euros)	2018 comparable	2017	Change
Revenues	14,055	14,099	(44)
Consumer	7,480	7,659	(179)
Business	4,577	4,492	85
Wholesale	1,959	1,826	133
Other	39	122	(83)

In particular:

Consumer: revenues for the Consumer segment in 2018 amounted to 7,480 million euros, a decrease of 179 million euros compared to 2017 (-2.3%). In particular:

Revenues for the mobile segment were equal to 3,815 million euros, down by 71 million euros over 2017 (equal to -1.8%), particularly in the fourth quarter, following the greater impact of the changed competitive and regulatory scenario;

Revenues for the fixed segment were equal to 3,696 million euros, down by 113 million euros over 2017 (-3.0%), but with revenues from services holding up, thanks to higher ARPU levels that offset the effects of a decrease in access.

Business: revenues for the Business segment amounted to 4,577 million euros, up by 85 million euros on 2017 (+1.9%). In particular:

Revenues for the Mobile segment in 2018 totaled 1,196 million euros (+1.6%), up over the previous year, due in particular to the development of new digital services;

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Revenues for the Fixed segment were equal to 3,448 million euros, up by 64 million euros over 2017 (+1.9% compared to 2017) due to continual growth in innovative services, which widely offset the natural decline in revenues from traditional services.

Wholesale: revenues for the Wholesale segment in 2018 came to 1,959 million euros, up on the figure of 2017 (+133 million euros, equal to +7.3%).

EBITDA

EBITDA amounted to 5,608 million euros for 2018.

The application of IFRS 15 had a negative impact on EBITDA of 268 million euros. Excluding this effect, comparable EBITDA for 2018 totaled 5,876 million euros (5,801 million euros in 2017), increasing by 75 million euros (equal to +1.3%); the EBITDA margin stood at 41.8% (41.1% in 2017, up by 0.7 percentage points).

EBITDA for 2018, net of the non-recurring component, amounted to 6,280 million euros (6,677 million euros in 2017). Specifically EBITDA for 2018 reflected a negative impact totaling 404 million euros referring to non-recurring expenses (876 million euros in 2017), as already described.

Further details on non-recurring items are provided in the Note Significant non-recurring events and transactions of the Separate Financial Statements at December 31, 2018 of TIM S.p.A..

Organic EBITDA is calculated as follows:

(millions of euros)	2018	2017	Change amount	%
REPORTED EBITDA	5,608			
Effect of adoption of new accounting standards	268			
COMPARABLE EBITDA - on the same accounting basis	5,876	5,801	75	1.3
of which non-recurring income/(expenses)	(404)	(876)	472	
ORGANIC EBITDA - excluding Non-recurring items	6,280	6,677	(397)	(5.9)

In 2017, EBITDA also reflected some one-off items for a total of 112 million euros, relative to the differential impact arising from the revised estimate of the settlement value of some contractual liabilities with customers and suppliers.

The following elements also affected EBITDA:

Other operating income (252 million euros; 252 million euros on comparable basis; 459 million euros in 2017)

(millions of euros)	2018 comparable	2017	Change
Late payment fees charged for telephone services	49	48	1
Recovery of employee benefit expenses, purchases and services rendered	27	20	7
Capital and operating grants	33	44	(11)
Damages, penalties and recoveries connected with litigation	23	35	(12)
Partnership agreements and other arrangements with suppliers	22	97	(75)
Estimate revisions and other adjustments	73	188	(115)
Other	25	27	(2)
Total	252	459	(207)

Other operating income includes, among others, contribution fees resulting from partnership agreements and other arrangements with suppliers, designed to develop the collaboration between the parties, in order to strengthen and stabilize industrial, commercial and real estate relations over time. In the 2017 financial year, Other income included the aforementioned one-off items for a total amount of 112 million euros.

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Acquisition of goods and services (5,801 million euros; 5,715 million euros on comparable basis; 5,567 million euros in 2017)

(millions of euros)	2018 comparable	2017	Change
Acquisition of goods	1,643	1,566	77
Revenues due to other TLC operators and costs for telecommunications network access services	762	766	(4)
Commercial and advertising costs	777	743	34
Professional and consulting services	115	86	29
Power, maintenance and outsourced services	1,106	1,123	(17)
Lease and rental costs	803	767	36
Other	509	516	(7)
Total acquisition of goods and services	5,715	5,567	148
% of Revenues	40.7	39.5	1.2 pp

This item increased by 148 million euros compared to 2017. Costs for the acquisition of goods increased mainly due to higher purchasing volumes of equipment and handsets related to the increase in product sales and to higher commercial costs and costs for professional services; reduction in costs for energy and outsourced services is attributable to streamlining actions taken during the year.

Employee benefits expenses (2,541 million euros; 2,531 million euros on comparable basis; 3,034 million euros in 2017)

(millions of euros)	2018 comparable	2017	Change
Ordinary employee expenses and costs	2,310	2,342	(32)
Restructuring expenses and allocations to employee and other provisions	221	692	(471)
Total employee benefits expenses	2,531	3,034	(503)

Employee benefits expenses decreased by 503 million euros compared to 2017. The main factors that drove this change were:

- lower ordinary employee expenses, which fell by 32 million euros, mainly due to the benefits delivered by the downsizing of the average salaried workforce by 1,433 employees (excluding the component relating to the solidarity agreement), which in part were offset by the termination, at the start of 2018, of the defensive solidarity agreements applied by TIM S.p.A. The solidarity agreement was renewed in June 2018 for a further 12 months;

- the decrease of 471 million euros for restructuring expenses and allocations to employee and other provisions. Specifically, a plan was launched at the end of 2017 for executive and non-executive staff to adopt, among others, Article 4(1 7-ter) of Law 92 of June 28, 2012 (the Fornero Law , which provides for early retirement arrangements). During 2018, Plan take-up was greater than initially forecast, while Decree Law 4 of January 28, 2019, which introduced significant changes in social security, allows wider accessibility in terms of recourse to assisted pensions. As a consequence estimates for staff leaving in 2019-2020 were revised, with additional non-recurring provisions being allocated for a total of 203 million euros. In 2017, provisions were already set aside for non-recurring expenses totaling 692 million euros.

The headcount at December 31, 2018 amounted to 42,656 employees, a decrease of 1,625 compared to December 31, 2017 (44,281).

Other operating expenses (722 million euros; 703 million euros on comparable basis; 658 million euros in 2017)

(millions of euros)	2018 comparable	2017	Change
Write-downs and expenses in connection with credit management	350	303	47
Provision charges	112	153	(41)
TLC operating fees and charges	41	48	(7)
Indirect duties and taxes	67	63	4
Penalties, settlement compensation and administrative fines	73	35	38
Association dues and fees, donations, scholarships and traineeships	10	12	(2)
Other	50	44	6
Total	703	658	45

Other operating expenses included a non-recurring component of 108 million euros (176 million euros in 2017), consisting chiefly of the fine levied on May 8, 2018 in application of the Golden Power rule (Italian Decree Law 21 of 15/3/2012).

Depreciation and amortization

As a result of the introduction of IFRS 15, which requires that customer acquisition costs be deferred, rather than capitalized, depreciation and amortization for 2018 amounted to 3,155 million euros.

Depreciation and amortization on the same accounting basis instead amounted to 3,259 million euros, rising by 56 million euros compared to 2018 (3,203 million euros). In particular, we report:

- depreciation posted an increase of 40 million euros, mainly due to the reduction of the lease terms on some real estate leases classified as finance leases renegotiated as part of a Project of real estate space restructuring and rationalization which resulted in greater depreciation, including improvements, of around 28 million euros;

- amortization increased by 16 million euros, mainly due to the capitalization of subscriber acquisition costs (SACs) for 23 million euros, the investment following the extension of the GSM license for 10 million euros and IRU contracts for 5 million euros. The increase was partially offset by decreases for 22 million euros, due to the reduction in software amortization.

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

The item showed a loss of 11 million euros (a loss of one million euros in 2017). Capital losses, totaling 13 million euros, included 6 million euros for advance releases of property lease agreements.

Impairment reversals (losses) on non-current assets

The item Impairment reversals (losses) on non-current assets was negative by 2,683 million euros (negative by 30 million euros in 2017), mainly following the TIM S.p.A. goodwill impairment loss in the year.

A more detailed analysis is provided in the Note Goodwill in the Separate Financial Statements as at December 31, 2018 of TIM S.p.A.

EBIT

The item shows a negative 241 million euros.

The application of IFRS 15 had a negative impact on EBIT of 164 million euros. Excluding that effect, EBIT for 2018 was negative for 77 million euros (2,567 million euros in 2017), showing a drop of 2,644 million euros. The EBIT margin fell from 18.2% in 2017 to -0.5% in 2018.

EBIT for 2018 was pulled down by non-recurring net expenses, including the aforesaid goodwill impairment loss, totaling 3,090 million euros (906 million euros in 2017).

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In particular:

(millions of euros)	2018	2017	Change amount	Change %
REPORTED EBIT	(241)			
Effect of adoption of new accounting standards	164			
COMPARABLE EBIT on the same accounting basis	(77)	2,567	(2,644)	
of which non-recurring income/(expenses)	(3,090)	(906)	(2,184)	
ORGANIC EBIT excluding Non-recurring items	3,013	3,473	(460)	(13.2)

Income (expenses) from investments

The item, equal to 71 million euros (71 million euros on comparable basis) is as follow:

(millions of euros)	2018 comparable	2017	Change
Dividends	125	255	(130)
Impairment losses on financial assets	(54)	(30)	(24)
Total	71	225	(154)

In particular, we report:

- dividends mainly referred to the subsidiaries Inwit S.p.A. (68 million euros), TI Finance (38 million euros) and Persidera (8 million euros), as well as the company Emittenti Titoli (10 million euros). In 2017, dividends mainly referred to the subsidiaries TI Finance (190 million euros), Inwit S.p.A. (53 million euros), Persidera (9 million euros), and Telecontact (2 million euros);

- impairment losses mainly referred to the write-down of the investments held in the subsidiary Noverca (42 million euros), Persidera (4 million euros), and Olivetti (5 million euros), as well as in the associate Tiglio 1 (2 million euros). In 2017, impairment losses mainly related to the subsidiaries TN Fiber (16 million euros), Olivetti (6 million euros), and the associate Alfiere (7 million euros).

Finance income (expenses), net

Finance income (expenses) showed a net expense of 1,250 million euros (expense of 1,394 million euros in 2017). The improvement is connected to the reduction in average debt exposure and a drop in interest rates from the refinancing operations carried out over the last 12/18 months, as well as the effects of the change on some non-monetary items of a currency and accounting nature, relative to the fair value measurement of derivatives, as provided for in IFRS 13.

Income tax expense

This item amounted to 434 million euros, showing an increase of 123 million euros on 2017 (311 million euros). The trend in taxes is affected by the impact of some items in 2018 that are not relevant for tax purposes (mainly driven by goodwill impairment loss and other non-deductible sundry expenses and lower tax deductions for dividends). Further details are provided in the Note Income tax expense (current and deferred) of the Separate Financial Statements at December 31, 2018 of TIM S.p.A..

Profit (loss) for the year

The loss for the year amounted to 1,854 million euros (profit of 1,087 million euros in 2017). The figure was adversely affected by the adoption of IFRS 9 and IFRS 15 for 105 million euros, as well as by non-recurring net expenses (including the previously mentioned goodwill impairment loss) for 3,024 million euros.

On comparable basis, profit for the year would have amounted to around 1.3 billion euros, a drop of approximately 0.4 billion euros over 2017.

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Financial Position and Cash Flows Performance

Financial position structure

(millions of euros)	12/31/2018 (a)	12/31/2017 (b)	Change (a-b)
Assets			
Non-current assets	55,205	56,231	(1,026)
Goodwill	*24,341*	*27,027*	*(2,686)*
Other intangible assets	*6,339*	*4,249*	*2,090*
Tangible assets	*12,476*	*12,943*	*(467)*
Other non-current assets	*11,167*	*11,110*	*57*
Deferred tax assets	*882*	*902*	*(20)*
Current assets	5,956	5,956	
Inventories, Trade and miscellaneous receivables and other current assets	*4,112*	*4,113*	*(1)*
Current income tax receivables	*166*		*166*
Current financial assets	*1,678*	*1,843*	*(165)*
	61,161	62,187	(1,026)
Equity and liabilities			
Equity	18,138	20,069	(1,931)
Non-current liabilities	29,868	32,016	(2,148)
Current liabilities	13,155	10,102	3,053
	61,161	62,187	(1,026)

Non-current assets

Goodwill: the item shows a decrease of 2,686 million euros compared to December 31, 2017, following the aforementioned goodwill impairment loss attributed to domestic activities;

Other intangible assets: rose by 2,090 million euros, representing the sum of the following:

- Impact as a consequence of the adoption of the new version of IFRS 15 as from January 1, 2018 (-78 million euros);
- capex (+3,310 million euros);
- amortization charge for the year (-1,146 million euros);
- reversals, reclassifications and other changes (+4 million euros).

Tangible assets: decreased by 467 million euros, representing the sum of the following:

- capex (+1,733 million euros);
- changes in finance leasing contracts (+58 million euros);
- depreciation charge for the year (-2,009 million euros);
- disposals, reclassifications and other changes (-249 million euros).

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Equity

Equity amounted to 18,138 million euros, down by 1,931 million euros compared to December 31, 2017 (20,069 million euros). The changes in equity over 2018 and 2017 are detailed in the following table:

(millions of euros)	12/31/2018	12/31/2017
At the beginning of the year	20,069	18,973
Impact of the adoption of IFRS 9 and IFRS 15	6	
At the beginning of the year, restated	20,075	18,973
Profit (loss) for the year	(1,854)	1,087
Dividends approved	(166)	(166)
Merger of TIM Real Estate S.r.l. and Olivetti Multiservices S.p.A. into TIM S.p.A.		44
Issue of equity instruments and other changes	3	(6)
Movements in the reserve for financial assets measured at fair value through other comprehensive income and derivative hedging instruments	65	130
Movements in the reserve for remeasurements of employee defined benefit plans (IAS 19)	15	7
At the end of the year	18,138	20,069

Cash flows

Change in net financial debt

(millions of euros)	2018	2017	Change
EBITDA	5,608	5,801	(193)
Capital expenditures on an accrual basis	(2,644)	(3,465)	821

Expenditures for mobile telephone licenses	(2,399)	(630)	(1,769)
Change in net operating working capital:	1,154	(10)	1,164
Change in inventories	*(84)*	*(45)*	*(39)*
Change in trade receivables and net amounts due from customers on construction contracts	*(65)*	*(16)*	*(49)*
Change in trade payables (*)	*(196)*	*83*	*(279)*
Change in payables for mobile telephone licenses	*1,922*		*1,922*
Other changes in operating receivables/payables	*(423)*	*(32)*	*(391)*
Change in employee benefits	(194)	439	(633)
Change in operating provisions and Other changes	49	103	(54)
Net operating free cash flow	1,574	2,238	(664)
of which operating free cash flow connected with the purchase of mobile telephone licenses	*(477)*	*(630)*	*153*
% of Revenues	*11.3*	*15.9*	*(4.6) pp*
Sale of investments and other disposals flow	24	47	(23)
Financial investments flow	(130)	(76)	(54)
Dividends flow	(51)	89	(140)
Increases in finance leasing contracts	(58)	(54)	(4)
Share capital increases/reimbursements			
Financial expenses, income taxes and other net non-operating requirements flow	(1,509)	(2,257)	748
Reduction (Increase) in net financial debt	(150)	(13)	(137)

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

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The decrease in net operating free cash flow in 2018, compared to 2017, was driven mainly by the drop in EBITDA (193 million euros), by higher capital expenditures and mobile phone licenses (948 million euros), as well as by provisions for employee benefits expenses, partially offset by the change in net working capital.

In addition to what has already been illustrated with reference to EBITDA, adjusted net financial debt at December 31, 2018 was particularly impacted by the following:

Flow of expenditures for mobile telephone licenses / spectrum

Capital expenditures totaled 5,043 million euros (net of the effect of the introduction of IFRS 15, amounting to 5,159 million euros; they were equal to 4,095 million euros in 2017), with a growth of 948 million euros, determined by higher capital expenditures on intangible assets of 1,683 million euros, partially offset by lower capital expenditures of 735 million euros on tangible assets.

In particular, we report:

capital expenditures in intangible assets rose by million euros, driven by the investment of 2,399 million euros in the acquisition of user rights to frequencies in the 694 790 MHz, 3600 3800 MHz, and 26.5 27.5 GHz bands, which will be reserved for 5G mobile telecommunications services, awarded to the Group by the Ministry of Economic Development auction. The user rights were formally awarded on October 9, 2018, with the rights to 3600 3800 MHz and 26.5 27.5 GHz frequencies assigned on a definitive basis in January 2019, while the user rights to 694 790 MHz frequencies will be assigned in July 2022;

capital expenditures in tangible assets fell by 735 million euros, mainly driven by lower investments in Network infrastructure, in part due to the progressive delivery of ultra-broadband coverage objectives and the completion of Ministry of Economic Development financed projects.

Sale of investments and other disposals flow

This item shows a positive figure of 24 million euros and related mainly to disposals of tangible assets.

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

Financial investments flow

The figure amounted to 130 million euros and referred primarily to investment account payments to cover subscriptions of new share capital issued by the subsidiaries Noverca (40 million euros) Flash Fiber (86 million euros) and Timvision (2 million euros). In 2017, 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).

Increases in finance leasing contracts

This item, equal to 58 million euros, refers to the higher value of finance lease assets, also due to higher financial payables recognized, mainly following the recognition of vehicle lease agreements as finance leases in accordance with IAS 17. In 2017, the item amounted to 54 million euros. Further details are provided in the Note Tangible assets (owned and under finance leases) in the Separate Financial Statements at December 31, 2018 of TIM S.p.A..

Share capital increases/reimbursements, including incidental costs

No increases or reimbursements of share capital were made in 2018 and in 2017.

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

Finance expenses, income taxes and other net non-operating requirements flow mainly includes the payment of income taxes, net finance expenses, and the change in non-operating receivables and payables.

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Net financial debt

This item amounted to 29,360 million euros, up by 150 million euros on 2017 (29,210 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)	12/31/2018	12/31/2017	Change
Non-current financial liabilities			
Bonds	13,984	14,902	(918)
Amounts due to banks, other financial payables and liabilities	9,348	11,709	(2,361)
Finance lease liabilities	1,445	1,856	(411)
	24,777	28,467	(3,690)
Current financial liabilities (1)			
Bonds	2,126	1,528	598
Amounts due to banks, other financial payables and liabilities	5,618	2,522	3,096
Finance lease liabilities	159	147	12
	7,903	4,197	3,706
Total gross financial debt	32,680	32,664	16
Non-current financial assets			
Financial receivables and other non-current financial assets	(1,642)	(1,611)	(31)
	(1,642)	(1,611)	(31)
Current financial assets			
Securities other than investments	(466)	(746)	280

Financial receivables and other current financial assets	(327)	(326)	(1)
Cash and cash equivalents	(885)	(771)	(114)
	(1,678)	(1,843)	165
Total financial assets	(3,320)	(3,454)	134
Net financial debt carrying amount	29,360	29,210	150
Reversal of fair value measurement of derivatives and related financial liabilities/assets	(1,307)	(1,414)	107
Adjusted net financial debt	28,053	27,796	257
Breakdown as follows:			
Total adjusted gross financial debt	30,712	30,298	414
Total adjusted financial assets	(2,659)	(2,502)	(157)
(1) of which current portion of medium/long-term debt:			
Bonds	*2,126*	*1,528*	*598*
Amounts due to banks, other financial payables and liabilities	*3,372*	*1,428*	*1,944*
Finance lease liabilities	*159*	*147*	*12*

The non-current portion of gross financial debt amounted to 24,777 million euros (28,467 million euros at the end of 2017) and represented 76% 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.

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Gross financial debt

Bonds

Bonds at December 31, 2018 totaled 16,110 million euros (16,430 million euros at December 31, 2017). Their nominal repayment amount was 15,849 million euros, down by 378 million euros compared to December 31, 2017 (16,227 million euros).

Changes in bonds over 2018 are shown below:

(millions of original currency)	Currency	Amount	Issue date
New issues			
Telecom Italia S.p.A. 750 million euros 2.875% (1/28/2026)	Euro	750	6/28/2018

(millions of original currency)	Currency	Amount	Repayment date
Repayments			
Telecom Italia S.p.A. 593 million euros 4.750% (1)	Euro	593	5/25/2018
Telecom Italia S.p.A. 582 million euros 6.125% (2)	Euro	582	12/14/2018

(1) Net of buy-backs totaling 157 million euros made by the company in 2015.
(2) Net of buy-backs totaling 168 million euros made by the company in 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, 2018 was 203 million euros, down by 1 million euros compared to December 31, 2017 (204 million euros).

On January 11, 2019, TIM S.p.A. issued a bond for 1,250 million euros, maturing on April 11, 2024, with coupon equal to 4.000%, issue price 99.436%, repayment price 100%. The issue is part of the maturing debt optimization and refunding process.

Revolving Credit Facility and Term Loan

The following table shows committed credit lines available at December 31, 2018.

		12/31/2018		12/31/2017	
(billions of euros)		Approved	Drawdowns	Approved	Drawdowns
Revolving Credit Facility	maturing May 2019			4.0	
Revolving Credit Facility	maturing March 2020			3.0	

Revolving Credit Facility	maturing January 2023	5.0	
Total		5.0	7.0

On January 16, 2018, two syndicated Revolving Credit Facilities existing at December 31, 2017 were closed in advance and replaced by a new syndicated Revolving Credit Facility for a total of 5 billion euros, maturing on January 16, 2023, currently not drawn.

At December 31, 2018, TIM had bilateral Term Loans for 1,475 million euros and overdraft facilities for 250 million euros, drawn down for the full amount.

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 7.07 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, 2018.

Financial assets and liquidity margin

Financial assets totaled 3,320 million euros (3,454 million euros at December 31, 2017), of which 708 million euros relating to financial receivables from Group companies.

Of that total, 1,678 million euros (1,843 million euros at December 31, 2017) was classified as current financial assets.

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The available liquidity margin of TIM S.p.A. amounted to 6,351 million euros, equal to the sum of:

- Cash and cash equivalents and Current securities other than investments for a total of 1,351 million euros (1,517 million euros at December 31, 2017);
- 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 885 million euros (771 million euros at December 31, 2017). 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 466 million euros (746 million euros at December 31, 2017). These forms of investment represent alternatives to the investment of liquidity with the aim of improving returns. They consist of:

- Italian Treasury bonds (252 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 240 million, resulting from the public buyback offer on bonds of Telecom Italia Capital S.A. completed on July 20, 2015.

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FINANCIAL STATEMENTS TIM S.p.A.

Separate Income Statements

(millions of euros)	2018	2018 comparable (a)	2017 (b)	Change (a/b) amount	Change (a/b) %
Revenues	13,902	14,055	14,099	(44)	(0.3)
Other income	252	252	459	(207)	(45.1)
Total operating revenues and other income	14,154	14,307	14,558	(251)	(1.7)
Acquisition of goods and services	(5,801)	(5,715)	(5,567)	(148)	(2.7)
Employee benefits expenses	(2,541)	(2,531)	(3,034)	503	16.6
Other operating expenses	(722)	(703)	(658)	(45)	(6.8)
Change in inventories	84	84	45	39	86.7
Internally generated assets	434	434	457	(23)	(5.0)
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	5,608	5,876	5,801	75	1.3
Depreciation and amortization	(3,155)	(3,259)	(3,203)	(56)	(1.7)
Gains/(losses) on disposals of non-current assets	(11)	(11)	(1)	(10)	
Impairment reversals (losses) on non-current assets	(2,683)	(2,683)	(30)	(2,653)	
Operating profit (loss) (EBIT)	(241)	(77)	2,567	(2,644)	
Income (expenses) from investments	71	71	225	(154)	(68.4)
Finance income	1,177	1,172	1,571	(399)	(25.4)
Finance expenses	(2,427)	(2,424)	(2,965)	541	18.2
Profit (loss) before tax	(1,420)	(1,258)	1,398	(2,656)	

Income tax expense	(434)	(491)	(311)	(180)	(57.9)
Profit (loss) for the year	(1,854)	(1,749)	1,087	(2,836)	

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Statements of Comprehensive Income

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

(millions of euros)		2018	2017
Profit (loss) for the year	(a)	(1,854)	1,087
Other components of the Statements of Comprehensive Income			
Other components that will not be reclassified subsequently to Separate Income Statements			
Financial assets measured at fair value through other comprehensive income:			
Profit (loss) from fair value adjustments		(4)	
Income tax effect			
	(b)	(4)	
Remeasurements of employee defined benefit plans (IAS 19):			
Actuarial gains (losses)		20	9
Income tax effect		(5)	(2)
	(c)	15	7
Share of other profits (losses) of associates and joint ventures accounted for using the equity method:			
Profit (loss)			
Income tax effect			
	(d)		
Total other components that will not be reclassified subsequently to Separate Income Statements	(e=b+c+d)	11	7
Other components that will be reclassified subsequently to Separate Income Statements			
Financial assets measured at fair value through other comprehensive income(*):			
Profit (loss) from fair value adjustments		11	(33)
Loss (profit) transferred to the Separate Income Statements			

Income tax effect		(3)	9
	(f)	8	(24)
Hedging instruments:			
Profit (loss) from fair value adjustments		70	(190)
Loss (profit) transferred to the Separate Income Statements		10	393
Income tax effect		(19)	(49)
	(g)	61	154
Share of other profits (losses) of associates and joint ventures accounted for using the equity method:			
Profit (loss)			
Loss (profit) transferred to the Separate Income Statements			
Income tax effect			
	(h)		
Total other components that will be reclassified subsequently to Separate Income Statements	(i= f+g+h)	69	130
Total other components of the Statements of Comprehensive Income	(k= e+i)	80	137
Total comprehensive income (loss) for the year	(a+k)	(1,774)	1,224

(*) Including, for 2017, available-for-sale financial assets .

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Statements of Financial Position

(millions of euros)		12/31/2018 (a)	12/31/2017 (b)	Change (a-b)
Assets				
Non-current assets				
Intangible assets				
Goodwill		24,341	27,027	(2,686)
Intangible assets with a finite useful life		6,339	4,249	2,090
		30,680	31,276	(596)
Tangible assets				
Property, plant and equipment owned		10,782	10,871	(89)
Assets held under finance leases		1,694	2,072	(378)
		12,476	12,943	(467)
Other non-current assets				
Investments		7,821	7,747	74
Non-current financial assets		1,642	1,611	31
Miscellaneous receivables and other non-current assets		1,704	1,752	(48)
Deferred tax assets		882	902	(20)
		12,049	12,012	37
Total Non-current assets	(a)	55,205	56,231	(1,026)
Current assets				
Inventories		262	178	84
Trade and miscellaneous receivables and other current assets		3,850	3,935	(85)
Current income tax receivables		166		166
Current financial assets				
Securities other than investments, financial receivables and other current financial assets		*793*	*1,072*	*(279)*

Cash and cash equivalents		*885*	*771*	*114*
		1,678	1,843	(165)
Total Current assets	(b)	5,956	5,956	
Total Assets	(a+b)	61,161	62,187	(1,026)

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(millions of euros)		12/31/2018 (a)	12/31/2017 (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		4,388	6,319	(1,931)
Total Equity	(c)	18,138	20,069	(1,931)
Non-current liabilities				
Non-current financial liabilities		24,777	28,467	(3,690)
Employee benefits		1,503	1,661	(158)
Deferred tax liabilities		3	2	1
Provisions		579	595	(16)
Miscellaneous payables and other non-current liabilities		3,006	1,291	1,715
Total Non-current liabilities	(d)	29,868	32,016	(2,148)
Current liabilities				
Current financial liabilities		7,903	4,197	3,706
Trade and miscellaneous payables and other current liabilities		5,238	5,850	(612)
Current income tax payables		14	55	(41)
Total Current Liabilities	(e)	13,155	10,102	3,053
Total Liabilities	(f=d+e)	43,023	42,118	905
Total Equity and Liabilities	(c+f)	61,161	62,187	(1,026)

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Statements of Cash Flows

(millions of euros)		2018	2017
Cash flows from operating activities:			
Profit (loss) for the year		(1,854)	1,087
Adjustments for:			
Depreciation and amortization		3,155	3,203
Impairment losses (reversals) on non-current assets (including investments)		2,739	73
Net change in deferred tax assets and liabilities		(14)	(168)
Losses (gains) realized on disposals of non-current assets (including investments)		11	1
Change in provisions for employee benefits		(194)	439
Change in inventories		(84)	(45)
Change in trade receivables and net amounts due from customers on construction contracts		(65)	(16)
Change in trade payables		(174)	(538)
Net change in current income tax receivables/payables		(205)	(485)
Net change in miscellaneous receivables/payables and other assets/liabilities		(434)	99
Cash flows from (used in) operating activities	(a)	2,881	3,650
Cash flows from investing activities:			
Purchase of intangible assets		*(3,310)*	*(1,627)*
Purchase of tangible assets		*(1,791)*	*(2,522)*
Total purchase of intangible and tangible assets on an accrual basis		(5,101)	(4,149)
Change in amounts due for purchases of intangible and tangible assets		*1,957*	*676*
Total purchase of intangible and tangible assets on a cash basis		(3,144)	(3,473)
Contributions for plants received		108	82
Cash arising from corporate actions			(243)

Acquisitions/disposals of other investments		(130)	(76)
Change in financial receivables and other financial assets (excluding hedging derivative and other derivative receivables)		265	(114)
Proceeds received from the sale of investments in subsidiaries			
Proceeds from sale/repayment of intangible, tangible and other non-current assets		24	47
Cash flows from (used in) investing activities	(b)	(2,877)	(3,777)
Cash flows from financing activities:			
Change in current financial liabilities and other		682	(317)
Proceeds from non-current financial liabilities (including current portion)		2,723	3,243
Repayments of non-current financial liabilities (including current portion)		(3,534)	(3,595)
Changes in hedging and non-hedging derivatives		(224)	199
Share capital proceeds/reimbursements			
Dividends paid		(166)	(166)
Cash flows from (used in) financing activities	(c)	(519)	(636)
Aggregate cash flows	(d=a+b+c)	(515)	(763)
Net cash and cash equivalents at beginning of the year	(e)	299	1,062
Net cash and cash equivalents at end of the year	(f=d+e)	(216)	299

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Additional Cash Flow Information

(millions of euros)	2018	2017
Income taxes (paid) received	(632)	(949)
Interest expense paid	(2,034)	(2,838)
Interest income received	953	1,658
Dividends received	115	255

Analysis of Net Cash and Cash Equivalents

(millions of euros)	2018	2017
Net cash and cash equivalents at beginning of the year:		
Cash and cash equivalents	771	1,230
Bank overdrafts repayable on demand	(472)	(168)
	299	1,062
Net cash and cash equivalents at end of the year:		
Cash and cash equivalents	885	771
Bank overdrafts repayable on demand	(1,101)	(472)
	(216)	299

The additional disclosures required by IAS 7 are provided in the Note Net Financial Debt in the Separate Financial Statements of TIM S.p.A. as at December 31, 2018.

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RECONCILIATION OF CONSOLIDATED EQUITY

(millions of euros)	Profit (loss) for the year 2018	Profit (loss) for the year 2017	Equity at 12/31 2018	Equity at 12/31 2017
Equity and Profit (Loss) for the year of TIM S.p.A.	(1,854)	1,087	18,138	20,069
Equity and Profit (Loss) for the year of consolidated companies, net of the share attributable to Non-controlling interests	707	378	14,782	14,999
Consolidation adjustments on the Equity and Profit (Loss) for the year attributable to Owners of the Parent:				
elimination of carrying amount of consolidated investments			(28,051)	(28,287)
impairment losses of consolidated companies included in the results of parent companies	59	32	12,659	12,675
elimination of goodwill recognized in Parent financial statements	2,686		(24,341)	(27,027)
recognition of positive differences arising from purchase of investments, of which:				
- goodwill	(2,590)		26,057	28,732
- allocation of the purchase price to the net assets acquired and the liabilities assumed in the business combinations	(2)	(3)	27	29
measurement of hedging derivatives at Group level	2	27	488	553
effect of elimination of carrying amount of Parent s shares held by Telecom Italia Finance			(61)	(91)
intra-group dividends	(379)	(370)		
other adjustments	(40)	(30)	(170)	(95)
Equity and Profit (Loss) for the year attributable to Owners of the Parent	(1,411)	1,121	19,528	21,557
Equity and Profit (Loss) for the year attributable to Non-controlling interests	259	166	2,219	2,226
Equity and Profit (Loss) for the year in the Consolidated Financial Statements	(1,152)	1,287	21,747	23,783

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CORPORATE BOARDS AT DECEMBER 31, 2018

BOARD OF DIRECTORS

The Ordinary Shareholders meeting of TIM, held on May 4, 2018, appointed a new Board of 15 Directors for a three-year term of office (up to the approval of the financial statements at December 31, 2020). At its first meeting on May 7, 2018, the Board of Directors appointed Fulvio Conti as its Chairman, and Amos Genish as Chief Executive Officer of the Company.

At the Board of Directors meeting held on July 24, 2018, the director Dante Roscini was appointed Lead Independent Director, tasked with supporting the chairman (an independent) in coordinating the board s work, and with the powers and responsibilities identified in the Borsa Italiana Corporate Governance Code.

The Board of Directors, in the meeting of November 13, 2018, withdrew the majority decision taken and with immediate effect revoked all powers granted to the Board Director Amos Genish; in compliance with the succession plan for executive directors adopted by TIM, the powers removed from the Board Director Amos Genish were temporarily assigned to the Chairman of the Board of Directors.

Subsequently, on November 18, 2018, the Board of Directors of TIM approved the recommendation of the Appointments and Remuneration Committee and appointed Luigi Gubitosi as Chief Executive Officer and General Manager, granting him executive powers.

With the decision passed by the majority, the assignment of powers was confirmed as follows:

- to the Chairman, the powers and responsibilities contemplated by law, the Articles of Association and corporate governance arrangements;

- to the Chief Executive Officer, all powers necessary to perform acts pertinent to the Company s business, except for the powers reserved by law and the Articles of Association to the Board of Directors;

- to the Head of Security, Stefano Grassi, temporary powers, as the delegated security officer.

The Board of Directors of the Company, at December 31, 2018, was therefore composed as follows:

Chairman	Fulvio Conti (independent)
Chief Executive Officer and General Manager	Luigi Gubitosi

Directors	Alfredo Altavilla (independent)
	Paola Bonomo (independent)
	Giuseppina Capaldo (independent)
	Maria Elena Cappello (independent)
	Massimo Ferrari (independent)
	Amos Genish
	Paola Giannotti de Ponti (independent)
	Marella Moretti (independent)
	Lucia Morselli (independent)
	Dante Roscini (Lead Independent Director)
	Arnaud Roy de Puyfontaine
	Rocco Sabelli (independent)
	Michele Valensise (independent)
Secretary to the Board	Agostino Nuzzolo

The following board committees were in place at December 31, 2018:

- Control and Risk Committee: composed of the Directors: Paola Giannotti de Ponti (Chairman), Massimo Ferrari, Marella Moretti, Lucia Morselli and Michele Valensise;

- Nomination and Remuneration Committee: composed of the Directors: Alfredo Altavilla (Chairman), Paola Bonomo, Giuseppina Capaldo, Rocco Sabelli, and Michele Valensise;

- Related Parties Committee: composed of the Directors: Lucia Morselli (Chairwoman), Giuseppina Capaldo, Maria Elena Cappello, Marella Moretti, and Dante Roscini;

- Strategy Committee: composed of the Chairman of the Board of Directors Fulvio Conti, the CEO Luigi Gubitosi, and the Board Directors Arnaud Roy de Puyfontaine, Massimo Ferrari, and Rocco Sabelli.

BOARD OF STATUTORY AUDITORS

The Ordinary Shareholders Meeting of April 24, 2018 appointed the Company s Board of Statutory Auditors for a term of office that will end with the approval of the 2020 financial statements.

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

Chairman	Roberto Capone
Acting Auditors	Giulia De Martino
	Anna Doro
	Marco Fazzini
	Francesco Schiavone Panni
Alternate Auditors	Andrea Balelli
	Antonia Coppola
	Franco Dalla Sega
	Laura Fiordelisi

INDEPENDENT AUDITORS

The engagement for the independent auditing of the financial statements of TIM S.p.A. for the nine-year period 2010 2018 was awarded to PwC S.p.A. by the shareholders meeting of April 29, 2010.

MANAGER RESPONSIBLE FOR PREPARING THE CORPORATE FINANCIAL REPORTS

At the meeting of May 7, 2018, 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

Macro-Organization Chart at December 31, 2018

(1) In relation to business operations and assets of relevance for national security and defense
(2) In relation to business operations and assets not relevant for national security and defense

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Macro-Organization Chart updated at February 21, 2019

(1) In relation to business operations and assets of relevance for national security and defense
(2) In relation to business operations and assets not relevant for national security and defense

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TIM GROUP 2018 CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Assets

(millions of euros)		*note*	12/31/2018	*of which related parties*	12/31/2017	*of which related parties*
Non-current assets						
Intangible assets						
Goodwill		4)	26,769		29,462	
Intangible assets with a finite useful life		5)	8,889		7,192	
			35,658		36,654	
Tangible assets		6)				
Property, plant and equipment owned			14,251		14,216	
Assets held under finance leases			1,895		2,331	
			16,146		16,547	
Other non-current assets						
Investments in associates and joint ventures accounted for using the equity method		7)	16		17	
Other investments		7)	49		51	
Non-current financial assets		8)	1,594		1,768	
Miscellaneous receivables and other non-current assets		9)	2,291		2,422	
Deferred tax assets		10)	1,136		993	
			5,086		5,251	
Total Non-current assets	(a)		56,890		58,452	
Current assets						
Inventories		11)	389		290	
Trade and miscellaneous receivables and other current assets		12)	4,706	*22*	4,959	*36*

Current income tax receivables		10)	251	77	
Current financial assets		8)			
Securities other than investments, financial receivables and other current financial assets			1,466	1,430	*53*
Cash and cash equivalents			1,917	3,575	
			3,383	5,005	*53*
Current assets sub-total			8,729	10,331	
Discontinued operations/Non-current assets held for sale					
Total Current assets	(b)		8,729	10,331	
Total Assets	(a+b)		65,619	68,783	

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Equity and Liabilities

(millions of euros)		*note*	12/31/2018	*of which related parties*	12/31/2017	*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			5,847		7,876	
Equity attributable to Owners of the Parent			19,528		21,557	
Non-controlling interests			2,219		2,226	
Total Equity	(c)		21,747		23,783	
Non-current liabilities						
Non-current financial liabilities		14)	25,059		28,108	*100*
Employee benefits		19)	1,567		1,736	
Deferred tax liabilities		10)	192		265	
Provisions		20)	876		825	
Miscellaneous payables and other non-current liabilities		21)	3,297	*1*	1,678	
Total Non-current liabilities	(d)		30,991		32,612	
Current liabilities						
Current financial liabilities		14)	5,913		4,756	*163*
Trade and miscellaneous payables and other current liabilities		22)	6,901	*73*	7,520	*60*
Current income tax payables		10)	67		112	

Current liabilities sub-total		12,881	12,388
Liabilities directly associated with Discontinued operations/Non-current assets held for sale			
Total Current Liabilities	(e)	12,881	12,388
Total Liabilities	(f=d+e)	43,872	45,000
Total Equity and Liabilities	(c+f)	65,619	68,783

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SEPARATE CONSOLIDATED INCOME STATEMENTS

(millions of euros)	*note*	Year 2018	*of which: with related parties*	Year 2017	*of which: with related parties*
Revenues	24)	18,940	*5*	19,828	*118*
Other income	25)	341		523	*8*
Total operating revenues and other income		19,281		20,351	
Acquisition of goods and services	26)	(8,186)	*(162)*	(8,388)	*(192)*
Employee benefits expenses	27)	(3,105)	*(92)*	(3,626)	*(112)*
Other operating expenses	28)	(1,259)		(1,208)	
Change in inventories		102		35	
Internally generated assets	29)	570		626	
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)		7,403		7,790	
of which: impact of non-recurring items	40)	(408)		(883)	
Depreciation and amortization	30)	(4,255)		(4,473)	
Gains/(losses) on disposals of non-current assets	31)	(1)		11	
Impairment reversals (losses) on non-current assets	32)	(2,586)		(37)	
Operating profit (loss) (EBIT)		561		3,291	
of which: impact of non-recurring items	40)	(2,998)		(913)	
Share of profits (losses) of associates and joint ventures accounted for using the equity method	7)	(1)		(1)	
Other income (expenses) from investments	33)	11		(18)	
Finance income	34)	1,056	*8*	1,808	*45*
Finance expenses	34)	(2,404)	*(9)*	(3,303)	*(49)*

Profit (loss) before tax from continuing operations		(777)	1,777
of which: impact of non-recurring items	40)	(2,991)	(939)
Income tax expense	10)	(375)	(490)
Profit (loss) from continuing operations		(1,152)	1,287
Profit (loss) from Discontinued operations/Non-current assets held for sale			
Profit (loss) for the year	35)	(1,152)	1,287
of which: impact of non-recurring items	40)	(2,920)	(714)
Attributable to:			
Owners of the Parent		(1,411)	1,121
Non-controlling interests		259	166

(euros)		Year 2018	Year 2017
Earnings per share:	36)		
Basic earnings per share			
Ordinary Share		(0.07)	0.05
Savings Share		(0.07)	0.06
of which:			
from Continuing operations attributable to Owners of the Parent			
Ordinary Share		(0.07)	0.05
Savings Share		(0.07)	0.06
Diluted earnings per share			
Ordinary Share		(0.06)	0.05
Savings Share		(0.06)	0.06
of which:			
from Continuing operations attributable to Owners of the Parent			
Ordinary Share		(0.06)	0.05
Savings Share		(0.06)	0.06

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Note 13

(millions of euros)		Year 2018	Year 2017
Profit (loss) for the year	(a)	(1,152)	1,287
Other components of the Consolidated Statement of Comprehensive Income			
Other components that will not be reclassified subsequently to Separate Consolidated Income Statement			
Financial assets measured at fair value through other comprehensive income:			
Profit (loss) from fair value adjustments		(5)	
Income tax effect			
	(b)	(5)	
Remeasurements of employee defined benefit plans (IAS 19):			
Actuarial gains (losses)		19	10
Income tax effect		(5)	(1)
	(c)	14	9
Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method:			
Profit (loss)			
Income tax effect			
	(d)		
Total other components that will not be reclassified subsequently to Separate Consolidated Income Statement	(e=b+c+d)	9	9
Other components that subsequently will be reclassified in the Separate Consolidated Income Statements			
Financial assets measured at fair value through other comprehensive income(*):			
Profit (loss) from fair value adjustments		(14)	63
Loss (profit) transferred to the Separate Consolidated Income Statement		(4)	(62)
Income tax effect		2	2

	(f)	(16)	3
Hedging instruments:			
Profit (loss) from fair value adjustments		362	(854)
Loss (profit) transferred to the Separate Consolidated Income Statement		(336)	826
Income tax effect		(7)	(3)
	(g)	19	(31)
Exchange differences on translating foreign operations:			
Profit (loss) on translating foreign operations		(554)	(830)
Loss (profit) on translating foreign operations transferred to the Separate Consolidated Income Statement			19
Income tax effect			
	(h)	(554)	(811)
Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method:			
Profit (loss)			
Loss (profit) transferred to the Separate Consolidated Income Statement			
Income tax effect			
	(i)		
Total other components that will be reclassified subsequently to Separate Consolidated Income Statement	(k=f+g+h+i)	(551)	(839)
Total other components of the Consolidated Statement of Comprehensive Income	(m=e+k)	(542)	(830)
Total comprehensive income (loss) for the year	(a+m)	(1,694)	457
Attributable to:			
Owners of the Parent		(1,784)	527
Non-controlling interests		90	(70)

(*) Including, for 2017, available-for-sale financial assets .

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Changes from January 1, 2017 to December 31, 2017

	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 hedging instruments	Reserve for exchange differences on translating foreign operations	Reserve for remeasurements of employee defined benefit plans (IAS 19)	Share of other comprehensive income (loss) 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

Changes from January 1, 2018 to December 31, 2018 Note 13

(millions of euros)	Share capital	Additional paid-in capital	Reserve for financial assets measured at fair value through other comprehensive income (*)	Reserve for hedging instruments	Reserve for exchange differences on translating foreign operations	Reserve for remeasurements of employee defined benefit plans (IAS 19)	Share of other comprehensive income (loss) 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
	Equity attributable to Owners of the Parent										
Balance at December 31, 2017	11,587	2,094	42	(582)	(955)	(104)		9,475	21,557	2,226	23,783
Adoption of IFRS 15 and IFRS 9			9					(92)	(83)	(5)	(88)
Adjusted Balance at December 31, 2017	11,587	2,094	51	(582)	(955)	(104)		9,383	21,474	2,221	23,695
Changes in equity during the year:											
Dividends approved								(166)	(166)	(115)	(281)
Total comprehensive income (loss) for the year			(21)	19	(385)	14		(1,411)	(1,784)	90	(1,694)
Issue of equity instruments								2	2		2
Other changes								2	2	23	25
Balance at December 31, 2018	11,587	2,094	30	(563)	(1,340)	(90)		7,810	19,528	2,219	21,747

(*) The balance at December 31, 2017 includes the Reserve for available-for-sale financial assets.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of euros)	note	Year 2018	Year 2017
Cash flows from operating activities:			
Profit (loss) from continuing operations		(1,152)	1,287
Adjustments for:			
Depreciation and amortization		4,255	4,473
Impairment losses (reversals) on non-current assets (including investments)		2,589	50
Net change in deferred tax assets and liabilities		(195)	(147)
Losses (gains) realized on disposals of non-current assets (including investments)		1	(11)
Share of losses (profits) of associates and joint ventures accounted for using the equity method		1	1
Change in provision for employee benefits		(208)	437
Change in inventories		(99)	(30)
Change in trade receivables and net amounts due from customers on construction contracts		(49)	379
Change in trade payables		(163)	(605)
Net change in current income tax receivables/payables		(210)	(515)
Net change in miscellaneous receivables/payables and other assets/liabilities		(178)	80
Cash flows from (used in) operating activities	(a)	4,592	5,399
Cash flows from investing activities:			
Purchase of intangible assets	5)	(3,647)	(2,292)
Purchase of tangible assets	6)	(2,831)	(3,477)
Total purchase of intangible and tangible assets on an accrual basis (*)		(6,478)	(5,769)
Change in amounts due for purchases of intangible and tangible assets		1,947	455

Total purchase of intangible and tangible assets on a cash basis		(4,531)	(5,314)
Capital grants received		108	82
Acquisition of control of companies or other businesses, net of cash acquired			
Acquisitions/disposals of other investments		(3)	(4)
Change in financial receivables and other financial assets (excluding hedging and non-hedging derivatives under financial assets)		96	466
Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of			
Proceeds from sale/repayment of intangible, tangible and other non-current assets		16	30
Cash flows from (used in) investing activities	(b)	(4,314)	(4,740)
Cash flows from financing activities:			
Change in current financial liabilities and other		394	(1,188)
Proceeds from non-current financial liabilities (including current portion)		2,546	2,630
Repayments of non-current financial liabilities (including current portion)		(4,426)	(3,426)
Changes in hedging and non-hedging derivatives		(110)	997
Share capital proceeds/reimbursements (including subsidiaries)		22	16
Dividends paid		(256)	(235)
Changes in ownership interests in consolidated subsidiaries			(4)
Cash flows from (used in) financing activities	(c)	(1,830)	(1,210)
Cash flows from (used in) Discontinued operations/Non-current assets held for sale	(d)		
Aggregate cash flows	(e=a+b+c+d)	(1,552)	(551)
Net cash and cash equivalents at beginning of the year:	(f)	3,246	3,952
Net foreign exchange differences on net cash and cash equivalents	(g)	(63)	(155)
Net cash and cash equivalents at end of the year:	(h=e+f+g)	1,631	3,246
(*) of which related parties:			
Total purchase of intangible and tangible assets on an accrual basis		3	135

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Additional Cash Flow information

(millions of euros)	Year 2018	Year 2017
Income taxes (paid) received	(739)	(1,100)
Interest expense paid	(1,978)	(2,899)
Interest income received	871	1,636
Dividends received	2	1

Analysis of Net Cash and Cash Equivalents

(millions of euros)	Year 2018	Year 2017
Net cash and cash equivalents at beginning 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
Net cash and cash equivalents at end of the year:		
Cash and cash equivalents from continuing operations	1,917	3,575
Bank overdrafts repayable on demand from continuing operations	(286)	(329)
Cash and cash equivalents from Discontinued operations/Non-current assets held for sale		
Bank overdrafts repayable on demand from Discontinued operations/Non-current assets held for sale		
	1,631	3,246

The additional disclosures required by IAS 7 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 May 16, 2018, the Board of Directors of TIM S.p.A. acknowledged that the grounds for considering Vivendi the entity exercising direction and coordination powers over TIM no longer applied. Subsequently, on June 25, 2018, the Board of Directors approved amendments to the internal procedure governing transactions with related parties, and updated the relative related party boundary to reflect the new situation, whereby Vivendi no longer qualifies as the de facto controlling entity over TIM.

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, 2018 have been prepared on a going concern basis (further details are provided in 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 laws and regulations in force in Italy.

Furthermore, during 2018, the Group applied accounting policies consistent with those applied for the previous year, except for the new accounting standards adopted as of January 1, 2018, the impact of which is illustrated in the section Adoption of the new IFRS 9 and IFRS 15 standards , to which readers are referred for more details.

The consolidated financial statements have been prepared under the historical cost convention except for financial assets measured at fair value through other comprehensive income, financial assets measured at fair value through profit or loss 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, 2018 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, 2018 was approved by resolution of the Board of Directors meeting held on February 21, 2019.

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 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; items related to adjustments relating to previous years; and impairment losses on goodwill and/or other intangible and tangible assets.

Also in reference to the above Consob Resolution, the amounts relating to 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 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 and fixed telecommunications operations in Brazil (TIM S.A.);
- 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 2018 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.

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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.

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.

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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 in the separate financial statements as of the date of acquisition of control and measured as the excess of (a) over (b) below:

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;

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 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 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.

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.

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.

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.

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

Business models of financial assets management

The business models for financial assets management (other than trade receivables due from customers) have been defined on the basis of how the financial instruments are managed and their cash flows used; this is done to ensure an adequate level of financial flexibility and to best manage, in terms of risks and returns, the financial resources immediately available through the treasuries of Group companies and in accordance with the strategies set forth by the Parent TIM.

In accordance with IFRS 9, the business models adopted by the TIM Group are:

Hold to Collect: financial instruments used to absorb temporary cash surpluses; such instruments are low risk and mostly held to maturity; and are measured at amortized cost;

Hold to Collect and Sell: monetary or debt instruments used to absorb short/medium-term cash surpluses; such instruments are low risk and generally held to maturity, or otherwise sold to cover specific cash requirements; and are measured at fair value through other consolidated comprehensive income;

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Hold to Sell: monetary, debt and equity trading instruments used to dynamically manage cash surpluses not managed under the business models identified above; such instruments are higher risk and traded repeatedly over time; and are measured at fair value through consolidated profit or loss.

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.

Other investments are classified as financial assets measured at fair value through consolidated profit or loss (FVTPL), as current assets.

At the purchase time of each investment, IFRS 9 provides for the irrevocable option to recognize these investments in financial assets measured at fair value through other consolidated comprehensive income (FVTOCI) as non-current or current assets.

The other investments classified as financial assets measured at fair value through other comprehensive income are measured at fair value; changes in the fair value of these investments are recognized in a special equity reserve under the other components of the statements of comprehensive income (Reserve for financial assets measured at fair value through other comprehensive income), without reclassification to the separate income statement when the financial asset is disposed of or impaired. Dividends, on the other hand, are recognized in the separate consolidated income statements.

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 included among non-current or current assets, depending on the business model adopted and the contractual flows envisaged, fall among financial assets measured at amortized cost, or measured at fair value through other comprehensive income or at fair value though profit or loss.

Securities other than investments classified as current assets are those that, by decision of the directors, are intended to be kept in the Group s portfolio for a period of not more than 12 months, and are classified:

as financial assets measured at amortized cost (AC) when held to maturity (originally more than 3 months but less than 12 months, or, with an original maturity of more than 12 months but the remaining maturity at the date of purchase is more than 3 months but less than 12 months);

as financial assets measured at fair value through other consolidated comprehensive income (FVTOCI) when held in the scope of a business model whose objective is to sell the financial asset and/or collect the contractual flows. The consolidated Reserve for financial assets measured at fair value through other comprehensive income is reversed to the separate consolidated income statements when the financial asset is disposed of or impaired;

as financial assets measured at fair value through consolidated profit or loss (FVTPL) in the other cases.

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.

The impairment of financial assets is based on the expected credit loss model.

In particular:

§ impairment on trade receivables and on contract assets is carried out using the simplified approach that involves estimating the loss expected over the life of the receivable at the time of initial recognition and on subsequent measurements. For each customer segment, the estimate is principally made by calculating the average expected uncollectibility, based on historical and statistical indicators, possibly adjusted using forward-looking elements. For some categories of receivables characterized by specific risk elements, specific measurements are made on individual credit positions;

§ impairment on financial assets other than trade receivables is carried out on the basis of a general model which estimates expected credit losses over the following 12 months, or over the residual life of the asset in the event of a substantial increase in its credit risk.

Derivatives

As allowed by IFRS 9, the TIM Group decided to continue to apply the hedge accounting provisions contained in IAS 39 instead of those of IFRS 9.

Derivatives are used by the 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.

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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.

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 IFRS 9, they also include trade and other payables.

Financial liabilities other than derivatives are initially recognized at fair value and subsequently measured at amortized cost.

Financial liabilities hedged by derivative instruments designed to manage exposure to changes in 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.

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 IFRS 9 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.

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.

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.

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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; or
- 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.

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

- identification of the contract: takes place when the parties approve the contract (with commercial substance), and identify the respective rights and obligations: in other terms, the contract must be legally binding, the rights to receive goods and/or services and the terms of payment can be clearly identified and the Group considers receipt of payment as probable;

- identification of the performance obligations: the main *performance obligations* identified, i.e. promises to transfer goods and services that are distinct, are services rendered (including voice and data traffic and ICT solutions) to retail customers, services rendered to wholesale customers and sale of products;

- determination of the transaction price: is the total amount contracted with the other party regarding the entire contractual term; the Group has determined that the contractual term is the one arising from the contractual obligations between the parties or, in lack of these obligations, it is by convention one month;

- allocation of the transaction price to the performance obligations: the allocation is made proportionately to the respective *stand alone selling prices* calculated based on the list prices (if present) or estimated by applying an appropriate margin to the cost of purchase/production of the good/service.

Revenues from activating the connectivity service are not a performance obligation; they are therefore allocated to the contractual performance obligations (typically to services).

For offerings which include the sale of devices and service contracts (bundle offerings), the Group allocates the contractual transaction price to the performance obligations of the contract, proportionately to the stand alone selling prices of the single performance obligations;

- recognition of revenues: revenues are stated net of discounts, allowances, and returns in connection with the characteristics of the type of revenue:

  - Revenues from services rendered

Revenues from services rendered are recognized in the separate income statements according to the stage of completion of the service, that is based on actual consumption.

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 prepaid traffic are recorded on the basis of effective consumption. Deferred revenues for traffic already collected but not yet consumed are recorded in Trade and miscellaneous payables and other current liabilities in the consolidated statements of financial position.

Revenues on construction contracts are recognized based on the stage of completion (percentage of completion method).

Revenues for services rendered are generally invoiced and collected monthly (for retail customers) or in 40-60 days (for wholesale customers).

Revenues from sales

Revenues from sales (telephone and other equipment) are recognized upon delivery when control of the assets is transferred to the customers.

The devices sold separately from the services are invoiced at the time of delivery; collection takes place on demand or based on installment plans (up to 48 monthly installments). The devices sold as part of bundle offerings are invoiced at the time of delivery and usually collected in 24 monthly installments.

Some contracts (usually the installment sale of devices) include an implicit financial component that is recognized by posting finance income with concomitant reduction of the revenues from sales; this component is determined by using a discount rate that reflects a hypothetical customer loan transaction at the contract date reflecting the creditworthiness by type of customer. The Group avails itself of the practical expedient of not recognizing said component if it is insignificant or the collection extension is less than 12 months.

The recognition of revenues can generate the recognition of an asset or liability deriving from contracts. In particular:

- Contract asset are the right to a consideration in exchange for goods or services that have been transferred to the customer, when the right is subject to something other than the passage of time.

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Contract liabilities are the obligation to transfer goods or services to the customer for which the Group has received (or for which it is due) a consideration from the customer.

Contract costs (incremental costs of obtaining a contract and costs to fulfill a contract; for example, the activation costs and the costs for sales network commissions) are extended and recognized in the consolidated income statements based on the expected term of the contractual relationship with the customers (on average, 3 years for the mobile business and 7 years for the fixed business). The TIM Group avails itself of the IFRS 15 practical expedient, which allows the incremental costs of obtaining the contract to be recognized entirely in the income statement if the deferral period does not exceed 12 months.

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.

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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	Impairment on trade receivables and on the contract assets is carried out using the simplified approach that involves estimating the loss expected over the life of the receivable at the time of initial recognition and on subsequent measurements. For each customer segment, the estimate is principally made by calculating the average expected uncollectibility, based on historical and statistical indicators, possibly adjusted using forward-looking elements. For some categories of receivables characterized by specific risk elements, specific measurements are made on individual credit positions.
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 as well as regulatory proceedings 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	The recognition of revenues is influenced by estimates of the amount of discounts, rebates and returns to be reported as a direct adjustment to revenues, as well as the methods for defining individual product or service stand alone selling prices and for determining the duration of the contract when there are renewal options.
Contract costs (IFRS 15)	The recognition of the costs of obtaining and fulfilling contracts is influenced by the estimated expected duration of the relationship with the customer, calculated on the basis of the historical turnover indexes. However, this estimate is subject to fluctuations and could only represent customers future behavior in a limited way, especially if there are new commercial offers or changes in the competitive environment.
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 .

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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 JANUARY 1, 2018

As required by IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), the following is a brief description of the IFRS in force commencing as of January 1, 2018.

The impacts of the application, as of January 1, 2018, of IFRS 15 (Revenue from Contracts with Customers) and IFRS 9 (Financial Instruments) are instead reported in the section Adoption of the New IFRS 9 and IFRS 15 Standards .

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration was adopted at the European Union level on March 28, 2018 by Commission Regulation (EU) 2018/519.

IFRIC 22 clarifies which exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. The adoption of said interpretation had no impact on these consolidated financial statements at December 31, 2018.

Amendments to IFRS 2 (Share-based Payment)

Amendments to IFRS 2 Share-based Payment were adopted on February 26, 2018 by Commission Regulation (EU) 2018/289. The amendments concern:

- the fair value measurement of cash-settled share-based payment transactions at the valuation date (i.e., at the grant date, at the reporting date of each accounting period, and at the settlement date), the calculation of which must take into account market conditions (such as the target price of shares) and any other conditions different to the vesting conditions;

- the accounting for equity-settled share-based payment transactions in which the entity acts as a withholding agent for the tax liabilities of the employee (withholding tax);

the accounting for changes in terms and conditions that entail the reclassification of cash-settled share-based payments as equity-settled share-based payments.

The adoption of said amendments had no impact on these consolidated financial statements at December 31, 2018.

Improvements to IFRS (2014 2016 cycle)

Amendments to IAS 28 Investments in Associates and Joint Ventures were adopted on February 7, 2018 by Commission Regulation (EU) 2018/182. Specifically, the amendments clarify that if an

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investment entity (such as a mutual investment fund or similar entity) elects to measure its investments in associates and joint ventures at fair value through profit or loss (rather than applying the equity method), the election must be applied to each and every investment upon initial recognition. A similar clarification applies to entities that are not investment entities, but which hold investments in associates or joint ventures that qualify as investment entities. In that case, when applying the equity method, the entities may maintain the fair value measurement through profit or loss made by their investees in associates and joint ventures.

The adoption of said improvements had no impact on these consolidated financial statements at December 31, 2018.

Amendments to IAS 40 Transfers of Investment Property

Amendments to IAS 40 were adopted on March 14, 2018 by Commission Regulation (EU) 2018/400, which clarifies that an entity may transfer a property to, or from, investment property only when there is evidence of a change in use.

The adoption of said amendments had no impact on these consolidated financial statements at December 31, 2018.

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ADOPTION OF THE NEW IFRS 9 AND IFRS 15 STANDARDS

This section provides an overview of the main elements of IFRS 9 (*Financial Instruments*) and IFRS 15 (*Revenue from Contracts with Customers*) and reports the impact of the application of the standards as of January 1, 2018.

IFRS 9 (Financial Instruments)

On November 22, 2016, Regulation (EU) No. 2016/2067 was issued, which adopted IFRS 9 (*Financial Instruments*) at EU level, relating to the classification, measurement, derecognition and impairment of financial assets and liabilities, and hedge accounting.

As allowed by the accounting standard, the TIM Group:

- did not restate the comparative information provided in the year of first application, also due to the complexity of reformulating values at the beginning of the first year presented without the use of factors known later; therefore, the effects deriving from the first application of IFRS 9 were recognized in equity at January 1, 2018;

- decided to continue to apply the hedge accounting provisions contained in IAS 39 instead of those of IFRS 9.

Commencing as of January 1, 2018, TIM has amended the impairment model applied to financial assets (including trade receivables due from customers), by adopting an *expected credit loss* model as per IFRS 9, which replaces the *incurred loss* model required by IAS 39. In application of IFRS 9, the classification (and hence measurement) of financial assets has also been modified and is now based on the entity s business model for managing the financial assets and on the contractual cash flow characteristics of the financial asset. Under IAS 39, financial assets were classified (and hence measured) on the basis of their destination.

TIM Management has identified its business models for Group financial assets (other than trade receivables due from customers) on the basis of how the financial instruments are managed and their cash flows used. The purpose of the models is to ensure an adequate level of financial flexibility and to best manage, in terms of risks and returns, the financial resources immediately available to the Group through the treasuries of Group companies and in accordance with the strategies set forth by the Parent TIM.

In accordance with IFRS 9, the business models adopted by the TIM Group are:

- *Hold to Collect*: financial instruments used to absorb temporary cash surpluses; such instruments are low risk and mostly held to maturity; and are measured at amortized cost;

- *Hold to Collect and Sell*: monetary or debt instruments used to absorb short/medium-term cash surpluses; such instruments are low risk and generally held to maturity, or otherwise sold to cover specific cash requirements;

and are measured at fair value through other comprehensive income;

Hold to Sell: monetary, debt and equity trading instruments used to dynamically manage cash surpluses not managed under the business models identified above; such instruments are higher risk and traded repeatedly over time; and are measured at fair value through profit or loss.

Financial assets other than trade receivables are written down for impairment on the basis of a general model which estimates expected credit losses over the following 12 months, or over the residual life of the asset in the event of a substantial increase in its credit risk.

The expected credit loss (**ECL**) is given by: (i) the present value at the reporting date of the financial asset, (ii) the probability that the counterparty does not meet its payment obligation (probability of default, **PD**), (iii) the estimate, in percentage terms, of the amount of credit that it will not be able to recover in the event of a default (loss given default, **LGD**).

To determine the PD and LGD, reference is made to the Bloomberg credit risk model.

For the management of trade receivables, TIM Group Management has identified different business models based on the specific nature of the receivables, the type of counterparty and collection times; in order to optimize the management of working capital through the constant monitoring of the payment performance of customers, the steering of credit collection policies, and the management of programs for the disposal and factoring of receivables, in line with financial planning needs.

The business models adopted by the TIM Group for managing trade receivables are:

- *Hold to Collect*: receivables usually held to maturity, such as trade receivables due from large customers and the OLOs for the Domestic Business Unit, and all receivables for the Brazil Business Unit; these instruments fall within IFRS 9 category Assets measured at amortized cost ;

- *Hold to Collect and Sell*: receivables usually traded massively and on a recurring basis, such as, for the Domestic Business Unit, receivables due from active consumer, small and medium business customers held for sale; these instruments fall under IFRS 9 category Financial assets measured at fair value through other comprehensive income . As required by IFRS 9, the related reserve is reversed to the separate consolidated income statements when disposed of or impaired.

Impairment of trade receivables and contract assets is carried out through the simplified approach allowed by the standard. This approach involves estimating the expected loss over the life of the receivable at the time of initial recognition and on subsequent measurements. For each customer segment, the estimate is principally made by calculating the average expected uncollectibility, based on historical and statistical indicators, possibly adjusted using forward-looking elements. For some categories of receivables characterized by specific risk elements, specific measurements are made on individual credit positions.

In general, the methodology to recognize the expected loss differs based on the offering content, the customer cluster and payment terms.

More specifically, in the case of receivables arising from traditional services offered to consumers and businesses, the expected loss is estimated based on the trend of outstanding receivables with respect to turnover, using the values recorded for turnover generations that have completed the operating cycle as a reference, as well as parameters for measuring the most recent performance, suitable for identifying deviations from the historical trend.

As regards receivables arising from offers where products or contribution fees are paid in installments, the assessment of credit default risk for ongoing payment-by-installment plans considers the trend of the customer drop out rate and the average of sums received from such customers.

For clusters with relational-based credit management (such as major TOP segment customers, the public administration sector, wholesale customers, sales network dealers), information that can identify specific individual counterparty risk is used in the assessment.

At the transition date (January 1, 2018), the TIM Group has chosen to continue to report gains and losses from other investments (other than those in subsidiaries, associates and joint ventures) , classified under IAS 39 as available-for-sale financial assets and measured at fair value, through other comprehensive income, also under IFRS 9. As of January 1, 2018, the aforementioned other investments are therefore measured at fair value through other comprehensive income (FVTOCI). Only dividends from other investments are recognized through profit or loss, while all other gains and losses are recognized through other comprehensive income without reclassification to the separate income statement when the financial asset is disposed of or impaired as provided by IAS 39.

The changes in the classification of financial assets had no material impact on the measurement of the assets for the TIM Group.

The comprehensive net impact (including tax effects) of the adoption of IFRS 9 on consolidated equity at the transition date of January 1, 2018 was mainly due to the recognition of higher write-downs for expected losses on trade receivables, connected with the introduction of an expected credit loss model, replacing the incurred loss model required by IAS 39.

IFRS 15 (Revenue from contracts with customers)

On September 22, 2016, Commission Regulation (EU) No. 2016/1905 was issued, which adopted IFRS 15 (*Revenues from contracts with customers*) and the related amendments at EU level. On October 31, 2017, clarifications to IFRS 15 were adopted through Commission Regulation (EU) No. 2017/1987.

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IFRS 15 replaces the standards that formerly governed 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*).

The TIM Group has applied the modified retrospective method with the recognition of the cumulative effect of the first-time application of the standard as an adjustment to the opening balance of equity for the period when the standard is adopted, without restating prior periods.

The adoption of IFRS 15 affected the recognition of revenues from fixed-line and mobile offers and the recognition of contract costs. The main differences for the TIM Group with respect to the previous accounting standards applied (IFRS 15 vs. IAS 18, IAS 11 and relative Interpretations) concern:

- bundle offers (bundled good and services): the allocation of contract discounts to performance obligations under IFRS 15 brings forward in time the recognition of revenues, resulting in the recognition of a contract asset and, in some cases, the deferral of revenues, entailing the recognition of a contract liability;
- activation/installation revenues: under previous accounting policies, these were deferred over the expected duration of the customer relationship. IFRS 15 requires that such revenues given that they are not allocated to separate performance obligations are allocated to other performance obligations (usually services) contained in the contract;
- contract costs (incremental costs of obtaining a contract and costs to fulfill a contract): under previous accounting policies, these costs were capitalized or deferred and recognized in the income statement on the basis of the expected duration of the contract and the type of customer. The approach is substantially confirmed under IFRS 15, with the exception of the reclassification of certain contract costs and the change in the types of costs considered, in some cases.

The comprehensive net impact (including tax effects) of the adoption of IFRS 15 on consolidated equity at January 1, 2018 (transition date) was not material and mainly connected with the combined effects of:

- the change in the types of contract costs that are deferred;
- the new approach to recognizing activation/installation revenues and the recognition of contract assets connected with the earlier recognition of revenues from bundle offers.

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IMPACTS OF THE ADOPTION OF IFRS 9 AND IFRS 15

Impacts on the consolidated statements of financial position at 1/1/2018 (transition date)

The impacts of the transition on the main line items of the consolidated statements of financial position are shown below.

(millions of euros)	12/31/2017 historical	IFRS 9 impacts (*)	IFRS 15 impacts (*)	1/1/2018 restated
Assets				
Non-current assets				
Intangible assets				
Intangible assets with a finite useful life	7,192		(110)	7,082
Other non-current assets				
Non-current financial assets	1,768			1,768
Miscellaneous receivables and other non-current assets	2,422		(269)	2,153
Deferred tax assets	993	27		1,020
Current assets				
Trade and miscellaneous receivables and other current assets	4,959	(147)	42	4,854
Current financial assets	5,005			5,005
Total Assets	68,783	(120)	(337)	68,326
Equity and Liabilities				
Equity				
Equity attributable to Owners of the Parent	21,557	(100)	17	21,474
Non-controlling interests	2,226	(7)	2	2,221
Total Equity	23,783	(107)	19	23,695
Non-current liabilities				
Miscellaneous payables and other non-current liabilities	1,678		(251)	1,427
Deferred tax liabilities	265	(11)	8	262
Current liabilities				

Trade and miscellaneous payables and other current liabilities	7,520		(113)	7,407
Current income tax payables	112	(2)		110
Total Equity and Liabilities	68,783	(120)	(337)	68,326

(*) For further details, see the specific notes to the Consolidated Financial Statements at December 31, 2018.
The different classification of financial assets, following the adoption of IFRS 9, had no substantial impact for the TIM Group on the measurement of those assets, while the introduction of the *expected credit loss* model replacing the *incurred loss* model required by IAS 39, resulted in a reduction of 107 million euros in consolidated equity at the transition date of January 1, 2018.

The comprehensive net impact (including tax effects) of the adoption of IFRS 15 on consolidated equity at January 1, 2018 (transition date) was positive for 19 million euros and mainly connected with the combined effects of:

- the change in the types of contract costs that are deferred;
- the new approach to recognizing activation and installation revenues and the recognition of contract assets connected with the earlier recognition of revenues from bundle offers.

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Impact of new accounting standards (IFRS 9 and IFRS 15) on the main line items of the separate consolidated income statements and consolidated statements of financial position for the year 2018

To enable the year-on-year comparison of the economic and financial performance for the year 2018, comparable financial position figures and comparable income statement figures, prepared in accordance with the previous accounting standards applied (IAS 39, IAS 18, IAS 11, and relative Interpretations) are provided below.

The breakdown of the impact of the new accounting standards on key consolidated income statement figures for year 2018 is shown below.

(millions of euros)		Year 2018 (a)	Year 2018 comparable (b)	Impact new standards (c=a-b)
Revenues	(1)	18,940	19,109	(169)
Operating expenses	(2)	(11,878)	(11,737)	(141)
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)		7,403	7,713	(310)
Depreciation and amortization	(3)	(4,255)	(4,399)	144
Operating profit (loss) (EBIT)		561	727	(166)
Other income (expenses) from investments	(4)	11	10	1
Finance income/(expenses)	(5)	(1,348)	(1,341)	(7)
Profit (loss) before tax from continuing operations		(777)	(605)	(172)
Income tax expense	(6)	(375)	(433)	58
Profit (loss) for the year		(1,152)	(1,038)	(114)
Attributable to:				
Owners of the Parent		(1,411)	(1,298)	(113)
Non-controlling interests		259	260	(1)

The change in Revenues was attributable to the different accounting of bundle offers and activation/installation revenues and to the discounting of revenues from sales using the deferred payment method, using a discount rate reflecting the creditworthiness of customers.

The change in Operating expenses was mainly due to the deferral of certain subscriber acquisition costs and contract costs that were previously expensed and to the reclassification of some contract costs from intangible assets to other non-current and current assets (cost deferral), as well as higher provisions for expected losses on trade receivables, resulting from the introduction of an expected credit loss model (replacing the incurred loss model).

The change in Depreciation and amortization was due to the reclassification of certain contract costs from intangible assets to other non-current and current assets (cost deferral).

The change in Other income (expenses) from investments was due to the different accounting of the write-downs of the Other investments, which with the new standard are recognized under other components of the statements of comprehensive income.

The change in Finance income (expenses) was due to higher provisions for expected losses on other financial assets, due to the introduction of an expected credit loss model (replacing the incurred loss model).

The change in Income tax expense shows the income tax effect of the changes illustrated above.

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The impact of the new accounting standards (IFRS 9 and IFRS 15) on the basic Earnings per Ordinary and Savings Share for the year 2018 is equal to -0.01 euros; instead, the impact is zero on diluted earnings per ordinary and savings share.

The breakdown of the impact of the new accounting standards on the main consolidated statements of financial position figures at December 31, 2018 is shown below.

(millions of euros)	12/31/2018 (a)	12/31/2018 comparable (b)	Impact of new standards (*) (c=a-b)
Assets			
Non-current assets			
Intangible assets	35,658	35,771	(113)
Tangible assets	16,146	16,146	
Other non-current assets	5,086	5,368	(282)
Total Non-current assets	56,890	57,285	(395)
Current assets	8,729	8,794	(65)
Total Assets	65,619	66,079	(460)
Equity and Liabilities			
Equity			
Equity attributable to Owners of the Parent	19,528	19,716	(188)
Non-controlling interests	2,219	2,225	(6)
Total Equity	21,747	21,941	(194)
Non-current liabilities	30,991	31,276	(285)
Current liabilities	12,881	12,862	19
Total Liabilities	43,872	44,138	(266)
Total Equity and Liabilities	65,619	66,079	(460)

(*) For more details, see the information provided on impacts at the transition date.

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Existing improvements - also on the supporting IT systems - relating to the process of implementing the new accounting standards, together with the high number of new commercial offers of recent months, involved recalculating the time distribution of the revenues during the first and second quarters of 2018 for some specific fixed-line and mobile contract types.

The net cumulative impacts on the financial position figures are the following:

(millions of euros)	as at 3.31.2018	as at 6.30.2018
Current and non-current assets		
Trade and miscellaneous receivables and other current assets	(12)	(3)
Total Assets	(12)	(3)
Equity		
Equity attributable to Owners of the Parent	(17)	(22)
Total Equity	(17)	(22)
Non-current and current liabilities		
Deferred tax liabilities	(7)	(8)
Trade and miscellaneous payables and other current liabilities	12	27
Total Liabilities	5	19
Total Equity and Liabilities	(12)	(3)

Recalculation of the time distribution of the revenues over the first and second quarters of 2018 did not impact the Aggregate cash flows of the TIM Group s statement of cash flows, and in particular the Cash flows from (used in) operating activities .

The updated time series of the 2018 quarters, unaudited, of the TIM Group s main consolidated economic data is therefore the following:

	2018			
(millions of euros)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	4,685	4,726	4,666	4,863

Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	1,793	1,940	2,045	1,625
Operating profit (loss) (EBIT)	740	874	(997)	(56)
Profit (loss) before tax from continuing operations	391	513	(1,326)	(355)
Income tax expense	(156)	(141)	43	(121)
Profit (loss) for the period	235	372	(1,283)	(476)
Attributable to:				
Owners of the Parent	199	333	(1,400)	(543)
Non-controlling interests	36	39	117	67

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NEW STANDARDS AND INTERPRETATIONS ISSUED BY IASB BUT NOT YET APPLICABLE

At the date of preparation of these 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 16 (*Leases*)	1/1/2019
Amendments to IFRS 9: Prepayment Features with Negative Compensation	1/1/2019
IFRIC 23 Uncertainty over income tax treatments	1/1/2019
New Standards and Interpretations not yet endorsed by the EU	
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
Amendments to References to the Conceptual Framework in IFRS Standards	1/1/2020
IFRS 17: Insurance contracts	1/1/2021
Amendments to IFRS 3 Business combinations	1/1/2020
Amendments to IAS 1 and IAS 8: definition of materiality	1/1/2020

The potential impacts on the consolidated financial statements from application of these standards and interpretations are currently being assessed.

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IFRS 16 (Leases)

IFRS 16 (Leases) was adopted at the European Union level on October 31, 2017 by Commission Regulation (EU) 2017/1986. IFRS 16 replaces IAS 17 (Leases) and relative interpretations (IFRIC 4 *Determining whether an Arrangement Contains a Lease*; SIC 15 *Operating Leases Incentives*; SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*). IFRS 16 applies retrospectively commencing as of January 1, 2019.

On the basis of the provisions of IFRS 16, lease agreements (that are not service contracts) are represented in accounting by recognizing a financial liability in the statements of financial position, represented by the current value of future subscription charges, against recognition under assets of the Right of Use .

Leasing expenses, already previously classified according to IAS 17 as finance leasing, will not undergo any change to the current accounting representation, continuing as in the past.

Upon first application, the TIM Group intends to apply a modified retrospective method by recognizing, for leases previously classified under IAS 17 as operating leases, a financial liability for lease agreements and the corresponding value of the user rights, measured on the basis of the remaining lease payments at the transition date.

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

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

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

- IFRS 16 is not usually applied to intangible assets or to short-term (i.e. less than 12 months) contracts with low unit value;
- user rights and financial liabilities relating to lease agreements are classified on specific line items in the statements of financial position;
- any service contract component included in the lease payments is generally excluded from the IFRS 16 scope;

- contracts with similar characteristics are assessed using a single discount rate;
- lease agreements previously considered finance leasing pursuant to IAS 17 retain the previously recognized values.

The main impacts on the consolidated financial statements of the Group, which are still being assessed and refined, may be summarized as follows:

- **Statements of financial position**: higher non-current assets due to the recognition of Right of Use as a balancing entry to the higher financial liabilities recognized; as a result, a lease liability is expected to be recognized for between 3.4 and 3.9 billion euros during the transition.
- **Separate income statements**: a positive impact on EBITDA, due to the different nature, description, and classification of expenses (the amortization of user rights for the asset and financial expense for interest instead of Lease and rental costs payments for operating leases , as per IAS 17), equal to between 0.6 and 0.8 billion euros. Furthermore, the combination of the straight-line amortization of user rights for the asset and the application of the effective interest rate method for lease liabilities will result in higher total income statement expenses in the first few years, compared to IAS 17, and decreasing total expenses in the last years of the lease.
- **Statements of Cash Flows**: lease payments for the principal of the debt repayment will be reclassified from Cash flows from operating activities to Cash flows from financing activities .

The process of implementing the new accounting standard entails significant updates and modifications on the IT systems, modification and updating of the control and compliance models and of their processes. The impacts are based on the results of the analyses at the date these financial statements are prepared, and might change since implementation is still in progress.

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

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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, 2018 compared to December 31, 2017 are listed below.

These changes did not have any significant impacts on the Consolidated Financial Statements of the TIM Group at December 31, 2018.

Subsidiaries exiting/merged into the scope of consolidation:

Company		Business Unit	Month
Exit:			
OLIVETTI ESPAÑA S.A. (in liquidation)	Liquidated	Other Operations	December 2018
Merger:			
TI SPARKLE MED S.p.A.	Merged into TI Sparkle S.p.A.	Domestic	April 2018
TIM CELULAR S.A.	Merged into TIM S.A.	Brazil	October 2018

The breakdown by number of subsidiaries and associates of the TIM Group is as follows:

	12/31/2018	
Companies:	Italy	Total

		Outside Italy	
subsidiaries consolidated line-by-line	21	42	63
joint ventures accounted for using the equity method	1		1
associates accounted for using the equity method	16		16
Total companies	38	42	80

		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

Further details are provided in the Note List of companies of the TIM Group .

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SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

At December 31, 2018, 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

Non-controlling interests accounted at December 31, 2018 for 33.4% of the capital of Tim Participações, which in turn holds 100% of the capital of the operating company Tim S.A., coinciding with their corresponding voting rights.

Financial Position Data Tim Brasil group

(millions of euros)	12/31/2018	12/31/2017
Non-current assets	6,257	6,819
Current assets	1,387	1,929
Total Assets	7,644	8,748
Non-current liabilities	959	1,703
Current liabilities	1,678	1,852
Total Liabilities	2,637	3,555
Equity	5,007	5,193
of which Non-controlling interests	*1,518*	*1,556*

Income statement Data Tim Brasil group

(millions of euros)	2018	2017

Revenues	3,943	4,502
Profit (loss) for the year	586	340
of which Non-controlling interests	*200*	*114*

Financial Data Tim Brasil group

In 2018, aggregate cash flows generated a negative amount of 512 million euros, essentially due to a negative exchange rate effect of 67 million euros, without which cash flow would have generated a negative 445 million euros.

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.

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 2017 and 2018:

(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

(millions of euros)	12/31/2017	Reclassifications	Increase	Decrease	Impairments	Exchange differences	12/31/2018
Domestic	28,489				(2,590)		25,899
Core Domestic	28,077				(2,450)		25,627
International Wholesale	412				(140)		272
Brazil	973					(103)	870
Other Operations							
Total	29,462				(2,590)	(103)	26,769

In accordance with IAS 36, goodwill is not subject to amortization, but is tested for impairment annually when preparing the company s consolidated financial statements.

In 2018 Goodwill fell by 2,693 million euros, from 29,462 million euros at the end of 2017 to 26,769 million euros at December 31, 2018, due to the 2,590 million euros impairment loss recognized during the year related to the Domestic Business Unit, as well as the goodwill allocated for the exchange difference of the Brazil Cash Generating Unit.

The Domestic Business Unit is made up of the Core Domestic CGU and the International Wholesale CGU. In relation to the Core Domestic CGU, as of September 30, 2018, events and circumstances of an exogenous and endogenous nature had occurred which led the company to carry out impairment testing on the CGU, this led to an impairment loss recognized for an amount of 2,000 million euros.

The impairment testing carried out during the preparation of the 2018 financial statements led to an additional impairment loss of 450 million euros of the goodwill attributed to the Core Domestic CGU (total write down for the year 2018 is equal to 2,450 million euros) as well as an impairment loss of 140 million euros of goodwill attributed to the International Wholesale CGU.

The impairment testing did not reveal any impairment in relation to the Brazil CGU.

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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, 2018 and 2017 can be summarized as follows:

	12/31/2018			12/31/2017		
(millions of euros)	Gross carrying amount	Accumulated impairment losses	Net carrying amount	Gross carrying amount	Accumulated impairment losses	Net carrying amount
Domestic	42,457	(16,558)	25,899	42,457	(13,968)	28,489
Core Domestic	42,045	(16,418)	25,627	42,045	(13,968)	28,077
International Wholesale	412	(140)	272	412		412
Brazil	1,077	(207)	870	1,204	(231)	973
Other Operations						
Total	43,534	(16,765)	26,769	43,661	(14,199)	29,462

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.

The impairment test 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.

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	Brazil

At December 31, 2018 the recoverable amount of the CGUs was equal to the greater of the fair value less disposal costs and the value in use .

The value used to determine the recoverable value were the value in use for Core Domestic, fair value for International Wholesale and Brazil. In particular, for Brazil, the fair value was determined on the basis of the market capitalization at the end of the period; for International Wholesale, the fair value was determined on the basis of direct market multiples relating to a sample of comparable companies, taking into account the average values of the Enterprise Value/EBITDA ratio, applied to the forecast 2019 EBITDA of the CGU (level 3 fair value in the reference standard s hierarchy, corresponding to prices calculated using inputs that are not based on observable market data).

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.

For the Core Domestic CGU 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 2019-2021 Industrial Plan approved by the Board of Directors. The expected average cash flows were measured for the three years of the 2019-2021 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 (2019- 2023). The extrapolation of data for 2022-2023 enabled market and competition trends that will become manifest beyond the time horizon of the 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 2023, adjusted as necessary to take into consideration a suitable level of long-term capital expenditure. Furthermore, with specific reference to the valuation of the incremental share of the value deriving from 5G license use and therefore from the development of new and innovative business areas, an evaluation model has been adopted that takes into account the net incremental flows for a period of defined time which only concerns the duration of the license. This approach is consistent with the need in the value used to capture on one hand the outgoing flows deriving from the payment of the license (2019 - 2022) and the supporting capex, and on the other to capture the positive net flows from the incremental business component of the license acquisition that will develop over a broad period of time and over the 5 years of explicit forecast.

The Industrial Plan (2019-2021) incorporates some valuations of potential risk factors and the actions adopted to mitigate them. In defining the average normal flows for the purposes of impairment testing, management, with the help of the experts, identified additional risk factors, modifying the amount and/or distribution over time of future cash flows, giving a greater weighting to external data available.

The cost of capital used to discount the future cash flows for estimating the value in use of the Core Domestic:

- was estimated using the Capital Asset Pricing Model (CAPM), which is one of the generally accepted application criteria referred to in IAS 36;
- 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;
- 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 the Core domestic CGU:

- of the weighted average cost of capital (WACC rate) used to discount the future cash flows, and the equivalent rate before tax
- of the growth rate used to estimate the residual value after the explicit forecast period (the G-Rate), expressed in nominal terms and related to the cash flows in its functional currency;
- of the implicit capitalization rates 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
WACC	6.60%
WACC before tax	8.91%
Growth rate beyond the explicit period (g)	0.5%
Capitalization rate net of taxes (WACC-g)	6.10%
Capitalization rate before taxes (WACC-g)	8,41%
Capex/Revenues, perpetual	20.15%

The growth rate of the terminal value g of the Core Domestic CGU was 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.

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In estimating 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 were taken into account.

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 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 recoverable amounts and net carrying amounts	-2,450	-140	+1,246

Therefore, in the light of the factors above, the impairment loss of the goodwill allocated to the Core Domestic Cash Generating Unit amounted to 2,450 million euros and the impairment loss of the goodwill allocated to the International Wholesale Cash Generating Unit is equal 140 million euros.

The Brazil Cash Generating Unit on the other hand showed a positive difference of 1.2 billion euros. As the recoverable amount, determined on the basis of fair value, was higher than the carrying amounts, the value in use was not calculated for the Brazil CGU.

In relation to the Brazil CGU, the sensitivity analyzes showed that the change necessary to make the recoverable value equal to the carrying amount was equal to -25% of the share value.

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. 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 1,697 million euros compared to December 31, 2017. The breakdown and movements are as follows:

(millions of euros)	12/31/2016	Capital expenditures	Depreciation and 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

(millions of euros)	12/31/2017	Adoption IFRS 15	Capital expenditures	Depreciation and amortization	Impairment (losses) / reversals	Disposals	Exchange differences	Capitalized borrowing costs	Other changes	12/31/2018
Industrial patents and intellectual property rights	2,193		703	(1,171)			(98)		468	2,095
Concessions, licenses, trademarks and similar rights	2,750		103	(422)			(64)		894	3,261
Other intangible assets	134	(110)	11	(6)			(1)		5	33
Work in progress and advance payments	2,115		2,830		4	(1)	(88)	37	(1,397)	3,500
Total	7,192	(110)	3,647	(1,599)	4	(1)	(251)	37	(30)	8,889

Additions in 2018, equal to 3,647 million euros (increased by 1,355 million euros compared to 2017) and particularly were affected by the impacts caused by the acquisitions of user rights for mobile telephone frequencies in Italy (2,399 million euros), recognized in Works in Progress.

Additions in 2018 also included 248 million euros of internally generated assets (272 million euros in 2017); Further details are provided in the Note Internally generated assets .

Industrial patents and intellectual property rights at December 31, 2018 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. (1,256 million euros) and to the Brazil Business Unit (794 million euros).

Concessions, licenses, trademarks and similar rights at December 31, 2018 mainly related to:

- the remaining cost of telephone licenses and similar rights (2,040 million euros for TIM S.p.A., 615 million euros for the Brazil Business Unit); they increased by 502 million euros, mainly following the reclassification of the Parent to the extension of the user rights to the 900 and 1800 MHz band (GSM license) acquired in 2017 with starting date July 1, 2018 and the reclassification from the Brazil Business Unit of the right to use the 700 MHz frequencies that came into operation;

- Indefeasible Rights of Use - IRU (412 million euros), mainly relating to companies of the Telecom Italia Sparkle group International Wholesale (270 million euros), the Parent (110 million euros) and the Brazil Business Unit (32 million euros);

- TV frequencies of the company Persidera in the Core Domestic segment (104 million euros). The user licenses for the frequencies used for digital terrestrial transmission will expire in 2032.

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The residual amount of telephone licenses and similar rights in operation at December 31, 2018 (2,655 million euros) and their useful lives are detailed below:

Type	Residual amount at 12/31/2018 (millions of euros)	Useful life (years)	Maturity	Amortization expense for 2018 (millions of euros)
TIM S.p.A.:				
UMTS	403	18	12/31/2021	134
UMTS 2100 MHz	22	12	12/31/2021	7
WiMax	4	15	5/31/2023	1
LTE 1800 MHz	94	18	12/31/2029	9
LTE 800 MHz	661	17	12/31/2029	60
LTE 2600 MHz	73	17	12/31/2029	7
1452-1492 MHz band	181	14	12/31/2029	16
GSM (extension)		3	6/30/2018	17
900 and 1800 MHz band	602	12	12/31/2029	27
Tim Brasil group:				
GSM and 3G (UMTS)	129	15	From 2023 to 2031	41
4G (LTE - 700 MHz)	486	15	2030	36

Other intangible assets fell mainly due to the introduction of IFRS 15, under which mobile customer acquisition costs (Subscriber Acquisition Costs - SACs), relating to contracts with minimum term clauses, are no longer capitalized and amortized. Instead they are reclassified as deferred contract costs and then subsequently recognized in the income statement over the term of the contract in the item Acquisition of goods and services , at December 31, 2017 SACs amounted to 110 million euros.

The figure for other intangible assets at December 31, 2018 mainly consisted of surface rights acquired by INWIT.

Work in progress and advance payments mainly included:

(1) the investment by the Parent in the acquisition of user rights to frequencies in the 694-790 MHz, 3600-3800 MHz and 26.5-27.5 GHz bands, which will be reserved for 5G mobile telecommunications services for the total amount of 2,399 million euros (net of the 8 million euros discount applied to the award proportionate to the population in the areas affected by the testing), due to the participation of TIM S.p.A. in the auction for their

award in 2018 by the Ministry of Economic Development. The user rights were formally awarded on October 9, 2018, with the rights to 3600 3800 MHz and 26.5 27.5 GHz frequencies made available on a definitive basis in January 2019; the user rights to 694 790 MHz frequencies will be made available in July 2022. The awarded rights will be paid in six annual installments, the first of which was paid at the end of October 2018 for the amount of 477 million euros.

(2) the amount of the user rights for the 700 MHz frequencies, equal to 461 million euros, acquired in 2014 by the Tim Brasil group for a total of 2.9 billion reais (equal to around 1 billion euros), but not yet in operation. In 2018, part of the user rights, amounting to 261 million euros, came into operation and was consequently reclassified under the item Concessions, licenses, trademarks and similar rights . The finance expenses directly attributable to the purchase of these rights have been capitalized since 2014. In 2018, the capitalized finance expenses totaled 37 million euros, at an annual interest rate of 8.37%; expenses capitalized were deducted directly in the income statement from Finance expenses .

In 2018, the Parent also carried out an adjustment of 4 million euros for Construction contracts previously subject to impairment.

Work in progress and advance payments at December 31, 2017 included the payment of 630 million euros for the extension of the user rights to the 900 and 1800 MHz band from July 1, 2018 until December 31, 2029. As a result, in 2018 the value of the license extension was reclassified under the line item Concessions, licenses, trademarks and similar rights .

Depreciation 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, 2018 and 2017 can be summarized as follows:

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(millions of euros)	12/31/2017 Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	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
Total intangible assets with a finite useful life	21,977	(310)	(14,475)	7,192

(millions of euros)	12/31/2018 Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Industrial patents and intellectual property rights	10,832		(8,737)	2,095
Concessions, licenses, trademarks and similar rights	7,839	(277)	(4,301)	3,261
Other intangible assets	241		(208)	33
Work in progress and advance payments	3,526	(26)		3,500
Total intangible assets with a finite useful life	22,438	(303)	(13,246)	8,889

Impairment losses on Concessions, licenses, trademarks and similar rights , mainly relating to reporting periods prior to 2004, refer to the Indefeasible Rights of Use (IRU) for the transmission capacity and cables for international connections acquired by the Telecom Italia Sparkle group.

With regard to the gross carrying amounts of intangible assets with a finite life, in 2018 disposals were made by the Parent for a total amount of 2,195 million euros, mainly in relation to obsolete releases of software systems of the Parent; consequently, where present, the accumulated impairment losses and the accumulated depreciation related to them were also canceled.

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NOTE 6

TANGIBLE ASSETS (OWNED AND UNDER FINANCE LEASES)

PROPERTY, PLANT AND EQUIPMENT OWNED

Property, plant and equipment owned increased by 35 million euros compared to December 31, 2017. The breakdown and movements are as follows:

(millions of euros)	12/31/2016	Capital expenditures	Depreciation and amortization	Impairment (losses) / reversals	Disposals	Exchange differences	Other changes	12/31/2017
Land	203	6				(2)	6	213
Buildings (civil and industrial)	509	10	(39)			(3)	11	488
Plant and equipment	11,709	2,601	(2,286)	(8)	(8)	(332)	373	12,049
Manufacturing and distribution equipment	38	12	(16)				2	36
Other	391	88	(159)		(2)	(18)	76	376
Construction in progress and advance payments	1,097	541		1	(1)	(41)	(543)	1,054
Total	13,947	3,258	(2,500)	(7)	(11)	(396)	(75)	14,216

(millions of euros)	12/31/2017	Capital expenditures	Depreciation and amortization	Impairment (losses) / reversals	Disposals	Exchange differences	Other changes	12/31/2018
Land	213	6				(1)	32	250
Buildings (civil and industrial)	488	79	(36)			(2)	59	588
Plant and equipment	12,049	2,013	(2,229)		(7)	(217)	487	12,096
Manufacturing and distribution equipment	36	8	(14)				1	31

Other	376	94	(162)	(2)	(13)	65	358
Construction in progress and advance payments	1,054	488		(4)	(21)	(589)	928
Total	14,216	2,688	(2,441)	(13)	(254)	55	14,251

Land comprises both built-up land and available land and is not subject to depreciation. The figure for December 31, 2018 refers primarily to TIM S.p.A. (209 million euros).

Buildings (civil and industrial) almost exclusively includes buildings for industrial use hosting telephone exchanges, or for office use and light constructions. The figure for December 31, 2018 referred primarily to TIM S.p.A. (555 million euros). It is noted that in the course of 2018, as part of the project to rationalize industrial and office space in progress, during the year the Parent signed an agreement with a primary real estate firm that entailed the acquisition of owned property previously leased and the release of other properties no longer considered strategic; the transaction entailed a 69 million-euro net investment for a financial disbursement of 158 million euros and the reclassification of the residual value of assets owned in leased property and of the improvements introduced to owned buildings.

Plant and equipment includes the technological infrastructure used for the functioning of voice and data telephone traffic. The figure at December 31, 2018 was mainly attributable to TIM S.p.A. (9,162 million euros) and to companies of the Brazil Business Unit (1,947 million euros).

Manufacturing and distribution equipment consists of instruments and equipment used for the operation and maintenance of plant and equipment and refers mainly to TIM S.p.A..

The item Other mainly consists of hardware for the functioning of the Data Center and for work stations, furniture and fixtures and, to a minimal extent, transport vehicles and office machines.

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Construction in progress and advance payments refer to the internal and external costs incurred for the acquisition and internal production of tangible assets, which are not yet in use.

Capital expenditures in 2018 decreased by 570 million euros compared to the previous year, driven mainly by a greater selectivity in capex dedicated to network infrastructure, and include 322 million euros of internally generated assets (354 million euros in 2017); Further details are provided in the Note Internally generated assets .

Depreciation, impairment losses and reversals have been recorded in the income statement as components of EBIT.

Depreciation for the years 2018 and 2017 was calculated on a straight-line basis over the estimated useful lives of the assets according to the following minimum and maximum rates:

Buildings (civil and industrial)	2 5.55%
Plant and equipment	3 50%
Manufacturing and distribution equipment	20%
Other	10 50%

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2018 and 2017 can be summarized as follows:

	12/31/2017			
(millions of euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	218	(5)		213
Buildings (civil and industrial)	1,717		(1,229)	488
Plant and equipment	68,964	(62)	(56,853)	12,049
Manufacturing and distribution equipment	310	(1)	(273)	36
Other	3,988	(2)	(3,610)	376
Construction in progress and advance payments	1,054			1,054
Total	76,251	(70)	(61,965)	14,216

	12/31/2018
(millions of euros)	

	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	253	(3)		250
Buildings (civil and industrial)	1,862		(1,274)	588
Plant and equipment	70,525	(62)	(58,367)	12,096
Manufacturing and distribution equipment	318	(1)	(286)	31
Other	3,885	(2)	(3,525)	358
Construction in progress and advance payments	928			928
Total	77,771	(68)	(63,452)	14,251

Impairment losses on Plant and equipment, mainly relating to years prior to 2004, refer to the Telecom Italia Sparkle group.

With regard to the gross carrying amounts of tangible assets, in 2018 TIM S.p.A. carried out disposals for a total amount of 431 million euros, mainly in relation to fully depreciated assets. Disposals mainly involved plant and equipment for around 288 million euros, consequently, where present, the accumulated impairment losses and the accumulated depreciation related to them were also canceled.

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ASSETS HELD UNDER FINANCE LEASES

Assets held under finance leases decreased by 436 million euros compared to December 31, 2017. The breakdown and movements are as follows.

(millions of euros)	12/31/2016	Capital expenditures	Increases in finance leasing contracts	Depreciation and amortization	Exchange differences	Other changes	12/31/2017
Land under lease	16						16
Buildings (civil and industrial)	1,835	47	2	(130)		14	1,768
Plant and equipment	365	72	14	(21)	(43)	(34)	353
Other	125		52	(29)	(1)	(9)	138
Construction in progress and advance payments	72	32				(48)	56
Total	2,413	151	68	(180)	(44)	(77)	2,331

(millions of euros)	12/31/2017	Capital expenditures	Increases in finance leasing contracts	Depreciation and amortization	Exchange differences	Other changes	12/31/2018
Land under lease	16						16
Buildings (civil and industrial)	1,768	32	12	(159)		(288)	1,365
Plant and equipment	353	9	6	(18)	(26)	(22)	302
Other	138		52	(38)	(1)	(3)	148
Construction in progress and advance payments	56	32				(24)	64
Total	2,331	73	70	(215)	(27)	(337)	1,895

Additions in 2018 referred to TIM S.p.A. and consisted mainly of the acquisition of IRU transmission capacity, in view of the payment at the beginning of the contract, and improvements and incremental expenses incurred for movable and immovable third-party assets used on the basis of finance lease agreements.

The increases in finance leasing contracts refers mainly to TIM S.p.A. (58 million euros) and only on a residual basis to the Brazil Business Unit.

Buildings (civil and industrial) includes buildings under finance lease and related building adaptations, fully attributable to TIM S.p.A. The net decrease of 288 million euros (Other changes column) reflects 215 million euros for the real estate restructuring and rationalization plan, under which office space and industrial premises will be progressively released, with consequent updates to the estimated life of the renegotiated leases, as the renewal option on some longer-term leases is unlikely to be exercised. Moreover, several properties previously leased were acquired under ownership following the aforementioned real estate space rationalization agreement, resulting in reclassification to owned buildings for a total of 82 million euros (71 million euros for buildings and 11 million euros for improvements).

Plant and equipment mainly includes the recognition of the value of the telecommunications towers sold by the Tim Brasil group to American Tower do Brasil and subsequently repurchased in the form of finance lease. The additions in 2018 related to the progress on the contract for the acquisition of IRU transmission capacity by the Parent.

Other rose by 10 million euros over December 31, 2017 and reflected the effects resulting from recognition, by the Domestic Business Unit of different leases on vehicles as finance leases based on the provisions of IAS 17. This resulted in an overall impact on the balance sheet at December 31, 2018 of 49 million euros in terms of higher tangible assets and related payables for finance leases.

Depreciation and impairment losses have been recorded in the income statement as components of EBIT.

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The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2018 and 2017 can be summarized as follows:

	12/31/2017			
(millions of euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land under lease	16			16
Buildings (civil and industrial)	3,391	(27)	(1,596)	1,768
Plant and equipment	397		(44)	353
Other	200		(62)	138
Construction in progress and advance payments	56			56
Total	4,060	(27)	(1,702)	2,331

	12/31/2018			
(millions of euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land under lease	16			16
Buildings (civil and industrial)	2,792	(13)	(1,414)	1,365
Plant and equipment	370		(68)	302
Other	243		(95)	148
Construction in progress and advance payments	64			64
Total	3,485	(13)	(1,577)	1,895

At December 31, 2018 and 2017, finance lease payments due in future years and their present value are as follows:

	12/31/2018		12/31/2017	
(millions of euros)	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within 1 year	227	210	271	234

From 2 to 5 years after the end of the reporting period	993	782	1,031	691
Beyond 5 years after the end of the reporting period	1,745	831	2,878	1,391
Total	2,965	1,823	4,180	2,316

(millions of euros)	12/31/2018	12/31/2017
Future net minimum lease payments	2,965	4,180
Interest portion	(1,142)	(1,864)
Present value of lease payments	1,823	2,316
Finance lease liabilities	1,948	2,430
Financial receivables for lease contracts	(124)	(114)
Total net finance lease liabilities	1,823	2,316

At December 31, 2018, adjustments to lease payments based on the ISTAT price index totaled 13 million euros (13 million euros at December 31, 2017) and related to TIM S.p.A..

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NOTE 7

INVESTMENTS

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD

Investments in associates and joint ventures accounted for using the equity method are reported below in detail:

(millions of euros)	12/31/2018	12/31/2017
Tiglio I	5	7
NordCom	5	5
W.A.Y.	3	3
Other	3	2
Total Associates	16	17
Alfiere		
Total Joint Ventures		
Total investments accounted for using the equity method	16	17

The changes in this item are broken down as follows:

(millions of euros)	12/31/2016	Capital expenditures	Disposals and reimbursements of capital	Valuation using equity method	12/31/2017
Tiglio I	8			(1)	7
Nordcom	5				5
W.A.Y.	3				3
Other	2				2

Total Associates	18			(1)	17
Alfiere					
Total Joint Ventures					
Total investments accounted for using the equity method	18			(1)	17

(millions of euros)	12/31/2017	Capital expenditures	Disposals and reimbursements of capital	Valuation using equity method	12/31/2018
Tiglio I	7			(2)	5
Nordcom	5				5
W.A.Y.	3				3
Other	2			1	3
Total Associates	17			(1)	16
Alfiere					
Total Joint Ventures					
Total investments accounted for using the equity method	17			(1)	16

The item joint ventures related to the investment in Alfiere S.p.A., a company that owns several buildings in the EUR area in Rome, whose value was essentially written down to nil in 2016**.**

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The financial statements as at December 31, 2018 of Alfiere S.p.A. are currently not available. The main aggregated figures prepared with regard to the portion attributable to the TIM Group show amounts referring to the financial statements for 2017.

	2017	
(millions of euros)	Alfiere S.p.A.	TIM Group portion (50%)
Non-current assets	156.6	78.3
Current assets	3.5	1.8
Total Assets	160.1	80.1
Non-current liabilities	142.9	71.5
Current liabilities	13.6	6.8
Total Liabilities	156.5	78.3
Equity	3.6	1.8
Total Liabilities and Equity	160.1	80.1
Profit (loss) for the year	(5.7)	(2.9)

The list of investments accounted for using the equity method is presented in the Note List of companies of the TIM Group .

Investments in associates accounted for using the equity method of the TIM Group are not material either individually or in aggregate form.

INVESTMENTS IN STRUCTURED ENTITIES

The TIM Group does not hold investments in structured entities.

OTHER INVESTMENTS

Other investments refer to the following:

(millions of euros)	12/31/2016	Capital expenditures	Disposals and reimbursements of capital	Recognition with the fair value method	Other changes	12/31/2017
Assicurazioni Generali	2			1		3
Fin.Priv.	17			3		20
Northgate Comms Tech Innovations Partners L.P.	14	3				17
Other	13				(2)	11
Total	46	3		4	(2)	51

(millions of euros)	12/31/2017	IFRS 9 adoption	Capital expenditures	Disposals and reimbursements of capital	Valuation at fair value	Other changes	12/31/2018
Assicurazioni Generali	3						3
Fin.Priv.	20				(4)		16
Northgate Comms Tech Innovations Partners L.P.	17	(3)	2				16
Other	11	3	1	(1)			14
Total	51		3	(1)	(4)		49

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

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

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NOTE 8

FINANCIAL ASSETS (NON-CURRENT AND CURRENT)

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

(millions of euros)		12/31/2018	12/31/2017
Non-current financial assets			
Securities, financial receivables and other non-current financial assets			
Securities other than investments			
Receivables from employees		43	47
Financial receivables for lease contracts		54	69
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature		1,490	1,495
Non-hedging derivatives		7	7
Other financial receivables			150
Total non-current financial assets	(a)	1,594	1,768
Current financial assets			
Securities other than investments			
Held for trading			
Held-to-maturity			
Available-for-sale			993
Measured at amortized cost (AC)			
Measured at fair value through other comprehensive income (FVTOCI)		945	
Measured at fair value through profit or loss (FVTPL)		181	
		1,126	993
Financial receivables and other current financial assets			
Liquid assets with banks, financial institutions and post offices (with maturity over 3 months)			100

Receivables from employees		14	16
Financial receivables for lease contracts		70	45
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature		242	260
Non-hedging derivatives		12	15
Other short-term financial receivables		2	1
		340	437
Cash and cash equivalents		1,917	3,575
Total current financial assets	(b)	3,383	5,005
Financial assets relating to Discontinued operations/Non-current assets held for sale	(c)		
Total non-current and current financial assets	(a+b+c)	4,977	6,773

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

Financial receivables for lease contracts refer to:

Teleleasing lease contracts entered into directly with customers in previous years and for which TIM is the guarantor;

the portion of rental contracts, with the rendering of accessory services;

finance leases on user rights and equipment.

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Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature mainly refer to the mark-to-market spot valuation component of the hedging derivatives, whereas hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature also include accrued income on derivative contracts.

The Non-hedging derivatives consist of the mark-to-market component of the non-hedging derivatives of the Brazil Business Unit.

Further details are provided in the Note Derivatives .

Securities other than investments included in current financial assets relate to:

- 945 million euros of listed securities, of which 558 million euros of Italian treasury bonds purchased by TIM S.p.A. (252 million euros), Telecom Italia Finance S.A. (296 million euros) and INWIT S.p.A. (10 million euros), as well as 387 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. Under IFRS 9, such securities are classified as financial assets measured at fair value through other comprehensive income (FVTOCI). 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 replacement of the previous policies in force;

- 181 million euros of investments in monetary funds by the Brazil Business Unit, which, under IFRS 9, are classified as financial assets measured at fair value through profit or loss (FVTPL).

Further details are provided in the Note Accounting standards .

Cash and cash equivalents fell by 1,658 million euros compared to December 31, 2017. The figure breaks down as follows:

(millions of euros)	12/31/2018	12/31/2017
Liquid assets with banks, financial institutions and post offices	1,694	2,828
Checks, cash and other receivables and deposits for cash flexibility	1	2
Securities other than investments (due within 3 months)	222	745
Total	1,917	3,575

The different technical forms of investing available cash at December 31, 2018 had the following characteristics:

maturities: all deposits have a maximum maturity date of three months;

counterparty risk: deposits have been made with leading high-credit-quality banks and financial institutions with a rating of at least BBB- according to Standard & Poor s with regard to Europe, and with leading local counterparts with regard to investments in South America;

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

Securities other than investments (due within 3 months) included 221 million euros (744 million euros at December 31, 2017) of Brazilian bank certificates of deposit (Certificado de Depósito Bancário) held by the Brazil Business Unit with premier local banking and financial institutions.

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NOTE 9

MISCELLANEOUS RECEIVABLES AND OTHER NONCURRENT ASSETS

Miscellaneous receivables and other noncurrent assets fell by 131 million euros compared to December 31, 2017. The figure breaks down as follows.

(millions of euros)		12/31/2018	*of which Financial Instruments*	12/31/2017	*of which Financial Instruments*
Miscellaneous receivables (non-current)	(a)	697	326	704	371
Other non-current assets					
Deferred contract costs		1,531			
Other cost deferrals		63			
Medium/long-term prepaid expenses				1,718	
	(b)	1,594		1,718	
Total	(a+b)	2,291	326	2,422	371

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

The impacts caused by the adoption of IFRS 15 are summarized below:

(millions of euros)		12/31/2017	Adoption of new standards IFRS 15 reclassifications	IFRS 15 adjustments	1/1/2018
Miscellaneous receivables (non-current)	(a)	704			704
Other non-current assets					
Deferred contract costs			1,714	(319)	1,395
Other cost deferrals			54		54
Medium/long-term prepaid expenses		1,718	(1,718)		
	(b)	1,718	50	(319)	1,449
Total	(a+b)	2,422	50	(319)	2,153

For more detailed information on the impacts caused by the adoption of IFRS 15, please refer to the Note Accounting Standards .

Miscellaneous receivables (non-current) amounted to 697 million euros (704 million euros at December 31, 2017), mainly refer to the Brazil Business Unit (646 million euros); 651 million euros at December 31, 2017). They were related to receivables for court deposits of 307 million euros (349 million euros at December 31, 2017) and current income tax receivables of 88 million euros (96 million euros at December 31, 2017).

Other non-current assets amounted to 1,594 million euros (1,718 million euros at December 31, 2017). They mainly break down as follows:

- Deferred contract costs totaling 1,531 million euros, relating to the deferral of costs connected with the activation and acquisition of new contracts with customers, classified at December 31, 2017 as Medium/long-term prepaid expenses.

Under previous accounting policies, contract costs (incremental costs of obtaining a contract and costs to fulfill a contract) were capitalized or deferred and recognized in the income statement on the basis of the expected duration of the contract and the type of customer.

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That approach is substantially confirmed under IFRS 15, with the exception of the reclassification of subscriber acquisition costs (SACs) connected to contracts with lock-in clauses from intangible assets, equal, at January 1, 2018, to 110 million euros (of which 50 million euros medium/long-term).

Activation costs for telephone services are deferred throughout the expected life of the relationship with the customer, taking also into account the reasonable expectations of cash flows arising from these services. The average expected duration at December 31, 2018 was 3 years for mobile business and 7 years for fixed business.

Other cost deferrals of 63 million euros were attributable mainly to the companies of the Domestic Business Unit.

Medium/long-term prepaid expenses: no longer present at December 31, 2018 as included in the aforementioned items; as at December 31, 2017, they mainly referred to the Domestic Business Unit and the deferral of costs connected with the activation and acquisition of new contracts with customers.

The breakdown of the total deferred contract costs (non-current and current) at December 31, 2018 is provided below with details of the acquisition costs and costs for executing contracts, as well as their movements during the year:

(millions of euros)	12/31/2018
Deferred contract costs	
Costs of obtaining a contract	1,132
Costs to fulfill a contract	1,033
Total	2,165

(millions of euros)	1/1/2018	Increase	Release to income statement	Exchange differences and other changes	12/31/2018
Costs of obtaining a contract	1,031	473	(367)	(5)	1,132
Costs to fulfill a contract	905	348	(220)		1,033
Total	1,936	821	(587)	(5)	2,165

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NOTE 10

INCOME TAX EXPENSE (CURRENT AND DEFERRED)

CURRENT INCOME TAX RECEIVABLES

Non-current and current income tax receivables at December 31, 2018 amounted to 339 million euros (173 million euros at December 31, 2017).

Specifically, they consisted of:

(1) non-current income tax receivables of 88 million euros (96 million euros at December 31, 2017);

(2) current income tax receivables of 251 million euros (77 million euros at December 31, 2017), mainly relating to companies belonging to the Brazil Business Unit (78 million euros) and to the Domestic Business Unit (171 million euros).

DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The net balance of 944 million euros at December 31, 2018 (728 million euros at December 31, 2017) breaks down as follows.

(millions of euros)	12/31/2018	12/31/2017
Deferred tax assets	1,136	993
Deferred tax liabilities	(192)	(265)
Total	944	728

Deferred tax assets mainly consisted of 917 million euros for the Domestic Business Unit (939 million euros at December 31, 2017) and 177 million euros for the Brazil Business Unit. Compared to December 31, 2017, they rose basically following the recognition of deferred tax assets of around 200 million euros, connected with tax recoverability of prior losses recorded in previous years that became recoverable based on the perspective of profits, of the Brazil Business Unit companies.

Deferred tax liabilities mainly consisted of 155 million euros for Telecom Italia Capital (174 million euros at December 31, 2017) and 25 million euros for the Domestic Business Unit (54 million euros at December 31, 2017).

Since the presentation of deferred tax assets and liabilities in the financial statements takes into account the offsets by legal entity when applicable, the composition of the gross amounts before offsets is presented below:

(millions of euros)	12/31/2018	12/31/2017
Deferred tax assets	1,592	1,429
Deferred tax liabilities	(648)	(701)
Total	944	728

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The temporary differences which made up this line item at December 31, 2018 and 2017, as well as the movements during 2018 were as follows:

(millions of euros)	12/31/2017	IFRS 9 adoption	IFRS 15 adoption	Recognized in profit or loss	Recognized in equity	Change in scope of consolidation and other changes	12/31/2018
Deferred tax assets:							
Tax loss carryforwards	32			181		(8)	205
Derivatives	589			(7)	(9)		573
Provision for bad debts	142	27		11		6	186
Provisions	452			(12)		(8)	432
Taxed depreciation and amortization	106			8			114
Other deferred tax assets	108			(23)	(5)	2	82
Total	1,429	27		158	(14)	(8)	1,592
Deferred tax liabilities:							
Derivatives	(422)			(1)	2		(421)
Business combinations - for step-up of net assets in excess of tax basis	(131)			4		13	(114)
Deferred gains	(2)				2		
Accelerated depreciation	(14)						(14)
Other deferred tax liabilities	(132)	11	(8)	35		(5)	(99)
Total	(701)	11	(8)	38	4	8	(648)
Total Net deferred tax assets (liabilities)	728	38	(8)	196	(10)		944

The expirations of deferred tax assets and deferred tax liabilities at December 31, 2018 were as follows:

(millions of euros)	Within 1 year	Beyond 1 year	Total at 12/31/2018
Deferred tax assets	383	1,209	1,592
Deferred tax liabilities	(18)	(630)	(648)
Total Net deferred tax assets (liabilities)	365	579	944

At December 31, 2018, the TIM Group had unused tax loss carryforwards of 2,163 million euros, mainly relating to the Brazil Business Unit and the company Telecom Italia Finance, with the following expiration dates:

Year of expiration	(millions of euros)
2019	
2020	
2021	
2022	1
2023	
Expiration after 2023	39
Without expiration	2,123
Total unused tax loss carryforwards	2,163

Unused tax loss carryforwards considered in the calculation of deferred tax assets amounted to 609 million euros at December 31, 2018 (91 million euros at December 31, 2017) and mainly referred to the Brazil Business Unit. Deferred tax assets were recognized as it was considered probable that taxable income will be available in the future against which the tax losses can be utilized.

On the other hand, deferred tax assets of 406 million euros (647 million euros at December 31, 2017) were not recognized on 1,554 million euros of tax loss carryforwards since, at the reporting date, their recoverability was not considered probable.

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At December 31, 2018, deferred tax liabilities were not recognized on approximately 1 billion euros of tax-suspended reserves and undistributed earnings of subsidiaries, because the TIM Group is in a position to control the timing of the distribution of those reserves and it is probable that those accumulated earnings will not be distributed in the foreseeable future. The contingent liabilities relating to taxes that should be recognized, if these reserves are distributed, are in any case not significant.

CURRENT INCOME TAX PAYABLES

Income tax payables amounted to 109 million euros (157 million euros at December 31, 2017). They break down as follows:

(millions of euros)	12/31/2018	12/31/2017
Income tax payables:		
non-current	42	45
current	67	112
Total	109	157

Specifically, the non-current portion, amounting to 42 million euros, related entirely to the Brazil Business Unit, while the current portion, amounting to 67 million euros, related primarily to both the Brazil Business Unit (42 million euros) and to the Domestic Business Unit (18 million euros).

INCOME TAX EXPENSE

Income tax expense totaled 375 million euros, dropping by 115 million euros compared to 2017 (490 million euros), mainly because of the recognition of deferred tax assets of the Brazil Business Unit (about 200 million euros) connected with tax recoverability of prior losses recognized in the previous years, becoming recoverable based on the perspective of profits of the Business Unit companies.

Income tax expense breaks down as follows:

(millions of euros)	2018	2017
Current taxes for the year	547	646
Net difference in prior year estimates	24	(6)

Total current taxes		571	640
Deferred taxes		(196)	(150)
Total taxes on continuing operations	(a)	375	490
Total taxes on Discontinued operations/Non-current assets held for sale	(b)		
Total income tax expense for the year	(a+b)	375	490

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The reconciliation between the theoretical tax expense, using the IRES tax rate in force in Italy (24%), and the effective tax expense for the years ended December 31, 2018 and 2017 is as follows:

(millions of euros)		2018	2017
Profit (loss) before tax from continuing operations		(777)	1,777
Theoretical income tax from continuing operations		(186)	426
Income tax effect on increases (decreases) in variations:			
Tax losses of the year not considered recoverable		9	3
Tax losses from prior years not recoverable (recoverable) in future years		(225)	(2)
Non-deductible write-down of goodwill		621	
IRES taxes for previous years		25	(26)
Brazil: different rate compared to theoretical rate in force in Italy		44	34
Brazil: incentive on investments in the north-east of the country		(34)	(31)
Other net differences		(19)	(55)
Effective income tax recognized in income statement from continuing operations, excluding IRAP tax		235	349
IRAP tax		140	141
Total effective income tax recognized in income statement from continuing operations	(a)	375	490
Effective income tax recognized in income statement from Discontinued operations/Non-current assets held for sale	(b)		
Total effective income tax recognized in income statement	(a)+(b)	375	490

For the analysis of the tax burden related to the Profit (loss) before tax from continuing operations, the impact of IRAP tax has not been taken into consideration in order to avoid any distorting effect, since that tax only applies to Italian companies and is calculated on a tax base other than pre-tax profit.

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NOTE 11

INVENTORIES

Inventories increased by 99 million euros compared to December 31, 2017 and consisted of the following:

(millions of euros)	12/31/2018	12/31/2017
Raw materials and supplies	1	1
Work in progress and semifinished products	1	3
Finished goods	387	286
Total	389	290

The inventories mainly consist of equipment and handsets for fixed and mobile telecommunications and relative accessories, as well as office products, special printers and gaming terminals.

Inventories mainly consisted of 348 million euros for the Domestic Business Unit (259 million euros at December 31, 2017) and 41 million euros for the Brazil Business Unit (31 million euros at December 31, 2017).

Inventories are stated net of a provision for bad debts amounting to 11 million euros (13 million euros at December 31, 2017).

NOTE 12

TRADE AND MISCELLANEOUS RECEIVABLES AND OTHER CURRENT ASSETS

Trade and miscellaneous receivables and other current assets fell by 253 million euros compared to December 31, 2017. The figure breaks down as follows.

(millions of euros)		12/31/2018	of which Financial Instruments	12/31/2017	of which Financial Instruments
Amounts due on construction contracts	(a)	55		34	
Trade receivables					
Receivables from customers		2,290	2,290	2,528	2,528
Receivables from other telecommunications operators		1,037	1,037	972	972
	(b)	3,327	3,327	3,500	3,500

Miscellaneous receivables (current)					
Other receivables	(c)	424	125	645	154
Other current assets					
Contract assets		46	46		
Deferred contract costs		634			
Other cost deferrals		220			
Trade and miscellaneous prepaid expenses				780	
	(d)	900	46	780	
Total	(a+b+c+d)	4,706	3,498	4,959	3,654

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

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The impacts caused by the adoption of IFRS 9 and IFRS 15 are summarized below:

(millions of euros)		12/31/2017	Adoption of new standards IFRS 15 reclassifications	IFRS 9 adjustments	IFRS 15 adjustments	1/1/2018
Amounts due on construction contracts	(a)	34				34
Trade receivables						
Receivables from customers		2,528		(141)		2,387
Receivables from other telecommunications operators		972		(6)		966
	(b)	3,500		(147)		3,353
Miscellaneous receivables (current)						
Other receivables	(c)	645				645
Other current assets						
Contract assets					35	35
Deferred contract costs			594		(53)	541
Other cost deferrals			246			246
Trade and miscellaneous prepaid expenses		780	(780)			
	(d)	780	60		(18)	822
Total	(a+b+c+d)	4,959	60	(147)	(18)	4,854

For more detailed information on the impacts caused by the adoption of IFRS 9 and IFRS 15, please refer to the Note Accounting Standards .

The analyses of the aging of Financial Instruments included in trade, miscellaneous and other current assets at December 31, 2018 and 2017 are provided below:

(millions of euros)	12/31/2018	Total current	Total overdue	overdue: 0-90 days	91-180 days	181-365 days	More than 365 days
Trade, miscellaneous and other current assets	3,498	2,715	783	175	134	158	316

(millions of euros)	12/31/2017	Total current	Total overdue	overdue: 0-90 days	91-180 days	181-365 days	More than 365 days
Trade, miscellaneous and other current assets	3,654	2,781	873	300	178	188	207

Overdue receivables fell by 66 million euros compared to December 31, 2017. The main contributors to this decrease are TIM S.p.A. (73 million euros) and Olivetti S.p.A. (14 million euros), while for the Brazil Business Unit there was an increase of 25 million euros, net of a negative exchange rate effect for approximately 54 million euros.

Overdue receivables fell by 90 million euros compared to December 31, 2017 of which 62 million euros refer to TIM S.p.A.. The Brazil Business Unit also showed a drop, equal to 3 million euros and net of a negative exchange difference of approximately 15 million euros.

The growth of receivables overdue by more than 365 days is mainly attributable to the Parent s greater receivables with other telecommunications operators.

Trade receivables amounted to 3,327 million euros (3,500 million euros at December 31, 2017) and are stated net of the provision for bad debts of 769 million euros (597 million euros at December 31, 2017). They included 39 million euros (43 million euros at December 31, 2017) of medium/long-term receivables, principally in respect of agreements for the sale of Indefeasible Rights of Use (IRU).

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Trade receivables mainly related to TIM S.p.A. (2,268 million euros) and to the Brazil Business Unit (669 million euros).

Movements in the provision for bad debts were as follows:

(millions of euros)	12/31/2018	12/31/2017
At January 1	597	648
Effects of IFRS 9 adoption	147	
Provision charges to the income statement	320	242
Utilization and decreases	(281)	(278)
Exchange differences and other changes	(14)	(15)
At December 31	769	597

The application of the new standard IFRS 9 (Financial Instruments) resulted in the recognition at January 1, 2018 of 147 million euros of higher write-downs for expected credit losses on trade receivables, due to the introduction of the expected credit loss model as per IFRS 9, replacing the incurred loss model required by IAS 39.

Miscellaneous receivables (current) refer to other receivables amounting to 424 million euros (645 million euros at December 31, 2017) and were net of a provision for bad debts of 52 million euros (54 million euros at December 31, 2017). Details are as follows:

(millions of euros)	12/31/2018	12/31/2017
Advances to suppliers	24	69
Receivables from employees	11	12
Tax receivables	87	135
Receivables for grants from the government and public entities	91	207
Sundry receivables	211	222
Total	424	645

Tax receivables included, *inter alia*, 70 million euros relating to the Brazil Business Unit, largely with reference to local indirect taxes, and 3 million euros relating to the Domestic Business Unit, partly represented by tax return credits, other tax credits, and the VAT receivable on the purchase of cars and related accessories for which refunds were requested under Italian Decree Law 258/2006, converted with amendments by Italian Law 278/2006.

Receivables for grants from the government and public entities (91 million euros) referred mainly to the Ultra-Broadband-UBB and Broadband-BB projects. The grants are recognized to the income statement when the related plants become ready for use.

Sundry receivables mainly included:

- receivables for with-recourse assignments to other factoring companies (60 million euros);
- receivables from social security and assistance agencies due to TIM S.p.A. (23 million euros);
- miscellaneous receivables due to TIM S.p.A. from other licensed TLC operators (42 million euros).

Other current assets included:

- Contract assets: the item, totaling 35 million euros, was introduced at January 1, 2018 in light of the adoption of IFRS 15 due to early recognition of revenues for those contracts including performance obligations with different recognition time schedules (such as bundled goods and services) in which the goods (recognized at point in time) are sold at a discounted price or for those contracts that include a discount for a time period under the minimum contractual term. Contract Assets amounted to 46 million euros at December 31, 2018 and are stated net of the relevant provision of 3 million euros for bad debts. The increase of the year, due to early recognition of revenues with resulting recognition of the Contract Asset, is associated with the recognition of bundle offers of goods and services entailing giving the customer a discount for a period less than the minimum contractual term (usually 6 or 12 months in 24-month contracts), and with the contractual amendments introduced following changes in pricing, for new subscribed services and discounts granted to customers.

Deferred contract costs amounted to 634 million euros and mainly refer to the deferral of costs connected with the activation and acquisition of new contracts with customers (which at December 31, 2017 were classified as Trade and miscellaneous prepaid expenses).

Under previous accounting policies, contract costs (incremental costs of obtaining a contract and costs to fulfill a contract) were capitalized or deferred and recognized in the income statement on the basis of the expected duration of the contract and the type of customer. That approach is substantially confirmed under IFRS 15, with the exception of the reclassification of subscriber acquisition costs (SACs) connected to contracts with lock-in clauses from intangible assets, equal, at January 1, 2018, to 110 million euros (of which 60 million euros short-term). Contract costs from the activation of the phone service are deferred throughout the expected life of the relationship with the customer, taking also into account the reasonable expectations of cash flows arising from these services. The average expected duration at December 31, 2018 was 3 years for mobile business and 7 years for fixed business.

For additional details on the deferred contract costs and their movement during the year, please refer to the Note Miscellaneous receivables and other non-current assets .

Other cost deferrals relating:

(2) to the Parent, primarily for deferred costs connected with rent payments (59 million euros), building leases (17 million euros), insurance premiums (5 million euros) and maintenance fees (2 million euros);

(3) to INWIT S.p.A. for 24 million euros in advance lease payments;

(4) to the Brazil Business Unit, mainly relating to marketing and insurance premiums for approximately 17 million euros.

Trade and miscellaneous prepaid expenses, no longer present at December 31, 2018 as included in the previous items; trade and miscellaneous prepaid expenses totaled 780 million euros at December 31, 2017. The item referred mainly to the Parent and referred to cost deferrals for the activation and acquisition of new contracts with customers, building leases, rent and maintenance, and insurance premiums.

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NOTE 13

EQUITY

Equity consisted of:

(millions of euros)	12/31/2018	12/31/2017
Equity attributable to Owners of the Parent	19,528	21,557
Non-controlling interests	2,219	2,226
Total	21,747	23,783

The composition of Equity attributable to owners of the Parent is the following:

(millions of euros)		12/31/2018		12/31/2017
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		5,847		7,876
Reserve for financial assets measured at fair value through other comprehensive income (*)	30		42	
Reserve for hedging instruments	(563)		(582)	
Reserve for exchange differences on translating foreign operations	(1,340)		(955)	
Reserve for remeasurements of employee defined benefit plans (IAS 19)	(90)		(104)	
Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method				
Sundry reserves and retained earnings (accumulated losses), including profit (loss) for the year	7,810		9,475	
Total		19,528		21,557

(*) At December 31, 2017 the item included the Reserve for available-for-sale financial assets .
Share Capital in 2018, amounting to 11,587 million euros, net of treasury shares of 90 million euros, showed no movement, as shown in the tables below:

Reconciliation between the number of shares outstanding at December 31, 2017 and December 31, 2018

(number of shares)		at 12/31/2017	Share issues	at 12/31/2018	% of share capital
Ordinary shares issued	(a)	15,203,122,583		15,203,122,583	71.61%
less: treasury shares	(b)	(163,754,388)		(163,754,388)	
Ordinary shares outstanding	(c)	15,039,368,195		15,039,368,195	
Savings shares issued and outstanding	(d)	6,027,791,699		6,027,791,699	28.39%
Total TIM S.p.A. shares issued	(a+d)	21,230,914,282		21,230,914,282	100.00%
Total TIM S.p.A. shares outstanding	(c+d)	21,067,159,894		21,067,159,894	

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Reconciliation between the value of shares outstanding at December 31, 2017 and December 31, 2018

(millions of euros)		Share capital at 12/31/2017	Change in share capital	Share capital at 12/31/2018
Ordinary shares issued	(a)	8,362		8,362
less: treasury shares	(b)	(90)		(90)
Ordinary shares outstanding	(c)	8,272		8,272
Savings shares issued and outstanding	(d)	3,315		3,315
Total TIM S.p.A. share capital issued	(a+d)	11,677		11,677
Total TIM S.p.A. share capital outstanding	(c+d)	11,587		11,587

The total value of the ordinary treasury shares at December 31, 2018, amounting to 510 million euros, was recorded as follows: the part relating to accounting par value (90 million euros) was recognized as a deduction from share capital issued and the remaining part as a deduction from Other reserves and retained earnings (accumulated losses), including profit (loss) for the year.

SHARE CAPITAL INFORMATION

The TIM S.p.A. ordinary and savings shares are listed respectively in Italy (FTSE index) and on the NYSE in the form of American Depositary Shares, each ADS corresponding to 10 shares of ordinary or savings shares, respectively, represented by American Depositary Receipts (ADRs) issued by JPMorgan Chase Bank.

In the shareholder resolutions passed to increase share capital against cash payments, the pre-emptive right can be excluded to the extent of a maximum of ten percent of the pre-existing share capital, on condition that the issue price corresponds to the market price of the shares and that this is confirmed in a specific report issued by the firm charged with the audit of the Company.

The Group sources itself with the capital necessary to fund its requirements for business development and operations; the sources of funds are found in a balanced mix of equity, permanently invested by the shareholders, and debt capital, to guarantee a balanced financial structure and minimize the total cost of capital, with a resulting advantage to all the stakeholders.

Debt capital is structured according to different maturities and currencies to ensure an adequate diversification of the sources of funding and an efficient access to external sources of financing (taking advantage of the best opportunities offered in the financial markets of the euro, U.S. dollar and Pound sterling areas to minimize costs), taking care to reduce the refinancing risk.

The remuneration of equity is proposed by the board of directors to the shareholders meeting, which meets to approve the annual financial statements, based upon market trends and business performance, once all the other obligations are met, including debt servicing. Therefore, in order to guarantee an adequate remuneration of capital, safeguard company continuity and business development, the Group constantly monitors the change in debt levels in relation to equity, the level of net debt and the operating margin of industrial operations.

Rights of savings shares

The rights of the TIM S.p.A. savings shares are indicated below:

(2) the profit shown in the duly approved separate financial statements, less the amount appropriated to the legal reserve, must be distributed to the holders of savings shares in an amount up to 5% of the 0.55 euros per share;

(3) after assigning preferred dividends to the savings shares, the distribution of which is approved by the shareholders meeting, the remaining profit shall be assigned to all the shares so that the savings shares have the right to dividends that are higher, than the dividends to which the ordinary shares are entitled, by 2% of 0.55 euros per share;

(4) if in any one year dividends of below 5% of the 0.55 euros per share are paid to the savings shares, the difference is carried over and added to the preferred dividends for the next two successive years;

(5) in the case of the distribution of reserves, the savings shares have the same rights as ordinary shares. Moreover, when there is no profit or insufficient profit reported in the separate financial statements for the year to satisfy the rights of the savings shares, the shareholders meeting called to approve those separate financial statements may choose to satisfy the dividend right and/or the additional right by distributing available reserves. The distribution of available reserves for such payments excludes the application of the mechanism extending the right to the preferred dividend not paid through the distribution of profits for the following two years;

(6) the reduction of share capital as a result of losses does not affect the savings shares except for the amount of the loss which is not covered by the portion of the share capital represented by the other shares;

(7) upon the wind-up of TIM S.p.A., the savings shares have a pre-emptive right in the reimbursement of capital up to the amount of 0.55 euros per share;

(8) in the event of the cessation of trading in the Company s ordinary or savings shares, the holder of savings shares may ask TIM S.p.A. to convert its shares into ordinary shares, according to the manner resolved by the special session of the shareholders meeting called for that purpose within two months of being excluded from trading.

Additional paid-in capital, amounting to 2,094 million euros, was unchanged with respect to December 31, 2017.

Other reserves moved through the Statements of comprehensive income comprised:

(9) The Reserve for financial assets measured at fair value through other comprehensive income, which had a positive balance of 30 million euros at December 31, 2018, showed a decrease of 12 million euros compared to December 31, 2017 and also included the Reserve for available-for-sale financial assets. The adoption, from January 1, 2018, of the new IFRS 9 standard, resulted in a growth of 9 million euros, offset by a decrease related to unrealized losses on the securities portfolio of Telecom Italia Finance (7 million euros), to the negative fair value adjustment of other financial assets held by the Parent TIM (10 million euros) and to the unrealized losses on the interests in Assicurazioni Generali and Fin.Priv. of the Parent TIM (4 million euros). This reserve is stated net of deferred tax liabilities of 9 million euros (at December 31, 2017, it was stated net of deferred tax liabilities of 11 million euros).

(10) The Reserve for cash flow hedges had a negative balance of 563 million euros at December 31, 2018, (negative 582 million euros at December 31, 2017). This reserve is stated net of deferred tax assets of 157 million euros (at December 31, 2017, it was stated net of deferred tax assets of 164 million euros). In particular, this reserve includes the effective portion of gains or losses on the fair value adjustments of derivatives designated as cash flow hedges of the exposure to volatility in the cash flows of assets or liabilities recognized in the financial statements (cash flow hedge).

(11) The Reserve for exchange differences on translating foreign operations showed a negative balance of 1,340 million euros at December 31, 2018 (negative 955 million euros at December 31, 2017) and mainly related to exchange differences resulting from the translation into euros of the financial statements of companies belonging to the Brazil Business Unit (negative 1,360 million euros versus negative 969 million euros at December 31, 2017).

(12) The Reserve for re-measurements of employee defined benefit plans, which had a negative balance of 90 million euros, rose by 14 million euros compared to December 31, 2017. This reserve is stated net of deferred tax assets of 21 million euros (at December 31, 2017, it was stated net of deferred tax assets of 26 million euros). In particular, this reserve includes the recognition of changes in actuarial gains (losses).

(13) The Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method, was nil at both December 31, 2018 and at December 31, 2017.

Other sundry reserves and retained earnings (accumulated losses), including profit (loss) for the year, amounted to 7,810 million euros, showing a decrease of 1,665 million euros, as detailed below:

(millions of euros)	2018	2017
Adoption of IFRS 9 and IFRS 15	(92)	
Profit (loss) for the year attributable to Owners of the Parent	(1,411)	1,121
Dividends approved TIM S.p.A.	(166)	(166)
Issue of equity instruments	2	(6)
Other changes	2	9
Change for the year in Sundry reserves and retained earnings (accumulated losses), including profit (loss) for the year	(1,665)	958

The dividends paid by TIM S.p.A., amounting to 166 million euros in 2018 and in 2017, relate to savings shares with a dividend per share of 0.0275 euros.

Non-controlling interests amounted to 2,219 million euros, mainly relating to companies belonging to the Brazil Business Unit (1,518 million euros) and the company Inwit (620 million euros), showing a drop of 7 million euros compared to December 31, 2017, as detailed below:

(millions of euros)	2018	2017
Adoption of IFRS 9 and IFRS 15	(5)	
Profit (loss) for the year attributable to Non-controlling interests	259	166
Group Company dividends paid to non-controlling shareholders	(115)	(64)
Changes in the Reserve for exchange differences on translating foreign operations	(169)	(236)
Other changes	23	14
Change for the year in Equity attributable to Non-controlling interests	(7)	(120)

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The dividends of Group companies to minority shareholders refer mainly to INWIT for 46 million euros (35 million euros in 2017) and the Brazil Business Unit for 66 million euros (25 million euros in 2017).

The Reserve for exchange differences on translating foreign operations attributable to non-controlling interests showed a negative balance of 640 million euros at December 31, 2018 (negative 471 million euros at December 31, 2017), relating entirely to exchange differences arising from the translation into euros of the financial statements of the companies belonging to the Brazil Business Unit.

POTENTIAL FUTURE CHANGES IN SHARE CAPITAL

Details of Future potential changes in share capital are presented in the Note Earnings per share .

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NOTE 14

FINANCIAL LIABILITIES (NON-CURRENT AND CURRENT)

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

(millions of euros)		12/31/2018	12/31/2017
Financial payables (medium/long-term):			
Bonds		16,686	18,119
Convertible bonds		1,893	1,862
Amounts due to banks		3,160	3,798
Other financial payables		155	161
		21,894	23,940
Finance lease liabilities (medium/long-term)		1,740	2,249
Other financial liabilities (medium/long-term):			
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature		1,423	1,914
Non-hedging derivatives		2	5
Other liabilities			
		1,425	1,919
Total non-current financial liabilities	(a)	25,059	28,108
Financial payables (short-term):			
Bonds		2,912	2,215
Convertible bonds		6	6
Amounts due to banks		2,385	2,183
Other financial payables		64	96
		5,367	4,500
Finance lease liabilities (short-term)		208	181

Other financial liabilities (short-term):			
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature		338	71
Non-hedging derivatives			4
Other liabilities			
		338	75
Total current financial liabilities	(b)	5,913	4,756
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale	(c)		
Total Financial liabilities (Gross financial debt)	(a+b+c)	30,972	32,864

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

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Gross financial debt according to the original currency of the transaction is as follows:

	12/31/2018 (millions of foreign currency)	12/31/2018 (millions of euros)	12/31/2017 (millions of foreign currency)	12/31/2017 (millions of euros)
USD	6,450	5,633	7,168	5,977
GBP	1,267	1,416	1,266	1,427
BRL	2,609	588	5,863	1,478
JPY	20,033	159	20,031	148
EURO		23,176		23,834
Total		30,972		32,864

The breakdown of gross financial debt by effective interest-rate bands applicable to the original currency is provided below, excluding the effect of any derivative hedging instruments:

(millions of euros)	12/31/2018	12/31/2017
Up to 2.5%	5,173	5,005
From 2.5% to 5%	10,534	10,571
From 5% to 7.5%	10,130	11,265
From 7.5% to 10%	2,209	2,690
Over 10%	443	589
Accruals/deferrals, MTM and derivatives	2,483	2,744
Total	30,972	32,864

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

(millions of euros)	12/31/2018	12/31/2017
Up to 2.5%	12,667	13,071
From 2.5% to 5%	7,881	6,631

From 5% to 7.5%	6,155	7,366
From 7.5% to 10%	1,343	1,849
Over 10%	443	1,203
Accruals/deferrals, MTM and derivatives	2,483	2,744
Total	30,972	32,864

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

Details of the maturities of financial liabilities at nominal repayment amount:

	maturing by 12/31 of the year:						
(millions of euros)	2019	2020	2021	2022	2023	After 2023	Total
Bonds	2,446	1,267	564	3,087	2,419	11,238	21,021
Loans and other financial liabilities	1,293	384	1,343	819	331	221	4,391
Finance lease liabilities	190	181	172	132	130	1,124	1,929
Total	3,929	1,832	2,079	4,038	2,880	12,583	27,341
Current financial liabilities	1,308						1,308
Total	5,237	1,832	2,079	4,038	2,880	12,583	28,649

The main components of financial liabilities are commented below.

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Bonds are broken down as follows:

(millions of euros)	12/31/2018	12/31/2017
Non-current portion	16,686	18,119
Current portion	2,912	2,215
Total carrying amount	19,598	20,334
Fair value adjustment and measurements at amortized cost	(577)	(559)
Total nominal repayment amount	19,021	19,775

The convertible bonds consist of the unsecured equity-linked bond for 2,000 million euros, with a coupon of 1.125%, issued by TIM S.p.A., convertible into newly-issued ordinary shares, maturing in 2022. This item was broken down as follows:

(millions of euros)	12/31/2018	12/31/2017
Non-current portion	1,893	1,862
Current portion	6	6
Total carrying amount	1,899	1,868
Fair value adjustment and measurements at amortized cost	101	132
Total nominal repayment amount	2,000	2,000

The nominal repayment amount of bonds and convertible bonds totaled 21,021 million euros, down by 754 million euros compared to December 31, 2017 (21,775 million euros) as a result of new issues, repayments and the exchange effect in 2018.

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The following table lists the bonds issued by companies of the TIM Group, by issuing company, expressed at the nominal repayment amount, net of bond repurchases, and also at market value:

Currency	Amount (millions)	Nominal repayment amount (millions of euros)	Coupon	Issue date	Maturity date	Issue price (%)	Market price at 12/31/18 (%)	Market value at 12/31/18 (millions of euros)
Bonds issued by TIM S.p.A.								
Euro	832.4	832.4	5.375%	1/29/04	1/29/19	99.070	100.486	836
GBP	850	950.2	6.375%	6/24/04	6/24/19	98.850	101.761	967
Euro	719.4	719.4	4.000%	12/21/12	1/21/20	99.184	103.331	743
Euro	547.5	547.5	4.875%	9/25/13	9/25/20	98.966	106.290	582
Euro	563.6	563.6	4.500%	1/23/14	1/25/21	99.447	105.849	597
Euro	(b) 202.7	202.7	6 month Euribor (base 365)	1/1/02	1/1/22	100	100	203
Euro	883.9	883.9	5.250%	2/10/10	2/10/22	99.295	108.430	958
Euro	(c) 2,000	2,000	1.125%	3/26/15	3/26/22	100	93.934	1,879
Euro	1,000	1,000	3.250%	1/16/15	1/16/23	99.446	102.010	1,020
GBP	375	419.2	5.875%	5/19/06	5/19/23	99.622	104.518	438
Euro	1,000	1,000	2.500%	1/19/17	7/19/23	99.288	98.417	984
Euro	750	750	3.625%	1/20/16	1/19/24	99.632	103.328	775
USD	1,500	1,310	5.303%	5/30/14	5/30/24	100	95.530	1,251
Euro	1,000	1,000	3.000%	9/30/16	9/30/25	99.806	97.468	975
Euro	750	750	2.875%	6/28/18	1/28/26	100	95.218	714
Euro	1,000	1,000	3.625%	5/25/16	5/25/26	100	99.952	1,000
Euro	1,250	1,250	2.375%	10/12/17	10/12/27	99.185	89.357	1,117
Euro	670	670	5.250%	3/17/05	3/17/55	99.667	97.104	651
Subtotal		15,849						15,690

Bonds issued by Telecom Italia Finance S.A. and guaranteed by TIM S.p.A.								
Euro	1,015	1,015	7.750%	1/24/03	1/24/33	(a) 109.646	125.429	1,273
Subtotal		1,015						1,273
Bonds issued by Telecom Italia Capital S.A. and guaranteed by TIM S.p.A.								
USD	(d) 759.7	663.4	7.175%	6/18/09	6/18/19	100	101.358	672
USD	1,000	873.4	6.375%	10/29/03	11/15/33	99.558	90.113	787
USD	1,000	873.4	6.000%	10/6/04	9/30/34	99.081	87.489	764
USD	1,000	873.4	7.200%	7/18/06	7/18/36	99.440	96.061	839
USD	1,000	873.4	7.721%	6/4/08	6/4/38	100	99.471	869
Subtotal		4,157						3,931
Total		21,021						20,894

(a) Weighted average issue price for bonds issued with more than one tranche.
(b) Reserved for employees.
(c) Bond convertible into newly-issued TIM S.p.A. ordinary treasury shares.
(d) Net of the securities bought back by TIM S.p.A. on July 20, 2015.

The regulations and the Offering Circulars relating to the bonds of the TIM Group are available on the corporate website www.telecomitalia.com.

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The following table lists the changes in bonds during 2018:

New issues

(millions of original currency)	Currency	Amount	Issue date
Telecom Italia S.p.A. 750 million euros 2.875% (1/28/2026)	Euro	750	6/28/2018

Repayments

(millions of original currency)	Currency	Amount	Repayment date
Telecom Italia S.p.A. 593 million euros 4.750% (1)	Euro	593	5/25/2018
Telecom Italia S.p.A. 677 million US dollars 6.999% (2)	USD	677	6/4/2018
Telecom Italia S.p.A. 582 million euros 6.125% (3)	Euro	582	12/14/2018

Net of buy-backs totaling 157 million euros made by the company in 2015.

Net of the securities bought back by TIM S.p.A. (323 million USD) on July 20, 2015.

Net of buy-backs totaling 168 million euros made by the company in 2015.

Medium/long-term amounts due to banks, totaling 3,160 million euros (3,798 million euros at December 31, 2017), fell by 638 million euros, due to the exercise of the early repayment option of the bilateral term loan in place at the end of 2017. Short-term amounts due to banks totaled 2,385 million euros (2,183 million euros at December 31, 2017) and included 1,137 million euros of the current portion of medium/long-term amounts due to banks. In addition, Telecom Italia Finance S.A. has *repurchase agreements* on government and corporate securities for 545 million euros maturing in the first quarter of 2019.

Medium/long-term other financial payables totaled 155 million euros (161 million euros at December 31, 2017) and refer to the Telecom Italia Finance S.A. loan for JPY 20,000 million, maturing in 2029. Short-term other financial payables amounted to 64 million euros (96 million euros at December 31, 2017) and included 2 million euros of the current portion of medium/long-term other financial payables.

Medium/long-term finance lease liabilities totaled 1,740 million euros (2,249 million euros at December 31, 2017) and mainly related to property leases recognized under IAS 17 using the financial method. Short-term finance lease liabilities amounted to 208 million euros (181 million euros at December 31, 2017) and referred to the current portion of medium/long-term finance lease liabilities. Following the start of the real estate rationalization plan by TIM S.p.A. currently underway and the consequent reconsideration of the likelihood of exercising the option of renewing the real-estate lease agreements at expiry, the liability and the value of the assets held under finance lease were written down by around 215 million euros. Moreover, during 2018, 46 million euros of higher debt for finance leases and higher tangible assets were posted, following the recognition of additional vehicle lease agreements in accordance with IAS 17.

Hedging derivatives relating to items classified as non-current liabilities of a financial nature amounted to 1,423 million euros (1,914 million euros at December 31, 2017). Hedging derivatives relating to items classified as current liabilities of a financial nature totaled 338 million euros (71 million euros at December 31, 2017).

Non-hedging derivatives classified under non-current financial liabilities totaled 2 million euros (5 million euros at December 31, 2017), whereas no non-hedging derivatives classified as current financial liabilities were recorded (4 million euros at December 31, 2017). These also include the measurement of derivatives which, although put into place for hedging purposes, do not possess the formal requisites to be considered as such under IFRS.

COVENANTS AND NEGATIVE PLEDGES IN PLACE AT DECEMBER 31, 2018

Bonds issued by the TIM Group do not contain financial *covenants* (e.g. ratios such as Debt/EBITDA, EBITDA/Interest, etc.) or clauses that result in the automatic early redemption of the bonds in relation to events other than the insolvency of the TIM Group(17); furthermore, the repayment of the bonds and the payment of interest are not covered by specific guarantees nor are there commitments provided relative to the assumption of future guarantees, except for the full and unconditional guarantees provided by TIM S.p.A. for the bonds issued by Telecom Italia Finance S.A. and Telecom Italia Capital S.A..

Since the bonds were placed principally with institutional investors in major world capital markets (Euromarket and the U.S.A.), the terms which regulate the bonds are in line with *market practice* for similar transactions effected on these same markets. Consequently, they carry negative pledges, such as, for example, the commitment not to pledge the company s assets as collateral for loans.

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

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With regard to loans taken out by TIM S.p.A. with the European Investment Bank (EIB), at December 31, 2018, the nominal amount of outstanding loans amounted to 1,350 million euros, of which 800 million euros at direct risk and 550 million euros secured.

EIB loans not secured by bank guarantees for a nominal amount equal to 800 million euros are subject to the following covenants:

- in the event the company becomes the target of a merger, demerger or contribution of a business segment outside the Group, or sells, disposes of or transfers assets or business segments (except in certain cases, expressly provided for), it shall immediately inform the EIB which shall have the right to ask for guarantees to be provided or changes to be made to the loan contract, or, only for certain loan contracts, the EIB shall have the option to demand the immediate repayment of the loan (should the merger, demerger or contribution of a business segment outside the Group compromise the Project execution or cause a prejudice to EIB in its capacity as creditor);

- with the 500 million euros loan, signed on December 14, 2015, TIM undertook to ensure that, for the entire duration of the loan, the total financial debt of the Group companies other than TIM S.p.A. except for the cases when that debt is fully and irrevocably secured by TIM S.p.A. is lower than 35% (thirty-five percent) of the Group s total financial debt.

EIB loans secured by banks or entities approved by the EIB for a total nominal amount of 550 million euros, and direct risk loans are subject to the following covenants:

- Inclusion clause , under which, in the event TIM commits to uphold financial covenants in other loan contracts (and even more restrictive clauses for 2014 and 2015 direct risk loans, including, for instance, cross default clauses and commitments restricting the sale of goods) that are not present in or are stricter than those granted to the EIB, the EIB will have the right if, in its reasonable opinion, it considers that such changes may have a negative impact on TIM s financial capacity to request the provision of guarantees or an amendment of the loan contract in order to establish an equivalent provision in favor of the EIB;

- Network Event , under which, in the event of the disposal of the entire fixed network or of a substantial part of it (in any case, more than half in quantitative terms) to third parties not controlled by the Company, or in the event of disposal of the controlling interest in the company in which the network or a substantial part of it has previously been transferred, TIM must immediately inform the EIB, which may then opt to demand collateral or an amendment of the loan contract or choose an alternative solution.

The loan agreements of TIM S.p.A. do not contain financial covenants (e.g. ratios such as Debt/EBITDA, EBITDA/Interests, etc.) which would oblige the Company to repay the outstanding loan if the covenants are not observed.

The loan agreements contain the usual other types of *covenants*, including the commitment not to pledge the Company s *assets* as collateral for loans (*negative pledge*) and the commitment not to change the business purpose or sell the assets of the Company unless specific conditions exist (e.g. the sale takes place at *fair market value*). *Covenants* with basically the same content are also found in *export credit loan agreements*.

In the Loan Agreements and the Bonds, TIM is required to provide notification of change of control. Identification of the occurrence of a change of control and the applicable consequences including, at the discretion of the investors, the establishment of guarantees or the early repayment of the amount paid in cash or as shares and the cancellation of the commitment in the absence of agreements to the contrary are specifically covered in the individual agreements.

In addition, the outstanding loans generally contain a commitment by TIM, whose breach is an Event of Default, not to implement mergers, demergers or transfers of business, involving entities outside the Group. Such an Event of Default may entail, upon request of the Lender, the early redemption of the drawn amounts and/or the annulment of the undrawn commitment.

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

Finally, as at December 31, 2018, no *covenant*, *negative pledge* or other clause relating to the debt position, had in any way been breached or violated.

REVOLVING CREDIT FACILITY

The following table shows committed credit lines available at December 31, 2018.

(billions of euros)		12/31/2018 Approved	12/31/2018 Drawdowns	12/31/2017 Approved	12/31/2017 Drawdowns
Revolving Credit Facility	maturing May 2019			4.0	
Revolving Credit Facility	maturing March 2020			3.0	
Revolving Credit Facility	maturing January 2023	5.0			
Total		5.0		7.0	

On January 16, 2018, two syndicated *Revolving Credit Facilities* existing at December 31, 2017 were closed in advance and replaced by a new syndicated *Revolving Credit Facility* for a total of 5 billion euros, maturing on January 16, 2023, currently not drawn.

At December 31, 2018, TIM had bilateral Term Loans for 1,475 million euros and overdraft facilities for 250 million euros, drawn down for the full amount.

TIM S RATING AT DECEMBER 31, 2018

At December 31, 2018, the three rating agencies Standard & Poor s, Moody s and Fitch Ratings rated TIM as follows:

	Rating	Outlook
STANDARD & POOR S	BB+	Stable
MOODY S	Ba1	Stable
FITCH RATINGS	BBB-	Negative

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NOTE 15

NET FINANCIAL DEBT

The following table shows the net financial debt at December 31, 2018 and December 31, 2017, calculated in accordance with the criteria indicated in the Recommendations for the Consistent Implementation of the European Commission Regulation on Prospectuses , issued on February 10, 2005 by the European Securities & Markets Authority (ESMA), and adopted by Consob.

For the purpose of determining such figure, the amount of financial liabilities has been adjusted by the effect of the relative hedging derivatives recorded in assets and the receivables arising from financial subleasing.

This table also shows the reconciliation of the net financial debt determined according to the criteria indicated by the ESMA and net financial debt calculated according to the criteria of the TIM Group.

(millions of euros)		12/31/2018	12/31/2017
Non-current financial liabilities		25,059	28,108
Current financial liabilities		5,913	4,756
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale			
Total gross financial debt	(a)	30,972	32,864
Non-current financial assets (°)			
Non-current financial receivables for lease contract		(54)	(69)
Non-current hedging derivatives		(1,490)	(1,495)
	(b)	(1,544)	(1,564)
Current financial assets			
Securities other than investments		(1,126)	(993)
Financial receivables and other current financial assets		(340)	(437)
Cash and cash equivalents		(1,917)	(3,575)
Financial assets relating to Discontinued operations/Non-current assets held for sale			
	(c)	(3,383)	(5,005)
	(d=a+b+c)	26,045	26,295

Net financial debt as per Consob communication DEM/6064293/2006 (ESMA)			
Non-current financial assets (°)			
Securities other than investments			
Other financial receivables and other non-current financial assets		(50)	(204)
	(e)	(50)	(204)
Net financial debt (*)	(f=d+e)	25,995	26,091
Reversal of fair value measurement of derivatives and related financial liabilities/assets	(g)	(725)	(783)
Adjusted net financial debt	(f+g)	25,270	25,308

(°) At December 31, 2018 and at December 31, 2017, Non-current financial assets (b+e) amounted to 1,594 million euros and 1,768 million euros, respectively.

(*) For details of the effects of related party transactions on net financial debt, see the specific table in the Note Related party transactions and direction and coordination activity .

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

Additional cash flow information required by IAS 7

(millions of euros)		12/31/2017	Cash movements: Receipts and/or issues	Cash movements: Payments and/or reimbursements	Non-cash movements: Differences exchange rates	Non-cash movements: Fair value changes	Non-cash movements: Other changes and reclassifications	12/31/2018
Financial payables (medium/long-term):								
Bonds		20,334	750	(1,751)	249	15	1	19,598
Convertible bonds		1,868					31	1,899
Amounts due to banks		5,080	1,705	(2,425)	(86)		23	4,297
Other financial payables		175		(4)	9		(23)	157
	(a)	27,457	2,455	(4,180)	172	15	32	25,951
of which short-term		*3,517*						*4,057*
Finance lease liabilities (medium/long-term):		2,430	91	(246)	(42)		(285)	1,948
	(b)	2,430	91	(246)	(42)		(285)	1,948
of which short-term		*181*						*208*
Other financial liabilities (medium/long-term):								
Hedging derivative liabilities relating to hedged items classified as non-current assets/liabilities of a financial nature		1,985			(28)	(190)	(6)	1,761
Non-hedging derivative liabilities		9			(4)		(3)	2
Other liabilities								
	(c)	1,994			(32)	(190)	(9)	1,763

of which short-term		*75*			*262*	*9*	*(8)*	*338*
Financial payables (short-term):								
Amounts due to banks		901					347	1,248
Other financial payables		82					(20)	62
	(d)	983					327	1,310
Total Financial liabilities (Gross financial debt)								
	(e=a+b+c+d)	32,864	2,546	(4,426)	98	(175)	65	30,972
Hedging derivative receivables relating to hedged items classified as current and non-current assets/liabilities of a financial nature	(f)	1,755			89	(115)	3	1,732
Non-hedging derivative receivables	(g)	22			(1)	(2)		19
Total	(h=e-f-g)	31,087	2,546	(4,426)	10	(58)	62	29,221

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Additional Cash Flow information

The value of the paid and collected interest expense reported in the Report on Operations takes into account the movements relating to transactions in CCIRS derivatives to hedge underlying assets in both the assets component (collections) and the liabilities component (payments) without netting the positions.

(millions of euros)	2018	2017
Interest expense paid	(1,978)	(2,899)
Interest income received	871	1,636
Net total	(1,107)	(1,263)

To consider the components of CCIRS derivatives as a single transaction, a representation is given with interest flows in and out shown net. This approach gives the following results:

(millions of euros)	2018	2017
Interest expense paid	(1,485)	(2,304)
Interest income received	378	1,041
Net total	(1,107)	(1,263)

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NOTE 16

FINANCIAL RISK MANAGEMENT

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES OF THE TIM GROUP

The TIM Group is exposed to the following financial risks in the ordinary course of its business operations:

- market risk: stemming from changes in interest rates and exchange rates in connection with financial assets that have been originated and financial liabilities that have been assumed;
- credit risk: representing the risk of non-fulfillment of obligations undertaken by the counterparty with regard to the liquidity investments of the Group;
- liquidity risk: connected with the need to meet short-term financial commitments.

These financial risks are managed by:

- the establishment, at central level, of guidelines for directing operations;
- the work of an internal committee that monitors the level of exposure to market risks in accordance with preestablished general objectives;
- the identification of the most suitable financial instruments, including derivatives, to reach preestablished objectives;
- the monitoring of the results achieved;
- the exclusion of the use of financial instruments for speculative purposes.

The policies for the management and the sensitivity analyses of the above financial risks by the TIM Group are described below.

IDENTIFICATION OF RISKS AND ANALYSIS

The TIM Group is exposed to market risks, as a result of changes in interest rates and exchange rates, in the markets in which it operates or has bond issues, mainly in Europe, the United States, Great Britain and Latin America.

The financial risk management policies of the TIM Group are directed towards diversifying market risks, hedging exchange rate risk in full and minimizing interest rate exposure by an appropriate diversification of the portfolio, which is also achieved by using carefully selected derivative financial instruments.

The Group sets an optimum composition for the fixed-rate and variable-rate debt structure and uses derivative financial instruments to achieve that set composition. In consideration of the Group s operating activities, the optimum combination of medium/long-term non-current financial liabilities has been set, on the basis of the nominal amount, in the range 65%-75% for the fixed-rate component and 25%-35% for the variable-rate component.

In managing market risk, the Group has adopted Guidelines on Management and control of financial risk and mainly uses the following financial derivatives:

- Interest Rate Swaps (IRS), to modify the profile of the original exposure to interest rate risks on loans and bonds, both fixed and variable;

- Cross Currency and Interest Rate Swaps (CCIRS) and Currency Forwards, to convert loans and bonds issued in currencies other than euro principally in US dollars and British pounds to the functional currencies of the operating companies.

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

All derivative financial instruments are entered into with banking and financial counterparties with at least a BBB- rating from Standard & Poor s or an equivalent rating, and an outlook that is not negative. The exposure to the various market risks can be measured by sensitivity analyses, as set forth in IFRS 7. This analysis illustrates the effects produced by a given and assumed change in the levels of the relevant variables in the various reference markets (exchange rates, interest rates and prices) on finance income and expenses and, at times, directly on equity. The sensitivity analysis was performed based on the suppositions and assumptions indicated below:

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sensitivity analyses were performed by applying reasonably likely changes in the relevant risk variables to the amounts in the consolidated financial statements at December 31, 2018;

the changes in value of fixed-rate financial instruments, other than derivatives, produced by changes in the reference interest rates, generate an impact on profit only when, in accordance with IAS 39 and IFRS 9, they are accounted for at their fair value through profit and loss. All fixed-rate instruments, which are accounted for at amortized cost, are not subject to interest rate risk as defined by IFRS 7;

in the case of fair value hedge relationships, fair value changes of the underlying hedged item and of the derivative instrument, due to changes in the reference interest rates, offset each other almost entirely in the income statement for the year. As a result, these financial instruments are not exposed to interest rate risk;

the changes in value of designated financial instruments in a cash flow hedge relationship, produced by changes in interest rates, generate an impact on the debt level and on equity; accordingly, they are included in this analysis;

the changes in value, produced by changes in the reference interest rates, of variable-rate financial instruments, other than derivatives, which are not part of a cash flow hedge relationship, generate an impact on the finance income and expenses for the year; accordingly they are included in this analysis.

Exchange rate risk Sensitivity analysis

At December 31, 2018 (and also at December 31, 2017), the exchange rate risk of the Group s loans denominated in currencies other than the functional currency of the consolidated financial statements was hedged in full. Accordingly, a sensitivity analysis was not performed on exchange risk.

Interest rate risk Sensitivity analysis

The change in interest rates on the variable component of payables and liquidity may lead to higher or lower finance income and expenses, while the changes in the level of the expected interest rate affect the fair value measurement of the Group s derivatives. In particular:

with regard to derivatives that convert the liabilities contracted by the Group to fixed rates (cash flow hedging), in line with international accounting standards that regulate hedge accounting, the fair value (mark-to-market) measurement of such instruments is set aside in a specific unavailable Equity reserve. The combined change of the numerous market variables to which the mark-to-market calculation is subject between the transaction inception date and the measurement date renders any assumption about the trend of the variables of little significance. As the contract expiration date approaches, the accounting effects described will gradually be absorbed until they cease to exist;

if at December 31, 2018 the interest rates in the various markets in which the TIM Group operates had been 100 basis points higher/lower compared to the actual rates, then higher/lower finance expenses, before the income tax effect, would have been recognized in the income statement of 63 million euros (50 million euros at December 31, 2017).

Allocation of the financial structure between fixed rate and variable rate

As for the allocation of the financial structure between the fixed-rate component and the variable-rate component, for both financial assets and liabilities, reference should be made to the following tables. They show the nominal repayment/investment amount (insofar as that amount expresses the effective interest rate exposure of the Group) and, as far as financial assets are concerned, the intrinsic nature (financial characteristics and duration) of the transactions under consideration rather than just the stated contractual terms alone. Bearing that in mind, a transaction whose characteristics (short or very short time frame and frequent renewal) are such that the interest rate is periodically reset on the basis of market parameters, even though the contract does not call for re-fixing the interest rate (such as in the case of bank deposits), has been considered in the category of variable rate.

Total Financial liabilities (at the nominal repayment amount)

	12/31/2018			12/31/2017		
(millions of euros)	Fixed rate	Variable rate	Total	Fixed rate	Variable rate	Total
Bonds	16,484	4,537	21,021	17,237	4,538	21,775
Loans and other financial liabilities	2,820	3,500	6,320	3,689	3,881	7,570

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Total non-current financial liabilities (including the current portion of medium/long-term financial liabilities)	19,304	8,037	27,341	20,926	8,419	29,345
Total current financial liabilities (*)	857	451	1,308	282	700	982
Total	20,161	8,488	28,649	21,208	9,119	30,327

(*) At December 31, 2017, variable-rate current liabilities included 38 million euros of payables to other lenders for installments paid in advance, which are classified in this line item even though they are not correlated to a definite rate parameter.

Total Financial assets (at the nominal investment amount)

	12/31/2018			12/31/2017		
(millions of euros)	Fixed rate	Variable rate	Total	Fixed rate	Variable rate	Total
Cash and cash equivalents		1,695	1,695		2,930	2,930
Securities	950	401	1,351	623	1,100	1,723
Other receivables	879	71	950	927	79	1,006
Total	1,829	2,167	3,996	1,550	4,109	5,659

With regard to variable-rate financial instruments, the contracts provide for revisions of the relative parameters to take place within the subsequent 12 months.

Effective interest rate

As to the effective interest rate, for the categories where that parameter can be determined, such parameter refers to the original transaction net of the effect of any derivative hedging instruments.

The disclosure, since it is provided by class of financial asset and liability, was determined, for purposes of calculating the weighted average, using the carrying amount adjusted by accruals, prepayments, deferrals and changes in fair value: this is therefore the amortized cost, net of accruals and any changes in fair value as a consequence of hedge accounting.

Total Financial liabilities

	12/31/2018		12/31/2017	
(millions of euros)	Adjusted carrying amount	Effective interest rate (%)	Adjusted carrying amount	Effective interest rate (%)
Bonds	20,808	4.83	21,521	4.96
Loans and other financial liabilities	7,681	3.02	8,599	3.59
Total	28,489	4.34	30,120	4.57

Total Financial assets

	12/31/2018		12/31/2017	
(millions of euros)	Adjusted carrying amount	Effective interest rate (%)	Adjusted carrying amount	Effective interest rate (%)
Cash and cash equivalents	1,695	0.12	2,930	0.05
Securities	1,351	3.13	1,723	4.07
Other receivables	182	2.96	326	2.03
Total	3,228	1.54	4,979	1.57

As for financial assets, the weighted average effective interest rate is not essentially influenced by the existence of derivatives.

As for market risk management using derivatives, reference should be made to the Note Derivatives .

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CREDIT RISK

Exposure to credit risk for the TIM Group consists of possible losses that could arise from the failure of either commercial or financial counterparties to fulfill their assumed obligations. To measure this risk over time for impairment of financial assets (trade receivables due from customers included), the introduction of IFRS 9 required switching from the incurred loss model pursuant to IAS 39 to the expected credit loss model.

Such exposure mainly stems from general economic and financial factors, the potential occurrence of specific insolvency situations of some borrowers and other more strictly technical-commercial or administrative factors.

The TIM Group s maximum theoretical exposure to credit risk is represented by the carrying amount of the financial assets and trade receivables recorded in the financial statements.

Risk related to trade receivables is managed using customer scoring and analysis systems. For specific categories of trade receivables, the Group also makes use of factoring, mainly on a non-recourse basis.

Provision charges for bad debts are recorded for specific credit positions that have an element of individual risk. On credit positions that do not have such characteristics, provision charges are recorded by customer segment according to the average uncollectibility estimated on the basis of statistics. Further details are provided in the Note Trade and miscellaneous receivables and other current assets .

Financial assets other than trade receivables are written down for impairment on the basis of a general model which estimates expected credit losses over the following 12 months, or over the residual life of the asset in the event of a substantial increase in its credit risk. The expected credit loss is calculated based on the default probability and the percentage of credit that cannot be recovered in the event of a default (the loss given default).

Moreover, as regards credit risk relating to the asset components which contribute to the determination of Net financial debt , it should be noted that the management of the Group s liquidity is guided by conservative criteria and is principally based on the following:

- money market management: the investment of temporary excess cash resources;
- bond portfolio management: the investment of a permanent level of liquidity and the investment of that part of medium term liquidity, as well as the improvement in the average yield.

In order to limit the risk of the non-fulfillment of the obligations undertaken by the counterparty, deposits of the European companies are made with leading banking and financial institutions rated no lower than investment grade . Investments by the companies in South America are made with leading local counterparties. Moreover, deposits are made generally for periods of less than three months. With regard to other temporary investments of liquidity, there is a bond portfolio in which the investments have a low level of risk. All investments have been carried out in compliance with the Group Guidelines on Management and control of financial risk .

In order to minimize credit risk, the Group also pursues a diversification policy for its investments of liquidity and allocation of its credit positions among different banking counterparties. Consequently, there are no significant positions with any one single counterparty.

LIQUIDITY RISK

The Group pursues the objective of achieving an adequate level of financial flexibility which is expressed by maintaining a current treasury margin to cover the refinancing requirements at least for the next 12 months with irrevocable bank lines and liquidity.

18% of gross financial debt at December 31, 2018 (nominal repayment amount) will become due in the next 12 months.

Current financial assets at December 31, 2018, together with unused committed bank lines, are sufficient to fully cover the Group s financial liabilities due at least for the next 24 months.

The following tables report the contractual cash flows, not discounted to present value, relative to gross financial debt at nominal repayment amounts and the interest flows, determined using the terms and the interest and exchange rates in place at December 31, 2018. The portions of principal and interest of the hedged liabilities includes both the disbursements and the receipts of the relative hedging derivatives. Specifically, the interest portions of Loans and other financial liabilities also include that relating to derivatives hedging for both loans and bonds.

Financial liabilities Maturities of contractually expected disbursements

		maturing by 12/31 of the year:						
(millions of euros)		2019	2020	2021	2022	2023	After 2023	Total
Convertible bonds	Principal	2,446	1,267	564	3,087	2,419	11,238	21,021
	Interest portion	927	799	743	706	649	5,255	9,079
Loans and other financial liabilities (*)	Principal	1,293	384	1,343	819	331	221	4,391
	Interest portion	(52)	(55)	(71)	(85)	(96)	(808)	(1,167)
Finance lease liabilities	Principal	190	181	172	132	130	1,124	1,929
	Interest portion	135	126	116	108	100	561	1,146

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Non-current financial liabilities	Principal	3,929	1,832	2,079	4,038	2,880	12,583	27,341
	Interest portion	1,010	870	788	729	653	5,008	9,058
Current financial liabilities	Principal	1,308						1,308
	Interest portion	3						3
Total Financial liabilities	Principal	5,237	1,832	2,079	4,038	2,880	12,583	28,649
	Interest portion	1,013	870	788	729	653	5,008	9,061

(*) These include hedging and non-hedging derivatives.

Derivatives on financial liabilities Contractually expected interest flows

		maturing by 12/31 of the year:					
(millions of euros)	2019	2020	2021	2022	2023	After 2023	Total
Disbursements	350	298	297	297	289	2,343	3,874
Receipts	(499)	(424)	(424)	(424)	(414)	(3,313)	(5,498)
Hedging derivatives net (receipts) disbursements	(149)	(126)	(127)	(127)	(125)	(970)	(1,624)
Disbursements	39	27	18	16	9	23	132
Receipts	(12)	(7)	(4)	(4)	(2)	(6)	(35)
Non-Hedging derivatives net (receipts) disbursements	27	20	14	12	7	17	97
Total net disbursements (receipts)	(122)	(106)	(113)	(115)	(118)	(953)	(1,527)

MARKET VALUE OF DERIVATIVES

In order to determine the fair value of derivatives, the TIM Group uses various valuation models.

The mark-to-market calculation is determined by the present value discounting of the interest and notional future contractual flows using market interest rates and exchange rates.

The notional amount of IRS does not represent the amount exchanged between the parties and therefore does not constitute a measurement of credit risk exposure which, instead, is limited to the amount of the difference between the interest rates paid/received.

The market value of CCIRSs, on the other hand, also depends on the differential between the reference exchange rate at the date of signing the contract and the exchange rate at the date of measurement, since CCIRSs involve the exchange of the reference interest and principal, in the respective currencies of denomination.

The options are measured according to the Black & Scholes or Binomial models and involve the use of various measurements factors, such as: time horizon of the life of the option, risk-free rate of return, current price, volatility and any cash flows (e.g. dividend) of the underlying instrument, and exercise price.

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NOTE 17

DERIVATIVES

The hedge accounting rules provided by IAS 39 continued to be applied in the first half for derivatives.

Derivative financial instruments are used by the TIM Group to hedge its exposure to foreign exchange rate risk, to manage interest rate risk and to diversify the parameters of debt so that costs and volatility can be reduced to within predetermined operational limits.

Derivative financial instruments in place at December 31, 2018 are principally used to manage debt positions. They include interest rate swaps (IRSs) to reduce interest rate exposure on fixed-rate and variable-rate bank loans and bonds, as well as cross currency and interest rate swaps (CCIRSs), currency forwards and foreign exchange options to convert the loans/receivables secured in currencies different from the functional currencies of the various Group companies.

IRS transactions, provide for or may entail, at specified maturity dates, the exchange of flows of interest, calculated on the notional amount, at the agreed fixed or variable rates.

The same also applies to CCIRS transactions which, in addition to the settlement of periodic interest flows, may provide for the exchange of principal, in the respective currencies of denomination, at maturity and possibly spot.

HEDGING: ECONOMIC RELATIONSHIP BETWEEN THE UNDERLYING AND DERIVATIVES

Hedging relationships recorded in hedge accounting at 12/31/2018 belong to two categories: i) hedging of the fair value of bond issues denominated in euros and ii) hedging of cash flows from coupon flows of bond issues denominated in currencies other than the euro.

In the first case, the hedged risk is represented by the fair value of the bond attributable to euro interest rates and is hedged by IRS. The present value of both instruments, the underlying and derivatives, depends on the structure of interest rates on the euro market, used to calculate the discount factor and variable interest flows of the derivative. In particular, oscillating rates will translate as changes in the discount factor of the fixed interest expense on the underlying; on the derivative, changes in the discount factor of interest income will occur, as well as changes in the nominal flow of variable interest (only partially corrected by the discounting effect). The effects on the derivative will be opposite, in accounting terms, to the effects on the underlying.

In the second case, the hedged risk is represented by the variability in cash flows (and the repayment of the nominal amount) generated by exchange rates; hedging comprises combinations of IRS and CCIRS that synthetically transform fixed rate coupon flows into currency into fixed rate flows in euro. In this case, exchange rate oscillations will usually produce contrary effects on the underlying and on the derivative as the asset leg of the latter faithfully reflects the underlying, while the liability leg is denominated in euros and is therefore insensitive to the exchange rate.

HEDGING: DETERMINATION OF THE HEDGE RATIO

The types of hedging adopted by the Group require a hedge ratio equal to 1:1, as the types of risk hedged (interest rate and exchange risks) are such as to generate economic effects on the underlying instruments that can only be offset by the same notional quantities of derivative instruments.

HEDGING: POTENTIAL SOURCES OF INEFFECTIVENESS

The contractualization of derivatives to hedge financial risks takes place at arm s length and aims to fully neutralize the effects of such risks.

However, in practice, both fair value hedges and cash flows hedges, although financially perfect, cannot guarantee absolute effectiveness due to the many banks involved, the particular nature of some derivatives attributable to fixing and/or the indexing of variable parameters, and the possible imperfect correspondence of critical terms.

The following table indicates total financial derivatives of the TIM Group at December 31, 2018 and in 2017; in compliance with the requirements of IFRS 7, a move has been made from the representation of the synthetic notional value of the hedge to the current representation, where the notional amounts are shown in relation to all derivative instruments involved in hedging.

The following tables break down the financial derivatives by type of risk for each kind of hedging, separating financial assets and liabilities. For CCIRS, the notional amount refers to the contractual value in euros, for IRS in a currency other than the euro, the value is indicated at the market exchange rate.

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Type (millions of euros)	Hedged risk	Notional amount at 12/31/2018	Notional amount at 12/31/2017	Spot (*) Mark-to-Market (Clean Price) at 12/31/2018	Spot Mark-to-Market* (Clean Price) at 12/31/2017
Interest rate swaps	Interest rate risk	4,334	4,334	52	2
Cross Currency and Interest Rate Swaps	Interest rate risk and currency exchange rate risk				
Total Fair Value Hedge Derivatives		4,334	4,334	52	2
Interest rate swaps	Interest rate risk	4,992	5,178	182	346
Cross Currency and Interest Rate Swaps	Interest rate risk and currency exchange rate risk	6,804	7,239	(365)	(672)
Total Cash Flow Hedge Derivatives		11,796	12,417	(183)	(325)
Total Non-Hedge Accounting Derivatives		223	213	17	15
Total TIM Group derivatives		16,353	16,964	(114)	(308)

* *Spot Mark-to-market above represents the market measurement of the derivative net of the accrued portion of the flow in progress.*

Fair value hedges (millions of euros)	Accounting item		Notional value	Carrying amount	Change in fair value for the year
Interest rate swaps	Hedging derivatives relating to hedged items classified as current (non-current) assets/liabilities of a financial nature - Current / non-current assets.	a)	4,334	52	50
Assets				52	
Liabilities					
		b)			

Cross Currency and Interest Rate Swaps	Hedging derivatives relating to hedged items classified as current (non-current) assets/liabilities of a financial nature - Current / non-current assets.				
Assets					
Liabilities					
Derivative instruments (*spot value*)		a)+b)	4,334	52	50
Accruals				21	
Derivative instruments (*gross value*)				73	
Underlying instruments [(1)]	Bonds - Current / non-current liabilities		4,334	(4,368)	
of which the fair value adjustment	Fair value adjustment and measurements at amortized cost	c)		(58)	(53)
Ineffectiveness		a)+b)+c)			(3)
Fair value adjustment for hedging settled in advance [(2)]				(157)	

[(1)] Includes the amortized cost value of bonds currently hedged plus the fair value adjustment

[(2)] Referred to bonds no longer hedged, which are therefore not presented in the table.

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Cash flow hedges (millions of euros)	Accounting item		Notional value	Carrying amount	Change in fair value for the year	Change in cumulative fair value
Interest rate swaps	Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature - Current / non-current assets.	a)	4,992	182	(165)	
Assets				923	(180)	
Liabilities				(741)	15	
Cross Currency and Interest Rate Swaps	Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature - Current / non-current assets.	b)	6,804	(365)	307	
Assets				590	122	
Liabilities				(955)	185	
Derivative instruments (*spot value*)		a)+b)	11,796	(183)	142	
Accruals				81		
Derivative instruments (*gross value*)				(102)		
of which equity reserve gains and losses					20	
Determination of ineffectiveness						
Change in derivatives		c)				28
Change in underlying instruments (3)		d)				(18)
Ineffectiveness (4)	Positive fair value adjustment of financial derivatives - non-hedging	c)+d)				10

Equity reserve			
Equity reserve balance		(720)	
of which due to the fair value of hedging settled in advance		(6)	
Reclassification to P&L	Negative reversal of the reserve for the fair value adjustment of hedging derivatives (cash flow hedges)		(2)

(3) Hypothetical derivatives used in measuring the effectiveness of cash flow hedges.

(4) The ineffectiveness, due to its nature and calculation, does not necessarily coincide with the difference in cumulative changes in the fair value of derivatives and the underlying; the effect due to the adoption of CVA/DVA is not considered

The change in the equity reserve attributable to the effective hedging component is equal to 26 million euros and comprises:

Changes in the equity cash flow hedge reserve (millions of euros)	Balance 12/31/2017	Hedging instrument gains / losses	Change Reversal from reclassification	Reversal for the fair value adjustment of hedging settled in advance	Other	Balance 12/31/2018
	(746)					(720)
Change in the effective fair value of derivatives		20				
Change in the CVA/DVA		8				
Reversal for ineffectiveness 2017			(5)			
Amortization in P&L of the fair value of hedging settled in advance				2		
Other					1	

Overall change	26

None of the parameters represented includes any income tax effect.

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The transactions hedged by cash flow hedges will generate cash flows and produce economic effects in the income statement in the periods indicated in the following table:

Currency of denomination	Notional amount in currency of denomination (millions)	Start of period	End of period	Rate applied	Interest period	Notional in euro hedging (millions)	Rate in euro hedging
GBP	850	Jan-19	Jun-19	6.375%	Annually	1,214	5.311%
GBP	375	Jan-19	May-23	5.875%	Annually	552	5.535%
JPY*	20,000	Jan-19	Oct-29	5.000%	Semiannually	174	5.940%
JPY**	20,000	Jan-19	Oct-29	0.750%	Semiannually	138	0.696%
USD	1,000	Jan-19	Nov-33	6.375%	Semiannually	849	5.994%
USD	1,500	Jan-19	May-24	5.303%	Semiannually	1,099	4.226%
USD	760	Jan-19	Jun-19	7.175%	Semiannually	549	6.689%
USD	1,000	Jan-19	Sept-34	6.000%	Semiannually	794	4.332%
USD	1,000	Jan-19	July-36	7.200%	Semiannually	791	5.884%
USD	1,000	Jan-19	Jun-38	7.721%	Semiannually	645	7.470%

* *Coupon-bearing bond flows are denominated in USD and calculated on a notional of 187.6 million USD.*

** *Only hedging of coupon-bearing bond flow as a result of step-up on the loan.*

The method selected to test the effectiveness retrospectively and, whenever the principal terms do not fully coincide, prospectively, for cash flow hedge derivatives and fair value hedge derivatives is the Volatility Risk Reduction (VRR) Test. This test assesses the ratio between the portfolio risk (where the portfolio means the derivative and the item hedged) and the risk of the hedged item taken separately. In essence, the portfolio risk must be significantly less than the risk of the hedged item.

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NOTE 18

SUPPLEMENTARY DISCLOSURES ON FINANCIAL INSTRUMENTS

MEASUREMENT AT FAIR VALUE

For the purposes of the comparative information between the carrying amounts and the fair value of financial instruments, required by IFRS 7, the majority of the non-current financial liabilities of the TIM Group consist of bonds, whose fair value is directly observable in the financial markets, as they are financial instruments that, due to their size and diffusion among investors, are commonly traded on the relevant markets (see the Note Financial Liabilities (non-current and current)). For other types of financing, however, the following assumptions have been made in determining fair value:

- for variable-rate loans: the nominal repayment amount has been assumed;
- for fixed-rate loans: fair value has been assumed to be the present value of future cash flows using market interest rates at December 31, 2018;
- for some types of loans granted by government institutions for social development purposes, for which fair value cannot be reliably calculated, the carrying amount has been used.

Lastly, for the majority of financial assets, their carrying amount constitutes a reasonable approximation of their *fair value* since these are short-term investments that are readily convertible into cash.

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

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

Supplementary disclosure on financial instruments required by IFRS 7 and the schedules of gains and losses are provided in the tables below. In particular:

the assets and liabilities at December 31, 2018 are presented based on the categories established by IFRS 9 (adopted commencing on January 1, 2018);

classification of the financial assets and liabilities is presented at the date of first application of IFRS 9 (January 1, 2018);

the assets and liabilities at December 31, 2017 are presented based on the categories established in IAS 39.

Key for IFRS 9 categories

		Acronym
Financial assets measured at:		
Amortized cost	Amortized cost	AC
Fair value through other comprehensive income	Fair value through other comprehensive income	FVTOCI
Fair value through profit or loss	Fair value through profit or loss	FVTPL
Financial liabilities measured at:		
Amortized cost	Amortized cost	AC
Fair value through profit or loss	Fair value through profit or loss	FVTPL
Hedging Derivatives	Hedging Derivatives	HD
Not applicable	Not applicable	n.a.

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Key for IAS 39 categories

		Acronym
Loans and Receivables	Loans and Receivables	LaR
Financial assets Held-to-Maturity	Financial assets Held-to-Maturity	HtM
Available-for-Sale financial assets	Financial assets Available-for-Sale	AfS
Financial Assets/Liabilities Held for Trading	Financial Assets/Liabilities Held for Trading	FAHfT/FLHfT
Financial Liabilities at Amortized Cost	Financial Liabilities at Amortized Cost	FLAC
Hedging Derivatives	Hedging Derivatives	HD
Not applicable	Not applicable	n.a.

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Carrying amount and fair value hierarchy for each category/class of financial asset/liability and comparison with their fair value at 12/31/2018

				Amounts recognized in financial statements			Levels of hierarchy or of fair value				
(millions of euros)	IFRS 9 categories	note	Carrying amount in financial statements at 12/31/2018	Amortized cost	Fair value recognized in the statements of comprehensive income	Fair value recognized in the separate income statement	Level 1	Level 2	Level 3	Amounts recognized in financial statements according to IAS 17	Fair Value at 12/31/2018
ASSETS											
Financial assets measured at amortized cost	AC		5,800	5,800							5,800
Non-current assets											
Receivables from employees		8)	*43*	43							
Other financial receivables		8)									
Miscellaneous receivables (non-current)		9)	*326*	326							
Current assets											
Receivables from employees		8)	*14*	14							
Other short-term financial receivables		8)	*2*	2							
Cash and cash equivalents		8)	*1,917*	1,917							
Trade receivables		12)	*3,327*	3,327							
Other receivables (current)		12)	*125*	125							

Contract assets		12)	*46*	46								
Financial assets measured at fair value through other comprehensive income	FVTOCI		994		994							994
Non-current assets												
Other investments		7)	*49*		49		3	16	30			
Securities other than investments		8)										
Current assets												
Trade receivables		12)										
Securities other than investments		8)	*945*		945		945					
Financial assets measured at fair value through profit or loss	FVTPL		200			200						200
Non-current assets												
· Non-hedging derivatives		8)	*7*			7		7				
Current assets												
Securities other than investments		8)	181			181	181					
Non-hedging derivatives		8)	*12*			12		12				
Hedging Derivatives	HD		1,732		1,659	73						1,732
Non-current assets												
Hedging derivatives		8)	*1,490*		1,438	52		1,490				
Current assets												
Hedging derivatives		8)	*242*		221	21		242				
Financial receivables for lease contracts	n.a.		124								124	124
Non-current assets		8)	*54*								54	
Current assets		8)	*70*								70	
Total			8,850	5,800	2,653	273	1,129	1,767	30	124	8,850	

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The financial instruments belonging to hierarchy level 3 of fair value are represented by the following Other investments recognized as Non-current assets, for which directly or indirectly observable prices on the market are not available:

(3) Northgate CommsTech Innovations Partners L.P.

(4) Banca UBAE

(5) Istituto Europeo di Oncologia

(6) Other minor companies.

Northgate CommsTech Innovations Partners L.P. was measured based on the latest available Net Asset Value reported by the fund manager.

Banca UBAE, Istituto Europeo di Oncologia and the other minor companies were measured on the basis of an analysis, deemed reliable, of the financial elements recognized.

The profit/(loss) recognized in Other components of the Consolidated Statements of Comprehensive Income were recognized within the scope of the Reserve for financial assets measured at fair value through other comprehensive income.

			Amounts recognized in financial statements			Levels of hierarchy or of fair value			
(millions of euros)	IFRS 9 categories	Carrying amount in financial statements at 12/31/2018	Amortized cost	Fair value recognized in the statements of comprehensive income	Fair value recognized in the separate income statement	Level 1	Level 2	Amounts recognized in financial statements according to IAS 17	Fair Value at 12/31/2018
LIABILITIES									
Financial liabilities measured at amortized cost	AC/HD	*32,064*	32,064						32,123
Non-current liabilities									
	14)	*21,894*	21,894						

Financial payables (medium/long- term)										
Current liabilities										
Financial payables (short-term)		14)	*5,367*	5,367						
Trade and miscellaneous payables and other current liabilities		22)	*4,610*	4,610						
Contract liabilities		22)	*193*	193						
Financial liabilities measured at fair value through profit or loss	FVTPL		2			2				2
Non-current liabilities										
Non-hedging derivatives		14)	*2*			2	2			
Current liabilities										
Non-hedging derivatives		14)								
Hedging Derivatives	HD		1,761		1,761					1,761
Non-current liabilities										
Hedging derivatives		14)	*1,423*		1,423		1,423			
Current liabilities										
Hedging derivatives		14)	*338*		338		338			
Finance lease liabilities	n.a.		1,948						1,948	3,359
Non-current liabilities		14)	1,740						1,740	
Current liabilities		14)	208						208	
Total			35,775	32,064	1,761	2	1,763		1,948	37,245

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Classification of financial assets and liabilities at the date of first application of IFRS 9 (1/1/2018) (*)

The following tables state the financial assets and liabilities at January 1, 2018 broken down by:

- new category determined in compliance with IFRS 9;
- original category determined in compliance with IAS 39.

(millions of euros)	IFRS 9 categories	note	Carrying amount in financial statements at 1/1/2018 according to the new IFRS 9 category (*)	Original IAS 39 categories	Carrying amount in financial statements at 12/31/2017 according to the original IAS 39 category
ASSETS					
Financial assets measured at amortized cost	AC		7,802	LaR	7,914
Non-current assets					
Receivables from employees		8)	47		47
Other financial receivables		8)	150		150
Miscellaneous receivables (non-current)		9)	371		371
Current assets					
Receivables from employees		8)	16		16
Other short-term financial receivables		8)	101		101
Cash and cash equivalents		8)	3,575		3,575
Trade receivables		12)	3,353		3,500
Other receivables (current)		12)	154		154
Contract assets		12)	35		
Financial assets measured at fair value through other comprehensive income	FVTOCI		1,044	AfS	1,044

Non-current assets					
Other investments		7)	51		51
Securities other than investments		8)			
Current assets					
Trade receivables		12)			
Securities other than investments		8)	993		993
Financial assets measured at fair value through profit or loss	FVTPL		22	FAHfT	22
Non-current assets					
Non-hedging derivatives		8)	7		7
Current assets					
Securities other than investments		8)			
Non-hedging derivatives		8)	15		15
Hedging Derivatives	HD		1,755	HD	1,755
Non-current assets					
Hedging derivatives		8)	1,495		1,495
Current assets					
Hedging derivatives		8)	260		260
Financial receivables for lease contracts	n.a.		114	n.a.	114
Non-current assets		8)	69		69
Current assets		8)	45		45
Total			10,737		10,849

(*) For additional details, please refer to what is explained in the Note Accounting standards and in the respective notes.

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(millions of euros)	IFRS 9 categories	note	Carrying amount in financial statements at 1/1/2018 according to the new IFRS 9 category (*)	Original IAS 39 categories	Carrying amount in financial statements at 12/31/2017 according to the original IAS 39 category
LIABILITIES					
Financial liabilities measured at amortized cost	AC/HD		33,389	FLAC/HD	33,355
Non-current liabilities					
Financial payables (medium/long- term)		14)	23,940		23,940
Current liabilities					
Financial payables (short-term)		14)	4,500		4,500
Trade and miscellaneous payables and other current liabilities		22)	4,915		4,915
Contract liabilities		22)	34		
Financial liabilities measured at fair value through profit or loss	FVTPL		9	FLHfT	9
Non-current liabilities					
Non-hedging derivatives		14)	5		5
Current liabilities					
Non-hedging derivatives		14)	4		4
Hedging Derivatives	HD		1,985	HD	1,985
Non-current liabilities					
Hedging derivatives		14)	1,914		1,914
Current liabilities					
Hedging derivatives		14)	71		71
Finance lease liabilities	n.a.		2,430	n.a.	2,430
Non-current liabilities			*2,249*		2,249
Current liabilities			*181*		181
Total			37,813		37,779

(*) For additional details, please refer to what is explained in the Note Accounting standards and in the respective notes.

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Carrying amount and fair value hierarchy for each category/class of financial asset/liability and comparison with their fair value at 12/31/2017

				Amounts recognized in financial statements according to IAS 39				Levels of hierarchy or of fair value			
(millions of euros)	IAS 39 Categories	Note	Carrying amount in financial statements at 12/31/2017	Amortized cost	Cost	Fair value taken to equity	Fair value recognized in the income statement	Level 1	Level 2	Amounts recognized in financial statements according to IAS 17	Fair Value at 12/31/2017
ASSETS											
Loans and Receivables	LaR		7,914	7,913	1						7,914
Non-current assets											
Receivables from employees		8)	*47*	47							
Other financial receivables		8)	*150*	150							
Miscellaneous receivables (non-current)		9)	*371*	370	1						
Current assets											
Receivables from employees		8)	*16*	16							
Other short-term financial receivables		8)	*101*	101							
Cash and cash equivalents		8)	*3,575*	3,575							
Trade receivables		12)	*3,500*	3,500							
Other receivables (current)		12)	*154*	154							

Available-for-Sale financial assets	AfS		1,044		28	1,016					1,044
Non-current assets											
Other investments		7)	*51*		28	23		3	20		
Securities other than investments		8)									
Current assets											
Securities other than investments available-for-sale		8)	*993*			993		993			
Financial assets at fair value through profit or loss held for trading	FAHfT		22				22				22
Non-current assets											
Non-hedging derivatives		8)	*7*				7		7		
Current assets											
Non-hedging derivatives		8)	*15*				15		15		
Securities other than investments held for trading		8)									
Hedging Derivatives	HD		1,755			1,713	42				1,755
Non-current assets											
Hedging derivatives		8)	*1,495*			1,474	21		1,495		
Current assets											
Hedging derivatives		8)	*260*			239	21		260		
Financial receivables for lease contracts	n.a.		114							114	114
Non-current assets		8)	*69*							69	
Current assets		8)	*45*							45	
Total			10,849	7,913	29	2,729	64	996	1,797	114	10,849

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(millions of euros)	IAS 39 Categories	Note	Carrying amount in financial statements at 12/31/2017	Amounts recognized in financial statements according to IAS 39: Amortized cost	Amounts recognized in financial statements according to IAS 39: Cost	Amounts recognized in financial statements according to IAS 39: Fair value taken to equity	Amounts recognized in financial statements according to IAS 39: Fair value recognized in the income statement	Levels of hierarchy or of fair value: Level 1	Levels of hierarchy or of fair value: Level 2	Amounts recognized in financial statements according to IAS 17	Fair Value at 12/31/2017
LIABILITIES											
Financial Liabilities at Amortized Cost	FLAC/HD		33,355	33,355							36,023
Non-current liabilities											
Financial payables (medium/long- term)		14)	*23,940*	23,940							
Current liabilities											
Financial payables (short-term)		14)	4,500	4,500							
Trade and miscellaneous payables and other current liabilities		22)	4,915	4,915							
Financial liabilities at fair value through profit or loss held for trading	FLHfT		9				9				9
Non-current liabilities											
Non-hedging derivatives		14)	5				5		5		
Current liabilities											
Non-hedging derivatives		14)	4				4		4		
Hedging Derivatives	HD		1,985			1,966	19				1,985
Non-current liabilities											
Hedging derivatives		14)	1,914			1,895	19		1,914		
Current liabilities											
Hedging derivatives		14)	71			71			71		
Finance lease liabilities	n.a.		2,430							2,430	3,604

Non-current liabilities	14)	2,249					2,249	
Current liabilities	14)	181					181	
Total		37,779	33,355	1,966	28	1,994	2,430	41,621

Gains and losses by IFRS 9 category - Year 2018

(millions of euros)	IFRS 9 categories	Net gains/(losses) 2018 (1)	of which interest
Assets measured at amortized cost	AC	(540)	40
Assets and liabilities measured at fair value through profit or loss	FVTPL	25	
Assets measured at fair value recognized in the statements of comprehensive income	FVTOCI	7	
Liabilities measured at amortized cost	AC	(1,160)	1,178
Total		(1,668)	1,218

Of which 2 million euros for fees and expenses not included in the effective interest rate calculation on financial assets/liabilities other than those at fair value through profit or loss.

Gains and losses by IAS 39 category - Year 2017

(millions of euros)	IAS 39 Categories	Net gains/(losses) 2017 (1)	of which interest
Loans and Receivables	LaR	(356)	118
Available-for-Sale financial assets	AfS	8	
Financial Assets/Liabilities Held for Trading	FAHfT/FLHfT	(19)	
Financial Liabilities at Amortized Cost	FLAC	(1,338)	1,376
Total		(1,705)	1,494

(1) Of which 2 million euros relates to fees and expenses not included in the effective interest rate calculation on financial assets/liabilities other than those at fair value through profit or loss.

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NOTE 19

EMPLOYEE BENEFITS

Employee benefits fell by 214 million euros compared to December 31, 2017. The figure breaks down as follows:

(millions of euros)		12/31/2016	Increases/ Present value	Decrease	Exchange differences and other changes	12/31/2017
Provision for employee severance indemnities	(a)	1,009		(51)		958
Provision for pension and other plans		28	(2)	(1)	(3)	22
Provision for termination benefit incentives and corporate restructuring		348	689	(177)	(7)	853
Total other provisions for employee benefits	(b)	376	687	(178)	(10)	875
Total	(a+b)	1,385	687	(229)	(10)	1,833
of which:						
non-current portion		1,355				1,736
current portion (*)		30				97

(*) The current portion refers only to Other provisions for employee benefits.

(millions of euros)		12/31/2017	Increases/ Present value	Decrease	Exchange differences and other changes	12/31/2018
Provision for employee severance indemnities	(a)	958	(8)	(63)		887
Provision for pension and other plans		22	3	(3)		22
Provision for termination benefit incentives and corporate restructuring		853	205	(348)		710
Total other provisions for employee benefits	(b)	875	208	(351)		732

Total	(a+b)	1,833	200	(414)	1,619
of which:					
non-current portion		1,736			1,567
current portion (*)		97			52

(*) The current portion refers only to Other provisions for employee benefits.

The Provision for employee severance indemnities only refers to Italian companies and decreased overall by 71 million euros. The reduction of 63 million euros under Decreases refers to ordinary advances and uses paid during the year to employees who terminated employment. The lower cost of the item increases/discounting mainly includes the following:

(millions of euros)	2018	2017
(Positive)/negative effect of curtailment		(6)
Current service cost (*)		
Finance expenses	13	14
Net actuarial (gains) losses for the year	(23)	(8)
Total	(10)	
Effective return on plan assets	there are no assets servicing the plan	

(*) The portions intended for the INPS Treasury Fund or for the supplementary pension funds have been recorded under Employee benefits expenses and Social security expenses . The latter account is used only for the severance indemnity expenses of companies with less than 50 employees.

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Net actuarial gains at December 31, 2018 amounted to 23 million euros (net actuarial gains of 8 million euros in 2017). They are basically associated with the balance of the change in the discount rate, which was 1.57% as compared to the 1.30% used at December 31, 2017, and with the turn-over effect related to the company restructuring plans already started in the previous year. The inflation rate was 1.50%, unchanged compared to 2017.

According to national law, the amount of provision for employee severance indemnities to which each employee is entitled depends on the period of service and must be paid when the employee leaves the company. The amount of severance indemnity due upon termination of employment is calculated on the basis of the period of employment and the taxable compensation of each employee. This liability is adjusted annually based on the official cost-of-living index and legally-set interest. The liability is not associated with any vesting condition or period or any funding obligation; accordingly, there are no assets servicing the provision. The liability is recognized net of the partial prepayments of the fund and the payments of the amounts obtained by employees for the reasons permitted by the applicable regulations.

Under the regulations introduced by Italian Legislative Decree 252/2005 and Law no. 296/2006 with which, for companies with at least 50 employees, the severance indemnities accruing from 2007 are assigned, as elected by the employees, to either the INPS Treasury Fund or to supplementary pension funds and take the form of a defined contribution plan .

However, for all companies, the revaluations of the amounts in the provision for employee severance indemnities existing at the election date, and also the amounts accrued and not assigned to supplementary pension plans for companies with less than 50 employees, are retained in the provision for employee severance indemnities. In accordance with IAS 19, the provision has been recognized as a defined benefit plan .

In application of IAS 19, the employee severance indemnities have been calculated using the Projected Unit Credit Method as follows:

- the future possible benefits which could be paid to each employee registered in the program in the event of retirement, death, disability, resignation etc. have been projected on the basis of a series of financial assumptions (cost-of-living increases, interest rate, increase in compensation etc.). The estimate of future benefits includes any increases for additional service seniority, as well as the estimated increase in the compensation level at the measurement date only for employees of companies with less than 50 employees during the year 2006;

- the average present value of future benefits has been calculated, at the measurement date, on the basis of the annual interest rate adopted and the probability that each benefit actually has to be paid;

- the liability of each company concerned has been calculated as the average present value of future benefits that will be generated by the existing provision at the measurement date, without considering any future accruals (for companies with at least 50 employees during the year 2006) or by identifying the amount of the average present value of future benefits which refer to the past service already accrued by the employee in the company at the measurement date (for the others), i.e. adopting the service pro-rate .

The following assumptions have been made:

FINANCIAL ASSUMPTIONS	Executives	Non-executives
Inflation rate	1.50% per annum	1.50% per annum
Discount rate	1.57% per annum	1.57% per annum
Employee severance indemnities annual increase rate	2.625% per annum	2.625% per annum
Annual real wage growth:		
equal to or less than 40 years of age	1.0% per annum	1.0% per annum
over 40 but equal to or less than 55 years of age	0.5% per annum	0.5% per annum
over 55 years of age	0.0% per annum	0.0% per annum

DEMOGRAPHIC ASSUMPTIONS	Executives	Non-executives
Probability of death	RG 48 mortality tables published by RagioneriaGenerale dello Stato	RG 48 mortality tables published by RagioneriaGenerale dello Stato
Probability of disability	INPS tables divided by age and sex	INPS tables divided by age and sex

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Probability of resignation:		
up to 40 years of age	6.50%	1.00%
From 41 to 50 years of age	2.00%	0.50%
From 51 to 59 years of age	2.00%	0.50%
From 60 to 64 years of age	20.00%	6.50%
Over 65 years of age	None	None
Probability of retirement	Reaching the minimum requisites established by the Obligatory General Insurance updated on the basis of Italian Law 214 of December 22, 2011	
Probability of receiving at the beginning of the year an advance from the provision for severance indemnities accrued equal to 70%	1.5% per annum	1.5% per annum

The adoption of the above assumptions resulted in a liability for employee severance indemnities at December 31, 2018 of 887 million euros (958 million euros at the end of 2017).

Reported below is a sensitivity analysis for each significant actuarial assumption adopted to calculate the liability as at year end, showing how the liability would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date, stated in amounts.

The weighted average duration of the obligation is 11.9 years.

CHANGES IN ASSUMPTIONS	Amounts (millions of euros)
Turnover rate:	
+0.25 p.p.	(2)
- 0.25 p.p.	2
Annual inflation rate:	
+0.25 p.p.	19
- 0.25 p.p.	(18)
Annual discount rate:	
+0.25 p.p.	(25)
- 0.25 p.p.	26

The Provision for pension and other plans amounted to 22 million euros at December 31, 2018 (22 million euros at December 31, 2017) and mainly represented pension plans in place at foreign companies of the Group.

The provision for termination benefit incentives and corporate restructuring showed a drop of 143 million euros mainly as the balance between the drawdowns (348 million euros) for personnel leaving the Group resulting from the staff leaving incentive plans already allocated in previous years and adjustment of the provision (204 million euros);

Specifically, a plan was launched at the end of 2017 for executive and non-executive staff to adopt, among others, Article 4(1 7-ter) of Law 92 of June 28, 2012 (the Fornero Law , which provides for early retirement arrangements). During 2018, Plan take-up was greater than initially forecast, therefore estimates for staff leaving in 2019-2020 were revised, also taking into account the social security changes made by Decree Law 4 January 28, 2019.

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NOTE 20

PROVISIONS

Provisions increased by 103 million euros compared to December 31, 2017. The figure breaks down as follows:

(millions of euros)	12/31/2017	Increase	Taken to income	Used directly	Exchange differences and other changes	12/31/2018
Provision for taxation and tax risks	93	30		(21)	2	104
Provision for restoration costs	350	10		(13)	1	348
Provision for legal disputes	605	244		(134)	(6)	709
Provision for commercial risks	28	18		(12)	(1)	33
Provision for risks and charges on investments and corporate-related transactions	32		(5)	(6)		21
Other provisions	9	3	(4)	(8)	5	5
Total	1,117	305	(9)	(194)	1	1,220
of which:						
non-current portion	825					876
current portion	292					344

The non-current portion of provisions for risks and charges mainly related to the provision for restoration costs and some of the provision for legal disputes. More specifically, in accordance with accounting policies, the total amount of the provision for restoration costs is calculated by re-measuring the amounts for which a probable outlay is envisaged, based on the estimated inflation rates for the individual due dates, and subsequently discounted to the reporting date based on the average cost of debt, taking into account cash outflow forecasts.

The provision for taxation and tax risks rose by 11 million euros compared to December 31, 2017. The end of year balance reflects provisions and uses mainly carried out by the Brazil Business Unit and the Domestic Business Unit.

The provision for restoration costs related to the provision for restoration of leased real estate and sites used for mobile telephony and the dismantling of tangible assets (specifically: batteries and wooden poles) of the companies of the Domestic Business Unit (341 million euros) and of the Brazil Business Unit (7 million euros).

The provision for legal disputes included the provision for litigation with employees, social security entities, regulatory authorities and other counterparties.

The balance of the provision at December 31, 2018 is attributable for 578 million euros to the Domestic Business Unit, including the provision associated with the sanction connected with the Golden Power case, and the Brazil Business Unit (131 million euros). Draw downs mainly related to the Brazil Business Unit (86 million euros) and the Domestic Business Unit (48 million euros) and were essentially related to settlement agreements reached.

The provision for commercial risks, basically unchanged compared to the previous year, relates to the Domestic Business Unit.

The provision for risks and charges on investments and corporate-related transactions, decreased by 11 million euros, following use by the Parent TIM S.p.A..

Other provisions showed no significant changes compared to December 31, 2017 and mainly refer to companies belonging to the Domestic Business Unit.

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NOTE 21

MISCELLANEOUS PAYABLES AND OTHER NON-CURRENT LIABILITIES

Miscellaneous payables and other non-current liabilities rose by 1,619 million euros compared to December 31, 2017. The figure breaks down as follows:

(millions of euros)		12/31/2018	12/31/2017
Miscellaneous payables (non-current)			
Payables to social security agencies		275	238
Income tax payables (*)		42	45
Other payables		1,919	16
	(a)	2,236	299
Other non-current liabilities			
Deferred revenues from customer contracts (Contract liabilities)		109	
Other deferred revenue and income		595	
Capital grants		357	391
Deferred income			988
	(b)	1,061	1,379
Total	(a+b)	3,297	1,678

(*) Analyzed in the Note Income tax expense

The impacts caused by the adoption of IFRS 15 are summarized below:

		Adoption of new standards		
(millions of euros)	12/31/2017	Reclassifications IFRS 15	Adjustments IFRS 15	1/1/2018
Miscellaneous payables (non-current)				
Payables to social security agencies	238			238

Current income tax payables		45			45
Other payables		16			16
	(a)	299			299
Other non-current liabilities					
Deferred revenues from customer contracts (Contract liabilities)			350	(251)	99
Other deferred revenue and income			638		638
Capital grants		391			391
Deferred income		988	(988)		
	(b)	1,379		(251)	1,128
Total	(a+b)	1,678		(251)	1,427

For more detailed information on the impacts caused by the adoption of IFRS 15, please refer to the Note Accounting Standards .

Miscellaneous payables (non-current) included:

payables to social security agencies equal to 275 million euros and mainly related to the remaining amount due to the INPS for the application of the 2015 arrangements relating to Article 4 paragraphs 1-7ter, of Italian Law 92 of June 28, 2012, the Fornero Law (see the Note Employee benefits expenses for more details).

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Details are as follows:

(millions of euros)	12/31/2018	12/31/2017
Non-current payables:		
Due from 2 to 5 years after the end of the reporting period	259	226
Due beyond 5 years after the end of the reporting period	16	12
	275	238
Current payables	173	58
Total	448	296

other payables equal to 1,919 million euros at December 31, 2018. rose by 1,903 million euros compared to December 31, 2017, driven by the investment for the total amount of 1,922 million euros (net of payment of the first installment for 477 million euros at the end of October 2018) in the acquisition of user rights to frequencies in the 694 790 MHz, 3600 3800 MHz, and 26.5 27.5 GHz bands, which will be reserved for 5G mobile telecommunications services in Italy, awarded to TIM S.p.A. at auction in 2018 by the Ministry of Economic Development. The residual debt was recognized at nominal value for 1,903 million euros under the item non-current miscellaneous payables and 19 million euros under the item current miscellaneous payables; the payment schedule is the following:

19 million euros by September 2019;

110 million euros by September 2020;

55 million euros by September 2021;

1,738 million euros by September 2022.

Other non-current liabilities included:

(3) Contract liabilities equal to 109 million euros at December 31, 2018 and which are reversed to the income statement on the basis of the duration of the contractual obligations between the parties, equal to an average of 24 months; therefore the balance at December 31, 2018 will generally be reversed to the income statement by December 31, 2020. In particular, the item includes:

- deferred revenues for activation and installation fees charged on new TIM S.p.A. customer contracts (20 million euros at December 31, 2018): to this regard, under previous accounting policies, revenues for activation and installation were deferred over the expected duration of the customer relationship. IFRS 15 instead requires that such revenues given that they are not allocated to separate performance obligations be allocated to other contract obligations and recognized throughout the period of performance of the contract;

- deferred revenues for TIM S.p.A. network access fees (32 million euros at December 31, 2018);

- deferred revenues for TIM S.p.A. subscription fees and rent and maintenance (49 million euros at December 31, 2018).

(4) Other deferred revenue and income totaling 595 million euros; the item mainly consisted of the non-current portion (approx. 190 million euros) of the deferred gain on the sale and lease-back of telecommunication towers by the Brazil Business Unit;this item also includes deferred income connected to the deferral of the revenue deriving from contracts for the sale of transmission capacity (operating asset leases).

Capital grants, which came to 357 million euros at December 31, 2018: the item represents the component still to be released to the income statement based on the remaining useful life (estimated at around 18 years) of the assets that the grants refer to and is mainly connected to the realization of the infrastructures on the Ultra-Broadband-UBB and Broadband-BB projects.

Deferred income: no longer present at December 31, 2018 as included in the aforementioned items. At December 31, 2017, deferred income totaled 988 million euros and mainly comprised:

- the effect of the deferral of revenues from the activation of the telephone service of TIM S.p.A.;

- the non-current portion of the deferred gain on the sale and lease back of the telecommunication towers of the Brazil Business Unit;

- the deferral of revenues from the sale of transmission capacity.

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NOTE 22

TRADE AND MISCELLANEOUS PAYABLES AND OTHER CURRENT LIABILITIES

Trade and miscellaneous payables and other current liabilities fell by 619 million euros compared to December 31, 2017. The figure breaks down as follows:

(millions of euros)		12/31/2018	*of which Financial Instruments*	12/31/2017	*of which Financial Instruments*
Payables on construction work	(a)	18		19	
Trade payables					
Payables to suppliers		4,090	4,090	4,262	4,262
Payables to other telecommunication operators		380	380	383	383
	(b)	4,470	4,470	4,645	4,645
Tax payables	(c)	262		584	
Miscellaneous payables					
Payables for employee compensation		151		245	
Payables to social security agencies		338		202	
Payables for TLC operating fee		15		15	
Dividends approved, but not yet paid to shareholders		35	35	19	19
Other		164	105	223	174
Employee benefits (except for employee severance indemnities) for the current portion expected to be settled within 1 year		52		97	
Provisions for risks and charges for the current portion expected to be settled within 1 year		344		292	
	(d)	1,099	140	1,093	193
Other current liabilities					
Liabilities from customer contracts (Contract liabilities)		931	193		

Customer-related items				602	77
Advances received				69	
Other deferred revenue and income		121			
Trade and miscellaneous deferred income				508	
	(e)	1,052	193	1,179	77
Total	(a+b+c+d+e)	6,901	4,803	7,520	4,915

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

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The impacts caused by the adoption of IFRS 15 are summarized below:

(millions of euros)		12/31/2017	Adoption of new standards Reclassifications IFRS 15	Adoption of new standards Adjustments IFRS 15	1/1/2018
Payables on construction work	(a)	19			19
Trade payables					
Payables to suppliers		4,262			4,262
Payables to other telecommunication operators		383			383
	(b)	4,645			4,645
Tax payables	(c)	584			584
Miscellaneous payables					
Payables for employee compensation		245			245
Payables to social security agencies		202			202
Payables for TLC operating fee		15			15
Dividends approved, but not yet paid to shareholders		19			19
Other		223			223
Employee benefits (except for employee severance indemnities) for the current portion expected to be settled within 1 year		97			97
Provisions for risks and charges for the current portion expected to be settled within 1 year		292			292
	(d)	1,093			1,093
Other current liabilities					
Liabilities from customer contracts (Contract liabilities)			1,033	(113)	920
Customer-related items		602	(602)		
Advances received		69	(69)		

Other deferred revenue and income			146		146
Trade and miscellaneous deferred income		508	(508)		
	(e)	1,179		(113)	1,066
Total	(a+b+c+d+e)	7,520		(113)	7,407

For more detailed information on the impacts caused by the adoption of IFRS 15, please refer to the Note Accounting Standards .

Trade payables amounting to 4,470 million euros (4,645 million euros at December 31, 2017), mainly refer to TIM S.p.A. (2,925 million euros) and to the companies of the Brazil Business Unit (1,044 million euros); as regards TIM S.p.A., the reduction in trade payables reflects the trend in payments of bills payable.

Tax payables are equal to 262 million euros and refer to both tax payables of the Brazil Business Unit (139 million euros) and TIM S.p.A. payables relating to: withholding tax payables to the tax authorities as withholding agent (69 million euros), payables for government concession tax (21 million euros) and VAT payable (12 million euros).

Miscellaneous payables include, among others, the amount due to INPS for the application of the 2015 arrangements relating to Article 4 paragraphs 1-7ter, of Italian Law 92 of June 28, 2012, the Fornero Law , as explained in the note Miscellaneous payables and other non-current liabilities .

Other current liabilities amounted to 1,052 million euros (1,179 million euros at December 31, 2017). They break down as follows:

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Liabilities from customer contracts (Contract liabilities), totaling 931 million euros. The item emerged following the application of IFRS 15 to show the liabilities with customers associated with the Company s obligations to transfer goods and services for which it has received a consideration. Liabilities with customers are shown below, which generally have a maturity within 12 months; therefore, the balance as at December 31, 2017 was substantially reversed by December 31, 2018 while the balance as at December 31, 2018 is expected to be reversed to the income statement on average within the following year. In particular:

- contract liabilities, equal to 119 million euros and recognized following the adoption of IFRS 15 due to contracts having performance obligations with different revenue recognition time schedules (such as bundled goods and services), where the services (recognized based on actual consumption) are offered to the customer at a discounted price. The increase of the year (84 million euros) is mainly connected to the start-up of commercial offers comprising some additional services supplied in the initial contract phase; as the relative fair value of these services is lower than the value invoiced, the application of IFRS 15 requires the reallocation of this higher value to the other performance obligations whose performance will be carried out over the term of the contract, on average equal to 24 months.;

- customer-related items, equal to 391 million euros; the item includes trade payables following contractual relationships, such as the payable for prepaid traffic and the subscription charges charged in advance; the decrease posted during the year is mainly attributable to the changes in the commercial offers, with less recourse to the advance of fees and charges, also as a result of changes in the billing procedures;

- progress payments and advances equal to 121 million euros relating to trade payables following prepayments, such as deposits made by subscribers for telephone calls;

- deferred revenues from customer contracts, equal to 300 million euros essentially include:

  - deferred revenues for the Parent interconnection charges (121 million euros);

  - deferred revenues for the Parent rent and maintenance (97 million euros);

  - deferred revenues for the Parent activation and installation fees charged on new customer contracts (59 million euros): to this regard, under previous accounting policies, revenues for activation and installation were deferred over the expected duration of the customer relationship. IFRS 15 requires that such revenues given that they are not allocated to separate performance obligations are allocated to other contract obligations, recognized on the basis of their performance.

Other deferred revenue and income amounted to 121 million euros. At December 31, 2017, other deferred revenue and income was included in Trade and miscellaneous deferred income and referred mainly to deferred revenues from sales of transmission capacity and deferred revenues from real estate lease agreements (lease operating assets).

Trade and miscellaneous deferred income: no longer present at December 31, 2018 as included in the aforementioned items. At December 31, 2017, these referred mainly to the Parent and included deferred interconnection charges, revenue for the activation of the telephone service, and rent and maintenance, traffic and outsourcing charges.

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NOTE 23

DISPUTES AND PENDING LEGAL ACTIONS, OTHER INFORMATION, COMMITMENTS AND GUARANTEES

A description is provided below of the most significant judicial, arbitration and tax disputes in which TIM Group companies are involved at December 31, 2018, as well as those that came to an end during the period.

The TIM Group has posted liabilities totaling 508 million euros for those disputes described below where the risk of losing the case has been considered probable.

It should be noted that for some disputes described below, on the basis of the information available at the closing date of the Annual Financial Report and with particular reference to the complexity of the proceedings, to their progress, and to elements of uncertainty of a technical-trial nature, it was not possible to make a reliable estimate of the size and/or times of possible payments, if any. Moreover, in those cases in which disclosure of information on a dispute could seriously jeopardize the position of TIM or its subsidiaries, only the general nature of the dispute is described.

Lastly, as regards the proceedings with the Antitrust Authority, please note that based on Article 15, paragraph 1 of Italian Law 287/1990 (Antitrust regulations), the Authority has the right to impose an administrative sanction calculated on the turnover of the Group in cases of breaches considered serious.

A) SIGNIFICANT DISPUTES AND PENDING LEGAL ACTIONS

International tax and regulatory disputes

At December 31, 2018, companies belonging to the Brazil Business Unit were involved in tax or regulatory disputes, the outcome of which is estimated as a possible loss totaling around 16.5 billion reais (14.5 billion reais at December 31, 2017). The main types of litigation are listed below, classified according to the tax to which they refer.

Federal taxes

On March 22, 2011, TIM Celular S.A. (company incorporated into TIM S.A. starting from October 31, 2018) was served notice of a tax assessment issued by the Federal Tax Authorities of Brazil for a total sum of 1,265 million reais as of the date of the notification, including fines and interest, as a result of the completion of a tax investigation concerning financial years 2006, 2007, 2008 and 2009 for the companies TIM Nordeste Telecomunicações S.A. and TIM Nordeste S.A. (formerly Maxitel), companies which have been progressively incorporated into TIM Celular with the aim of rationalizing the corporate structure in Brazil.

The assessment notice includes various adjustments; the main challenges may be summarized as follows:

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

The adjustments included in the assessment notice were disputed by TIM Celular, in administrative court, with the filing of its first objections on 20 April 2011. On April 20, 2012, TIM Celular received notification of the decision of the administrative court of first instance which confirmed the findings set out in the assessment notice; TIM Celular promptly filed an appeal against this decision on May 21, 2012.

The Company, as confirmed by specific legal opinions, believes it is unlikely that significant disbursements can be expected.

Still in relation to the federal level of taxation, the following additional disputes should also be noted:

- challenges regarding offsetting against previous tax losses;
- further challenges regarding the tax deductibility of the amortization of goodwill;
- imposition of income tax on certain types of exchange rate differences;
- imposition of withholding taxes on certain types of payments to foreign entities (for example, payments for international roaming);
- further challenges regarding offsets made between taxes payable and group company credit positions.

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Overall, the risk for these cases, considered to be possible, amounts to 4 billion reais (3.7 billion reais at December 31, 2017).

State taxes

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

- challenges concerning the reduction of the tax base due to discounts granted to customers, as well as challenges regarding the use of tax credits declared by group companies, with respect to the return of loaned telephone handsets, and following the detection of contract frauds to the detriment of the companies;
- subjection of some fees owed to group companies and classified by them as fees for services other than telecommunications to ICMS;
- challenges over the use of the PRO-DF tax benefit originally granted by some States, and subsequently declared unconstitutional (the challenge refers to the actual credit due to ICMS, declared by the TIM Cellular on the basis of the aforementioned tax benefits);
- challenges relating to the use of ICMS credits claimed by Group companies as a result of the acquisition of tangible assets, and in relation to the supply of electricity to the companies, as well as in application of the provisions on acting as a withholding agent;
- fines imposed on group companies for irregularities in tax return compliance.

In February 2018 the State of São Paulo notified two tax assessments regarding ICMS to TIM Celular, for a total amount of 679 million reais (at the date of the assessment, including fines and interest). The first assessment (344 million reais) regarded a challenge of ICMS credits in relation to acting as a withholding agent, applicable when equipment is bought and distributed in different States. The second assessment (335 million reais) challenged ICMS credits deriving from the special credit recognized by the company to its prepaid customers, against subsequent top-ups.

In June 2018 the State of São Paulo notified two further tax assessments to TIM Celular, again relating to ICMS, for a total amount of 369 million reais (at the date of the assessment, including fines and interest). This assessment too relates to ICMS credits deriving from the special credit recognized by the company to its prepaid customers against subsequent top-ups, as well as to the fines imposed for ICMS breaches. For a minor part of the claim, the company decided to authorize payment of the amount requested, instead of starting legal proceedings, benefiting from a discount on the fine. The dispute thus continues for the remaining amount, 296 million reais.

Overall, the risk for these cases, considered to be possible, amounts to 8.9 billion reais (7.4 billion reais at December 31, 2017).

Municipal taxes

Among disputes classified with a possible degree of risk, there are some relating to municipal taxes for a total amounting to around 0.7 billion reais.

FUST and FUNTTEL

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

Overall, the risk for these cases, considered to be possible, amounts to 2.9 billion reais (2.7 billion reais at December 31, 2017).

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Exclusion of ICMS from the PIS/COFINS tax base

In March 2017, the Supreme Federal Court of Brazil recognized the inclusion of ICMS in the calculation of the PIS/COFINS contribution as unconstitutional. TIM Participações, through its subsidiary company TIM S.A. (previously named Intelig Telecomunicações Ltda), as the incorporating company of TIM Celular S.A., as well as other companies belonging in the past to the Tim Brasil Group, that submitted applications of the same nature, has been involved in legal proceedings since 2007 and 2006, respectively, requesting reimbursements related to the allowed previous five years, and therefore with effect from 2002 and 2001, respectively.

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Taking into account the ruling of the aforementioned Supreme Court, in favor of taxpayers, the Company with the approval of its legal advisors decided not to include ICMS when calculating the PIS/COFINS contribution, beginning in April of 2017.

For some of these proceedings, the Court of Appeal has already given a favorable decision, in line with that of the Supreme Court, and the appeals presented by the tax authorities were rejected, on the basis of the same arguments. Despite the tax authorities representative s request to limit the retroactive nature of the decisions, the Company again with the approval of its legal advisors, believes that the decisions will not affect the rights claimed through legal proceedings.

The Company has estimated that at the end of the proceedings after the definitive rulings and completion of consequential activities the receivables would amount to approximately 3.3 billion reais, of which 1.9 billion reais from tax, and 1.4 billion reais from legal revaluation. Moreover, in respect of this potential tax credit, in the course of 2018, following a definitive and indisputable decision, the Company recognized a receivable of to 353 million reais.

Administrative offense charge pursuant to Legislative Decree 231/2001 for the so-called TIM Security Affair

In December 2008 TIM received notification of the application for its committal for trial for the administrative offense specified in articles 21 and 25, subsections 2 and 4, of Legislative Decree 231/2001 in relation to the affairs that involved several former employees of the Security function and former collaborators of the Company charged among other things with offenses involving corruption of public officials, with the object of acquiring information from confidential files. In May 2010, TIM definitively ceased to be a defendant in the criminal trial, the Judge for the Preliminary Hearing having approved the motion for settlement of the proceedings (plea bargaining) presented by the Company. In the hearing before Section One of the Milan Court of Assizes, TIM acted in the dual role of civil party and civilly liable party. On the one hand, in fact, TIM was admitted as the civil party damaged by all the accused parties on all counts, and on the other it was charged with civil liability under Article 2049 of the Civil Code for the facts allegedly committed by the accused in relation to 32 civil parties. Telecom Italia Latam and Telecom Italia Audit & Compliance Services (now incorporated into TIM) also participated in the hearing as civil parties, having filed appearances since the Preliminary Hearing and brought charges against the defendants for hacking. After the lengthy evidence hearings, 22 civil parties filed claims for compensation, also against TIM as civilly liable party, for over 60 million euros (over 42 million euros of which requested by a single civil party). The Company itself, as civil party, also summarized its conclusions against the defendants, requesting that they be found liable for all the damages suffered as a result of the facts of the case. In February 2013, Section 1 of the Milan Court of Assizes issued the first instance judgment, sentencing the defendants to terms of imprisonment of between 7 years and 6 months and one year. The Court also recognized that there had been non-pecuniary damage to some of the civil parties as a consequence of the alleged facts, and sentenced the defendants, jointly and severally with civilly liable party TIM, to compensate said damages, totaling 270,000 euros (in part jointly and severally with Pirelli) plus legal fees; at the same time the Court also sentenced the defendants to pay compensation for pecuniary and non-pecuniary damages incurred by the Company, granting it a provisional sum of 10 million euros. The judgment also recognized the existence of non-pecuniary damage to the companies Telecom Italia Latam and Telecom Italia Audit & Compliance Services, sentencing the defendants to pay compensation for damages on an equitable basis of 20,000 euros for each company. In November 2013 the grounds for the judgment in the first instance were published (which, for its part, the Company decided not to contest). At the end of the appeal, which was brought by the convicted defendants, the judgment in the first instance was partly reversed. The appeal judge took note of the fact that the time-limit had expired on the majority of the charges, and made an order not to proceed against the defendants who had been convicted in the lower court, with the exception of two private investigators, who were found guilty of the offense of revealing information which was subject to a prohibition on disclosure. As for the civil judgments, the Court revoked those made by the judge of first instance and ruled in favor of three ministries, AGCM and the Revenues Agency. The Court also decided to revoke the provisional sum of 10 million euros awarded to the Company as civil party at the end of the proceedings in the court of first instance, making a generic ruling that the defendants should pay compensatory civil damages. Finally, the appeal judge also rejected all the demands for compensation advanced in the appeals by certain civil parties for a total of about 60 million euros, in respect of which the Company has the role of party liable for damages. At the end of the appeal, therefore, the civil rulings settled in the first instance were confirmed which TIM, as the party liable for damages, had already paid to the damaged requesting parties. The three defendants brought an appeal to the Court of Cassation against the judgment of the second instance issued by the Milan Appeal Court of Assizes. In April 2018 the Supreme Court confirmed the convictions of the defendants and canceled the civil rulings, referring the issue generically to the civil court, for a more careful assessment of the claims made, above all concerning the quantum of evidence. It also canceled and referred the confiscation in favor of the State, which will have to be reassessed by a different section of the Milan Court of Assizes of Appeal.

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Golden Power Case

In August 2017 the Presidency of the Council of Ministers started formal proceedings against TIM (and also against Vivendi) to ascertain that TIM was indeed obliged to notify Vivendi s acquisition of corporate control of TIM and its strategic assets, pursuant to the Golden Power law. In September 2017, the proceedings in question concluded by ascertaining that this obligation did exist for TIM with effect from May 4, 2017 (the date of the Shareholders Meeting that renewed TIM s corporate bodies).

As a result of this decision by the Presidency of the Council of Ministers, new and separate administrative proceedings started for the imposition on TIM of a financial penalty laid down by the Golden Power law for non-compliance with the aforementioned obligation to notify. These proceedings ended on May 8, 2018 with the imposition of a financial penalty of 74.3 million euros.

The Company is convinced that it has the legal arguments to demonstrate that it was under no obligation to notify the control exercised over it by Vivendi; it therefore has already filed an extraordinary appeal to the President of the Republic to request the abrogation of the order of September 2017 and has appealed against the aforementioned order of May 8, 2018 which imposed a financial penalty, requesting its precautionary suspension. With an order in July 2018, the TAR granted this application and suspended payment of the fine, setting a date for the appeal to be heard.

It should also be noted that in May 2018 a guarantee bond for 74.3 million euros was issued in favor of the Presidency of the Council. TIM had been requested to submit such a bond for its application to Lazio TAR for precautionary suspension of the collection of the fine imposed for alleged breach of Article 2 of Decree Law 21 of March 15, 2012 (the Golden Power law).

On the other hand, the Presidency of the Council of Ministers exercised the special powers prescribed in the Golden Power law through two specific rulings in October and November 2017 with which it imposed specific prescriptions and conditions on TIM S.p.A. and on the companies of the Telecom Italia Sparkle group and Telsy Elettronica e Telecomunicazioni.

The prescriptions, according to the Administrative Authority, are essentially connected to the circumstance that these companies, in part, perform activities that are relevant for national security and as far as TIM is concerned to the circumstance that it also owns the infrastructure and the systems used to provide access to end-users of services covered by the universal service obligation.

Any failure on the part of the recipients of the orders to execute the conditions and prescriptions is penalized in the same way as failure to notify significant acts for the purpose of the application of Golden Power law.

The companies subject to the prescriptions are required to send periodic reports to a special Monitoring Committee established at the office of the Prime Minister in order to verify compliance with the aforementioned prescriptions.

In December 2017 the Group sent to the Presidency of the Council of Ministers the first compliance report outlining all the proposals and activities put in place to carry out the prescriptions.

In this case too TIM has already submitted an extraordinary appeal to the President of the Republic to request abrogation of the orders in question.

As stated, the premise for exercising special powers was (erroneously, according to the Company) referred to the de facto control resulting from the outcome of the shareholders meeting of May 4, 2017 and to the direction and coordination of TIM by Vivendi. Both these circumstances no longer apply, as:

- at the shareholders meeting of May 4, 2018, the slate presented by the shareholders Elliott lnternational LP, Elliott Associates LP and The Liverpool Limited Partnership received the majority vote;
- the Board of Directors was re-appointed with 13 independent directors out of a total of 15, with only 5 from the slate presented by Vivendi;
- thus, Vivendi no longer has direction and coordination, nor is there de facto control.

Consequently, the Company requested the Prime Minister s Office to revoke the two Decrees, stating, in any case that it was willing as an alternative to assist in rewording the requirements applicable to TIM in view of the changed situation.

In a decree of July 6, 2018, the Prime Minister s Office did not consider an additional exercise of special powers, upholding the validity of the two Decrees already issued and rejecting the request to revoke them.

The reason for the above is due to the alleged circumstance that the new governance structures of the Company would be highly variable; this would not allow for the rulings according to which the special powers were exercised to be overruled, save for the need to protect the public interest as regards network security and operation.

The Company has lodged an appeal, with additional reasons and as part of the appeals already lodged, against the Prime Minister s decrees of October 16, and November 2, 2017, and against the Prime Minister s resolution of July 6, 2018, rejecting the appeal for revocation presented by the company, on the outcome of the changed situation in corporate governance.

Italian Competition Authority Case A428

Case A428 was closed in May 2013 with the decision by the Italian Antitrust Authority (AGCM) to impose two administrative fines on TIM of 88,182,000 euros and 15,612,000 euros for abuse of a dominant position. The Company (i) allegedly hindered or delayed the activation of access services requested by OLOs through refusals made on unjustified and spurious grounds; (ii) allegedly offered its access services to end customers on economic and technical terms and conditions claimed to be unmatchable by competitors that purchase wholesale access services from TIM, solely in geographical areas of the country where access services are available unbundled from the local network and hence where other operators can compete more effectively with the Company.

TIM contested the decision with the Lazio Regional Administrative Court (TAR), requesting suspension of payment of the fine. Specifically, it was argued: that the right of defense in the proceeding had been infringed; that the alleged organizational arrangements disputed by the AGCM and purportedly at the basis of the infringement of provisioning processes for OLOs had been the subject of specific provisions by the Authority for the sector (AGCom); that a comparative analysis of internal/external provisioning processes in truth resulted in improved outcomes for the OLOs with respect to the Retail division of TIM and as such no form of inequality of treatment and/or opportunistic conduct by TIM existed; and (with reference to the second count of abuse) that the conduct challenged was structurally inapt to squeeze the margins of the OLOs.

In May, 2014, the Lazio TAR handed down its ruling rejecting TIM s appeal and upholding the fines imposed by the decision contested. In September 2014, the Company lodged an appeal against the ruling.

In May 2015, by ruling 2497/15, the Council of State found the judgment of first instance did not present the irregularities claimed by TIM and upheld the decision of the AGCM. The Company had already, at that date, paid the fines and relative interest.

In July 2015, TIM was served notice of the AGCM s decision to initiate an investigation for non-compliance to determine whether the Company had complied with the order not to engage in conduct having the same or similar object as the infringement identified by the decision that settled the A428 case in May 2013.

On January 13, 2017, TIM was served notice of AGCM s final assessment, which found that TIM had complied in full with the A428 decision and, as such, the conditions for the imposition of a fine for non-compliance were not present.

AGCM also acknowledged that the conduct of TIM following the 2013 decision was geared towards the continuous improvement of performance in the supply of wholesale access services, as concerns not only the services subject to investigation, but also new services for ultra-broadband access. In its assessment of compliance, AGCM acknowledged the positive impact of the roll-out, although not yet completed, of TIM s New Equivalence Model (NEM). The AGCM decision ordered TIM to: (i) continue with the roll-out of the NEM through to its completion, scheduled for April 30, 2017; (ii) inform the Authority of the performance levels of wholesale access service supply systems and of the completion of the relative internal reorganization project by the end of May 2017. TIM promptly complied with both orders, as positively assessed by the Authority by notice dated August 9, 2017.

Vodafone disputed the final decision adopted by the AGCM on the non-compliance investigation with the Lazio Regional Administrative Court (TAR). TIM filed an appearance, as in the other lawsuits filed in March 2017 by the operators CloudItalia, KPNQWest Italia and Digitel.

Vodafone (A428)

In August 2013, Vodafone, also in its capacity as acquiring entity of the operator Teletu, filed a major damages claim with the Court of Milan for alleged anti-competitive and abusive conduct (based primarily on the AGCM A428 decision) purportedly pursued by TIM over the period 2008 2013. The damages claim was quantified by Vodafone for an estimated amount between 876 million euros and 1,029 million euros.

Specifically, Vodafone alleged that a technical boycott had been put in place by refusing the activation of lines requested for Teletu customers (in the period from 2008 to June 2013) and that purportedly abusive pricing policies had been adopted for wholesale network access services (from 2008 to June 2013). In addition, the plaintiff complained of margin squeezing practices through the alleged application of higher than permitted discounts for business customers and the alleged implementation of unlawful and anti-competitive win-back practices (from the second half of 2012 to June 2013).

TIM filed an appearance challenging the substance and amount of the plaintiff s claims and lodging, in turn, a counterclaim. Following the ruling in August 2016 of the Italian Supreme Court of Cassation confirming the jurisdiction of the Court of Milan to hear the dispute, the main proceedings were resumed with the hearing held in December 2016.

With writ of summons before the Milan Court served in May 28, 2015, Vodafone filed additional damages claims, all based on the same AGCM A428 decision and referring to alleged damages suffered between July 2013 and December 2014 (and hence over a period subsequent to that of the damages claim reported above), for a total amount of around 568.5 million euros.

In its claim, the plaintiff also reserved the right to quantify additional damages during the case for subsequent periods, on the grounds that TIM had continued to engage in the alleged abusive conduct. TIM filed an appearance challenging the substance and amount of the plaintiff s claims and lodging, in turn, a counterclaim.

By order of October 6, 2016, the judge approved Vodafone s application for the two A428 lawsuits brought by it to be joined. At the end of the hearing on December 21 reopening the proceeding, terms were set for the filing of preliminary pleadings and the hearing for the submission of means of proof was set for July 11, 2017. With the first preliminary pleading, filed after the favorable outcome for TIM of the A428-C case (which found the Company had not engaged in abusive conduct after 2011), Vodafone decided to file an additional and similar damages claim for the period 2015 2016, which revised the claim for a total of 1,812 million euros of damages, which TIM contested and refuted.

COLT TECHNOLOGY SERVICES

With writ of summons before the Milan Court served in August 2015, the operator Colt Technology Services filed a damages claim based on the A428 decision, requesting compensation for alleged damages suffered from 2009 to 2011 as a result of purportedly inefficient and discriminatory conduct by TIM in the wholesale service supply process. The damages claim was quantified in a total of 27 million euros for lost profits from the alleged non-acquisition of new customers and the claimed impossibility of providing new services to customers already acquired. The plaintiff also filed a damages claim for compensation for damages to its commercial image and reputation. The lawsuit follows on from an out-of-court claim for around 23 million euros made by Colt in June 2015, which the Company had rejected outright. TIM has filed an appearance, fully contesting the claims of the other party.

KPNQ West Italia S.p.A.

With writ of summons before the Rome Court, KPNQ West Italia filed a damages claim for a total of 37 million euros in compensation for alleged anticompetitive and abusive conduct over the period 2009 2011, in the form of technical boycotting (refusals to activate wholesale services KOs). The claim was based on the contents of the decision of the Italian Antitrust Authority that settled the A428 case. TIM filed an appearance, contesting all of the plaintiff s allegations.

TELEUNIT

With a writ of summons before the Rome Court, Teleunit claimed 35.4 million euros in compensation from TIM, based on the known decision of the Italian Competition Authority that settled the A428 case. Specifically, the other party complained that in the period 2009/2010 it had suffered abusive conduct on TIM s part in the form of technical boycotting (refusals to activate network access services KOs), and anticompetitive practices in the form of margin squeezing (excessive squeezing of discount margins, considered abusive inasmuch as they cannot be replicated by competitors). TIM filed an appearance, contesting all of the plaintiff s allegations.

With a writ of summons issued in October 2009 before the Milan Appeal Court, Teleunit asked that TIM alleged acts of abuse of its dominant position in the premium services market be ascertained. The plaintiff quantified its damages at a total of approximately 362 million euros. TIM filed an appearance, contesting the claims of the other party.

After the ruling of January 2014 with which the Court of Appeal declared that it was not competent in this matter and referred the case to the Court, Teleunit reinstated the case before the Milan Court the following April. TIM filed an appearance in the reinstated proceedings challenging the plaintiff s claims.

In its judgment of May 2017, the Milan Court rejected Teleunit s claim in its entirety, and ordered the company to pay the legal costs of the case. This judgment was appealed by Teleunit, in June 2017, before the Milan Court of Appeal. TIM filed an appeal challenging the arguments presented by the other party and asking that the judgment in the first instance be fully confirmed. With an order in March 2018 the Milan Court of Appeal declared Teleunit s appeal pursuant to Article 348-bis of the Italian Code of Civil Procedure to be manifestly without foundation, and hence inadmissible. In May 2018 Teleunit appealed the judgment of the Court of Appeal to the Court of Cassation. TIM served a defense on the appellant, asking that the appealed ruling (and hence the judgment in the first instance) be confirmed in full.

SIPORTAL

The lawsuit brought by Siportal against TIM is currently pending before the Rome Court, by which Siportal has sued for approximately 48.4 million euros of compensation for alleged damages from abusive conduct in the form of technical boycotting over the period 2009 2011 and from the knock-on effects of the abuse until 2015, with the loss of commercial partners and the non-acquisition of new customers (the latter quantified for 25 million euros of damages). The claims are based on the decision of the Italian Antitrust Authority that settled the A428 case. TIM has filed an appearance, fully rejecting the claims of the other party.

MC-Link

With writ of summons before the Rome Court, MC-Link filed a damages claim for a total of 51 million euros in compensation for alleged anticompetitive and abusive conduct over the period 2009-2012, in the form of technical boycotting (refusals to activate wholesale services KOs). The claim was based on the contents of the decision of the Italian Antitrust Authority that settled the A428 case. TIM filed an appearance, contesting all of the plaintiff s allegations.

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Italian Competition Authority Case I-761

By decision adopted on July 10, 2013, AGCM extended to TIM the investigation initiated in March that year into a number of companies engaged in the fixed-line network maintenance services sector, aimed at establishing whether an agreement was in place breaching Article 101 of the Treaty on the Functioning of the European Union. The investigation was initiated following two reports made by Wind informing AGCM that it had found, when inviting bids for the award of corrective maintenance services on the network, substantial uniformity among the prices applied by the aforementioned companies and a significant difference with the bids subsequently tendered by other various companies.

TIM was charged by AGCM with having played a role in coordinating the other parties investigated, both in the formulation of the bids invited by Wind and in relation to the positions taken by them before the Italian Communications Authority.

TIM challenged the decisions with the Regional Administrative Court (TAR) on the grounds that the Competition Authority lacked jurisdiction.

On July 7, 2014, notice was served of the AGCM s decision to extend the object of the investigation to determine whether the Company had abused its dominant position by taking initiatives apt to influence the bid terms and conditions for ancillary technical services in the preparation of the bids for Wind and Fastweb by the maintenance companies. With the extension decision, the Authority also extended the closing date of the investigation, originally set for July 31, 2014, to July 31, 2015. The extension decision was similarly challenged with the Lazio Regional Administrative Court on the grounds that the Competition Authority lacked jurisdiction.

In November 2014, for reasons of procedural economy, although convinced of the legitimacy of its actions, TIM submitted a proposed series of undertakings to AGCM to resolve the competition concerns under investigation. On December 19, 2014, AGCM issued its decision finding that the undertakings were not clearly unfounded and subsequently ordered their publication for market testing.

On March 25, 2015, AGCM definitively rejected the undertakings, finding them insufficient to resolve the anticompetition concerns under investigation.

On July 21, 2015, notice was served on the parties under investigation of the Investigation Findings, in which the offices of AGCM recommended (i) dismissing the charges of abuse of a dominant position and (ii) confirming, instead, the existence between TIM and the maintenance companies of an agreement aimed at coordinating the economic terms and conditions of the bids for Wind and Fastweb and preventing the disaggregated supply of ancillary technical services.

On December 16, 2015, a final decision was handed down confirming the conclusions of the Investigation Findings, asserting the existence, between 2012 and 2013, of an agreement restricting competition and imposing on the Company, as a result, a fine of 21.5 million euros, which was paid in March 2016. The relevant market is that for corrective maintenance (assurance) services, or, more precisely, troubleshooting on TIM ULL lines. The objective of the conduct engaged in by the Company and the network companies was to restrict competition and prevent the development of disaggregated forms of supply of ancillary technical services.

TIM lodged an appeal against the decision with the Lazio Regional Administrative Court. In September 2016, the court dismissed the appeal in its judgment 09554/2016, which the Company has challenged in an appeal with the Council of State.

WIND (I-761)

With writ of summons before the Milan Court, Wind filed a damages claim against TIM for approximately 57 million euros, recently increased during the case to approximately 58 million euros, in compensation for damages arising from alleged anticompetitive conduct which AGCM had fined in the I-761 case (concerning corrective maintenance). The other party alleged that such conduct had delayed and hindered its chances of obtaining more favorable terms and conditions on the disaggregated purchase of fault repair services on ULL access lines, the effects of which were initially claimed to have persisted until 2015, but were then claimed by Wind to be still underway. TIM has filed an appearance, refuting the claims of the other party.

VODAFONE (I-761)

With writ of summons before the Milan Court, Vodafone filed a damages claim against TIM and some network companies for approximately 193 million euros in compensation from TIM for damages arising from alleged anticompetitive conduct which AGCM had fined in the I-761 case (concerning corrective maintenance), over the period 2011 2017.

Vodafone claimed that TIM had allegedly infringed antitrust regulations in the wholesale markets for access to its fixed-line network (ULL lines; Bitstream; WLR) through the abuse of a dominant position and an unlawful agreement with maintenance companies to maintain a monopoly on the offer of corrective maintenance services on its network. Specifically, the restrictive agreement allegedly concerned the coordination, by the Company, of the

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economic terms and conditions contained in the bids for maintenance services prepared by the aforementioned companies for OAOs, with artificially high prices with respect to the cost of the maintenance included in the regulated access fee, with a view to discouraging the disaggregation of the service itself. The Company has filed an appearance, challenging all of the plaintiff s allegations.

Italian Competition Authority Case A514

In June 2017 the Italian Antitrust Authority (AGCM) started proceedings A514 against TIM, to ascertain a possible abuse of its dominant market position in breach of article 102 of the Treaty on the Functioning of the European Union . The proceedings were started based on some complaints filed in May and June 2017, by Infratel, Enel, Open Fiber, Vodafone and Wind Tre, and concerns a presumed abuse of TIM s dominant position in the market for wholesale access services and for retail services using the broadband and ultra-broadband fixed network. In particular, the AGCM hypothesized that TIM had adopted conduct aimed at: i) slowing and hindering the course of the Infratel tender processes so as to delay, or render less remunerative the entry of another operator in the wholesale market; ii) preemptively securing customers on the retail market for ultra-broadband services by means of commercial policies designed to restrict the space of customer contendibility remaining for the competitor operators.

After the start of the proceedings, the Authority s officials carried out an inspection at some of TIM s offices in the month of July 2017. On November 2, 2017, TIM filed a defense brief in which, in support of the correctness of its actions, it challenged all the arguments that the conduct it had allegedly engaged in, and which was the subject of the case, was unlawful.

On February 14, 2018, AGCM resolved to extend the scope of the case to investigate further behavior concerning TIM s wholesale pricing strategy on the market for wholesale access to broadband and ultra-broadband, and the use of the confidential information of customers of the alternative operators.

On July 5, 2018 TIM filed proposed undertakings which, if accepted by the Authority, would close the investigation without any offense being established or sanction being administered. The undertakings were considered as admissible by the Authority, that market tested them in August and September.

On October 30, 2018, TIM replied to observations made by third parties and modified its proposed undertakings. With its decision notified on December 4, 2018, the Italian Antitrust Authority once and for all rejected the proposed series of undertakings as it considered them unsuitable in light of the objections raised. The proceeding is currently set to end by May 31, 2019.

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Antitrust Case I799

At its meeting on February 1, 2017, AGCM initiated an investigation for possible breach of Article 101 of the TFEU (prohibition of agreements that restrict competition) against TIM S.p.A. and Fastweb S.p.A., following the signing of an agreement aimed at setting up a cooperative joint venture called Flash Fiber S.r.l.. TIM, in agreement with Fastweb, submitted some amendments to the agreements signed, in the form of proposed undertakings, aimed at closing the investigation without any breach being ascertained and, therefore, without any fine.

On March 28, 2018, AGCM resolved to approve the undertakings, making them binding on the Parties, and closed the case without imposing any fine.

On June 11, 2018, Open Fiber S.p.A. and Wind Tre S.p.A. filed separate appeals to the Lazio Regional Administrative Court (TAR) against the order closing case I-799 with the acceptance of the undertakings. They allege that this order has a series of procedural and substantial defects. Open Fiber S.p.A. also asked for the precautionary suspension of the order.

With a ruling on July 19, the TAR rejected Open Fiber s request for precautionary suspension since there were no exigent circumstances. The appeal hearing was afterwards set for February 2020. The TAR has set a hearing for Wind Tre s appeal in May 2019.

Vodafone

In June 2015, Vodafone filed a damages claim with the Milan Court for the alleged abuse of a dominant position by TIM in the market for NGA and VULA bitstream fiber access services, with the claim for damages initially set at approximately 4.4 million euros, and later raised to a range between 30 and 48.9 million euros.

The plaintiff complained that TIM allegedly had engaged in abusive conduct by way of aggressive price offers to win customers and by hindering its access to the fiber network to make it more difficult for the party to provide ultra-broadband services to its customers.

The Company has filed an appearance, challenging the claims of the plaintiff in full and, subsequently, the revised estimate of damages made in 2016 during the case.

EUTELIA and VOICEPLUS

In June 2009, Eutelia and Voiceplus asked that alleged acts of abuse by TIM of its dominant position in the premium services market (based on the public offer of services provided through so-called Non Geographic Numbers) be investigated. The complainants quantified their damages at a total of approximately 730 million euros.

The case follows a precautionary procedure in which the Milan Appeal Court prohibited certain behaviors of the Company relating to the management of some financial relations with Eutelia and Voiceplus concerning the Non Geographic Numbers, for which TIM managed the payments from the end customers, on behalf of such OLOs and in the light of regulatory requirements. After the ruling with which the Milan Court of Appeal accepted TIM s objections, declaring that it was not competent in this matter and referring the case to the Civil Court, Eutelia in extraordinary administration and Voiceplus in liquidation resubmitted the matter to the Milan Court. The first hearing took place in the month of March 2014. TIM filed an appearance challenging the claims of the other parties. After the collapse of Voiceplus, the Milan Court declared the case suspended, in an order in September 2015. The case was later resumed by Voiceplus.

With a judgment issued in February 2018, the Milan Court accepted TIM s defense and rejected the plaintiffs claim for compensation, ordering them, jointly and severally, to pay the legal costs. In March 2018 Eutalia and Voiceplus proposed an appeal against the judgment in the first instance.

TIM appealed against the claim, requesting confirmation in full of the judgment in the first instance.

SKY

In 2016, TIM has started civil proceedings against SKY Italia in the Milan Court, asking the court to void the contract signed by the two companies in April 2014 for the delivery and marketing, between 2015 and 2019, of the SKY IPTV (Internet Protocol Television) offer on the TIM IPTV platform, due to abuse of dominant position by the other party.

As an alternative, the Company also asked the court to reduce to a fair level the amounts demanded by SKY by way of the so-called Guaranteed Minimums (penalties) established to SKY s advantage and related to predetermined customer sign-up and churn-rate thresholds in the five years of the partnership.

SKY filed an appearance in February 2017, challenging TIM s claim and demanding payment of the Guaranteed Minimums it claimed to have accrued, a request which was opposed by the Company. At May 2018, judgment had been withheld on this case and the proceedings are ongoing, with a hearing for oral discussion set for April 4, 2019.

28-day billing

Resolution 121/17/CONS, of March 2017, with which AGCom supplemented its resolution 252/16/CONS, constitutes the concluding act of a regulatory process that has always had the sole purpose of safeguarding price transparency and comparability of economic terms and conditions.

Said resolution 121/17/CONS, *inter alia*, introduced instructions on billing intervals for telephony, prescribing, specifically for fixed telephony, that the interval should be monthly, or multiples thereof, and, for mobile telephony, that it should be at least four-weekly.

TIM appealed Resolution 121/17/CONS to the Regional Administrative Court, alleging that AGCom was exceeding its powers. The judgment rejecting the appeal was published on February 12, 2018, and the grounds for this were published on May 4, 2018. TIM appealed this judgment to the Council of State on June 18, 2018.

During December 2017, with its Resolution 499/17/CONS, AGCom confirmed that TIM had breached the provisions of Resolution 121/17/CONS in not having adopted a cycle of renewal of fixed telephony offers and billing at monthly intervals or multiples thereof, and fined TIM 1,160,000 euros, ordering it to make provision when the billing cycle was restored to monthly intervals or multiples thereof to return the amounts corresponding to the fee for the number of days that, from June 23, 2017, had not been used by the users in terms of the supply of service due to the misalignment of the four-weekly and monthly billing cycles.

TIM also appealed this second resolution to the Regional Administrative Court of Lazio, asking for its precautionary suspension which, on February 22, 2018, was accepted by the Regional Administrative Court of Lazio limited to the part relating to the reimbursement orders.

Furthermore, law no 172 of December 4, 2017 decreed that contracts for the supply of electronic communications services should obligatorily prescribe that the renewal of offers and the billing of services be based on a month, or multiples thereof.

TIM adapted to this order within the period of time prescribed by law, namely within 120 days of the date it came into force (April 5, 2018).

On March 7, 2018, TIM was notified of another resolution (Resolution 112/2018/CONS) in which AGCom (i) ordered the Company to postpone, for fixed telephony services only, the due date of bills issued after the restoration of monthly billing by a number of days equal to those that had presumably been lost from June 23, 2017 onwards due to the four-weekly billing cycle; and (ii) revoked the preceding resolution 499/17/CONS in the part in which TIM was ordered to repay the amounts presumably lost from June 23, 2017 onwards, with the four-weekly billing cycle.

The aforementioned resolution was challenged by TIM on March 16, 2018, with an additional submission triggered as part of the appeal against resolution 499/17/CONS, with a request for single precautionary measures, which was provisionally granted until the hearing before the Council on April 11, 2018, with a Presidential Decree published on March 26, 2017.

After the notification by AGCom, on April 9, 2018, of Presidential Decree 9/18/PRES which amended resolution 112/18/CONS in those parts prescribing that the deferment of billing had to take place when the billing cycle was restored to monthly intervals, or multiples thereof, also ordering that the timescales for complying with the order would be identified after hearings with the operators and the main consumer protection associations TIM and the other operators affected by the Presidential Decree withdrew their application for precautionary measures.

On May 7, 2018, TIM also appealed AGCom Presidential Decree 9/18/PRES and Resolution 187/18/CONS which ratified this decree. On July 3, 2018, AGCom published new resolution 269/18/CONS, with which it set December 31, 2018 as the date by which the operators must return to their fixed network customers a number of days of service equal to those eroded as an effect of 28-day billing, or propose to the affected customers any alternative compensatory measures, after having notified them to AGCom. In line with the actions it has undertaken and the arguments it has made so far. TIM, in keeping with actions taken and arguments made, intends to appeal this resolution.

In September 2018, TIM also appealed Resolution 297/18/CONS in which AGCom imposed a fine of 696,000 euros for having continued to adopt weekly billing and renewal of offers as from February 16, 2018 in violation of AGCom Resolution 121/17/CONS.

With the judgement published in November 2018, the TAR canceled the pecuniary administrative sanction of 1.16 million euros imposed with Resolution 499/17/CONS, and confirmed the obligation of *restitutio in integrum* to the fixed-line customers by December 31, 2018. TIM submitted its preventive appeal before the Council of State to interrupt the execution of said decision and, with its ruling of December 20, 2018, the Council of State, in upholding TIM s appeal, interrupted the effectiveness of the aforesaid decision for the reversal order only, until March 31, 2019.

On November 30, 2018, AGCom published resolution 521/18/CONS with which it imposed a sanction of 1,044,000 euros on TIM. The sanction was imposed for breach of the transparency rules and rights to withdraw in amending the contractual terms and conditions of the mobile offers applied to customers starting from April 8, 2018 following restoration of monthly billing. TIM appealed this resolution as well to the Regional Administrative Court in January 2019.

Antitrust Case I820

On February 19, 2018, AGCM initiated a I820 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.

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The presumed coordination, according to the opening provision of the proceedings by AGCM, would take the form of implementation of the obligation introduced by Article 19-quinquiesdecies of Decree Law 148/2017 (converted by Law 172/2017) which requires operators of electronic communication services to send out monthly (or monthly multiples) bills and renewed offers for fixed and mobile services.

On March 21, 2018, AGCM issued a provisional precautionary measure against all the operators involved in the proceedings with which it ordered the suspension, pending the proceedings, of the implementation of the agreement concerning the determination of repricing communicated to users at the time of reformulating the billing cycle in compliance with Law 172/17 and to independently redetermine its commercial strategy. The order with which AGCM confirmed the precautionary measure was published on April 13, 2018.

On June 12, 2018 TIM filed an appeal with the TAR for AGCM precautionary measure 27112 dated April 11, 2018 to be set aside.

In its session on June 27, 2018, AGCM took note of the brief submitted by TIM regarding compliance with the precautionary measure.

The date by which the case is to be closed has been set for March 31, 2019.

Vodafone Dispute   Universal Service

In a decision published in July 2015, the Council of State rejected the appeal lodged by AGCom and TIM against the judgment of the Lazio Administrative Court (TAR) on the financing of the universal service obligations for the period 1999 2003. With this judgment the judge had granted the appeals by Vodafone, annulling AGCom decisions 106, 107, 109/11/CONS on the renewal of the related proceedings, which included Vodafone among the subjects required to contribute, for a sum of approximately 38 million euros. Essentially, the judgment confirms that the Authority has not demonstrated the particular degree of replaceability between fixed and mobile telephony for mobile operators to be included among the subjects required to repay the cost of the universal service, which means that AGCom needs to issue a new ruling.

TIM has filed an application with AGCom to renew the proceedings, and an appeal against the judgment of the Council of State to the Court of Cassation (which subsequently ruled that the appeal was inadmissible).

In April 2016 Vodafone appealed against the Ministry of Economic Development (MISE) and TIM to the Council of State, for non-compliance with the judgment of the Council of State. This appeal referred to AGCom decision 109/11/CONS (2003 yearly payment, on the basis of which Vodafone had paid the sum of approximately 9 million euros as contribution, restitution of which was requested).

In its judgment of November 2016, the Council of State rejected the appeal, referring to the Regional Administrative Court (TAR) the decision on the methods of compliance. In February 2017, Vodafone presented the Lazio Regional Administrative Court with four new appeals against the Ministry of Economic Development and TIM regarding observance of the ruling, upheld on appeal, countermanding the resolutions for the years 1999 2003 and repayment of the amounts of around 38 million euros already paid to the Ministry of Economic Development as a contribution.

With a judgment issued in June 2018, the TAR rejected all of Vodafone s appeals, and, as requested by TIM, expressly affirmed that AGCom must renew the proceedings, particularly with regard to the determination of the degree of replaceability between fixed and mobile telephony. Vodafone has appealed the four judgments to the Council of State.

Dispute on Adjustments to license fees for the years 1994 1998

In relation to lawsuits brought in past years concerning the demand for payment, by the Ministry of Communications, of adjustments to amounts paid for license fees for the years 1994 1998 (for a total of 113 million euros), the Lazio Regional Administrative Court (TAR) dismissed the Company s appeal against the demand for payment of the adjustment for 1994 for a total of around 11 million euros, of which 9 million euros for revenues not received due to credit losses. TIM has appealed the judgment.

In another two judgments, the Lazio TAR dismissed, on the same grounds set out previously, the Company s appeals against the demand for payment of adjustments to the license fees for the years 1995, 1996, 1997, and 1998, for a total of approximately 46 million euros. TIM has lodged appeals against the judgments with the Council of State.

Exclusive to the 1998 fee adjustment part (equal to about 41 million), the Lazio TAR, by TAR order of December 2018, suspended the judgment, raising preliminary questions with the EU Court of Justice on the correct scope of EC Directive n. 97/13 (in the matter of general authorizations and individual licenses in the field of telecommunications services on the basis of the currently pending litigation on the 1998 license fee and illustrated in a subsequent paragraph). The referred questions are based, inter alia, on the question posed to the Court of Justice on the possible conflict between the aforementioned EC Directive 97/13 and national law, which extended the obligation for telecommunications license-holders to pay the license fee for 1998 (commensurate with a portion of turnover), despite the liberalization process underway.

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Olivetti Asbestos exposure

In September 2014 the Ivrea Public Prosecutor s Office closed the investigation on the presumed exposure to asbestos of 15 former workers from the companies Ing. C. Olivetti S.p.A. (now TIM S.p.A.), Olivetti Controllo Numerico S.p.A. , Olivetti Peripheral Equipment S.p.A. , Sixtel S.p.A. and Olteco S.p.A. and served notice that the investigation had been concluded on the 39 people investigated (who include former Directors of the aforementioned companies).

On December 2014 the Ivrea Public Prosecutor s Office formulated a request for 33 of the 39 people originally investigated to be committed for trial, and at the same time asked that 6 investigations be archived.

During the preliminary hearing, which started in April 2015, TIM assumed the role of civilly liable party, after being formally summonsed by all 26 civil parties (institutions and natural persons) joined in the proceedings. At the end of the preliminary hearing, 18 of the original 33 persons accused were committed for trial. The trial started in November 2015, and, as the party liable for damages, the Company has reached a settlement agreement with 12 of the 18 individuals (heirs/injured persons/family members) who are civil parties to the dispute and they have, therefore, withdrawn the claim against TIM.

In the judgment of first instance, in July 2016, 13 of the 18 defendants were found guilty, with sentences ranging from 1 year to 5 years of imprisonment: four of the defendants were found not guilty, and one case was dismissed for health reasons. The defendants were also sentenced to pay compensation jointly and severally with the party liable for damages TIM, of an overall sum of approximately 1.9 million euros as a provisional payment to INAIL and 6 heirs who were not part of the settlement. A generic judgment to pay compensation for damages to the remaining damaged parties (entities/unions/associations) was issued, although they must in any case ask the civil court to quantify the damages. The Company challenged the rationale for the judgment in the first instance, and signed settlements, including with the final 6 heirs who constituted the civil party, before the judgment in the second instance was issued. So the only civil parties to the appeal were organizations and associations.

In April 2018, the Turin Appeal Court, overturning the judgment of the court of the first instance, found all the accused not guilty: because there was no case to answer for all the charges .

In its considerations, filed in October 2018, the Court recognized that there was no causal link between the individual behavior of the accused persons and the death of the former workers.

The Public Prosecutor s Office at the Turin Appeal Court appealed to the Court of Cassation against said judgment based on a number of grounds for appeal, and also requested the Joint Chambers to provide clarifications regarding the principles to apply in assessing the causal link.

POSTE

Litigation is still pending for lawsuits brought at the end of the 1990s by Ing. C. Olivetti & C. S.p.A. (now TIM) against Poste for the non-payment of services provided under a series of supply agreements for IT goods and services. The judgments handed down on first instance ruled partially in favor of the former Olivetti, but were challenged by Poste in individual appeals.

In 2009, the Rome Court of Appeal confirmed one of the credit claims of TIM, however in another judgment the same Court declared one of the disputed agreements null and void. Following that judgment, Poste served a writ of execution for the reimbursement of around 58 million euros, which TIM rejected given that its appeal against the judgment was still pending before the Supreme Court of Cassation.

In 2012, the Italian Supreme Court of Cassation overturned the Appeal Court ruling on which the writ of execution was based, after which the Rome Court ruled that the enforcement procedure was devoid of purpose as there was no longer any basis for the writ of execution obtained by Poste. The case has been reinstated before another section of the Rome Court of Appeal. In a recent ruling, the Rome Court of Appeal at the time of proceedings, reversing the Company s previous unfavorable appeal, confirmed the contract s validity and, with it, the legitimacy of TIM s view of the amount already collected, of which Poste had requested reimbursement.

Elinet S.p.A. bankruptcy

In 2014, the trustees in the bankruptcy of Elinet S.p.A., and subsequently the trustees of Elitel S.r.l. and Elitel Telecom S.p.A. (the parent, at the time, of the Elitel group) appealed the judgment by which the Court of Rome dismissed the damages claim brought by the trustees of the Elinet-Elitel group, filing a new damages claim for a total of 282 million euros. The Company is alleged to have exercised management and control powers over the plaintiff, and, with it, over the Elitel group (an OLO in which TIM has never held any equity interest) through the management of trade receivables. TIM has filed an appearance, refuting the claims of the other party.

Brazil Opportunity Arbitration

In May 2012, TIM and Telecom Italia International N.V. (now merged in Telecom Italia Finance) were served with a notice of arbitration proceedings brought by the Opportunity group, claiming compensation for damages allegedly suffered for presumed breach of a settlement agreement signed in 2005. Based on the plaintiff s allegations, the damages relate to circumstances that emerged in the criminal proceedings pending before the Milan Court regarding, *inter alia*, unlawful activities engaged in by former employees of TIM.

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The investigatory phase having been completed, the hearing for oral discussion took place in November 2014, after which the parties filed their concluding arguments in preparation for the decision on the case.

In September 2015, the Board of Arbitration declared the proceedings closed, as the award was going to be filed.

Subsequently, the Board of Arbitration allowed the parties to exchange short arguments and the ICC Court extended the term for the filing of the award.

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

In April 2017 the Opportunity group filed an appeal against the arbitration award before the Paris Court of Appeal.

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

In October 2018, TIM and Telecom Italia Finance requested proceedings with the Paris Court of Appeal to be suspended, in the light of proceedings pending with the Court of Arbitration of the International Chamber of Commerce to review the same arbitration award.

In November 2018, the Paris Court of Appeal suspended the proceedings until the decision is taken by the Court of Arbitration in the review proceedings.

Brazil CAM JVCO arbitration

In September 2015, JVCO Participações Ltda filed an application for arbitration with the Camara de Arbitragem do Mercado (CAM) in Rio de Janeiro against TIM, Telecom Italia International, (now merged with Telecom Italia Finance-TIF), Tim Brasil Serviços e Participações S.A. and Tim Participações S.A. claiming compensation for damages arising from an alleged abuse of power of control over Tim Participações. In October 2015, all the summoned companies filed petitions and Tim Participações requested a ruling against JVCO for abuse of conduct in a capacity as shareholder with non-controlling interest.

Subsequently, the arbitration board was established and in May 2016 a preliminary hearing took place, when the Terms of Reference were signed. After the hearing, the Court of Arbitration issued a procedural order upholding the appeal made by the Group for a preliminary examination of the matter of JVCO s capacity to sue and setting a temporary schedule for arbitration. In June, the parties exchanged briefs and in their defense statements, TIM, Telecom Italia International, Tim Brasil Serviços e Participações S.A. and Tim Participações S.A. appealed against the other party s capacity to sue, Tim Participações s capacity to be sued, and challenged the existence of the abuse of power. In July 2016, the parties filed their replies. On October 19, 2016 the Court of Arbitration issued a procedural order on the preliminary issue of the capacity of the parties to appear in court, affirming JVCO s capacity to sue and Tim Participações s capacity to be sued, establishing the dates for subsequent replies of the parties. On November 21 and December 19, 2016, the parties filed additional replies. On January 31, 2017 the Court of Arbitration issued a procedural order on matters concerning proceedings, recapitulating the aspects contended and arranging for the preliminary investigation. The parties indicated the types of evidence they intended to submit; the Court of Arbitration then set the dates for hearings.

In June 2017, hearings were held in Rio De Janeiro and further documents were filed and briefs exchanged. In March 2018, the closing briefs of all parties in the proceedings were filed.

On July 23, 2018, the Court of Arbitration issued its final award in which it rejected all requests from JVCO as well as the counterclaim made by Tim Participações, and ruled that JVCO had committed abuse of power in its capacity as shareholder with non-controlling interest. It also ordered JVCO to pay 90% of arbitration fees (with TIM, TIF, Tim Brasil Serviços e Participações S.A. and Tim Participações S.A. paying the remaining 10%), and the parties to pay other legal fees directly to the defense teams of the counterparties.

Alfiere S.p.A. TIM-CDP Immobiliare arbitrations

Alfiere S.p.A. (Alfiere) is a company that is owned equally by TIM and CDP Immobiliare S.r.l. (CDPI), which owns the property complex named Torri dell Eur . It was intended that this property would house the offices of TIM s General Administration department, after restructuring works and the conclusion of a rental contract. After issues arose relating to the cancellation of the building permit, there was a lengthy dispute before the administrative court, which in the appeal recently confirmed that Alfiere is not required to pay Roma Capitale the sum of 24 million euros by way of concession fee and rejected the damages claim for approximately 300 million euros put forward by the Company against Roma Capitale after the building permit was revoked. To this regard, arbitration proceedings have also started, with TIM making two applications for arbitration of its dispute with CDPI before the arbitration chamber of the Rome Chamber of Commerce. These disputes seek: (i) to determine that CDPI was obliged to indemnify (TIM) in relation to the extraordinary contribution of 24 million euros that local authority Roma Capitale had requested from Alfiere; (ii) to determine that TIM had absolutely no obligation to pay rent for the premises, due to the fact that the property was not handed over by December 31, 2017. As part of this second arbitration case, CDPI has, by way of counterclaim, requested that all the contracts stipulated with TIM in relation to Alfiere be canceled, and TIM ordered to pay compensation for the related damages, quantified as over 88 million euros. In May 2018 the Board of Arbitration combined the aforementioned cases.

With the award granted on December 18, 2018, in accepting TIM s requests and fully rejecting those of CDPI, the Board of Arbitration established CDPI s obligation to indemnify TIM as regards the claims made by the Municipality of Rome by way of extraordinary fee, and affirmed non-existence of TIM s obligation to pay rent for the aforestated real estate complex.

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B) OTHER INFORMATION

Mobile telephony - criminal proceedings

In March 2012, TIM was served notice of the conclusion of preliminary enquiries, which showed that the Company was being investigated by the Public Prosecutor of Milan pursuant to Legislative Decree 231/2001, for the offenses of handling stolen goods and counterfeiting, committed, according to the Prosecution, by fourteen employees of the so-called ethnic channel , with the participation of a number of dealers, for the purpose of obtaining undeserved commissions from TIM.

The Company, as the injured party damaged by such conduct, had brought two legal actions in 2008 and 2009 and had proceeded to suspend the employees involved in the criminal proceedings (suspension later followed by dismissal). It has also filed an initial statement of defense, together with a technical report by its own expert, requesting that the proceedings against it be suspended, and that charges of aggravated fraud against the Company be brought against the other defendants. In December 2012, the Public Prosecutor s Office filed a request for 89 defendants and the Company itself to be committed for trial.

During the preliminary hearing, the Company was admitted as civil party to the trial and, in November 2013, the conclusions in the interest of the civil party were filed, reaffirming TIM s total lack of involvement in the offenses claimed.

At the end of the preliminary hearing, which took place in March 2014, the Judge for the Preliminary Hearing committed for trial all the defendants (including TIM) who had not asked for their situation to be settled with alternative procedures, on the grounds that examination in a trial was needed. In April 2016, at the end of the trial, the Public Prosecutor asked for TIM to be sentenced to pay an administrative fine of 900 thousand euros, but decided not to ask for any of the purported profits from the offenses to be confiscated (quantified in the committal proceedings as totaling several million euros), based on the assumption that TIM had in any event remedied the presumed organizational inadequacies. While acknowledging the notable redimensioning of the accusations, the Company reiterated its total non-involvement in the facts at issue. In November 2016, the Court handed down its ruling acquitting the Company of the accusations. All the individuals standing trial were also acquitted, on various grounds.

The Public Prosecutor appealed the acquittal and appealed to the Court of Cassation *per saltum* . In January 2019, the Italian Supreme Court of Cassation agreed to the appeal and therefore ordered that the deeds be sent to the Milan Court of Appeal.

Dispute concerning the license fees for 1998

TIM has summoned the Prime Minister s Office to appear in a civil suit for compensation for damages caused by the Italian State through appeal ruling 7506/09, handed down by the Council of State in breach, in the view of the Company, of Community law.

The primary claim brought by the action is founded on a precedent in Community case law which affirms the right to bring actions against a State for breach of rights recognized by Community law and infringed by a judgment that has become final, against which no other remedy can be sought. The Council of State ruling definitively denied TIM the right to the refund of the license fee for 1998 (equal to 386 million euros for Telecom Italia and 143 million euros for the former TIM, plus interest), which had already been denied by the Lazio TAR, despite the favorable and binding ruling of the Court of Justice of the European Union in February 2008. That ruling concerned the conflict between Directive 97/13/EC on a common framework for general authorizations and individual licenses in the field of telecommunications services and national law, which extended the obligation for telecommunications license-holders to pay the license fee for 1998, despite the liberalization process underway. Within the scope of the same action, the Company also filed an alternative claim for damages for tort within the meaning of Article 2043 of the Italian Civil Code. The damages claim was quantified for a total of around 529 million euros, plus legal interest and adjustment. The State Attorney s Office filed an appearance, presenting a counterclaim for the same amount. The action was assessed for its admissibility by the Court, which declared TIM s primary claim (action for damages for manifest breach of Community law under Law 117/88) to be inadmissible. The decision was overturned on appeal, in favor of the Company. In March 2015, the Rome Court handed down its judgment of first instance, ruling that the Company s claim was inadmissible. TIM has appealed the decision, and the case is now pending the hearing specifying the nature of the forms of order sought.

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Vodafone (formerly TELETU)

The damages claim filed by TIM with writ of summons in February 2012 against the operator TELETU (now merged into Vodafone) for the unlawful refusal to restore the competitor s customers to TIM is still pending. The claim has been quantified for approximately 93 million euros.

Other liabilities connected with the disposal of assets and investments

As part of agreements for the sale of assets and companies, the TIM Group has undertaken guarantees to indemnify the buyers for liabilities mainly connected with legal, tax, social security, and labor law issues, for an amount normally set as a percentage of the purchase price.

To cover such contingent liabilities, amounting to a total of around 500 million euros, provisions totaling approximately 9 million euros have been allocated solely for those cases for which payment is considered likely.

Furthermore, we report that in relation to the disposal of assets and investments, the TIM Group has commitments to pay additional indemnities under specific contractual provisions, the contingent liability of which cannot be measured at present.

C) COMMITMENTS AND GUARANTEES

Guarantees, net of back-to-back guarantees received, amounted to 33 million euros.

The guarantees provided by third parties to Group companies, amounting to 6,979 million euros, refer to guarantee financing from banks and other financial institutions consisting of guarantees for loans received (1,255 million euros) and of performance guarantees under outstanding contracts (5,724 million euros).

In particular, we report:

- The TIM Group issued six guarantees to the Ministry of Economic Development for a total of 1,922 million euros for the deferment of the payment of the amount due for the acquisition of the user rights to frequencies in the 694-790 MHz, 3600-3800 MHz and 26.5-27.5 GHz bands, which will be reserved for 5G mobile telecommunications services.

- The insurance guarantees, which totaled 739 million euros, basically refer to guarantee financing by the TIM Group in applying legal provisions for contracts of Public Administrations and similar bodies.

In May 2018, as mentioned above, TIM issued a surety to the Prime Minister s Office for 74.3 million euros to secure an appeal to the Lazio Administration Court for a provisional stay of the administrative fine levied on TIM following the preliminary investigation connected with the penalty proceeding initiated under Article 2 of Decree Law 21 of March 15, 2012 (the Golden Power rule) .

Main guarantees for loans at December 31, 2018

Issuer	Amount (millions of euros)[1]
SACE	368
BBVA - Banco Bilbao Vizcaya Argentaria	210
Cassa Depositi e Prestiti	158
Intesa Sanpaolo	115
Ing	105
Unicredit	105
Commerzbank	57
Banco Santander	52
Sumitomo Mitsui Banking	52

(1) The amounts shown in the table relate to loans issued by the EIB for the TIM Broadband Digital Divide, TIM Ricerca & Sviluppo Banda Larga, TIM Rete Mobile a Banda Larga, and TIM RDI for Broadband Services projects.

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It is specified that:

- the guarantee totaling 105 million euros of ING relating to the loan granted by the EIB for the TIM Broadband Research and Development Project, paid back upon maturity for 100 million euros, is still valid for 6 months following repayment, as set forth in the contract to protect against clawback risk, i.e. until March 30, 2019;

- the guarantees amounting to 52 million euros of Santander, 52 million euros of Sumitomo and 105 million euros of SACE relating to the loan granted by the EIB for the TIM Broadband/B-C-D Research and Development Project, paid back upon maturity for 200 million euros, are still valid for 6 months following repayment, as set forth in the contract to protect against clawback risk, i.e. until April 12, 2019;

- the guarantees amounting to 210 million euros of BBVA-Banco Bilbao Vizcaya Argentaria and 105 million euros of Unicredit relating to the loan granted by the EIB for the TIM Broadband Digital Divide/C-D Research and Development Project, paid back upon maturity for 300 million euros, are still valid for 6 months following repayment, as set forth in the contract to protect against clawback risk, i.e. until June 20, 2019.

There are also surety bonds on the telecommunication services in Brazil for 244 million euros.

D) ASSETS PLEDGED TO GUARANTEE FINANCIAL LIABILITIES

The contracts for low-rate loans granted by the Brazilian Development Bank BNDES (Banco Nacional de Desenvolvimento Econômico e Social) to Tim Celular, now merged with TIM S.A., for a total equivalent amount of 267 million euros are covered by specific covenants. In the event of non-compliance with the covenant obligations, BNDES will have a right to the receipts which transit on the bank accounts of the company.

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NOTE 24

REVENUES

Revenues decreased by 888 million euros compared to 2017. The breakdown is as follows:

(millions of euros)	2018	2017
Equipment sales	1,538	1,560
Services	17,379	18,264
Revenues on construction contracts	23	4
Total	18,940	19,828

Revenues from telecommunications services are presented gross of amounts due to other TLC operators, equal to 1,616 million euros (1,737 million euros in 2017), included in Costs of services.

Revenues from services in 2018 include revenues for voice and data services on fixed and mobile networks for retail customers for 10,920 million euros and for other wholesale operators for 3,063 million euros.

Please note that in 2018, in applying IFRS 15, the Parent recognized a significant financial component in the offerings contemplating a time extension between fulfillment of the performance obligation and collection by the customer (installment sales); as a result, it reduced related revenues for a total amount of about 60 million euros.

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

NOTE 25

OTHER OPERATING INCOME

Other operating income decreased by 182 million euros compared to 2017. The breakdown is as follows:

(millions of euros)	2018	2017
Late payment fees charged for telephone services	60	59
Recovery of employee benefit expenses, purchases and services rendered	27	22
Capital and operating grants	39	51
Damages, penalties and recoveries connected with litigation	29	40

Partnership agreements and other arrangements with suppliers	22	129
Estimate revisions and other adjustments	73	188
Other	91	34
Total	341	523

They include, *inter alia*:

contribution fees resulting from partnership and other agreements with leading counterparties, designed to develop the collaboration between the parties, in order to strengthen and stabilize industrial, commercial and real estate relations over time;

37 million euros connected to the Brazil Business Unit tax recovery following the favorable outcome of the tax dispute relative to the unconstitutional grounds of the law that entailed the inclusion of ICMS indirect tax in the base for calculating taxes on PIS and COFINS revenues.

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NOTE 26

ACQUISITION OF GOODS AND SERVICES

Acquisition of goods and services decreased by 202 million euros compared to 2017. The breakdown is as follows:

(millions of euros)		2018	2017
Acquisition of raw materials and merchandise	(a)	1,957	1,863
Costs of services:			
Revenues due to other TLC operators		1,616	1,737
Costs for telecommunications network access services		171	217
Commissions, sales commissions and other selling expenses		1,158	1,109
Advertising and promotion expenses		236	277
Professional and consulting services		242	223
Utilities		417	467
Maintenance		221	240
Outsourcing costs for other services		465	513
Mailing and delivery expenses for telephone bills, directories and other materials to customers		84	96
Other service expenses		634	664
	(b)	5,244	5,543
Lease and rental costs:			
Rent and leases		607	645
TLC circuit lease rents		126	119
Other lease and rental costs		252	218
	(c)	985	982
Total	(a+b+c)	8,186	8,388

During 2018, in connection with the analyses and examinations preparatory for applying the new IFRS 16 standard, the TLC circuit rents, the rents for use of satellite systems when considered costs of services and the services component of the lease of real estate and Base Transceiver Stations were reclassified from Lease and rental costs to Costs of services in order to better represent the nature of these costs.

So that the data can be more easily compared, the reclassification was also made on the 2017 data (for a total amount of 279 million euros).

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NOTE 27

EMPLOYEE BENEFITS EXPENSES

Employee benefits expenses amounted to 3,105 million euros, decreasing by 521 million euros on 2017, and consisted of the following:

(millions of euros)		2018	2017
Employee benefits expenses			
Wages and salaries		1,994	2,056
Social security expenses		738	745
Other employee benefits		144	110
	(a)	2,876	2,911
Costs and provisions for temp work	(b)		
Miscellaneous expenses for personnel and other labor-related services rendered			
Charges for termination benefit incentives		8	28
Corporate restructuring expenses		216	680
Other		5	7
	(c)	229	715
Total	(a+b+c)	3,105	3,626

Employee benefits expenses mainly related to the Domestic Business Unit for 2,781 million euros (3,266 million euros in 2017) and to the Brazil Business Unit for 317 million euros (353 million euros in 2017).

Restructuring expenses amounted to 216 million euros; Specifically, a plan was launched at the end of 2017 for executive and non-executive staff to adopt, among others, Article 4(1 7-ter) of Law 92 of June 28, 2012 the Fornero Law , (which provides for early retirement arrangements). During 2018, Plan take-up was greater than initially forecast, therefore estimates for staff leaving in 2019-2020 were revised, also taking into account the social security changes made by Decree Law 4 January 28, 2019. Expenses totaling 680 million euros were recognized in 2017.

The average salaried workforce, including personnel with temp work contracts, stood at 54,423 employees in 2018 (54,946 in 2017). A breakdown by category is as follows:

(number)	2018	2017

Executives	646	707
Middle Management	4,271	4,269
White collars	49,505	49,967
Blue collars	1	1
Employees on payroll	54,423	54,944
Employees with temp work contracts		2
Total average salaried workforce	54,423	54,946

Headcount in service at December 31, 2018, including personnel with temp work contracts, stood at 57,901 employees (59,429 at December 31, 2017), showing a decrease of 1,528 employees.

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NOTE 28

OTHER OPERATING EXPENSES

Other operating expenses rose by 51 million euros compared to 2017. The figure breaks down as follows:

(millions of euros)	2018	2017
Write-downs and expenses in connection with credit management	518	400
Provision charges	189	228
TLC operating fees and charges	286	356
Indirect duties and taxes	125	111
Penalties, settlement compensation and administrative fines	73	33
Association dues and fees, donations, scholarships and traineeships	12	15
Other	56	65
Total	1,259	1,208
of which, included in the supplementary disclosure on financial instruments	*518*	*400*

This item includes, inter alia, higher provision charges for bad debts (+10 million euros) compared to 2017, mainly attributable to difficulties and delays in the receipts of some South American and Mediterranean Basin operators.

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

NOTE 29

INTERNALLY GENERATED ASSETS

Internally generated assets decreased by 56 million euros compared to 2017. The figure breaks down as follows:

(millions of euros)	2018	2017
Intangible assets with a finite useful life	248	272
Tangible assets owned	322	354
Total	570	626

Internally generated assets mainly include labor costs of dedicated technical staff for software development and the development of network solutions, applications and innovative services as well as work in connection with the design, construction and testing of network installations.

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NOTE 30

DEPRECIATION AND AMORTIZATION

Depreciation and amortization decreased by 218 million euros compared to 2017. The breakdown is as follows:

(millions of euros)		2018	2017
Amortization of intangible assets with a finite useful life:			
Industrial patents and intellectual property rights		1,171	1,263
Concessions, licenses, trademarks and similar rights		422	396
Other intangible assets		6	134
	(a)	1,599	1,793
Depreciation of tangible assets owned:			
Buildings (civil and industrial)		36	39
Plant and equipment		2,229	2,286
Manufacturing and distribution equipment		14	16
Other		162	159
	(b)	2,441	2,500
Depreciation of tangible assets held under finance leases:			
Buildings (civil and industrial)		159	130
Plant and equipment		18	21
Other		38	29
	(c)	215	180
Total	(a+b+c)	4,255	4,473

Further details are provided in the Notes Intangible assets with a finite useful life and Tangible assets (owned and under finance leases) .

For a breakdown of depreciation and amortization by operating segment/geographical area, reference should be made to the Note Segment Reporting .

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NOTE 31

GAINS/(LOSSES) ON DISPOSALS OF NON-CURRENT ASSETS

Details are as follows:

(millions of euros)		2018	2017
Gains on disposals of non-current assets:			
Gains on the retirement/disposal of intangible and tangible assets		13	15
Gains on the disposal of investments in subsidiaries			
	(a)	13	15
Losses on disposals of non-current assets:			
Losses on the retirement/disposal of intangible and tangible assets		14	4
Losses on the disposal of investments in subsidiaries			
	(b)	14	4
Total	(a-b)	(1)	11

In 2018 this item was negative for 1 million euros while in 2017 it was positive (11 million euros), connected with the ordinary asset renewal process.

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NOTE 32

IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS

This item was broken down as follows:

(millions of euros)		2018	2017
Reversals of impairment losses on non-current assets:			
on intangible assets		4	
on tangible assets			
	(a)	4	
Impairment losses on non-current assets:			
on intangible assets		2,590	30
on tangible assets			7
	(b)	2,590	37
Total	(a-b)	(2,586)	(37)

Impairment losses for 2018 amounted to 2,590 million euros and mainly refer to the goodwill impairment loss attributable to the Core Domestic unit and International Wholesale.

In accordance with IAS 36, goodwill is not subject to amortization, but is tested for *impairment* on at least an annual basis, when preparing the company s consolidated financial statements. At September 30, 2018, with reference to the Core Domestic *Cash-Generating Unit*, internal and external events and circumstances had arisen that led the company to carry out *impairment testing* on the CGU, with a recognition of an Impairment loss relative to the Core Domestic Unit for an amount of 2,000 million euros.

In the 2018 Financial Statements, the annual impairment test resulted in an additional impairment loss of 450 million euros on the goodwill attributed to the Core Domestic *Cash-Generating Unit* therefore the total impairment loss for the financial year 2018 amounted to 2,450 million euros as well as an impairment loss of 140 million euros on the goodwill attributed to the International Wholesale *Cash-Generating Unit*.

With reference to the Brazil *Cash Generating Units*, the Impairment test exercise did not show any impairment losses to the Goodwill allocated to the said CGUs.

Reversals totaled 4 million euros following an update by the Parent of the assessment of some construction contracts subject to prior impairment.

A more detailed analysis is provided in the Note Goodwill .

Write-downs in 2017 totaled 37 million euros and were mainly represented by write-downs of intangible assets.

NOTE 33

OTHER INCOME (EXPENSES) FROM INVESTMENTS

Details are as follows:

(millions of euros)	2018	2017
Dividends from Other investments	11	1
Net income and gains on disposals of other investments		
Loss and impairment losses on Other investments		(19)
Total	11	(18)
of which, included in the supplementary disclosure on financial instruments	*11*	*1*

In 2018, this item showed a positive figure of 11 million euros and mainly included the dividends paid to TIM S.p.A. by the company Emittenti Titoli.

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 was completed that year.

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NOTE 34

FINANCE INCOME AND EXPENSES

Finance income (expenses) showed a net expense of 1,348 million euros (expense of 1,495 million euros in 2017) and comprises:

(millions of euros)	2018	2017
Finance income	1,056	1,808
Finance expenses	(2,404)	(3,303)
Net finance income/(expenses)	(1,348)	(1,495)

The items break down as follows:

(millions of euros)	2018	2017
Interest expenses and other finance expenses:		
Interest expenses and other costs relating to bonds	(1,012)	(1,100)
Interest expenses to banks	(72)	(113)
Interest expenses to others	(204)	(250)
	(1,288)	(1,463)
Commissions	(70)	(91)
Miscellaneous finance expenses (*)	(232)	(256)
	(302)	(347)
Interest income and other finance income:		
Interest income	52	129
Income from financial receivables, recorded in Non-current assets		
Income from securities other than investments, recorded in Non-current assets		
Income from securities other than investments, recorded in Current assets	11	14

Miscellaneous finance income (*)		61	26
		124	169
Total net finance interest/(expenses)	(a)	(1,466)	(1,641)
Other components of financial income and expense:			
Net exchange gains and losses		(1)	23
Net result from derivatives		114	132
Net fair value adjustments to fair value hedging derivatives and underlyings		(3)	8
Net fair value adjustments to non-hedging derivatives		8	(17)
Total other components of financial income and expense	(b)	118	146
Total net financial income (expenses)	(a+b)	(1,348)	(1,495)
of which, included in the supplementary disclosure on net financial instruments		*(1,161)*	*(1,306)*

(*) *of which IFRS 9 impact:*

(millions of euros)	2018	2017
Income from negative adjustment of IFRS 9 impairment reserve on financial assets measured through FVTOCI	*2*	
Expenses from positive adjustment of IFRS 9 impairment reserve on financial assets measured through FVTOCI	*(12)*	
Reversal of IFRS 9 impairment reserve on financial assets measured through FVTOCI	*4*	
Impairment losses on financial assets other than investments		

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

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

(millions of euros)		2018	2017
Exchange gains		265	782
Exchange losses		(266)	(759)
Net exchange gains and losses		(1)	23
Income from fair value hedge derivatives		41	66
Charges from fair value hedge derivatives			
Net result from fair value hedge derivatives	(a)	41	66
Positive effect of the reversal of the Reserve of cash flow hedge derivatives to the income statement (interest rate component)		524	568
Negative effect of the reversal of the Reserve of cash flow hedge derivatives to the income statement (interest rate component)		(446)	(489)
Net effect of the Reversal of the Reserve of cash flow hedge derivatives to the income statement (interest rate component)	(b)	78	79
Income from non-hedging derivatives		4	9
Charges from non-hedging derivatives		(9)	(22)
Net result from non-hedging derivatives	(c)	(5)	(13)
Net result from derivatives	(a+b+c)	114	132
Positive fair value adjustments to fair value hedge derivatives		50	
Negative fair value adjustments to Underlying financial assets and liabilities of fair value hedge derivatives		(53)	
Net fair value adjustments	(d)	(3)	

Positive fair value adjustments to Underlying financial assets and liabilities of fair value hedge derivatives			95
Negative fair value adjustments to fair value hedge derivatives			(87)
Net fair value adjustments	(e)		8
Net fair value adjustments to fair value hedging derivatives and underlyings	(d+e)	(3)	8
Positive fair value to non-hedging derivatives	(f)	48	119
Negative fair value adjustments to non-hedging derivatives	(g)	(40)	(136)
Net fair value adjustments to non-hedging derivatives	(f+g)	8	(17)

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NOTE 35

PROFIT (LOSS) FOR THE YEAR

Profit for the year fell by 2,439 million euros compared to 2017. The figure breaks down as follows:

(millions of euros)	**2018**	**2017**
Profit (loss) for the year	(1,152)	1,287
Attributable to:		
Owners of the Parent:		
Profit (loss) from continuing operations	(1,411)	1,121
Profit (loss) from Discontinued operations/Non-current assets held for sale		
Profit (loss) for the year attributable to Owners of the Parent	(1,411)	1,121
Non-controlling interests:		
Profit (loss) from continuing operations	259	166
Profit (loss) from Discontinued operations/Non-current assets held for sale		
Profit (loss) for the year attributable to Non-controlling interests	259	166

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NOTE 36

EARNINGS PER SHARE

		2018	2017
Basic earnings per share			
Profit (loss) for the year attributable to Owners of the Parent		(1,411)	1,121
Less: additional dividends for the savings shares (0.011 euros per share and up to capacity)			(66)
	(millions of euros)	(1,411)	1,055
Average number of ordinary and savings shares	(millions)	21,067	21,067
Basic earnings per share Ordinary shares	(euros)	(0.07)	0.05
Plus: additional dividends per savings share			0.01
Basic earnings per share Savings shares	(euros)	(0.07)	0.06
Basic earnings per share from continuing operations			
Profit (loss) from continuing operations attributable to Owners of the Parent		(1,411)	1,121
Less: additional dividends for the savings shares			(66)
	(millions of euros)	(1,411)	1,055
Average number of ordinary and savings shares	(millions)	21,067	21,067
Basic earnings per share from continuing operations Ordinary shares	(euros)	(0.07)	0.05
Plus: additional dividends per savings share			0.01
Basic earnings per share from continuing operations Savings shares	(euros)	(0.07)	0.06

Basic earnings per share from Discontinued operations/Non-current assets held for sale			
Profit (loss) from Discontinued operations/Non-current assets held for sale	(millions of euros)		
Average number of ordinary and savings shares	(millions)	21,067	21,067
Basic earnings per share from Discontinued operations/Non-current assets held for sale Ordinary shares	(euros)		
Basic earnings per share from Discontinued operations/Non-current assets held for sale Savings shares	(euros)		

	2018	2017
Average number of ordinary shares	15,039,368,195	15,039,368,195
Average number of savings shares	6,027,791,699	6,027,791,699
Total	21,067,159,894	21,067,159,894

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		2018	2017
Diluted earnings per share			
Profit (loss) for the year attributable to Owners of the Parent		(1,411)	1,121
Dilution effect of stock option plans and convertible bonds (*)		40	32
Less: additional dividends for the savings shares (0.011 euros per share and up to capacity)			(66)
	(millions of euros)	(1,371)	1,087
Average number of ordinary and savings shares	(millions)	22,167	22,167
Diluted earnings per share Ordinary shares	(euros)	(0.06)	0.05
Plus: additional dividends per savings share			0.01
Diluted earnings per share Savings shares	(euros)	(0.06)	0.06
Diluted earnings per share from continuing operations			
Profit (loss) from continuing operations attributable to Owners of the Parent		(1,411)	1,121
Dilution effect of stock option plans and convertible bonds (*)		40	32
Less: additional dividends for the savings shares			(66)
	(millions of euros)	(1,371)	1,087
Average number of ordinary and savings shares	(millions)	22,167	22,167
Diluted earnings per share from continuing operations Ordinary shares	(euros)	(0.06)	0.05
Plus: additional dividends per savings share			0.01
Diluted earnings per share from continuing operations Savings shares	(euros)	(0.06)	0.06

Diluted earnings per share from Discontinued operations/Non-current assets held for sale			
Profit (loss) from Discontinued operations/Non-current assets held for sale	(millions of euros)		
Dilution effect of stock option plans and convertible bonds			
Average number of ordinary and savings shares	(millions)	22,167	22,167
Diluted earnings per share from Discontinued operations/Non-current assets held for sale Ordinary shares	(euros)		
Diluted earnings per share from Discontinued operations/Non-current assets held for sale Savings shares	(euros)		

	2018	2017
Average number of ordinary shares (*)	16,139,213,020	16,139,681,521
Average number of savings shares	6,027,791,699	6,027,791,699
Total	**22,167,004,719**	**22,167,473,220**

(*) The average number of ordinary shares also includes the potential ordinary shares relating to the equity compensation plans of employees for which the (market and non-market) performance conditions have been met, in addition to the theoretical number of shares that are issuable as a result of the conversion of the unsecured equity-linked convertible bond. Consequently, the Net profit (loss) for the year attributable to Owners of the Parent and the Profit (loss) from continuing operations attributable to Owners of the Parent were also adjusted to exclude the effects, net of tax, related to the above-mentioned plans and to the convertible bond (+40 million euros in 2018; +32 million euros in 2017).

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POTENTIAL FUTURE CHANGES IN SHARE CAPITAL

The table below shows future potential changes in share capital, based on the issuance of the convertible bond by TIM S.p.A. in March 2015, the authorizations to increase the share capital in place at December 31, 2018, and the options and rights granted under equity compensation plans, still outstanding at December 31, 2018:

	Number of maximum shares issuable	Share capital (thousands of euros)	Additional Paid-in capital (thousands of euros)	Subscription price per share (euros)
Capital increases already approved (ordinary shares)				
2014-2016 Stock Option Plan	133,042	73	80	1.15
	343,069	189	158	1.01
	893,617	492	393	0.99
	13,497,406	7,423	5,264	0.94
Stock Options	14,867,134	8,177	5,895	
2015 Convertible Bond (ordinary shares) (*)	1,082,485,386	2,000,000	n.a.	n.a.
Convertible bonds		2,000,000		
Total		2,008,177		

(*) The number of shares potentially issuable shown may be subject to adjustments.

Further information is provided in the Notes Financial liabilities (non-current and current) and Equity compensation plans .

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NOTE 37

SEGMENT REPORTING

A) SEGMENT REPORTING

Segment reporting is based on the following operating segments:

- Domestic
- Brazil
- Other Operations

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Separate Consolidated Income Statements by Operating Segment

(millions of euros)	Domestic		Brazil		Other Operations		Adjustments and eliminations		Consolidated Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Third-party revenues	14,998	15,328	3,942	4,500					18,940	19,828
Intragroup revenues	33	26	1	2			(34)	(28)		
Revenues by operating segment	15,031	15,354	3,943	4,502			(34)	(28)	18,940	19,828
Other operating income	273	471	69	52			(1)		341	523
Total operating revenues and other income	15,304	15,825	4,012	4,554			(35)	(28)	19,281	20,351
Acquisition of goods and services	(6,360)	(6,235)	(1,846)	(2,168)	(7)	(4)	27	19	(8,186)	(8,388)
Employee benefits expenses	(2,781)	(3,266)	(317)	(353)	(6)	(7)	(1)		(3,105)	(3,626)
of which: accruals to employee severance indemnities	(1)	(6)							(1)	(6)
Other operating expenses	(763)	(704)	(491)	(500)	(6)	(5)	1	1	(1,259)	(1,208)
of which: write-downs and expenses in connection with credit management and provision charges	(501)	(468)	(208)	(160)			1		(708)	(628)
Change in inventories	88	41	14	(6)					102	35
Internally generated assets	467	510	95	108			8	8	570	626
EBITDA	5,955	6,171	1,467	1,635	(19)	(16)			7,403	7,790
Depreciation and amortization	(3,340)	(3,360)	(915)	(1,114)				1	(4,255)	(4,473)

Gains/(losses) on disposals of non-current assets	(13)	(2)	12	14				(1)	(1)	11
Impairment reversals (losses) on non-current assets	(2,586)	(37)							(2,586)	(37)
EBIT	16	2,772	564	535	(19)	(16)			561	3,291
Share of profits (losses) of associates and joint ventures accounted for using the equity method	(1)	(1)							(1)	(1)
Other income (expenses) from investments									11	(18)
Finance income									1,056	1,808
Finance expenses									(2,404)	(3,303)
Profit (loss) before tax from continuing operations									(777)	1,777
Income tax expense									(375)	(490)
Profit (loss) from continuing operations									(1,152)	1,287
Profit (loss) from Discontinued operations/Non-current assets held for sale										
Profit (loss) for the year									(1,152)	1,287
Attributable to:										
Owners of the Parent									(1,411)	1,121
Non-controlling interests									259	166

Revenues by operating segment

(millions of euros)	Domestic		Brazil		Other Operations		Adjustments and eliminations		Consolidated Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenues from equipment sales third party	1,358	1,350	180	210					1,538	1,560
				1				(1)		

Revenues from equipment sales intragroup										
Total revenues from equipment sales	1,358	1,350	180	211				(1)	1,538	1,560
Revenues from services third party	13,617	13,974	3,762	4,290					17,379	18,264
Revenues from services intragroup	33	26	1	1			(34)	(27)		
Total revenues from services	13,650	14,000	3,763	4,291			(34)	(27)	17,379	18,264
Revenues on construction contracts third party	23	4							23	4
Revenues on construction contracts-intragroup										
Total revenues on construction contracts	23	4							23	4
Total third-party revenues	14,998	15,328	3,942	4,500					18,940	19,828
Total intragroup revenues	33	26	1	2			(34)	(28)		
Total revenues by operating segment	15,031	15,354	3,943	4,502			(34)	(28)	18,940	19,828

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Purchase of intangible and tangible assets by operating segment

(millions of euros)	Domestic 2018	Domestic 2017	Brazil 2018	Brazil 2017	Other Operations 2018	Other Operations 2017	Adjustments and eliminations 2018	Adjustments and eliminations 2017	Consolidated Total 2018	Consolidated Total 2017
Purchase of intangible assets	3,385	1,763	262	529					3,647	2,292
Purchase of tangible assets	2,194	2,842	637	635					2,831	3,477
Total purchase of intangible and tangible assets	5,579	4,605	899	1,164					6,478	5,769
of which: capital expenditures	*5,518*	*4,551*	*890*	*1,150*					*6,408*	*5,701*
of which: increase in finance leasing contracts	*61*	*54*	*9*	*14*					*70*	*68*

Headcount by Operating Segment

(number)	Domestic 12/31/2018	Domestic 12/31/2017	Brazil 12/31/2018	Brazil 12/31/2017	Other Operations 12/31/2018	Other Operations 12/31/2017	Consolidated Total 12/31/2018	Consolidated Total 12/31/2017
Headcount	48,200	49,851	9,658	9,508	43	70	57,901	59,429

Assets and liabilities by Operating Segment

(millions of euros)	Domestic 12/31/2018	Domestic 12/31/2017	Brazil 12/31/2018	Brazil 12/31/2017	Other Operations 12/31/2018	Other Operations 12/31/2017	Adjustments and eliminations 12/31/2018	Adjustments and eliminations 12/31/2017	Consolidated Total 12/31/2018	Consolidated Total 12/31/2017
Non-current operating assets	48,056	48,850	6,037	6,769	3	3	(1)	1	54,095	55,623
Current operating assets	4,233	4,363	874	898	5	(2)	(17)	(10)	5,095	5,249
Total operating assets	52,289	53,213	6,911	7,667	8	1	(18)	(9)	59,190	60,872

Investments accounted for using the equity method	16	17							16	17
Discontinued operations/Non-current assets held for sale										
Unallocated assets									6,413	7,894
Total Assets									65,619	68,783
Total operating liabilities	10,732	9,829	1,885	1,855	48	58	(69)	(26)	12,596	11,716
Liabilities directly associated with Discontinued operations/Non-current assets held for sale										
Unallocated liabilities									31,276	33,284
Equity									21,747	23,783
Total Equity and Liabilities									65,619	68,783

B) REPORTING BY GEOGRAPHICAL AREA

		Revenues				Non-current operating assets	
		Breakdown by location of operations		Breakdown by location of customers		Breakdown by location of operations	
(millions of euros)		2018	2017	2018	2017	12/31/ 2018	12/31/ 2017
Italy	(a)	14,711	15,015	13,839	14,064	47,795	48,591
Outside Italy	(b)	4,229	4,813	5,101	5,764	6,300	7,032
Total	(a+b)	18,940	19,828	18,940	19,828	54,095	55,623

C) INFORMATION ABOUT MAJOR CUSTOMERS

None of the TIM Group s customers exceeds 10% of consolidated revenues.

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NOTE 38

RELATED PARTY TRANSACTIONS AND DIRECTION AND COORDINATION ACTIVITY

The following tables show the figures relating to related party transactions and the impact of those amounts on the separate consolidated income statements, consolidated statements of financial position and consolidated statements of cash flows.

On May 16, 2018, the Board of Directors of TIM S.p.A. acknowledged that the grounds for considering Vivendi the entity exercising direction and coordination powers over TIM no longer applied. Furthermore, on June 25, 2018, the Board of Directors of TIM approved amendments to the internal procedure governing transactions with related parties, and updated the relative related-party boundary to reflect the new situation, whereby Vivendi no longer qualifies as the de facto controlling entity over TIM. The procedure was lastly updated by the Board of Directors with some improvements on July 24, 2018.

Related-party transactions, when not dictated by specific laws, were conducted at arm s length. The transactions were carried out in accordance with the internal procedure that contains the rules aimed at ensure the transparency and fairness of related party transactions, in accordance with Consob Regulation 17221/2010. The current procedure is available on the website www.telecomitalia.com, under the Group section/Governance System channel.

The effects of the related party transactions on the Group separate consolidated income statement line items for 2018 and 2017 are as follows:

SEPARATE CONSOLIDATED INCOME STATEMENT LINE ITEMS 2018

(millions of euros)	Total (a)	Associates, subsidiaries of associates and joint ventures	Other related parties (*)	Pension funds	Key managers	Total related parties (b)	% of financial statement item (b/a)
Revenues	18,940	2	3			5	0.0
Acquisition of goods and services	8,186	5	157			162	2.0
Employee benefits expenses	3,105			78	14	92	3.0
Finance income	1,056		8			8	0.8
Finance expenses	2,404	3	6			9	0.4

(*) Vivendi group and Companies belonging to the group that it belongs to; other related parties through directors, statutory auditors and key managers.

SEPARATE CONSOLIDATED INCOME STATEMENT LINE ITEMS 2017

(millions of euros)	Total (a)	Associates, subsidiaries of associates and joint ventures	Other related parties (*)	Pension funds	Key managers	Total related parties (b)	% of financial statement item (b/ a)
Revenues	19,828	3	115			118	0.6
Other operating income	523	4	4			8	1.5
Acquisition of goods and services	8,388	22	170			192	2.3
Employee benefits expenses	3,626		1	74	37	112	3.1
Finance income	1,808		45			45	2.5
Finance expenses	3,303	11	38			49	1.5

(*) Vivendi group and Companies belonging to the group that it belongs to; other related parties both through directors, statutory auditors and key managers and as participants in shareholder agreements pursuant to Article 22 of the Consolidated Law on Finance.

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The effects of the related party transactions on the Group separate consolidated statement of financial position line items for 2018 and 2017 are as follows:

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION LINE ITEMS AT 12/31/2018

(millions of euros)	Total (a)	Associates, subsidiaries of associates and joint ventures	Other related parties (*)	Pension funds	Total related parties (b)	% of financial statement item (b/a)
Net financial debt						
Non-current financial assets	(1,594)					
Current financial assets	(3,383)					
Non-current financial liabilities	25,059					
Current financial liabilities	5,913					
Total net financial debt	25,995					
Other statement of financial position line items						
Trade and miscellaneous receivables and other current assets	4,706	3	19		22	0.5
Miscellaneous payables and other non-current liabilities	3,297		1		1	0.0
Trade and miscellaneous payables and other current liabilities	6,901	3	46	24	73	1.1

(*) Vivendi group and Companies belonging to the group that it belongs to; other related parties through directors, statutory auditors and key managers.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION LINE ITEMS AT 12/31/2017

(millions of euros)	Total (a)	Associates, subsidiaries	Other related	Pension funds	Total related	% of financial

		of associates and joint ventures	parties (*)		parties (b)	statement item (b/ a)
Net financial debt						
Non-current financial assets	(1,768)					
Securities other than investments (current assets)	(993)		(15)		(15)	1.5
Financial receivables and other current financial assets	(437)		(38)		(38)	8.7
Cash and cash equivalents	(3,575)					
Current financial assets	(5,005)		(53)		(53)	1.1
Non-current financial liabilities	28,108		100		100	0.4
Current financial liabilities	4,756		163		163	3.4
Total net financial debt	26,091		210		210	0.8
Other statement of financial position line items						
Trade and miscellaneous receivables and other current assets	4,959	3	33		36	0.7
Trade and miscellaneous payables and other current liabilities	7,520	3	33	24	60	0.8

(*) Vivendi group and Companies belonging to the group that it belongs to; other related parties through directors, statutory auditors and key managers.

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The effects of the related party transactions on the significant Group consolidated statements of cash flows line items for 2018 and 2017 are as follows:

CONSOLIDATED STATEMENT OF CASH FLOWS LINE ITEMS 2018

(millions of euros)	Total (a)	Associates, subsidiaries of associates and joint ventures	Other related parties (*)	Pension funds	Total related parties (b)	% of financial statement item (b/a)
Purchase of intangible and tangible assets on an accrual basis	6,478	3			3	0.0

(*) Vivendi group and Companies belonging to the group that it belongs to; other related parties through directors, statutory auditors and key managers.

CONSOLIDATED STATEMENT OF CASH FLOWS LINE ITEMS 2017

(millions of euros)	Total (a)	Associates, subsidiaries of associates and joint ventures	Other related parties (*)	Pension funds	Total related parties (b)	% of financial statement item (b/a)
Purchase of intangible and tangible assets on an accrual basis	5,769	135			135	2.3

(*) Vivendi group and Companies belonging to the group that it belongs to; other related parties through directors, statutory auditors and key managers.

TRANSACTIONS WITH ASSOCIATES, SUBSIDIARIES OF ASSOCIATES AND JOINT VENTURES

Italtel S.p.A. was recapitalized in 2017. The TIM Group did not participate, leading to the disposal of the equity interests it held. The recapitalization concluded on December 14, 2017, as of which date the Italtel group was no longer a related party of the TIM Group.

SEPARATE CONSOLIDATED INCOME STATEMENT LINE ITEMS

(millions of euros)	2018	2017	TYPE OF CONTRACT
Revenues			
Asscom S.r.l.	1	1	Insurance brokerage.
Italtel group		1	Provision of equipment rental, fixed and mobile telephone and outsourced communication services.
NordCom S.p.A.	1	1	Fixed and mobile voice services, equipment, data network connections and outsourcing.
Total revenues	2	3	
Other operating income		4	Contributions governed by partnership agreements and penalties with respect to the Italtel group.
Acquisition of goods and services			
Italtel group		17	Supply and maintenance of switching equipment, software development and platforms upgrading, and customized products and services, as part of TIM offerings to the Italtel group customers, and extension of professional services for the new Multimedia Video Data Center for the provision of the TIM Vision service.
W.A.Y. S.r.l.	4	4	Supply, installation and assistance services for geolocation equipment provided as part of offers to TIM customers and development and integration services provided under the Consip agreement.
Other minor companies	1	1	
Total acquisition of goods and services	5	22	
Finance expenses	3	11	Write-down of the financial receivable due from Alfiere.

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION LINE ITEMS

(millions of euros)	12/31/2018	12/31/2017	TYPE OF CONTRACT
Net financial debt			
Trade and miscellaneous receivables			
Alfiere S.p.A.	1	1	Contracts for project management, administration, corporate and compliance services, and sundry chargebacks.
W.A.Y. S.r.l.	1	1	Supply of fixed-line and mobile telephony.
Other minor companies	1	1	
Total trade and miscellaneous receivables and other current assets	3	3	
Trade and miscellaneous payables and other current liabilities			
Movenda S.p.A.	1	1	Supply and certification of SIM-cards, software systems.
W.A.Y. S.r.l.	1	1	Supply, installation and assistance services for geolocation equipment provided as part of offers to TIM customers and development and integration services provided under the Consip agreement.
Other minor companies	1	1	
Total trade and miscellaneous payables and other current liabilities	3	3	

CONSOLIDATED STATEMENT OF CASH FLOWS LINE ITEMS

(millions of euros)	2018	2017	TYPE OF CONTRACT
Purchase of intangible and tangible assets on an accrual basis			
Italtel group		132	Purchases of telecommunications equipment.
Movenda S.p.A.	2	2	Information technology services and licenses for Mobile Connect Cardlets.
Other minor companies	1	1	
Total purchase of intangible and tangible assets on an accrual basis	3	135	

The shareholder loan with the joint venture Alfiere S.p.A. in place at December 31, 2017 (11 million euros) was used to cover losses for 3 million euros and was subsequently increased by 3 million euros during 2018. The remaining amount, of 11 million euros, was fully written down.

At December 31, 2018, TIM S.p.A. had issued guarantees in favor of Alfiere S.p.A. for 1 million euros.

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TRANSACTIONS WITH OTHER RELATED PARTIES (BOTH THROUGH DIRECTORS, STATUTORY AUDITORS AND KEY MANAGERS AND AS PARTICIPANTS IN SHAREHOLDER AGREEMENTS PURSUANT TO ARTICLE 122 OF THE CONSOLIDATED LAW ON FINANCE)

Details are provided below of the transactions with:

Vivendi Group and the companies of the group it belongs to (as a result of the resolutions of the Board of Directors of TIM S.p.A. of May 3 and June 1, 2017);

Related companies through Directors appointed on May 4, 2018;

Former Telco company and related companies through Directors whose term of office ended on May 4, 2018.

The most significant amounts are summarized as follows:

SEPARATE CONSOLIDATED INCOME STATEMENT LINE ITEMS

(millions of euros)	2018	2017	TYPE OF CONTRACT
Revenues			
Other Directors or through	1		Fixed-line and mobile voice services and devices.
Mediobanca group	1	4	Telephone services, sale of equipment, data network services and Internet accesses.
Other minor companies	1	1	
Former Telco Companies		110	See the Note Related party transactions in the TIM Group Consolidated Financial Statements at December 31, 2017.
Total revenues	3	115	
Other operating income		4	See the Note Related party transactions in the TIM Group Consolidated Financial Statements at December 31, 2017.
Acquisition of goods and services			
Other Directors or through	2		Amounts recognized for telephone services to be paid back.
Havas Group	146	91	Purchase of media space on behalf of the TIM Group and, to a lesser extent, development and delivery of advertising campaigns.
Mediobanca group		1	Credit recovery activities.
Vivendi group	9	9	Purchase of musical and television digital content (TIMmusic and TIMvision) and supply of D&P cloud-based games (TIMgames).

Former Telco Companies		69	See the Note Related party transactions in the TIM Group Consolidated Financial Statements at December 31, 2017.
Total acquisition of goods and services	157	170	
Employee benefits expenses		1	See the Note Related party transactions in the TIM Group Consolidated Financial Statements at December 31, 2017.
Finance income			
Mediobanca group	8	15	Bank accounts, deposits and hedging derivatives.
Former Telco Companies		30	See the Note Related party transactions in the TIM Group Consolidated Financial Statements at December 31, 2017.
Total finance income	8	45	
Finance expenses			
Mediobanca group	6	15	Term Loan Facility and Revolving Credit Facility and hedging derivatives.
Former Telco Companies		23	See the Note Related party transactions in the TIM Group Consolidated Financial Statements at December 31, 2017.
Total finance expenses	6	38	

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION LINE ITEMS

(millions of euros)	12/31/2018	12/31/2017	TYPE OF CONTRACT
Net financial debt			
Securities other than investments (current assets)		15	Bonds issued by Mediobanca.
Financial receivables and other current financial assets		38	Hedging derivatives, loans, financing and finance leases made with Mediobanca.
Non-current financial liabilities		100	Hedging derivatives, loans, financing and finance leases made with Mediobanca.
Current financial liabilities		163	Hedging derivatives and loans made with Mediobanca.

(millions of euros)	12/31/2018	12/31/2017	TYPE OF CONTRACT
Other statement of financial position line items			
Trade and miscellaneous receivables			
Other Directors or through	1	3	Fixed-line and mobile voice services and devices.
Havas Group	17	29	Purchase of media space on behalf of the TIM Group and, to a lesser extent, development and delivery of advertising campaigns.
Vivendi group	1		TIM Show 2018 service and TV series rights.
Other minor companies		1	
Total trade and miscellaneous receivables and other current assets	19	33	
Miscellaneous payables and other non-current liabilities	1		Deferred income for IRU sale to the Vivendi group.
Total trade and miscellaneous payables and other current liabilities			
Havas Group	44	30	Purchase of media space on behalf of the TIM Group and, to a lesser extent, development and delivery of advertising campaigns.
Mediobanca group		1	Credit recovery activities.
Vivendi group	2	2	Purchase of musical and television digital content (TIMmusic and TIMvision) and supply of D&P cloud-based games (TIMgames).

Total trade and miscellaneous payables and other current liabilities	46	33

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TRANSACTIONS WITH PENSION FUNDS

SEPARATE CONSOLIDATED INCOME STATEMENT LINE ITEMS

(millions of euros)	2018	2017	TYPE OF CONTRACT
Employee benefits expenses			Contributions to pension funds.
Fontedir	8	10	
Telemaco	66	67	
Other pension funds	4	(3)	
Total employee benefits expenses	78	74	

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION LINE ITEMS

(millions of euros)	12/31/2018	12/31/2017	TYPE OF CONTRACT
Trade and miscellaneous payables and other current liabilities			Payables for contributions to pension funds.
Fontedir	3	3	
Telemaco	21	21	
Total trade and miscellaneous payables and other current liabilities	24	24	

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REMUNERATION TO KEY MANAGERS

In 2018, the total remuneration recorded on an accrual basis by TIM or by Group subsidiaries in respect of key managers amounted to 14.0 million euros (37.0 million euros in 2017). The figure breaks down as follows:

(millions of euros)	2018	2017
Short-term remuneration	6.8[(1)]	10.4[(4)]
Long-term remuneration	0.6	0.1[(5)]
Employment termination benefit incentives	5.6[(2)]	25.5
Share-based payments (*)	1.0[(3)]	1.0[(6)]
	14.0	37.0

(*) These refer to the fair value of the rights, accrued to December 31, under the share-based incentive plans of TIM S.p.A. and its subsidiaries (Long Term Incentive 2018 and Plans of the subsidiaries).
(1) of which 1.1 million euros recorded by the subsidiaries;
(2) of which 2.4 million euros recorded by the subsidiaries;
(3) of which 0.2 million euros recorded by the subsidiaries;
(4) of which 1.6 million euros recorded by the subsidiaries;
(5) of which 0.1 million euros recorded by the subsidiaries;
(6) of which 1.0 million euros recorded by the subsidiaries.

Short-term remuneration is paid during the period it pertains to, and, at the latest, within the six months following the end of that period. In 2018, this item did not include the effects of the reversal of accruals related to the 2017 costs that came to 1.25 million euros.

Employment termination benefit incentives for 2017 related to the amount awarded as a settlement to Flavio Cattaneo and did not include the reversal, totaling 10.7 million euros, of the accruals made in 2016 for the Special Award.

In 2018, contributions to defined contribution plans (Assida and Fontedir) paid by TIM S.p.A. or subsidiaries of the Group in favor of Key Managers totaled 119,000 euros (97,000 euros in 2017).

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In 2018, Key managers , i.e. those who have the power and responsibility, directly or indirectly, for the planning, direction and control of the operations of the TIM Group, including directors, were the following:

Directors:		
Arnaud Roy de Puyfontaine	[1]	Executive Chairman of TIM S.p.A.
Giuseppe Recchi	[2]	Deputy Executive Chairman of TIM S.p.A.
Fulvio Conti	[3]	Executive Chairman of TIM S.p.A.
Amos Genish	[4]	Managing Director and Chief Executive Officer of TIM S.p.A.
	[5]	General Manager of TIM S.p.A.
Luigi Gubitosi	[6]	Managing Director and Chief Executive Officer of TIM S.p.A.
	[6]	General Manager of TIM S.p.A.
Managers:		
Stefano De Angelis	[7]	Diretor Presidente Tim Participações
Sami Foguel	[8]	S.A.
Stefano Azzi	[9]	Head of Consumer & Small Enterprise
	[18]	Chief Consumer Office
Stefano Ciurli	[9]	Head of Wholesale
Giovanni Ferigo	[9]	Head of Technology
Lorenzo Forina	[9]	Head of Business & Top Clients
	[18]	Chief Business & Top Clients Office
Mario Di Mauro	[10]	Strategy, Innovation & Customer Experience
Riccardo Meloni	[11]	Head of Human Resources & Organizational Development
Cristoforo Morandini	[9]	Head of Regulatory Affairs and Equivalence
Agostino Nuzzolo	[12]	Head of Legal, Regulatory and Tax
Piergiorgio Peluso		Head of Administration, Finance and Control
Elisabetta Romano	[13]	Chief Technology Office
Pietro Scott Iovane	[14]	Chief Commercial Office
Michel Sibony	[15]	Head of the Procurement Unit & Real
Anna Spinelli	[16]	Estate
Stefano Siragusa	[17]	Chief Wholesale Infrastructures Network and Systems Office

[1] to April 24, 2018;
[2] to March 22, 2018;
[3] from November 13, 2018 to November 17, 2018;
[4] to April 24, 2018 and from May 7 to November 13, 2018;
[5] to November 14, 2018;

(6) from November 18, 2018;
(7) to July 22, 2018;
(8) from July 23, 2018;
(9) to March 5, 2018;
(10) from March 6, 2018; with organization communication dated January 7, 2019, the structure was renamed: Innovation and Customer Experience;
(11) from March 16, 2018;
(12) with organization communication dated January 7, 2019, the structure was renamed: Legal & Tax;
(13) from July 1, 2018;
(14) from April 19, 2018 to September 11, 2018;
(15) to May 16, 2018;
(16) from September 1, 2018;
(17) from March 12, 2018;
(18) from September 24, 2018.

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EQUITY COMPENSATION PLANS

Equity compensation plans in place at December 31, 2018 are used for retention purposes and to offer long-term incentives to Group managers and personnel.

A summary is provided below of the plans in place at December 31, 2018.

DESCRIPTION OF STOCK OPTION PLANS

TIM S.p.A. 2014-2016 Stock Option Plan

The objective of the 2014 2016 Stock Option Plan, introduced following its approval by the Board of Directors of the Company on June 26, 2014, was to encourage management holding organizational positions that are crucial to the company business to focus on the medium/long-term growth in value of company shares. It was aimed at the then Chief Executive Officer, Top Management (including Key Officers) and select TIM Group managers.

Please refer to the Financial Statements at December 31, 2017 for a description of the plan.

The three-year exercise period (March 24, 2017 - March 24, 2020) commenced following the approval of the financial statements for 2016 by the Board of Directors on March 23, 2017.

Based on final data approved, the number of exercisable options is 20% of the total options assigned to targets.

The exercise price was set, by the Board of Directors meeting that initiated the plan at 0.94 euros per option (strike price). For the allocations made in 2015 and 2016, the strike price was determined as the higher of the price established upon initial allocation and the price resulting from the application of the above criteria at the time of allocation of the options. Below is the situation at December 31, 2018:

133,042 shares at a unit price of 1.15 euros;

343,069 shares at a unit price of 1.01 euros;

893,617 shares at a unit price of 0.99 euros;

13,497,406 shares at a unit price of 0.94 euros.

Tim Participações S.A. Stock Option Plan

2011-2013 Plan

On August 5, 2011, the General Meeting of Shareholders of Tim Participações S.A. approved the long-term incentive plan for managers in key positions in the company and its subsidiaries. Exercise of the options is subject to achieving two objectives simultaneously:

- absolute performance: increase in value of the Tim Participações S.A. s shares;
- relative performance: performance of the price of Tim Participações S.A. s shares against a benchmark index mainly composed of in the Telecommunications, Information Technology and Media industry.

Performance targets refer to the three-year period 2011-2013 and performance is recorded in July of each year.

The vesting period is 3 years (33% the first year, 66% the second year and the balance in the third year), the options are valid for 6 years, and the company does not have the legal obligation to repurchase or liquidate the options in cash, or in any other form.

2011

The grantees of the options were granted the right to purchase a total of 2,833,596 shares.

The exercise period expired in August 2017. As such, the plan is now closed.

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2012

On September 5, 2012 the grantees of the options were granted the right to purchase a total of 2,661,752 shares.

The exercise period expired in September 2018; the 194,756 pending options were canceled and so the plan was closed.

2013

On July 30, 2013, the grantees of the options were granted the right to purchase a total of 3,072,418 shares.

As at December 31, 2018 all pending options were vested, and 543,583 options were still valid.

2014-2016 Plan

On April 10, 2014, the General Meeting of Shareholders of Tim Participações S.A. approved the long-term incentive plan for managers in key positions in the company and its subsidiaries.

Exercise of the options is not subject to the achievement of specific performance targets, but the exercise price is adjusted upwards or downwards according to the performance of the Tim Participações S.A. shares in a ranking of Total Shareholder Return, in which companies in the Telecommunications, Information Technology and Media industry are compared during each year of validity of the plan. If the performance of the Tim Participações S.A. shares, in the 30 days prior to September 29 of each year, is in last place in that ranking, the participant loses the right to 25% of the options vesting at that time.

The vesting period is 3 years (a third per year), the options are valid for 6 years, and the company does not have the legal obligation to repurchase or liquidate the options in cash, or in any other form.

Year 2014

On September 29, 2014, the grantees of the options were granted the right to purchase a total of 1,687,686 shares.

At the end of December 2018, 531,972 options were still valid.

Year 2015

On October 16, 2015, the grantees of the options were granted the right to purchase a total of 3,355,229 shares.

In 2018, 656,268 options were exercised and 291,949 expired due to terminations. The first wave exercised was valued at 8.7341 reais, up 3.33% based on the position in the ranking of benchmarked companies.

In the second wave, options were exercised at a price of 8.4625 reais, thanks to the improvement in the above ranking.

In the last wave, options were exercised at a price of 7.6074 reais, with a 10% discount based on the position in the ranking of benchmarked Companies.

At the end of December 2018, 292,523 options were still valid.

2016

On November 8, 2016, the grantees of the options were granted the right to purchase a total of 3,922,204 shares.

In December 2018, 510,884 options were exercised at a price of 7.6928 reais, due to the 5% readjustment of the price as a result of being ranked first in the list of benchmarked companies. At the same time, 1,277,878 options expired due to terminations.

The first wave exercised was valued at 7.6928 reais, discounted 5% based on the position in the ranking of benchmarked companies.

In the second wave, options were exercised at a price of 7.2879 reais, with a 10% discount based on the position in the ranking of benchmarked Companies.

At the end of December 2018, 895,522 options were still valid.

DESCRIPTION OF OTHER EQUITY COMPENSATION PLANS

TIM S.p.A. - 2018-2020 Long Term Incentive Plan

On April 24, 2018, the Shareholders Meeting of Telecom Italia S.p.A. (TIM , the Company or the Issuer), approved a Long Term Incentive Plan 2018 (the Plan).

The objective of the Plan is to create incentives for Beneficiaries upon achievement of Group corporate objectives set out in the industrial plan, bringing the interests of management holding organizational positions that are crucial to the company business into line with the interests of TIM owners in terms of growth in value of the Share over the medium to long term.

The Plan envisages two grants: a first grant reserved to the Chief Executive Officer, serviced by a maximum of 30,000,000 shares; a second grant for a select number of Group management (serviced by a maximum of 55,000,000 shares).

It provides for a three-year vesting period (2018 2020) and the bonus allocation of ordinary shares of the company Telecom Italia subject to the achievement of the performance conditions stated below, as assessed by the Board of Directors when approving the TM Group consolidated financial statements at December 31, 2020:

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Stock performance (70% weighting): Performance of the ordinary share of Telecom Italia compared to the average performance of a basket of Peers made up of the following peers: Deutsche Telekom AG, Vodafone Group PLC, Telefonica SA, Orange SA, BT Group PLC, Telenor ASA, Swisscom AG, Telia Co AB, Koninklijke KPN NV, Proximus SADP, Elisa OYJ;

Equity Free Cash Flow (30% weighting): Parameter tied to the generation of cash cumulated over the three-year period. This indicator, considered net cash flow before the dividend and the investment in frequencies, pursuant to the 2018-2020 industrial plan, is measured as follows:

(+) adjusted EBITDA, i.e. reported EBITDA adjusted for any non-recurring line items;
(-) capital expenditures (capex; not including the investment in frequencies);
(+/-) changes in adjusted net working capital (reported adjusted for any non-recurring items), including the changes in the operating provisions;
(-) total finance expenses;
(-) taxes

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This amount is the Free Cash Flow available for paying dividends, debt repayment, the impact of IAS 17 (finance lease) and the investment in frequencies, and does not include the financial impact of investment acquisition and/or disposal transactions (M&A).

Following assignment, all shares will be subject to the lock-up clause for two years.

The operating terms and conditions of the Plan are set forth in the Plan Rules, approved by the Board of Directors on July 24, 2018, which resolved its start-up.

TIM S.p.A. - Special Award 2016 2019

For the description of the Special Award 2016-2019, launched in 2016, see the Consolidated financial statements at December 31, 2017.

At December 31, 2018 the Key Managers, identified in 2017 as beneficiaries in relation to the 1.5% share of the 2016 over-performance, were granted a total amount of 1 million euros (of which 0.8 million euros consisted of 1,025,640 TIM S.p.A. ordinary shares and the remainder in cash). The payment is scheduled for after the approval of the Financial Statements for the year 2019.

TIM Participações S.A. 2018-2020 Plan

On April 19, 2018, the General Meeting of Shareholders of Tim Participações S.A. approved the long-term incentive plan for managers in key positions in the company and its subsidiaries. The plan aims to remunerate participants with shares issued by the company, subject to specific temporal and/or performance conditions (upon reaching specific targets). The 2018-2020 Plan does not cover criteria for setting the purchase or exercise price because the shares are granted at market value.

The vesting period is 3 years (a third per year) and the company does not have the legal obligation to repurchase or liquidate the shares in cash or in any other form. The portion of shares linked to performance (70%) is granted 1/3 each year, if the performance target is achieved; the remaining portion of shares (30%) is granted 3 years after allocation.

The plan allows for the shares to be transferred and also allows for payment to be made in the equivalent cash value.

Year 2018

On April 20, 2018, the grantees were granted the right to obtain a total of 849,932 shares. As at December 31, 2018, the first vesting period has not yet finished. However, 383,418 shares were canceled due to the participants leaving the company. At the end of December 2018, 466,514 shares were still valid.

INWIT S.p.A. - Long Term Incentive 2018-2020

The INWIT S.p.A. Shareholders Meeting approved the Long Term Incentive Plan 2018 2020 (the Plan) on April 13, 2018 and authorized the Board of Directors to purchase and make available Company shares in one or more times and for an eighteen-month period starting from the date of the shareholders meeting resolution. These shares serve to establish the aforementioned share incentive plan. The purchases will concern a maximum number of 400,000 ordinary shares of the Company, representing about 0.07% of the INWIT share capital.

The objective of the Plan is to create incentives for Beneficiaries upon achievement of Company strategic objectives set out in the industrial plan communicated to the market, bringing the interests of management holding organizational positions that are crucial to the company business into line with the interests of INWIT owners in terms of growth in value of the share over the medium to long term.

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The Plan provides for a three-year vesting period (2018 2020) and the bonus allocation of shares subject to the achievement of two performance conditions, as assessed by the Board of Directors when approving the Company financial statements at December 31, 2020:

- Total Shareholder Return regarding INWIT (60% weighting). The parameter measures INWIT s TSR position in the Italian and foreign TowerCo TSR (peer group) rankings;
- cumulative Recurring Free Cash Flow over the period 2018-2020 (40% weighting). This indicates the cash flow generated by operational management after investments to maintain infrastructures and after finance expenses. On the other hand, development investments are not included.

The operating terms and conditions of the Plan are set forth in the Plan Rules, approved by the Board of Directors during its meeting on July 23, 2018.

Start-up of the Plan was resolved by the Board of Directors on November 6, 2018.

Purchase of 222,118 treasury shares through Mediobanca - Banca di Credito Finanziario S.p.A., representing 0.037% of the share capital implemented by INWIT for funding the service of the 2018-2020 Long Term Incentive Plan, was finalized on November 15, 2018.

The shares are deposited on a securities account held by Inwit S.p.A. at Intesa Sanpaolo S.p.A..

CALCULATION OF FAIR VALUE MEASUREMENT OF THE GRANTED OPTIONS AND RIGHTS

Parameters used to determine fair value Tim S.p.A. LTI 2018-2020 Plan

Plans/Parameters	Exercise price (euros)	Nominal value (euros) (1)	Volatility (2)	Period	Expected dividends (euros)	Risk-free interest rate (3)
LTI 2018 2020 Plan equity component		0.63	n.a.	3 years		-0.552% at 3 years
LTI 2018 2020 Plan equity component (New CEO)		0.51	n.a.	2 years		-0.594% at 2 years

(1)

Arithmetic mean of the official prices of the Shares recognized starting from the stock market trading day prior to that of assignment until the thirtieth previous ordinary calendar day (both included) on the Electronic Stock Exchange organized and managed by Borsa Italiana S.p.A., calculated using only the days to which the prices taken as the basis of calculation refer as the divisor, cut off at the second decimal.

(2) Based on the performance objectives of the plan, the TIM share volatility values were considered and, if necessary, also those of the securities of the major companies of the telecommunications sector (peer basket).

(3) The risk-free interest rate refers to the rate of government securities of the Federal Republic of Germany (market benchmark for transactions in euros) with due date consistent with the period of reference at the valuation date.

Parameters used for the assignments of Tim Participações S.A.

Plans/Parameters	Exercise price (reais)	Nominal value (reais)	Volatility	Period	Expected dividends (reais)	Risk-free interest rate
Stock option plan 2011	8.84		51.73%	6 years		11.94% per annum
Stock option plan 2012	8.96		50.46%	6 years		8.89% per annum
Stock option plan 2013	8.13		48.45%	6 years		10.66% per annum
Stock option plan 2014	13.42		44.6%	6 years		10.66% per annum
Stock option plan 2015	8.45		35.5%	6 years		16.10% per annum
Stock option plan 2016	8.10		36.70%	6 years		11.73% per annum
2018-2020 Plan		14.41		3 years		NA

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Parameters used to determine the fair value INWIT S.p.A.

Plans/Parameters	Exercise price (euros)	Nominal value[1] (euros)	Volatility	Period	Expected dividends (euros)	Interest rate
INWIT LTI 2018-2020		6.208	n.a.	3 years	0.19	-0.1% annual

(1) Arithmetic mean of the official prices of the INWIT S.p.A. ordinary shares recognized on the Electronic Stock Exchange organized and managed by Borsa Italiana S.p.A. over the 30 calendar days prior to the date of the Board of Directors meeting held November 6, 2018 (October 6, 2018 - November 5, 2018).

Effects on the income statement and statement of financial position

Equity compensation plans which call for payment in equity instruments are recorded at fair value (except for the 2018 Plan of TIM Participações) which represents the cost of such instruments at the grant date and is recorded in the separate income statements under Employee benefits expenses over the period between the grant date and the vesting period with a contra-entry to the equity reserve Other equity instruments . 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 (except for the 2018 Plan of TIM Participações).

Equity compensation plans which call for payment in equity instruments did not have significant impacts either on the income statements or the statements of financial position or of cash flows of the TIM Group at December 31, 2018.

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SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

The effect of 2018 non-recurring events and transactions on the equity, profit, net financial debt and cash flows of the TIM Group is set out below in accordance with Consob Communication DEM/6064293 of July 28, 2006. The non-recurring effects on Equity and Profit (loss) for the year are shown net of tax effects.

(millions of euros)		Equity	Profit (loss) for the year	Net financial debt carrying amount	Cash flows (*)
Amount financial statements	(a)	21,747	(1,152)	25,995	(1,552)
Revenues - adjustments from previous years		(62)	(62)		
Other income - Effect of Brazil BU tax recovery		24	24		
Acquisition of goods and services - Expenses related to agreements and the development of non-recurring projects		(11)	(11)	14	(14)
Employee benefits expenses - Expenses related to restructuring and rationalization		(166)	(166)	206	(206)
Other operating expenses - 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		(119)	(119)	39	(39)
Goodwill impairment loss attributed to Core Domestic CGU and International Wholesale CGU		(2,590)	(2,590)		
Other finance income		30	30		
Miscellaneous finance expenses		(26)	(26)		
Total non-recurring effects	(b)	(2,920)	(2,920)	259	(259)
Figurative amount financial statements	(a-b)	24,667	1,768	25,736	(1,293)

(*) Cash flows refer to the increase (decrease) in Cash and cash equivalents during the year.

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The impact of non-recurring items on the separate consolidated income statement line items is as follows:

(millions of euros)	2018	2017
Revenues:		
Adjustments of revenues from previous years	(62)	
Other income:		
Effect of Brazil BU tax recovery	37	
Acquisition of goods and services, Change in inventories:		
Advisory and professional services and other costs	(15)	(10)
Employee benefits expenses:		
Restructuring and rationalization expenses and other costs	(233)	(697)
Other operating expenses:		
Sundry expenses and provisions	(135)	(176)
Impact on Operating profit (loss) before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	(408)	(883)
Impairment reversals (losses) on non-current assets:		
Goodwill impairment loss attributed to Core Domestic CGU and International Wholesale CGU	(2,590)	
Impairment losses on intangible assets		(30)
Impact on EBIT Operating profit (loss)	(2,998)	(913)
Finance income:		
Other finance income	45	
Finance expenses:		
Miscellaneous finance expenses	(38)	(26)
Impact on profit (loss) before tax from continuing operations	(2,991)	(939)
Effect on income taxes on non-recurring items	71	262
Tax expenses for Sparkle tax dispute		(37)
Impact on Profit (loss) for the year	(2,920)	(714)

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NOTE 41

POSITIONS OR TRANSACTIONS RESULTING FROM ATYPICAL AND/OR UNUSUAL OPERATIONS

In accordance with Consob Communication DEM/6064293 of July 28, 2006, a statement is made to the effect that in 2018 the TIM Group did not pursue any atypical and/or unusual transactions, as defined by that Communication.

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OTHER INFORMATION

A) EXCHANGE RATES USED TO TRANSLATE THE FINANCIAL STATEMENTS OF FOREIGN OPERATIONS (*)

(local currency against 1 euro)		Year-end exchange rates (statements of financial position)		Average exchange rates for the year (income statements and statements of cash flows)	
		12/31/2018	12/31/2017	2018	2017
Europe					
BGN	Bulgarian Lev	1.95580	1.95580	1.95580	1.95580
CZK	Czech koruna	25.72400	25.53500	25.64653	26.32656
CHF	Swiss franc	1.12690	1.17020	1.15517	1.11171
TRY	Turkish lira	6.05880	4.54640	5.69649	4.12109
GBP	Pound sterling	0.89453	0.88723	0.88474	0.87640
RON	Romanian leu	4.66350	4.65850	4.65399	4.56884
RUB	Russian ruble	79.71500	69.39200	74.03808	65.90160
North America					
USD	U.S. dollar	1.14500	1.19930	1.18121	1.12946
Latin America					
VEF	Venezuelan bolivar - Fuerte	n.a.	16.19055	n.a.	15.18018
VES	Venezuelan bolivar - Soberano	729.80267	n.a.	(**) 139.15438	n.a.

BOB	Bolivian Bolíviano	7.91200	8.28720	8.16218	7.80453
PEN	Peruvian nuevo sol	3.86300	3.88540	3.87979	3.68247
ARS	Argentine peso	43.15930	22.93100	32.85850	18.73314
CLP	Chilean peso	794.37000	737.29000	756.93992	732.28973
COP	Colombian peso	3,721.81000	3,580.19000	3,488.43046	3,334.88410
BRL	Brazilian real	4.43664	3.96728	4.30628	3.60584
Other countries					
ILS	Israeli shekel	4.29720	4.16350	4.24360	4.06091

(*) Source: data processed by the European Central Bank, Reuters and major Central Banks.
(**) On August 20, 2018 the Venezuelan Central Bank introduced a new currency (Bolivar Soberano, VES) to replace the previous currency (Bolivar Fuerte, VEF).
The average 2018 exchange rate therefore relates to the period from August 20 to December 31, 2018.

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B) RESEARCH AND DEVELOPMENT

Expenditures for research and development activities are represented by external costs, labor costs of dedicated staff and depreciation and amortization. Details are as follows:

(millions of euros)	2018	2017
Research and development costs expensed during the year	44	43
Capitalized development costs	1,168	1,949
Total research and development costs (expensed and capitalized)	1,212	1,992

The decrease in 2018 is mainly connected to the completion of the engineering, expansion and development of next generation networks, i.e. LTE and NGAN, which have not reached maturity on the part of the Parent.

In the 2018 separate consolidated income statements, a total of 820 million euros of amortization expense was recorded for development costs, capitalized during the year and in prior years.

Research and development activities carried out by the TIM Group are described in detail in the Report on Operations (Research and Development section).

C) OPERATING LEASES

In accordance with IAS 17, the Group also considers as non-cancelable those operating leases that can only be canceled upon the occurrence of some remote contingency, with the permission of the lessor, or upon payment by the lessee of such an additional significant contractual penalty that renders early termination of the contract unreasonable.

In particular:

Revenue related

The Group has entered into agreements for line lease and hosting which cannot be canceled. At December 31, 2018, the amount of lease installments receivable was as follows:

(millions of euros)	12/31/2018	12/31/2017
Within 1 year	89	124

From 2 to 5 years after the end of the reporting period	244	238
Beyond 5 years after the end of the reporting period	134	98
Total	467	460

Expense related

The TIM Group has entered into non-cancelable operating leases on properties, rental agreements for IT products, equipment and devices and hosting contracts on sites owned by third parties.

The measurement perimeter shown excludes in addition to leases already classified as finance leases (mainly real estate leases and leases on equipment and vehicles) whose Asset and Liability value is recognized in the financial statements also for the variable and accessory components of these leases (e.g. underlying land of leased buildings), as well as leases considered cancelable, as defined above.

At December 31, 2018 the amount of lease installments receivable is as follows:

(millions of euros)	12/31/2018	12/31/2017
Within 1 year	153	177
From 2 to 5 years after the end of the reporting period	307	298
Beyond 5 years after the end of the reporting period	35	60
Total	495	535

It should also be noted that, in addition to the above, the IFRS 16 accounting standard - Leases (applied from January 1, 2019) includes subscription charges relating to operating leases outstanding at December 31, 2018 relating to cancelable passive real estate contracts or lease periods classified as cancelable (for example, subsequent lease renewals).

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For further details on the application of the new IFRS 16 accounting standard, see the Note Accounting Policies .

D) PUBLIC FUNDS

Italian Law 124/2017 requires that information on subsidies, contributions, paid assignments and economic benefits of any kind received from Italian public administrations be provided. In relation to this, funds received by the TIM Group are shown in the following table:

Distributing entity	intervention segment	2018 collections (millions of euros)
Fondimpresa	training	5
Fondirigenti	training	1
Infratel	construction of Ultrabroadband infrastructure	106
Ministry of Economic Development	construction of mobile network infrastructure	1
	technological innovation projects	1
MIUR	research and energy efficiency projects	1
Autonomous Province of Trento	Eschooling project	1
Total		116

E) DIRECTORS AND STATUTORY AUDITORS REMUNERATION

Total remuneration due for 2018 to the directors and statutory auditors of TIM S.p.A. for the performance of these functions at the Parent and in other consolidated companies totaled 3.2 million euros for directors and 0.5 million euros for statutory auditors. In reference to the compensation to which the Directors are entitled, it should be noted that the amount was calculated by considering only compensation for corporate offices (*in primis* those under Article 2389, paragraphs 1 and 3 of the Italian Civil Code), thus excluding amounts relating to any employment relationship with the companies of the Group and any non-monetary fringe benefits; for a complete and detailed description of the compensation paid to the directors, reference should be made to the Compensation Report, available at the Company s headquarters and on the corporate website at the following address: www.telecomitalia.com/shareholders.

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F) SUMMARY SCHEDULE OF FEES DUE TO THE AUDIT FIRM AND OTHER FIRMS IN ITS NETWORK

The table below shows the total fees payable to PwC S.p.A. and the other entities of the PwC network for auditing the 2018 financial statements, as well as the fees pertaining to 2018 for other audit/checking services and other non-audit services provided to TIM Group companies by PwC S.p.A. and other entities of the PwC network. The out-of-pocket expenses incurred for these services in 2018 are also shown.

	PwC S.p.A.			Other entities of the PwC network			
(euros)	TIM S.p.A.	Subsidiaries	TIM Group	TIM S.p.A.	Subsidiaries	TIM Group	Total PwC network
Audit services	2,843,447	1,419,268	4,262,715	15,500	1,760,762	1,776,262	6,038,977
Verification services with issue of certification	65,000	6,500	71,500		17,558	17,558	89,058
Attestation of compliance of the Consolidated Non-Financial Statement	83,281	59,036	142,317				142,317
Other services:							
agreed procedures on regulatory accounting areas	30,000		30,000		30,188	30,188	60,188
due diligence on companies targeted for sale or acquisition				185,091		185,091	185,091
Other	110,000		110,000	37,500		37,500	147,500
Total 2018 fees due for audit and other services to the PwC network	3,131,728	1,484,804	4,616,532	238,091	1,808,508	2,046,599	6,663,131
Out-of-pocket expenses							497,244
Total							7,160,375

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NOTE 43

EVENTS SUBSEQUENT TO DECEMBER 31, 2018

TIM: BOND ISSUE AT 5 YEARS AND 3 MONTHS FOR 1 BILLION 250 MILLION EUROS

On January 8, TIM S.p.A. successfully concluded the launch of a fixed-rate bond issue for 1 billion 250 million euros intended for institutional investors, financing itself below its average cost of debt.

The yield of the issue, equal to 4.125%, is lower than the Group s average cost of debt, which was about 4.4% at the end of September 2018.

The issue is part of the maturing debt optimization and refunding process.

Issuer: Telecom Italia S.p.A.

Amount: 1 billion 250 million euros

Settlement date: January 11, 2019

Maturity: April 11, 2024

Coupon: 4.000%

Issue price: 99.436%

Repayment price: 100.000%

Actual yield upon maturity, 4.125%, corresponds to a yield of 387.6 basis points above the reference rate (mid swap).

The securities were issued as part of the Group 20 billion-euro EMTN program and will be listed on the Luxembourg Stock Exchange.

VODAFONE ITALIA AND TELECOM ITALIA INTEND TO BEGIN A NEW PARTNERSHIP FOR MOBILE NETWORK SHARING

Vodafone Italia (Vodafone) and the Telecom Italia Group (TIM) intend to begin a partnership to share the active component of the 5G network, assess the possibility of sharing active devices on the 4G network and expand the current passive sharing agreement; the partnership will allow for more rapid 5G development, across a wider geographical area and at a lower cost.

The two companies:

- intend to cooperate to adapt their fiber transmission networks for mobile backhauling;
- intend to assess merging the respective passive infrastructures into a single entity, for a total of 22,000 towers in Italy;
- have signed a Memorandum of Understanding and have agreed to begin exclusive negotiations on the overall project.

On February 21, 2019 Vodafone and TIM announced that they had signed a non-binding Memorandum of Understanding in relation to a potential partnership to share the active network and expand the current passive infrastructure sharing agreement.

The Parties are also assessing the feasibility and contents of a possible merger agreement for their respective transmission towers in Italy into a single entity.

To allow assessment of these initiatives, Vodafone and TIM have agreed a period of negotiation exclusivity.

In relation to the project to share the active network, Vodafone and TIM intend to sign an agreement that would allow joint development of the 5G infrastructure. This project will allow for more rapid 5G development, across a wider geographical area and at a lower cost. Vodafone and TIM will assess the technical and commercial feasibility of jointly installing their active 5G equipment across the country, including in some large cities where each company may wish to maintain strategic flexibility and ensure its ability to respond to the needs of its customers.

Vodafone and TIM also intend to assess the possibility of also sharing active equipment on the existing 4G networks, in support of 5G network active sharing; this could also generate further efficiencies. In addition, Vodafone and TIM intend to adapt their respective mobile transmission networks, through the use of higher capacity fiber-optic cables (Fiber-to-the-Site or backhauling). This would allow customers to take advantage of the new 5G features, such as higher speed and lower latency, and would generate greater economies of scale for the companies.

Vodafone and TIM also intend to extend their current passive infrastructure network agreement, moving from the current 10,000 sites (about 45% of the two companies total tower numbers) to national coverage, with the aim of accelerating and strengthening 5G technology development and of using the network infrastructure more efficiently, in both urban and rural areas.

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In relation to the potential combination, Vodafone and TIM have agreed to assess a potential transaction to allow them to consolidate approximately 22,000 telecommunication towers in Italy, merging into a single entity the passive network infrastructures of Vodafone with those of Infrastrutture Wireless Italiane (Inwit), a listed company 60% owned by TIM. The combination would be structured to create value for all the parties involved. The companies intend to assess the opportunity, where possible, to move active network equipment currently hosted on third-party towers to the new company over time. The expanded tower infrastructure would allow the continued pursuit of the objective to increase other operator hosting, generating further efficiencies.

The potential combination would be structured to give Vodafone and TIM the same equity investment and equal governance rights in Inwit, as well to ensure the parties do not have to launch a public tender offer on Inwit shares.

As a whole, the initiative aims to promote sector competition and facilitate an open environment for 5G development.

All the projects described are covered, in their essential terms, in a non-binding Memorandum of Understanding and their implementation is conditional on the signing of binding agreements between the parties, as well as the necessary antitrust clearance.

Vodafone and TIM aim to conclude one or more of the Initiatives during 2019.

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NOTE 44

LIST OF COMPANIES OF THE TIM GROUP

In accordance with Consob Communication DEM/6064293 dated July 28, 2006, the list of companies is provided herein.

The list is divided by type of investment, consolidation method and operating segment.

The following is indicated for each company: name, head office, country and share capital in the original currency. In addition to the percentage ownership of share capital, the percentage of voting rights in the ordinary shareholders meeting, if different from the percentage holding of share capital, and which companies hold the investment.

Company name	Head office	Currency	Share capital	% Ownership	% of voting rights	Held by
PARENT COMPANY						
TIM S.p.A.	MILAN (ITALY)	EUR	11,677,002,855			
SUBSIDIARIES CONSOLIDATED LINE-BY-LINE						
DOMESTIC BU						
4G RETAIL S.r.l. (sale of fixed and mobile telecommunications products and services and all analog and digital broadcasting equipment)	MILAN (ITALY)	EUR	2,402,241	100.0000		TIM S.p.A
ADVANCED CARING CENTER S.r.l. (telemarketing, market research and surveys activities and development)	ROME (ITALY)	EUR	600,000	100.0000		TELECONTACT CENTER S.p.A.
CD FIBER S.r.l. (design, construction, maintenance and management of network	ROME (ITALY)	EUR	50,000	100.0000		TIM S.p.A.

infrastructure services and high-speed electronic communication systems)						
FLASH FIBER S.r.l. (development, implementation, maintenance and supply of the fiber network in Italy)	MILAN (ITALY)	EUR	30,000	80.0000		TIM S.p.A.
H.R. SERVICES S.r.l. (personnel training and services)	L AQUILA (ITALY)	EUR	500,000	100.0000		TIM S.p.A.
INFRASTRUTTURE WIRELESS ITALIANE S.p.A. (installation and operation of installations and infrastructure for the management and the sale of telecommunications services)	MILAN (ITALY)	EUR	600,000,000	60.0333 0.0370	60.0556	TIM S.p.A. INFRASTRUTTURE WIRELESS ITALIANE S.p.A.
MED 1 SUBMARINE CABLES Ltd (construction and management of the submarine cable lev1)	RAMAT GAN (ISRAEL)	ILS	55,886,866	100.0000		TELECOM ITALIA SPARKLE S.p.A.
NOVERCA S.r.l. (development and provision of services in the TLC and multimedia sector in Italy and abroad)	ROME (ITALY)	EUR	10,000	100.0000		TIM S.p.A.
OLIVETTI S.p.A.	IVREA	EUR	10,000,000	100.0000		TIM S.p.A.

(production and sale of office equipment and information technology services)	(TURIN) (ITALY)				
OLIVETTI SCUOLA DIGITALE S.r.l. (former ALFABOOK S.r.l.) (on-line sale of digital texts; sales of hardware products)	TURIN (ITALY)	EUR	100,000	100.0000	OLIVETTI S.p.A.
PERSIDERA S.p.A. (purchase, sale and maintenance of systems for repair work and radio and television broadcasting)	ROME (ITALY)	EUR	21,428,572	70.0000	TIM S.p.A.
TELECOM ITALIA SAN MARINO S.p.A. (San Marino telecommunications management)	BORGO MAGGIORE (SAN MARINO)	EUR	1,808,000	100.0000	TIM S.p.A.
TELECOM ITALIA SPARKLE S.p.A. (completion and management of telecommunications services for public and private use)	ROME (ITALY)	EUR	200,000,000	100.0000	TIM S.p.A.
TELECOM ITALIA TRUST TECHNOLOGIES S.r.l. (other operations related to non-classified IT services)	POMEZIA ROME (ITALY)	EUR	7,000,000	100.0000	TIM S.p.A.

TELECOM ITALIA VENTURES S.r.l. (investment holding company)	MILAN (ITALY)	EUR	10,000	100.0000	TIM S.p.A.
TELECONTACT CENTER S.p.A. (telemarketing services)	NAPLES (ITALY)	EUR	3,000,000	100.0000	TIM S.p.A.
TELEFONIA MOBILE SAMMARINESE S.p.A. (development and management of mobile telecommunications plants and services)	BORGO MAGGIORE (SAN MARINO)	EUR	78,000	51.0000	TELECOM ITALIA SAN MARINO S.p.A.
TELENERGIA S.r.l. (import, export, purchase, sale and trade of electricity)	ROME (ITALY)	EUR	50,000	100.0000	TIM S.p.A.

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Company name	Head office	Currency	Share capital	% Ownership	% of voting rights	Held by
TELSY ELETTRONICA E TELECOMUNICAZIONI S.p.A. (production and sale of equipment and systems for crypto telecommunications)	TURIN (ITALY)	EUR	390,000	100.0000		TIM S.p.A.
TI SPARKLE AMERICAS Inc. (managed bandwidth services)	MIAMI (UNITED STATES)	USD	10,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE ARGENTINA S.A. (managed bandwidth services)	BUENOS AIRES (ARGENTINA)	ARS	9,998,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE AUSTRIA GmbH (telecommunications services)	VIENNA (AUSTRIA)	EUR	2,735,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE BELGIUM S.P.R.L. - B.V.B.A (telecommunications services)	BRUSSELS (BELGIUM)	EUR	2,200,000	99.9999 0.0001		TELECOM ITALIA SPARKLE S.p.A. TI SPARKLE UK Ltd
TI SPARKLE BOLIVIA S.r.l. (managed bandwidth services)	LA PAZ (BOLIVIA)	BOB	1,747,600	99.9999 0.0001		TELECOM ITALIA SPARKLE S.p.A. TI SPARKLE AMERICAS Inc.
TI SPARKLE BRASIL PARTIÇIPAÇÕES Ltda (investment holding company)	RIO DE JANEIRO (BRAZIL)	BRL	71,563,866	99.9999 0.0001		TELECOM ITALIA SPARKLE S.p.A. TI SPARKLE AMERICAS Inc.
TI SPARKLE BRASIL TELECOMUNICAÇÕES	RIO DE JANEIRO	BRL	69,337,363	99.9999 0.0001		TI SPARKLE BRASIL

Ltda (managed bandwidth services)	(BRAZIL)				PARTIÇIPAÇÕES Ltda TI SPARKLE AMERICAS Inc.
TI SPARKLE BULGARIA EOOD (telecommunications)	SOFIA (BULGARIA)	BGN	100,000	100.0000	TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE CHILE S.p.A. (managed bandwidth services)	SANTIAGO (CHILE)	CLP	5,852,430,960	100.0000	TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE COLOMBIA Ltda (managed bandwidth services)	BOGOTA (COLOMBIA)	COP	5,246,906,000	99.9999 0.0001	TELECOM ITALIA SPARKLE S.p.A. TI SPARKLE AMERICAS Inc.
TI SPARKLE CZECH S.R.O. (telecommunications services)	PRAGUE (CZECH REPUBLIC)	CZK	6,720,000	100.0000	TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE FRANCE S.A.S. (installation and management of telecommunications services for fixed network and related activities)	PARIS (FRANCE)	EUR	18,295,000	100.0000	TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE GERMANY Gmbh (telecommunications services)	FRANKFURT (GERMANY)	EUR	25,000	100.0000	TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE GREECE S.A. (telecommunications)	ATHENS (GREECE)	EUR	368,760	100.0000	TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE ISRAEL Ltd (international wholesale telecommunication services)	RAMAT GAN (ISRAEL)	ILS	1,000	100.0000	TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE NETHERLANDS B.V.	AMSTERDAM (NETHERLANDS)	EUR	18,200	100.0000	TELECOM ITALIA SPARKLE S.p.A.

(telecommunications services)					
TI SPARKLE NORTH AMERICA, Inc. (telecommunications and promotional services)	NEW YORK (UNITED STATES)	USD	15,550,000	100.0000	TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE PANAMA S.A. (managed bandwidth services)	PANAMA	USD	10,000	100.0000	TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE PERU S.A. (managed bandwidth services)	LIMA (PERU)	PEN	57,101,788	99.9999 0.0001	TELECOM ITALIA SPARKLE S.p.A. TI SPARKLE AMERICAS Inc.
TI SPARKLE PUERTO RICO LLC (managed bandwidth services)	SAN JUAN (PUERTO RICO)	USD	50,000	100.0000	TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE ROMANIA S.r.l. (telecommunications services)	BUCHAREST (ROMANIA)	RON	3,021,560	100.0000	TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE RUSSIA LLC (telecommunications services)	MOSCOW (RUSSIA)	RUB	8,520,000	99.0000 1.0000	TELECOM ITALIA SPARKLE S.p.A. TI SPARKLE UK Ltd
TI SPARKLE SINGAPORE Pte.Ltd (telecommunications services)	SINGAPORE	USD	5,121,120	99.9999 0.0001	TELECOM ITALIA SPARKLE S.p.A. TI SPARKLE NORTH AMERICA, Inc.
TI SPARKLE SLOVAKIA S.R.O. (telecommunications services)	BRATISLAVA (SLOVAKIA)	EUR	300,000	100.0000	TELECOM ITALIA SPARKLE S.p.A.

TI SPARKLE SPAIN TELECOMMUNICATIONS S.L. (telecommunications services)	MADRID (SPAIN)	EUR	1,687,124	100.0000	TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE ST. CROIX LLC (managed bandwidth services)	VIRGIN ISLANDS (UNITED STATES)	USD	1,000	100.0000	TELECOM ITALIA SPARKLE S.p.A.

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Company name	Head office	Currency	Share capital	% Ownership	% of voting rights	Held by
TI SPARKLE SWITZERLAND GmbH (telecommunications services)	ZURICH (SWITZERLAND)	CHF	2,000,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE TURKEY TELEKOMÜNIKASYON ANONIM SIRKETI (telecommunications services)	YENISBONA ISTANBUL (TURKEY)	TRY	65,000,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE UK Ltd (value-added and networking services)	LONDON (UNITED KINGDOM)	EUR	3,983,254	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SPARKLE VENEZUELA C.A. (managed bandwidth services)	CARACAS (VENEZUELA)	VES	10	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TIMB2 S.r.l. (management of television frequency user rights)	ROME (ITALY)	EUR	10,000	99.0000 1.0000		PERSIDERA S.p.A. TIM S.p.A.
TIMVISION S.r.l. (production, co-production, conception and creation of programs, films and audiovisual content, including multimedia and interactive content)	ROME (ITALY)	EUR	50,000	100.0000		TIM S.p.A.
TN FIBER S.r.l. (design, construction, maintenance and supply of optical network access to users in the province of Trento)	TRENTO (ITALY)	EUR	55,918,000	100.0000		TIM S.p.A.

BRAZIL BU						
TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A. (investment holding company)	RIO DE JANEIRO (BRAZIL)	BRL	7,169,029,859	99.9999 0.0001		TELECOM ITALIA FINANCE S.A. TIM S.p.A.
TIM PARTICIPAÇÕES S.A. (investment holding company)	RIO DE JANEIRO (BRAZIL)	BRL	9,913,414,422	66.5819 0.0324	66.6035	TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A. TIM PARTICIPAÇÕES S.A.
TIM S.A. (telecommunications services)	RIO DE JANEIRO (BRAZIL)	BRL	13,476,171,765	100.0000		TIM PARTICIPAÇÕES S.A.
OTHER OPERATIONS						
OLIVETTI DEUTSCHLAND GmbH (sale of office equipment and supplies)	NURENBERG (GERMANY)	EUR	25,600,000	100.0000		OLIVETTI S.p.A.
OLIVETTI UK Ltd. (sale of office equipment and supplies)	NORTHAMPTON (UNITED KINGDOM)	GBP	6,295,712	100.0000		OLIVETTI S.p.A.
TELECOM ITALIA CAPITAL S.A. (financial company)	LUXEMBOURG	EUR	2,336,000	100.0000		TIM S.p.A.
TELECOM ITALIA FINANCE S.A. (financial company)	LUXEMBOURG	EUR	1,818,691,979	100.0000		TIM S.p.A.
TELECOM ITALIA LATAM PARTICIPAÇÕES E GESTÃO ADMINISTRATIVA Ltda (telecommunications and promotional services)	SÃO PAULO (BRAZIL)	BRL	118,925,803	100.0000		TIM S.p.A.
	RIO DE JANEIRO	BRL	1,500,000			

TIAUDIT COMPLIANCE LATAM S.A. (in liquidation) (internal audit services)	(BRAZIL)			69.9996 30.0004	TIM S.p.A. TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A.
TIESSE S.c.p.A. (installation and assistance for electronic, IT, telematics and telecommunications equipment)	IVREA (TURIN) (ITALY)	EUR	103,292	61.0000	OLIVETTI S.p.A.
TIM TANK S.r.l. (fund and securities investments)	MILAN (ITALY)	EUR	18,600,000	100.0000	TIM S.p.A.

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Company name	Head office	Currency	Share capital	% Ownership	% of voting rights	Held by
ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD						
ALFIERE S.p.A. (*) (real estate management)	ROME (ITALY)	EUR	9,250,000	50.0000		TIM S.p.A.
AREE URBANE S.r.l. (in liquidation) (real estate management)	MILAN (ITALY)	EUR	100,000	32.6200		TIM S.p.A.
ASSCOM INSURANCE BROKERS S.r.l. (insurance brokerage)	MILAN (ITALY)	EUR	100,000	20.0000		TIM S.p.A.
CLOUDESIRE.COM S.r.l. (design, implementation and marketing of a marketplace platform for the sale of software-as-a-service applications)	PISA (ITALY)	EUR	11,671	(**)		TELECOM ITALIA VENTURES S.r.l.
CONSORZIO ANTENNA COLBUCCARO Società Consortile a r.l. (installation, management and maintenance of metal pylons complete with workstations for device recovery)	ASCOLI PICENO (ITALY)	EUR	121,000	20.0000		PERSIDERA S.p.A.
CONSORZIO ANTENNA MONTE CONERO Società Consortile a r.l. (multimedia services)	SIROLO (ANCONA) (ITALY)	EUR	51,100	22.2211		PERSIDERA S.p.A.
CONSORZIO E O (in liquidation) (training services)	ROME (ITALY)	EUR	30,987	50.0000		TIM S.p.A.
ECO4CLOUD S.r.l.	RENDE (COSENZA) (ITALY)	EUR	19,532	(**)		TELECOM ITALIA VENTURES S.r.l.

(development, production and sale of innovative products or services with high technological value)					
KOPJRA S.r.l. (development, production and sale of innovative products or services with high technological value)	SCHIO (VICENZA) (ITALY)	EUR	16,207	22.8491	TELECOM ITALIA VENTURES S.r.l.
MOVENDA S.p.A. (design, construction and diffusion of Internet sites, products and computer media)	ROME (ITALY)	EUR	133,333	24.9998	TELECOM ITALIA FINANCE S.A.
NORDCOM S.p.A. (application service provider)	MILAN (ITALY)	EUR	5,000,000	42.0000	TIM S.p.A.
OILPROJECT S.r.l. (research, development, marketing and patenting of all intellectual property related to technology, information technology and TLC)	MILAN (ITALY)	EUR	13,556	(**)	TELECOM ITALIA VENTURES S.r.l.
PEDIUS S.r.l. (implementation of specialized telecommunications applications, telecommunications services over telephone connections, VOIP services)	ROME (ITALY)	EUR	181	(**)	TELECOM ITALIA VENTURES S.r.l.
TIGLIO I S.r.l. (real estate management)	MILAN (ITALY)	EUR	5,255,704	47.8019	TIM S.p.A.
TIGLIO II S.r.l. (in liquidation) (real estate management)	MILAN (ITALY)	EUR	10,000	49.4700	TIM S.p.A.
W.A.Y. S.r.l.		EUR	136,383	39.9999	OLIVETTI S.p.A.

(development and sale of geolocation products and systems for security and logistics)	TURIN (ITALY)				
WIMAN S.r.l. (development, management and implementation of platforms for social-based Wi-Fi authentication)	MATTINATA (FOGGIA) (ITALY)	EUR	22,233	(**)	TELECOM ITALIA VENTURES S.r.l.

(*) Joint Venture.
(**) Associate over which TIM S.p.A., directly or indirectly, exercises significant influence pursuant to IAS 28 (Investments in Associates and Joint Ventures).

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Company name	Head office	Currency	Share capital	% Ownership	% of voting rights	Held by
OTHER SIGNIFICANT EQUITY INVESTMENTS PURSUANT TO CONSOB RESOLUTION NO. 11971 OF MAY 14, 1999 AS AMENDED						
CONSORZIO ANTENNA TOLENTINO S.c.a.r.l. (installation, management and maintenance of pylons complete with workstations for device recovery)	RECANATI (MACERATA) (ITALY)	EUR	86,000	16.6674		PERSIDERA S.p.A.
CONSORZIO EMITTENTI RADIOTELEVISIVE (broadcasting activities)	BOLOGNA (ITALY)	EUR	119,309	18.6600		PERSIDERA S.p.A.
CONSORZIO HEALTH INNOVATION HUB (in liquidation) (development of the market for systems and services for the social welfare and healthcare sector)	TRENTO (ITALY)	EUR	48,000	12.5000		TIM S.p.A.
DAHLIA TV S.p.A. (in liquidation) (pay-per-view services)	ROME (ITALY)	EUR	11,318,833	10.0786		TIM S.p.A.
FIN.PRIV. S.r.l. (financial company)	MILAN (ITALY)	EUR	20,000	14.2900		TIM S.p.A.
IGOON S.r.l. (carpooling scheme to share unused seating capacity in cars in real time through a mobile App	NAPLES (ITALY)	EUR	16,498	14.2805		TELECOM ITALIA VENTURES S.r.l.
INNAAS S.r.l. (design, development and sale of high-tech software and hardware)	ROME (ITALY)	EUR	108,700	15.2539		TELECOM ITALIA VENTURES S.r.l.

ITALBIZ.COM Inc. (Internet services)	DELAWARE (UNITED STATES OF AMERICA)	USD	4,721	19.5000	TIM S.p.A.
MIX S.r.l. (Internet service provider)	MILAN (ITALY)	EUR	1,000,000	11.0937	TIM S.p.A.

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-TER OF THE CONSOB REGULATION 11971 DATED MAY 14, 1999, WITH AMENDMENTS AND ADDITIONS

1. We, the undersigned, Luigi Gubitosi, as Chief Executive Officer, and Piergiorgio Peluso, as Manager responsible for preparing TIM S.p.A. financial reports, certify, having also considered the provisions of Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree 58 of February 24, 1998:

the adequacy in relation to the characteristics of the company and

the effective application

of the administrative and accounting procedures used in the preparation of the consolidated financial statements for the 2018 fiscal year.

2. TIM has adopted the Internal Control Integrated Framework Model (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission, as its framework for the establishment and assessment of its internal control system, with particular reference to the internal controls for the preparation of the financial statements.

3. The undersigned also certify that:

3.1 the Consolidated Financial Statements at December 31, 2018:

a) are prepared in compliance with the international accounting standards adopted by the European Union pursuant to Regulation (EC) 1606/2002 of the European Parliament and Council of July 19, 2002 (International Financial Reporting Standards IFRS), as well as the legislative and regulatory provisions in force in Italy, including, in particular, the measures enacted for the implementation of Article 9 of Italian Legislative Decree 38 of February 28, 2005;

b) agree with the results of the accounting records and entries;

c) provide a true and fair view of the financial condition, the results of operations and the cash flows of the Company and its consolidated subsidiaries;

3.2 the report on operations contains a reliable operating and financial review of the Company and of the Group, as well as a description of their exposure to the main risks and uncertainties. The Report on Operations also contains a reliable analysis of information concerning significant related party transactions.

February 21, 2019

	Manager Responsible for
	Preparing the Corporate
Chief Executive Officer	**Financial Reports**
______(signed)_______	______(signed)_______
Luigi Gubitosi	Piergiorgio Peluso

INDEPENDENT AUDITORS REPORT

Independent auditor s report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

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To the shareholders of TIM SpA

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of TIM Group (the Group), which comprise the statement of financial position as of 31 December 2018, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISA Italia).

Our responsibilities under those standards are further described in the *Auditor s Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of TIM SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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Key audit matters	Audit procedures performed
Impairment test on goodwill	
Note 4 of the consolidated financial statements Goodwill The goodwill as of 31 December 2018 is Euro 26,769 million, referable to Core Domestic cash generating unit (CGU) for Euro 25,627 million, to Brazil s CGU for Euro 870 million, and to International Wholesale s CGU for Euro 272 million. The goodwill represents approximately 41% of total assets, therefore it is a significant line item of the financial statements. During the preparation of the financial statements as at 30 September 2018 directors identified some circumstances, both external (financial market and interest rates trend) and internal (negative deviations in comparison with the business plan and market capitalization lower than equity value), requiring the execution of an impairment test for the Core Domestic CGU which has led to an impairment loss of Euro 2,000 million. In accordance with internal procedure and International Accounting Standard 36, TIM Group, with the support of external experts, performed the annual impairment test as at 31 December 2018 for all the CGUs identified. As at 31 December 2018, based on the impairment test performed, a further impairment loss of Euro 450 million for Core Domestic CGU and a new impairment loss of Euro 140 million for the International Wholesale CGU have been accounted. The total impairment loss accounted	The audit procedures performed included the analysis of the consistency between the impairment test procedures approved by the Board of Directors, the requirements of International Accounting Standard 36 Impairment of Assets and the impairment test procedure effectively in place. Additionally, we verified the design and operation of the key controls in place performed by management to address identified risks. Moreover, we have considered the information included in the board of statutory auditors report to shareholders related to fiscal year 2018, with reference to comments made on forecast preparation process at 30 June 2018 and to the related response prepared by management. We verified the consistency between the identified CGUs and IAS 36 s requirements, and the fact that the impairment test has been performed considering the current conditions of CGUs. We analyzed key assumptions utilized to determine the net present value of the prospective cash flows for the impairment tests performed during 2018 and we verified the reasonableness of the valuation method used for the fair value determination of International Wholesale CGU. These activities have been performed through discussions held with TIM s senior management and their external valuation and industrial experts, comparing main assumptions and parameters utilized (expected cash flows, discount rate, growth rate, enterprise value/ebitda ratio) with market benchmarks, indications provided by external experts and with corresponding assumptions and parameters used in the

in 2018 for Core Domestic CGU is equal to Euro 2.450 million.	context of the impairment tests performed.
The impairment test involved the usage of complex estimates for the definition of Core Domestic CGU s value in use and International Wholesale CGU s fair value, for instance those related to 2019-2021 business plan s cash flows and related projections for 2022-2023 (including the expected cash flows from the 5G technology), discount rates and the growth rate used to estimate the terminal value beyond the business plan projections.	Additionally with reference to the impairment test performed as at 31 December 2018, we evaluated the consistency between the expected cash flows used for the impairment test and the ones included in the 2019-2021 business plan approved by the Board of Directors and we verified the accuracy of the underlying calculation. These activities have been integrated with the review of management s sensitivity analyses performed on risk factors identified, and on some parameters used in the impairment test.
This was an area of particular audit focus because of the goodwill materiality, TIM s market capitalization lower than consolidated net equity s value, and the complexity of the assumptions used to determine the recoverable amounts of Core Domestic and International Wholesale CGUs.	Lastly, we verified the adequacy of the financial disclosure based on international financial reporting standards requirements, also considering information and data obtained during our audit, with a particular focus on the description of the impairment test process, disclosure of the main assumptions, quantitative results of the impairment test and sensitivity analysis.

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Revenue recognition

Note 24 of the consolidated financial statements Revenues

TIM Group s 2018 revenues are Euro 18,940 million, mostly referable to telecommunications services rendered to retail and wholesale customers.

Revenues recognition required particular audit focus due to: i) introduction of new international accounting standard IFRS 15 adopted by TIM Group since 1 January 2018, that determined significant changes in revenue recognition, the adoption of new processes and the implementation of new application systems and new controls, ii) complex accounting process due to the significant number of commercial offers, underlying operating systems and related reconciliation processes, iii) recognition process manual phases with specific reference to the revenue for services rendered to large corporate clients.

Our audit procedures included an understanding of the processes underlying the revenue recognition integrated with an understanding of the design and operation of the controls in place to address the risks identified, including new controls implemented for the adoption of the new accounting standard IFRS 15.

Audit procedures also included testing of the application systems supporting the relevant accounting processes. We have also verified:

for main commercial offers the consistency between the accounting criteria adopted and IFRS 15 s requirements, where adoption determined significant impacts in the methods of measurement and recognition of revenues for some commercial offers;

on a sample basis, some revenue transaction related to invoices issued or to be issued, in order to confirm the consistency between the accounting, the contractual terms, the invoices and the supporting evidence for the service rendered and/or for the goods transferred;

the reconciliation between operating and accounting data for the most significant financial statements accounts referred to relationships with customers.

Moreover, we sent the confirmation letters to some customers in order to confirm some transactions selected on a sample basis.

Lastly, we verified the adequacy of the financial disclosure based on International financial reporting standards requirements, also considering information and data obtained during our audit.

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Litigation in Italy *Note 23 of the consolidated financial statements Disputes and pending legal proceeding, other information, commitments and guarantees* TIM Group is involved in several regulatory and commercial legal disputes, some of which are characterized by significant requests. In relation to regulatory disputes we highlight the so called A428 s follow-on disputes, originated by the reimbursement requests made by certain telecommunications operators based on the fine imposed in prior years by the Italian Competition Authority (AGCM) to TIM due to an alleged abuse of dominant position, as well as the disputes with the Italian Telecommunications Market Authority (AGCOM) and AGCM connected to TIM s behaviors related to 28 days invoicing period and Infratel tenders. In relation to commercial disputes, we highlight an ongoing dispute, related to a contract signed in prior years with a media player for the bundled service offerings of TV content. At the end of fiscal year 2018, management, with the support of external legal counsels, updated their risk assessment related to the aforementioned disputes. Management s assessment of risks related to these proceedings has been an area of focus in the context of our audit activities. This is due to the fact that these management s estimates are complex also considering the	Our audit procedures included an understanding of management s assessment process integrated with an understanding of the design and operation of the controls in place to address the risks identified. These activities have been performed also through various discussions held with TIM s senior management aimed to gain an understanding of the liabilities estimates process, the defensive strategy and actions activated based on the claims received. In addition, we have analyzed legal opinions provided by TIM s external legal counsels supporting management s risk assessment, as well as the confirmations received by them in response to our confirmation letters aimed to obtain updates on disputes status. Lastly, we verified the adequacy of the financial disclosure based on International financial reporting standards requirements, also considering information and data obtained during our audit, with a particular focus on the description of claims for damages and overall disputes progress.

regulatory framework and the competitive environment.

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28 days invoicing period *Note 23 of the consolidated financial statements Disputes and pending legal proceeding, other information, commitments and guarantees* During 2017, TIM and other telecommunication fixed services operators were recipients of the resolution n. 121/2017 issued by the Authority for Communications Guarantees (AGCOM) which was related to the application of an invoicing period of 28 days instead of monthly, applied by TIM and other operators since the second quarter of 2017. Due to the non-compliance of the operators to the above mentioned resolution, the Authority issued further resolutions (499/2017 of 21 December 2017, and 112/2018 of 14 March 2018 and 269/2018 of 6 June 2018) by which it fined TIM for a total amount of Euro 2.9 million, with the additional request to reimburse the customers for the service days not utilized because of the 28 days billing period. TIM has appealed the resolutions before the TAR (Regional Administrative Court) of Lazio, requesting the suspension of the same. On 21 November 2018, TAR rejected TIM s appeal requesting to reimburse the customers for the service days not utilized within 31 December 2018. TIM has appealed against TAR s ruling before the Consiglio di Stato; on 20 December 2018, the appeal has been approved by suspending the reimbursement obligation, pending the publication of the 21 November 2018 TAR decision s grounds of the judgement, which is expected by 31 March 2019.	Our audit procedures included an understanding of management s assessment process integrated with an understanding of the design and operation of the controls in place to address the risks identified. These activities have been performed also through various discussions held with TIM s legal department management. We have also analyzed the opinion provided by external legal counsel who supports management in the evaluation of the risk. Furthermore, we have evaluated the competencies of the external legal counsels engaged by management. Lastly, we verified the adequacy of the financial disclosure based on International financial reporting standards requirements, also considering information and data obtained during our audit, with a particular focus on the description of Authority s claims and overall dispute progress.

For the financial statements as at 31 December 2018, management supported by its external legal counsel, did not consider probable the risk to incur in a material liability related to this dispute, and therefore no provision has been recorded. In relation to this dispute, management assesses as highly complex the estimation of the reimbursement, due to the complexity of the identification of the client base impacted, the amount to be reimbursed, and the arrangements for reimbursement.

This dispute has been an area of focus in the context of our audit activities because of the significant uncertainty of the possible reimbursement and the level of judgement applied by management to evaluate the relative risk.

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Tax disputes in Brazil *Note 23 of the consolidated financial statements Disputes and pending legal proceeding, other information, commitments and guarantees* The Brazilian subsidiaries within the TIM Group are involved in several disputes with local tax authorities. As of 31 December 2018, the highest total contingent liability associable with these disputes is equal to Euro 3,786 million (Euro 3,662 as of 31 December 2017). At the same date a provision has been recorded for the risks considered probable, for a total amount of Euro 61 million (Euro 45 million as of 31 December 2017). The assessment of the risk related to these disputes required a specific attention during our audit because of the significance of the potential liability and the level of judgement applied by management to evaluate the relative risk.	Our audit procedures included gaining an understanding of management s assessment process, integrated with the understanding of the design and operating effectiveness of key controls in place to address these risks. We have requested and obtained information regarding the status of the disputes from TIM s external legal counsels engaged by the Group s Brazilian subsidiaries to assess the associated risks. For certain disputes, together with PwC network tax specialists, we have analyzed the opinions of management s legal consultants and the subsequent events referred to prior years estimates in order to evaluate the reasonableness of the conclusions and the respective defensive strategy. Lastly, we verified the adequacy of the financial disclosure based on International financial reporting standards requirements, also considering information and data obtained during our audit, with a particular focus on tax authority s requests and the overall dispute progress.

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Personnel reduction plan *Note 19 and 27 of the consolidated financial statements, Employee benefits and Employee benefits expenses* As part of the 2018-2020 business plan, TIM s management planned to simplify and develop the organizational structure of the company as well as the processes transformation and digitalization. Following this decision, as at 31 December 2017, management accrued in the statement of financial position a provision for an amount of Euro 758 million. In 2018, considering the adhesions higher than initially expected and changes in the legislative framework, management revised the estimates and update the provision, through an accrual of Euro 208 million. The total provision as at 31 December 2018 is equal to Euro 706 million. The assessment of the liability originated by the workforce reduction plan has been an area of specific focus during our audit activities, because it represents a complex management s estimate also considering the magnitude of the event.	Our audit procedures included gaining an understanding of management s assessment process, integrated with the understanding of the design and operating effectiveness of key controls in place to address these risks. We reviewed critically with TIM s management the update of the liability estimation process and discussed the main assumptions. In particular, in the context of the aforementioned activities, we verified the reasonableness of the assumptions utilized within management s estimate update as well as the mathematical accuracy of the calculations performed. Lastly, we verified the adequacy of the financial disclosure based on International financial reporting standards requirements, also considering information and data obtained during our audit.

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Disclosure on the expected IFRS 16 s adoption effects. *Note 2 of the consolidated financial statements Accounting policies* On 1 January 2019, the new international accounting standard IFRS 16 Leases , related to accounting of lease contracts, became effective. From the lessee perspective, the new standard prescribes, except for some limited exemptions, the recognition of the acquired right of use in the non-current assets and a corresponding liability for an amount equal to the present value of the future lease payments. In accordance with the standard, TIM Group included in the explanatory notes the estimation of the adoption effects as at 31 December 2018, representing the opening balances at 1 January 2019, with the recognition of non-current assets and financial liabilities for an amount between Euro 3.4 and 3.9 billion. The estimate of IFRS 16 adoption effects represented a key audit matter, due to the significance of the expected impacts, to their incidence on TIM Group s future statement of financial positions and income statements and to the level of professional judgement required to assess the reasonableness of the accounting policies and assumptions used by Group in the new standard s adoption process.	We assessed the reasonableness of the accounting policies and assumptions adopted by management in the context of the new standard s adoption and impacts calculation processes. Moreover we verified: the scope of IFRS 16 contracts populations completeness ; on a sample basis, the correspondence between the information used for the calculation of the effects and the relative evidencing documents; on a sample basis, the mathematical accuracy of the calculations. Lastly, we verified the adequacy of the financial disclosure based on International financial reporting standards requirements, also considering information and data obtained during our audit.

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RESPONSIBILITIES OF THE DIRECTORS AND THE BOARD OF STATUTORY AUDITORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group s ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate TIM SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group s financial reporting process.

AUDITOR S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor s report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

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

- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the

Group s internal control;

We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

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

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

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

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor s report.

ADDITIONAL DISCLOSURES REQUIRED BY ARTICLE 10 OF REGULATION (EU) NO 537/2014

On 29 April 2010, the shareholders of TIM SpA engaged us to perform the statutory audit of the Company s and the consolidated financial statements for the years ending 31 December 2010 to 31 December 2018.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

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Report on compliance with other laws and regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of TIM SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the TIM Group as of 31 December 2018, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the TIM Group as of 31 December 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of TIM SpA as of 31 December 2018 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob s Regulation implementing Legislative Decree No. 254 of 30 December 2016

The directors of TIM SpA are responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016. We have verified that the directors approved the non-financial statement.

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Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate report issued by ourselves.

Milan, 8 March 2019

PricewaterhouseCoopers SpA

Signed by

Francesco Ferrara

(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

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TIM S.p.A. SEPARATE FINANCIAL STATEMENTS

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STATEMENTS OF FINANCIAL POSITION

Assets

(euros)	note	12/31/2018	*of which related parties*	12/31/2017	*of which related parties*
Non-current assets					
Intangible assets					
Goodwill	3)	24,340,444,756		27,026,739,756	
Intangible assets with a finite useful life	4)	6,339,060,237		4,249,481,054	
		30,679,504,993		31,276,220,810	
Tangible assets	5)				
Property, plant and equipment owned		10,781,945,585		10,870,124,683	
Assets held under finance leases		1,693,641,336		2,072,071,136	
		12,475,586,921		12,942,195,819	
Other non-current assets					
Investments	6)	7,821,303,331		7,746,965,610	
Non-current financial assets	7)	1,641,935,658	*473,285,000*	1,611,096,232	*261,979,000*
Miscellaneous receivables and other non-current assets	8)	1,704,270,021	*129,414,000*	1,752,517,802	*99,636,000*
Deferred tax assets	9)	882,254,309		901,533,582	
		12,049,763,319		12,012,113,226	
Total Non-current assets	(a)	55,204,855,233		56,230,529,855	
Current assets					
Inventories	10)	261,461,628		177,829,906	
Trade and miscellaneous receivables and other current assets	11)	3,850,731,081	*441,891,000*	3,933,867,466	*366,681,000*

Current income tax receivables		9)	166,154,717		364,747	
Current financial assets						
Securities other than investments, financial receivables and other current financial assets			792,809,245	*231,348,000*	1,072,460,071	*545,160,000*
Cash and cash equivalents			885,426,755	*3,552,000*	771,486,384	*49,452,000*
		7)	1,678,236,000		1,843,946,455	
Total Current assets	(b)		5,956,583,426		5,956,008,574	
Total Assets	(a+b)		61,161,438,659		62,186,538,429	

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Equity and Liabilities

(euros)	note	12/31/2018	*of which related parties*	12/31/2017	*of which related parties*
Equity	12)				
Share capital issued		11,677,002,855		11,677,002,855	
less: Treasury shares		(20,719,608)		(20,719,608)	
Share capital		11,656,283,247		11,656,283,247	
Additional paid-in capital		2,094,207,410		2,094,207,410	
Legal reserve		2,293,873,993		2,239,528,963	
Other reserves					
Revaluation reserve pursuant to Italian Law 413/91					
Reserve for remeasurements of employee defined benefit plans (IAS 19)		(80,505,118)		(95,785,325)	
Other		1,530,185,329		1,452,262,937	
Total Other reserves		1,449,680,211		1,356,477,612	
Retained earnings (accumulated losses), including profit (loss) for the year		644,160,192		2,722,924,592	
Total Equity	(c)	18,138,205,053		20,069,421,824	
Non-current liabilities					
Non-current financial liabilities	13)	24,777,022,517	*5,245,192,000*	28,467,909,721	*7,223,678,000*
Employee benefits	18)	1,502,454,739		1,661,059,434	
Deferred tax liabilities	9)	2,856,579		1,912,538	

Provisions	19)	579,249,461		594,846,716	
Miscellaneous payables and other non-current liabilities	20)	3,006,870,953	*135,487,000*	1,289,913,754	*81,924,000*
Total Non-current liabilities	(d)	29,868,454,249		32,015,642,163	
Current liabilities					
Current financial liabilities	13)	7,903,058,768	*3,767,299,000*	4,197,065,021	*859,813,000*
Trade and miscellaneous payables and other current liabilities	21)	5,237,699,768	*378,003,000*	5,849,881,175	*328,227,000*
Current income tax payables	9)	14,020,821		54,528,246	
Total Current Liabilities	(e)	13,154,779,357		10,101,474,442	
Total Liabilities	(f=d+e)	43,023,233,606		42,117,116,605	
Total Equity and Liabilities	(c+f)	61,161,438,659		62,186,538,429	

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SEPARATE INCOME STATEMENTS

(euros)	*note*	Year 2018	*of which related parties*	Year 2017	*of which related parties*
Revenues	23)	13,901,473,076	*494,056,000*	14,098,652,300	*476,936,000*
Other income	24)	252,176,098	*17,311,000*	459,288,177	*25,702,000*
Total operating revenues and other income		14,153,649,174		14,557,940,477	
Acquisition of goods and services	25)	(5,800,582,478)	*(1,154,585,000)*	(5,567,122,776)	*(1,120,371,000)*
Employee benefits expenses	26)	(2,541,086,946)	*(79,419,000)*	(3,034,256,137)	*(106,344,000)*
Other operating expenses	27)	(722,128,807)	*(15,656,000)*	(657,432,075)	*(4,745,000)*
Change in inventories	28)	83,631,721		44,916,750	
Internally generated assets	29)	434,317,757		456,992,782	
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)		5,607,800,421		5,801,039,021	
of which: impact of non-recurring items	37)	*(404,121,000)*		*(876,497,000)*	
Depreciation and amortization	30)	(3,154,977,771)		(3,202,764,191)	
Gains/(losses) on disposals of non-current assets	31)	(10,719,554)	*917,000*	(1,007,430)	*670,000*
Impairment reversals (losses) on non-current assets	32)	(2,682,635,959)		(29,587,678)	
Operating profit (loss) (EBIT)		(240,532,863)		2,567,679,722	
of which: impact of non-recurring items	37)	*(3,090,416,000)*		*(906,497,000)*	
Income (expenses) from investments	33)	71,346,959	*114,018,000*	224,227,542	*253,825,000*

Finance income	34)	1,177,089,965	*371,388,000*	1,571,360,532	*847,505,000*
Finance expenses	34)	(2,427,443,856)	*(866,677,000)*	(2,964,584,706)	*(776,934,000)*
Profit (loss) before tax		(1,419,539,795)		1,398,683,090	
of which: impact of non-recurring items	37)	*(3,099,025,000)*		*(932,173,000)*	
Income tax expense	9)	(434,065,544)		(311,782,484)	
Profit (loss) for the year		(1,853,605,339)		1,086,900,606	
of which: impact of non-recurring items	37)	*(3,023,469,000)*		*(671,172,000)*	

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STATEMENTS OF COMPREHENSIVE INCOME

Note 12

(euros)		Year 2018	Year 2017
Profit (loss) for the year	(a)	(1,853,605,339)	1,086,900,606
Other components of the Statements of Comprehensive Income			
Other components that will not be reclassified subsequently to Separate Income Statements			
Financial assets measured at fair value through other comprehensive income:			
Profit (loss) from fair value adjustments		(4,455,936)	
Income tax effect		52,075	
	(b)	(4,403,861)	
Remeasurements of employee defined benefit plans (IAS 19):			
Actuarial gains (losses)		20,105,536	9,003,437
Income tax effect		(4,825,329)	(2,160,825)
	(c)	15,280,207	6,842,612
Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method:			
Profit (loss)			
Income tax effect			
	(d)		
Total other components that will not be reclassified subsequently to Separate Income Statements	(e=b+c+d)	10,876,346	6,842,612
Other components that subsequently will be reclassified in the Separate Income Statements			
Financial assets measured at fair value through other comprehensive income(*):			
Profit (loss) from fair value adjustments		11,497,530	(33,360,969)
Loss (profit) transferred to the Separate Income Statements			

Income tax effect		(3,151,768)	8,833,754
	(f)	8,345,762	(24,527,215)
Hedging instruments:			
Profit (loss) from fair value adjustments		70,451,359	(189,884,186)
Loss (profit) transferred to the Separate Income Statements		9,229,000	392,963,000
Income tax effect		(19,123,286)	(48,738,915)
	(g)	60,557,073	154,339,899
Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method:			
Profit (loss)			
Loss (profit) transferred to the Separate Income Statements			
Income tax effect			
	(h)		
Total other components that will be reclassified subsequently to Separate Income Statements	(i=f+g+h)	68,902,835	129,812,684
Total other components of the Statements of Comprehensive Income	(k=e+i)	79,779,181	136,655,296
Total comprehensive income (loss) for the year	(a+k)	(1,773,826,158)	1,223,555,902

(*) Including, for 2017, available-for-sale financial assets .

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STATEMENTS OF CHANGES IN EQUITY

Changes in Equity from January 1 to December 31, 2017

uros)	Share capital	Additional paid-in capital	Reserve for financial assets measured at fair value through other comprehensive income	Reserve for hedging instruments	Reserve for remeasurements of employee defined benefit plans (IAS 19)	Other reserves and retained earnings (accumulated losses), including profit (loss) for the year	Total Equity
lance at cember 2016	**11,656,283,247**	**2,094,207,410**	**26,893,911**	**(1,206,963,005)**	**(102,627,937)**	**6,505,020,925**	**18,972,814,55**
anges in uity during year:							
vidends proved						(165,764,272)	**(165,764,27**
tal mprehensive ome (loss) the year			(24,527,215)	154,339,899	6,842,612	1,086,900,606	**1,223,555,90**
rplus from merger of M REAL TATE S.r.l. d Olivetti ultiservices .A. into M S.p.A.						43,756,079	**43,756,07**
ue of equity truments						(5,993,396)	**(5,993,39**
her changes						1,052,960	**1,052,96**
lance at cember 2017	**11,656,283,247**	**2,094,207,410**	**2,366,696**	**(1,052,623,106)**	**(95,785,325)**	**7,464,972,902**	**20,069,421,82**

Changes in Equity from January 1 to December 31, 2018 - Note 12

euros)	Share capital	Additional paid-in capital	Reserve for financial assets measured at fair value through other comprehensive income (*)	Reserve for hedging instruments	Reserve for remeasurements of employee defined benefit plans (IAS 19)	Other reserves and retained earnings (accumulated losses), including profit (loss) for the year	Total Equity
alance at December 1, 2017	**11,656,283,247**	**2,094,207,410**	**2,366,696**	**(1,052,623,106)**	**(95,785,325)**	**7,464,972,902**	**20,069,421,824**
doption of FRS 15 and FRS 9			10,782,899			(5,049,758)	**5,733,141**
djusted alance t December 1, 2017	**11,656,283,247**	**2,094,207,410**	**13,149,595**	**(1,052,623,106)**	**(95,785,325)**	**7,459,923,144**	**20,075,154,965**
hanges in quity during he year:							
ividends pproved						(165,764,272)	**(165,764,272**
otal omprehensive ncome (loss) or the year			3,941,901	60,557,073	15,280,207	(1,853,605,339)	**(1,773,826,158**
ssue of equity nstruments						2,130,017	**2,130,017**
ther changes						510,501	**510,501**
alance at December 1, 2018	**11,656,283,247**	**2,094,207,410**	**17,091,496**	**(992,066,033)**	**(80,505,118)**	**5,443,194,051**	**18,138,205,053**

(*) The balance at December 31, 2017 includes the Reserve for available-for-sale financial assets .

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STATEMENTS OF CASH FLOWS

(euros)	note	Year 2018	Year 2017
Cash flows from operating activities:			
Profit (loss) for the year		(1,853,605,339)	1,086,900,606
Adjustments for:			
Depreciation and amortization		3,154,977,771	3,202,764,191
Impairment losses (reversals) on non-current assets (including investments)		2,738,929,000	73,202,000
Net change in deferred tax assets and liabilities		(13,546,000)	(167,588,000)
Losses (gains) realized on disposals of non-current assets (including investments)		10,739,000	1,008,000
Change in provisions for employee benefits		(193,634,000)	439,295,000
Change in inventories		(83,632,000)	(44,917,000)
Change in trade receivables and net amounts due from customers on construction contracts		(65,947,000)	(16,194,000)
Change in trade payables		(173,998,000)	(538,254,000)
Net change in current income tax receivables/payables		(205,353,000)	(485,063,000)
Net change in miscellaneous receivables/payables and other assets/liabilities		(433,792,593)	98,761,000
Cash flows from (used in) operating activities	(a)	2,881,137,839	3,649,914,797
Cash flows from investing activities:			
Purchase of intangible assets	4)	*(3,310,520,000)*	*(1,627,454,000)*
Purchase of tangible assets	5)	*(1,791,405,000)*	*(2,521,744,000)*
Total purchase of intangible and tangible assets on an accrual basis (*)		(5,101,925,000)	(4,149,198,000)
Change in amounts due for purchases of intangible and tangible assets		*1,958,374,000*	*675,717,000*

Total purchase of intangible and tangible assets on a cash basis		(3,143,551,000)	(3,473,481,000)
Contributions for plants received		108,285,000	82,306,000
Cash arising from corporate actions	6)		(243,479,000)
Acquisitions/disposals of other investments		(130,412,000)	(75,704,000)
Change in financial receivables and other financial assets (excluding hedging derivative and other derivative receivables)		264,820,000	(113,631,000)
Proceeds received from the sale of investments in subsidiaries			
Proceeds from sale/repayment of intangible, tangible and other non-current assets		23,987,000	46,747,000
Cash flows from (used in) investing activities	(b)	(2,876,871,000)	(3,777,242,000)
Cash flows from financing activities			
Change in current financial liabilities and other		681,485,000	(316,911,000)
Proceeds from non-current financial liabilities (including current portion)		2,722,628,000	3,243,365,000
Repayments of non-current financial liabilities (including current portion)		(3,533,673,000)	(3,595,578,000)
Changes in hedging and non-hedging derivatives		(223,726,000)	198,769,000
Share capital proceeds/reimbursements			
Dividends paid (*)		(165,721,000)	(165,722,000)
Cash flows from (used in) financing activities	(c)	(519,007,000)	(636,077,000)
Aggregate cash flows	(d=a+b+c)	(514,740,161)	(763,404,203)
Net cash and cash equivalents at beginning of the year	(e)	299,073,077	1,062,477,280
Net cash and cash equivalents at end of the year	(f=d+e)	(215,667,084)	299,073,077

(*) of which related parties:

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(euros)	Year 2018	Year 2017
Total purchase of intangible and tangible assets on an accrual basis	17,806,000	144,937,000

Dividends paid

Additional Cash Flow Information

(euros)	Year 2018	Year 2017
Income taxes (paid) received	(632,326,000)	(948,858,000)
Interest expense paid	(2,034,325,000)	(2,838,135,000)
Interest income received	952,861,000	1,657,577,000
Dividends received	115,199,000	254,890,000

Analysis of Net Cash and Cash Equivalents

(euros)	Year 2018	Year 2017
Net cash and cash equivalents at beginning of the year:		
Cash and cash equivalents	771,483,135	1,230,225,788
Bank overdrafts repayable on demand	(472,410,058)	(167,748,508)
	299,073,077	1,062,477,280
Net cash and cash equivalents at end of the year:		
Cash and cash equivalents	885,426,755	771,483,135
Bank overdrafts repayable on demand	(1,101,093,839)	(472,410,058)
	(215,667,084)	299,073,077

The additional disclosures required by IAS 7 are provided in the Note Net financial debt to these separate financial statements.

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NOTE 1

FORM, CONTENT AND OTHER GENERAL INFORMATION

FORM AND CONTENT

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

The registered offices of TIM S.p.A. 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 May 16, 2018, the Board of Directors of TIM S.p.A. acknowledged that the grounds for considering Vivendi the entity exercising direction and coordination powers over TIM no longer applied. Subsequently, on June 25, 2018, the Board of Directors approved amendments to the internal procedure governing transactions with related parties, and updated the relative related party boundary to reflect the new situation, whereby Vivendi no longer qualifies as the de facto controlling entity over TIM.

TIM S.p.A. operates in Italy in the fixed and mobile telecommunications sector.

The TIM S.p.A. separate financial statements at December 31, 2018 have been prepared on a going concern basis (further details are provided in 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 laws and regulations in force in Italy.

Furthermore, during 2018, TIM S.p.A. applied accounting policies consistent with those applied for the previous year, except for the new accounting standards adopted as of January 1, 2018, the impact of which is illustrated in the section Adoption of the new IFRS 9 and IFRS 15 standards , to which readers are referred for more details.

The separate financial statements have been prepared under the historical cost convention except for financial assets measured at fair value through other comprehensive income, financial assets measured at fair value through profit or loss 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 statements of financial position, the separate income statements, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows are presented in euros (without cents) and the notes to these separate financial statements in millions of euros, unless otherwise indicated.

Publication of the TIM S.p.A. Separate Financial Statements for the year ended December 31, 2018 was approved by resolution of the Board of Directors on February 21, 2019.

However, final approval of the TIM S.p.A. separate financial statements rests with the shareholders meeting.

FINANCIAL STATEMENT FORMATS

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

- the **separate statements of financial position** have been prepared by classifying assets and liabilities according to the current and non-current criterion;

- the **separate income statement** has been prepared by classifying operating expenses by nature of expense, as this form of presentation is considered more appropriate and representative of the specific business of the Company, conforms to internal reporting and is in line with industry practice.

In addition to EBIT or Operating profit (loss), the separate income statement includes 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 TIM S.p.A.. EBIT and EBITDA are calculated as follows:

Profit (loss) before tax from continuing operations	
+	Finance expenses
-	Finance income
+/-	Income (Expenses) from investments
EBIT	**Operating profit (loss)**
+/-	Impairment losses (reversals) on non-current assets
+/-	Losses (gains) on disposals of non-current assets
+	Depreciation and amortization
EBITDA - Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets	

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

Furthermore, as required by Consob Resolution 15519 of July 27, 2006, in the separate income statement, income and expenses relating to transactions, which by nature do not occur during normal operation (non-recurring transactions) have been specifically identified and their impact has 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; items related to corrections and realignments related to previous years; and impairment losses on goodwill and/or other intangible and tangible assets.

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

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NOTE 2

ACCOUNTING POLICIES

GOING CONCERN

The separate financial statements for the year ended December 31, 2018 have been prepared on a going concern basis as there is the reasonable expectation that TIM S.p.A. will continue its operational activities in the foreseeable future (and in any event for a time horizon 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 TIM is 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 TIM S.p.A. s ability to continue as a going concern.

INTANGIBLE ASSETS

Goodwill

Under IFRS 3 (*Business Combinations*), goodwill is recognized in the separate financial statements as of the acquisition date (through merger or contribution) of companies or business segments and is measured as the difference between the consideration transferred (measured in accordance with IFRS 3, which is generally recognized on the basis of the acquisition date fair value), and the acquisition date fair value of the identifiable assets acquired net of the identifiable liabilities assumed.

Goodwill is classified in the statements of financial position as an intangible asset with an indefinite useful life, whereas any gain from a bargain purchase or negative goodwill is recognized in the separate income statement.

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.

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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 in the separate consolidated income statements prospectively.

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 in the separate consolidated income statements prospectively.

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 Company, 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 income statement) 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.

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 income statement. The impairment loss is first recognized as a deduction of the carrying amount of goodwill allocated to the cash-generating unit (or group of cash-generating units) and 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 or market in which the cash-generating unit (or group of cash-generating units) operates.

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).

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 Company 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 Company over market capitalization.

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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 Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Impairment losses are recognized in the separate income statement.

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

Business models for financial assets management

The business models for financial assets (other than trade receivables due from customers) have been defined on the basis of how the financial instruments are managed and their cash flows used; this is done to ensure an adequate level of financial flexibility and to best manage, in terms of risks and returns, the financial resources immediately available and in accordance with the strategies.

In accordance with IFRS 9, the business models adopted are:

§ Hold to Collect: financial instruments used to absorb temporary cash surpluses; such instruments are low risk and mostly held to maturity; and are measured at amortized cost;

§ Hold to Collect and Sell: monetary or debt instruments used to absorb short/medium-term cash surpluses; such instruments are low risk and generally held to maturity, or otherwise sold to cover specific cash requirements; and are measured at fair value through other comprehensive income;

§ Hold to Sell: monetary, debt and equity trading instruments used to dynamically manage cash surpluses not managed under the business models identified above; such instruments are higher risk and traded repeatedly over time; and are measured at fair value through profit or loss.

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures are measured at cost adjusted by impairment losses. When there is objective evidence of an impairment, recoverability is verified by comparing the carrying amount of the investment against its recoverable amount consisting of the greater of fair value, net of disposal costs, and value in use.

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 Company s portfolio for a period of more or not more than 12 months, respectively.

Other investments are classified as financial assets measured at fair value through profit or loss (FVTPL), as current assets.

At the purchase time of each investment, IFRS 9 provides for the irrevocable option to recognize these investments in financial assets measured at fair value through other comprehensive income (FVTOCI) as non-current or current assets.

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The other investments classified as financial assets measured at fair value through other comprehensive income are measured at fair value; changes in the fair value of these investments are recognized in a special equity reserve under the other components of the statements of comprehensive income (Reserve for financial assets measured at fair value through other comprehensive income), without reclassification to the separate income statement when the financial asset is disposed of or impaired. Dividends, on the other hand, are recognized in the separate income statements.

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

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Securities other than investments

Securities other than investments included among non-current or current assets, depending on the business model adopted and the contractual flows envisaged, fall among financial assets measured at amortized cost, or measured at fair value through other comprehensive income or at fair value though profit or loss.

Securities other than investments, classified as current assets, are those that, by decision of the directors, are intended to be kept in TIM S.p.A. s portfolio for a period of not more than 12 months, and are included:

§ as financial assets measured at amortized cost (AC) when held to maturity (originally more than 3 months but less than 12 months, or, with an original maturity of more than 12 months but the remaining maturity at the date of purchase is more than 3 months but less than 12 months);

§ as financial assets measured at fair value through other comprehensive income (FVTOCI) when held in the scope of a business model whose objective is to sell the financial asset and/or collect the contractual flows. The Reserve for financial assets measured at fair value through other comprehensive income is reversed to the separate income statements when the financial asset is disposed of or impaired;

§ as financial assets measured at fair value through profit or loss (FVTPL) in the other cases.

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.

The impairment of financial assets is based on the expected credit loss model.

In particular:

§ impairment on trade receivables and on contract assets is carried out using the simplified approach that involves estimating the loss expected over the life of the receivable at the time of initial recognition and on subsequent measurements. For each customer segment, the estimate is principally made by calculating the average expected uncollectibility, based on historical and statistical indicators, possibly adjusted using forward-looking elements. For some categories of receivables characterized by specific risk elements, specific measurements are made on individual credit positions;

§ impairment on financial assets other than trade receivables is carried out on the basis of a general model which estimates expected credit losses over the following 12 months, or over the residual life of the asset in the event of a substantial increase in its credit risk.

Derivatives

As allowed by IFRS 9, the Company decided to continue to apply the hedge accounting provisions contained in IAS 39 instead of those of IFRS 9.

Derivatives are used by the Company 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 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 income statement.

§ *Cash flow hedge* Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows of an asset or liability or a highly probable expected transaction, the effective portion of any gain or loss 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 income statement at the same time the hedged transaction affects the separate income statement. The gain or loss associated with the ineffective portion of a hedge is recognized in the separate income statement 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 income statement.

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 income statement.

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 IFRS 9, they also include trade and other payables.

Financial liabilities other than derivatives are initially recognized at fair value and subsequently measured at amortized cost.

Financial liabilities hedged by derivative instruments designed to manage exposure to changes in 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 income statement 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.

SALES OF RECEIVABLES

Sales of receivables by TIM S.p.A. are carried out under factoring agreements. 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 IFRS 9 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.

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 separate statements of financial position. The corresponding amounts for the previous year are not reclassified in the statement 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; or

§ 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 income statement, net of tax effects. The corresponding values for the previous periods, where present, are reclassified and reported separately in the separate income statement, 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 income statement.

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 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 other comprehensive income. The interest expenses related to the time value component of the actuarial calculations (the latter classified as Finance expenses), are recognized in the separate income statement under financial expenses.

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

TIM S.p.A. provides additional benefits to certain managers of the Company 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 Employee benefits expenses , for employees of the Company, and in Investments , for employees of subsidiaries, 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. An adjustment is made to Other equity instruments for the impact of the change in estimate with contra-entry to Employee benefits expenses or Investments .

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 for employees of the Company, and in Investments , for employees of subsidiaries; at the end of each year such liability is measured at fair value.

PROVISIONS

The Company 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 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 as Finance expenses .

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GOVERNMENT GRANTS

Government grants are recognized when there is a reasonable certainty that they will be received and that the Company 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 Company 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.

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

§ identification of the contract: takes place when the parties approve the contract (with commercial substance), and identify the respective rights and obligations: in other terms, the contract must be legally binding, the rights to receive goods and/or services and the terms of payment can be clearly identified and the Company considers receipt of payment as probable;

§ identification of the performance obligations: the main *performance obligations* identified, i.e. promises to transfer goods and services that are distinct, are services rendered (including voice and data traffic and ICT solutions) to retail customers, services rendered to wholesale customers and sale of products;

§ determination of the transaction price: is the total amount contracted with the other party regarding the entire contractual term. the Company has determined that the contractual term is the one arising from the contractual obligations between the parties or, in lack of these obligations, it is by convention one month;

§ allocation of the transaction price to the performance obligations: the allocation is made proportionately to the respective standalone selling prices calculated based on the list prices (if present) or estimated by applying an appropriate margin to the cost of purchase/production of the good/service.

Revenues from activating the connectivity service are not a performance obligation; they are therefore allocated to the contractual performance obligations (typically to services).

For offerings which include the sale of devices and service contracts (bundle offerings), the Company allocates the contractual transaction price to the performance obligations of the contract, proportionately to the stand alone selling prices of the single performance obligations;

§ recognition of revenues: revenues are stated net of discounts, allowances, and returns in connection with the characteristics of the type of revenue:

§ Revenues from services rendered

Revenues from services rendered are recognized in the separate income statements according to the stage of completion of the service, that is based on actual consumption.

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 Company. In the event that the Company is acting as agent (for example non-geographic numbers) only the commission received from the content provider is recognized as revenue.

Revenues from prepaid traffic are recorded on the basis of effective consumption. Deferred revenues for traffic already collected but not yet consumed are recorded in Trade and miscellaneous payables and other current liabilities in the statements of financial position.

Revenues on construction contracts are recognized based on the stage of completion (percentage of completion method).

Revenues for services rendered are generally invoiced and collected monthly (for retail customers) or in 40-60 days (for wholesale customers).

§ Revenues from sales

Revenues from sales (telephone and other equipment) are recognized upon delivery when control of the assets is transferred to the customers.

The devices sold separately from the services are invoiced at the time of delivery; collection takes place on demand or based on installment plans (up to 48 monthly installments). The devices sold as part of bundle offerings are invoiced at the time of delivery and usually collected in 24 monthly installments.

Some contracts (usually the installment sale of devices) include an implicit financial component that is recognized by posting finance income with concomitant reduction of the revenues from sales; this component is determined by using a discount rate that reflects a hypothetical customer loan transaction at the contract date reflecting the creditworthiness by type of customer. The Company avails itself of the practical expedient of not recognizing said component if it is insignificant or the collection extension is less than 12 months.

The recognition of revenues can generate the recognition of an asset or liability deriving from contracts. In particular:

§ **Contract asset** are the right to a consideration in exchange for goods or services that have been transferred to the customer, when the right is subject to something other than the passage of time.

§ **Contract liabilities** are the obligation to transfer goods or services to the customer for which the Companuser rights for the leased assets

§ y has received (or for which it is due) a consideration from the customer.

Contract costs (incremental costs of obtaining a contract and costs to fulfill a contract; for example, the activation costs and the costs for sales network commissions) are extended and recognized in the income statement based on the expected term of the contractual relationship with the customers (on average, 3 years for the mobile business and 7 years for the fixed business). TIM avails itself of the IFRS 15 practical expedient, which allows the incremental costs of obtaining the contract to be recognized entirely in the income statement if the deferral period does not exceed 12 months.

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.

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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 are recognized in the separate income statement 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 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 Company.

The income tax expense is recognized in the separate income statement, except to the extent that it relates to items directly charged or credited to equity, in which case the related tax effect is recognized in the relevant equity reserves. In the Statements of comprehensive income the amount of income tax expense relating to each item included as Other components of the Statements of comprehensive income is indicated.

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 relevant carrying amounts in the separate financial statements, except for non tax-deductible goodwill. 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 there is a legally enforceable right of offset. Deferred tax assets and liabilities are determined based on enacted tax rates 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 .

USE OF ESTIMATES

The preparation of separate 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.

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Financial statements 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 Company 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.
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	Impairment on trade receivables and on the contract assets is carried out using the simplified approach that involves estimating the loss expected over the life of the receivable at the time of initial recognition and on subsequent measurements. For each customer segment, the estimate is principally made by calculating the average expected uncollectibility, based on historical

	and statistical indicators, possibly adjusted using forward-looking elements. For some categories of receivables characterized by specific risk elements, specific measurements are made on individual credit positions.
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 as well as regulatory proceedings 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	The recognition of revenues is influenced by estimates of the amount of discounts, rebates and returns to be reported as a direct adjustment to revenues, as well as the methods for defining individual product or service stand alone selling prices and for determining the duration of the contract when there are renewal options.
Contract costs (IFRS 15)	The recognition of the costs of obtaining and fulfilling contracts is influenced by the estimated expected duration of the relationship with the customer, calculated on the basis of the historical turnover indexes. However, this estimate is subject to fluctuations and could only represent customers future behavior in a limited way, especially if there are new commercial offers or changes in the competitive environment.
Income tax expense (current and deferred)	Income taxes (current and deferred) are calculated 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 more details, see the Note Supplementary disclosures on financial instruments .

As required by IAS 8.10 (*Accounting Policies, Changes in Accounting Estimates and Errors*) in the absence of a Standard or an Interpretation that specifically applies to a particular transaction, Management, through careful subjective evaluation techniques, chooses the accounting methods to adopt with a view to providing financial statements which faithfully represent the financial position, the results of operations and the cash flows of the Company, which reflect the economic substance of the transactions, which are neutral, prepared on a prudent basis and complete in all material respects.

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NEW STANDARDS AND INTERPRETATIONS ENDORSED BY THE EU AND IN FORCE FROM JANUARY 1, 2018

As required by IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), the following is a brief description of the IFRS in force commencing as of January 1, 2018.

The impacts of the application, as of January 1, 2018, of IFRS 15 (*Revenue from Contracts with Customers*) and IFRS 9 (*Financial Instruments*) are instead reported in the section Adoption of the New IFRS 9 and IFRS 15 Standards .

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration was adopted at the European Union level on March 28, 2018 by Commission Regulation (EU) 2018/519.

IFRIC 22 clarifies which exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. The adoption of said interpretation had no impact on these financial statements at December 31, 2018.

Amendments to IFRS 2 (Share-based Payment)

Amendments to IFRS 2 Share-based Payment were adopted on February 26, 2018 by Commission Regulation (EU) 2018/289. The amendments concern:

§ the fair value measurement of cash-settled share-based payment transactions at the valuation date (i.e., at the grant date, at the reporting date of each accounting period, and at the settlement date), the calculation of which must take into account market conditions (such as the target price of shares) and any other conditions different to the vesting conditions;

§ the accounting for equity-settled share-based payment transactions in which the entity acts as a withholding agent for the tax liabilities of the employee (withholding tax);

§ the accounting for changes in terms and conditions that entail the reclassification of cash-settled share-based payments as equity-settled share-based payments.

The adoption of said amendments had no impact on these financial statements at December 31, 2018.

Improvements to IFRS (2014 2016 cycle)

Amendments to IAS 28 Investments in Associates and Joint Ventures were adopted on February 7, 2018 by Commission Regulation (EU) 2018/182. Specifically, the amendments clarify that if an investment entity (such as a mutual investment fund or similar entity) elects to measure its investments in associates and joint ventures at fair value through profit or loss (rather than applying the equity method), the election must be applied to each and every investment upon initial recognition. A similar clarification applies to entities that are not investment entities, but which hold investments in associates or joint ventures that qualify as investment entities. In that case, when applying the equity method, the entities may maintain the fair value measurement through profit or loss made by their investees in associates and joint ventures.

The adoption of said improvements had no impact on these financial statements at December 31, 2018.

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Amendments to IAS 40 Transfers of Investment Property

Amendments to IAS 40 were adopted on March 14, 2018 by Commission Regulation (EU) 2018/400, which clarifies that an entity may transfer a property to, or from, investment property only when there is evidence of a change in use.

The adoption of said amendments had no impact on these financial statements at December 31, 2018.

ADOPTION OF THE NEW IFRS 9 AND IFRS 15 STANDARDS

This section provides an overview of the main elements of IFRS 9 (*Financial Instruments*) and IFRS 15 (*Revenue from Contracts with Customers*) and reports the impact of the application of the standards as of January 1, 2018.

IFRS 9 (Financial Instruments)

On November 22, 2016, Regulation (EU) No. 2016/2067 was issued, which adopted IFRS 9 (Financial Instruments) at EU level, relating to the classification, measurement, derecognition and impairment of financial assets and liabilities, and hedge accounting.

As allowed by the accounting standard, the Company:

§ did not restate the comparative information provided in the year of first application, also due to the complexity of reformulating values at the beginning of the first year presented without the use of factors known later; therefore, the effects deriving from the first application of IFRS 9 were recognized in equity at January 1, 2018;

§ decided to continue to apply the hedge accounting provisions contained in IAS 39 instead of those of IFRS 9.
Commencing as of January 1, 2018, TIM has amended the impairment model applied to financial assets (including trade receivables due from customers), by adopting an expected credit loss model as per IFRS 9, which replaces the incurred loss model required by IAS 39. In application of IFRS 9, the classification (and hence measurement) of financial assets has also been modified and is now based on the entity s business model for managing the financial assets and on the contractual cash flow characteristics of the financial asset. Under IAS 39, financial assets were classified (and hence measured) on the basis of their destination.

TIM Management has identified its business models for Company financial assets (other than trade receivables due from customers) on the basis of how the financial instruments are managed and their cash flows used. This is done to ensure an adequate level of financial flexibility and to best manage, in terms of risks and returns, the financial resources immediately available and in accordance with the strategies.

In accordance with IFRS 9, the business models adopted by the Company are:

§ Hold to Collect: financial instruments used to absorb temporary cash surpluses; such instruments are low risk and mostly held to maturity; and are measured at amortized cost;

§ Hold to Collect and Sell: monetary or debt instruments used to absorb short/medium-term cash surpluses; such instruments are low risk and generally held to maturity, or otherwise sold to cover specific cash requirements; and are measured at fair value through other comprehensive income;

§ Hold to Sell: monetary, debt and equity trading instruments used to dynamically manage cash surpluses not managed under the business models identified above; such instruments are higher risk and traded repeatedly over time; and are measured at fair value through profit or loss.

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Financial assets other than trade receivables are written down for impairment on the basis of a general model which estimates expected credit losses over the following 12 months, or over the residual life of the asset in the event of a substantial increase in its credit risk.

The expected credit loss (ECL) is given by: (i) the present value at the reporting date of the financial asset, (ii) the probability that the counterparty does not meet its payment obligation (probability of default, PD), (iii) the estimate, in percentage terms, of the amount of credit that it will not be able to recover in the event of a default (loss given default, LGD).

To determine the PD and LGD, reference is made to the Bloomberg credit risk model.

For the management of trade receivables, TIM Management has identified different business models based on the specific nature of the receivables, the type of counterparty and collection times, in order to optimize the management of working capital through the constant monitoring of the payment performance of customers, the steering of credit collection policies, and the management of programs for the disposal and factoring of receivables, in line with financial planning needs.

The business models adopted by the Company for managing trade receivables are:

§ Hold to Collect: receivables usually held to maturity, such as trade receivables due from large customers and the OLOs; these instruments fall within IFRS 9 category Assets measured at amortized cost ;

§ Hold to Collect and Sell: receivables usually traded massively and on a recurring basis, such as receivables due from active consumer, small and medium business customers held for sale; these instruments fall under IFRS 9 category Financial assets measured at fair value through other comprehensive income . As required by IFRS 9, the related reserve is reversed to the separate income statements when disposed of or impaired.

Impairment of trade receivables and contract assets is carried out through the simplified approach allowed by the standard. This approach involves estimating the expected loss over the life of the receivable at the time of initial recognition and on subsequent measurements. For each customer segment, the estimate is principally made by calculating the average expected uncollectibility, based on historical and statistical indicators, possibly adjusted using forward-looking elements. For some categories of receivables characterized by specific risk elements, specific measurements are made on individual credit positions.

In general, the methodology to recognize the expected loss differs based on the offering content, the customer cluster and payment terms.

More specifically, in the case of receivables arising from traditional services offered to consumers and businesses, the expected loss is estimated based on the trend of outstanding receivables with respect to turnover, using the values recorded for turnover generations that have completed the operating cycle as a reference, as well as parameters for measuring the most recent performance, suitable for identifying deviations from the historical trend.

As regards receivables arising from offers where products or contribution fees are paid in installments, the assessment of credit default risk for ongoing payment-by-installment plans considers the trend of the customer drop out rate and the average of sums received from such customers.

For clusters with relational-based credit management (such as major TOP segment customers, the public administration sector, wholesale customers, sales network dealers), information that can identify specific individual counterparty risk is used in the assessment.

At the transition date (January 1, 2018), TIM has chosen to continue to report gains and losses from other investments (other than those in subsidiaries, associates and joint ventures), classified under IAS 39 as available-for-sale financial assets and measured at fair value, through other comprehensive income, also under IFRS 9. As of January 1, 2018, the aforementioned other investments are therefore measured at fair value through other comprehensive income (FVTOCI). Only dividends from other investments are recognized through profit or loss, while all other gains and losses are recognized through other comprehensive income without reclassification to the separate income statement when the financial asset is disposed of or impaired as provided by IAS 39.

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The changes in the classification of financial assets had no material impact on the measurement of the assets for the Company.

The comprehensive net impact (including tax effects) of the adoption of IFRS 9 on equity at the transition date of January 1, 2018 was mainly due to the recognition of higher write-downs for expected losses on trade receivables, connected with the introduction of an expected credit loss model, replacing the incurred loss model required by IAS 39.

IFRS 15 (Revenue from contracts with customers)

On September 22, 2016, Commission Regulation (EU) No. 2016/1905 was issued, which adopted IFRS 15 (*Revenues from contracts with customers*) and the related amendments at EU level. On October 31, 2017, clarifications to IFRS 15 were adopted through Commission Regulation (EU) No. 2017/1987.

IFRS 15 replaces the standards that formerly governed 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*).

TIM has applied the modified retrospective method with the recognition of the cumulative effect of the first-time application of the standard as an adjustment to the opening balance of equity for the period when the standard is adopted, without restating prior periods.

The adoption of IFRS 15 affected the recognition of revenues from fixed-line and mobile offers and the recognition of contract costs. The main differences for the Company with respect to the previous accounting standards applied (IFRS 15 vs. IAS 18, IAS 11 and relative interpretations) concern:

§ bundle offers (bundled good and services): the allocation of contract discounts to performance obligations under IFRS 15 brings forward in time the recognition of revenues, resulting in the recognition of a contract asset and, in some cases, the deferral of revenues, entailing the recognition of a contract liability;

§ activation/installation revenues: under previous accounting policies, these were deferred over the expected duration of the customer relationship. IFRS 15 requires that such revenues given that they are not allocated to separate performance obligations are allocated to other performance obligations (usually services) contained in the contract;

§ contract costs (incremental costs of obtaining a contract and costs to fulfill a contract): under previous accounting policies, these costs were capitalized or deferred and recognized in the income statement on the basis of the expected duration of the contract and the type of customer. The approach is substantially confirmed under IFRS 15, with the exception of the reclassification of certain contract costs and the change in the types of costs considered, in some cases.

The comprehensive net impact (including tax effects) of the adoption of IFRS 15 on equity at January 1, 2018 (transition date) was not material and mainly connected with the combined effects of:

- the change in the types of contract costs that are deferred;
- the new approach to recognizing activation/installation revenues and the recognition of contract assets connected with the earlier recognition of revenues from bundle offers.

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IMPACTS OF THE ADOPTION OF IFRS 9 AND IFRS 15

Impacts on the statements of financial position at 1/1/2018 (transition date)

The impacts of the transition on the main line items of the statements of financial position of TIM S.p.A. are shown below.

(millions of euros)	**12/31/2017 historical**	**IFRS 9 impacts (*)**	**IFRS 15 impacts (*)**	**1/1/2018 restated**
Assets				
Non-current assets				
Intangible assets				
Intangible assets with a finite useful life	4,249		(78)	4,171
Other non-current assets				
Investments	7,747	2		7,749
Miscellaneous receivables and other non-current assets	1,752		(192)	1,560
Deferred tax assets	902	28		930
Current assets				
Trade and miscellaneous receivables and other current assets	3,935	(114)	19	3,840
Total Assets	**62,187**	**(84)**	**(251)**	**61,852**
Equity and Liabilities				
Equity	**20,069**	**(82)**	**88**	**20,075**
Non-current liabilities				
Miscellaneous payables and other non-current liabilities	1,291		(252)	1,039
Deferred tax liabilities	2		34	36
Current liabilities				
Trade and miscellaneous payables and other current liabilities	5,850		(121)	5,729
Current income tax payables	55	(2)		53
Total Equity and Liabilities	**62,187**	**(84)**	**(251)**	**61,852**

(*) Please refer to the specific notes herein for further details.

The different classification of financial assets, following the adoption of IFRS 9, had no substantial impact for TIM on the measurement of those assets, while the introduction of the expected credit loss model replacing the incurred loss model required by IAS 39, resulted in a reduction of 82 million euros in equity at the transition date of January 1, 2018.

The comprehensive net impact (including tax effects) of the adoption of IFRS 15 on equity at January 1, 2018 (transition date) was positive for 88 million euros and mainly connected with the combined effects of:

§ the change in the types of contract costs that are deferred;

§ the new approach to recognizing activation and installation revenues and the recognition of contract assets connected with the earlier recognition of revenues from bundle offers.

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Impact of new accounting standards (IFRS 9 and IFRS 15) on the main line items of the separate income statements and statements of financial position for the year 2018

To enable the year-on-year comparison of the economic and financial performance for the year 2018, comparable financial position figures and comparable income statement figures, prepared in accordance with the previous accounting standards applied (IAS 39, IAS 18, IAS 11, and relative Interpretations) are provided below.

The breakdown of the impact of the new accounting standards on key income statement figures for year 2018 is shown below.

(millions of euros)		Year 2018 (a)	Year 2018 comparable (b)	Impact new standards (c=a-b)
Revenues	(1)	**13,902**	**14,055**	**(153)**
Operating expenses	(2)	(8,546)	(8,431)	(115)
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)		**5,608**	**5,876**	**(268)**
Depreciation and amortization	(3)	(3,155)	(3,259)	104
Operating profit (loss) (EBIT)		**(241)**	**(77)**	**(164)**
Finance income/(expenses)	(4)	(1,250)	(1,252)	2
Profit (loss) before tax		**(1,420)**	**(1,258)**	**(162)**
Income tax expense	(5)	(434)	(491)	57
Profit (loss) for the year		**(1,854)**	**(1,749)**	**(105)**

The change in Revenues was attributable to the different accounting of bundle offers and activation/installation revenues and to the discounting of revenues from sales using the deferred payment method, using a discount rate reflecting the creditworthiness of customers.

The change in Operating expenses was mainly due to the deferral of certain subscriber acquisition costs and contract costs that were previously expensed and to the reclassification of some contract costs from intangible assets to other non-current and current assets (cost deferral), as well as higher provisions for expected losses on trade receivables, resulting from the introduction of an expected credit loss model (replacing the incurred loss model).

The change in Depreciation and amortization was due to the reclassification of certain contract costs from intangible assets to other non-current and current assets (cost deferral).

The change in Finance income (expenses) was due to higher provisions for expected losses on other financial assets, due to the introduction of an expected credit loss model (replacing the incurred loss model).

The change in Income tax expense shows the income tax effect of the changes illustrated above.

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The breakdown of the impact of the new accounting standards on the main statements of financial position figures at December 31, 2018 is shown below.

(millions of euros)	12/31/2018 (a)	12/31/2018 comparable (b)	Impact of new standards (*) (c=a-b)
Assets			
Non-current assets			
Intangible assets	30,680	30,770	(90)
Tangible assets	12,476	12,476	
Other non-current assets	12,049	12,265	(216)
Total Non-current assets	**55,205**	**55,511**	**(306)**
Current assets	**5,956**	**5,995**	**(39)**
Total Assets	**61,161**	**61,506**	**(345)**
Equity and liabilities			
Total Equity	**18,138**	**18,238**	**(100)**
Non-current liabilities	**29,868**	**30,125**	**(257)**
Current liabilities	**13,155**	**13,143**	**12**
Total Liabilities	**43,023**	**43,268**	**(245)**
Total Equity and Liabilities	**61,161**	**61,506**	**(345)**

(*) For more details, see the information provided on impacts at the transition date.

NEW STANDARDS AND INTERPRETATIONS ISSUED BY IASB BUT NOT YET APPLICABLE

At the date of preparation of these 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 16 (*Leases*)	1/1/2019
Amendments to IFRS 9: Prepayment Features with Negative Compensation	1/1/2019
IFRIC 23 Uncertainty over income tax treatments	1/1/2019
New Standards and Interpretations not yet endorsed by the EU	
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
Amendments to References to the Conceptual Framework in IFRS Standards	1/1/2020
IFRS 17: Insurance contracts	1/1/2021
Amendments to IFRS 3 Business combinations	1/1/2020
Amendments to IAS 1 and IAS 8: definition of materiality	1/1/2020

The potential impacts on the financial statements from application of these new standards and interpretations are currently being assessed.

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IFRS 16 (Leases)

IFRS 16 (Leases) was adopted at the European Union level on October 31, 2017 by Commission Regulation (EU) 2017/1986. IFRS 16 replaces IAS 17 (Leases) and relative interpretations (IFRIC 4 Determining whether an Arrangement Contains a Lease; SIC 15 Operating Leases Incentives; SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). IFRS 16 applies retrospectively commencing as of January 1, 2019.

On the basis of the provisions of IFRS 16, lease agreements (that are not service contracts) are represented in accounting by recognizing a financial liability in the statements of financial position, represented by the current value of future subscription charges against recognition under assets of the Right of Use .

Leasing expenses, already previously classified according to IAS 17 as finance leasing, will not undergo any change to the current accounting representation, continuing as in the past.

Upon first application, the Company intends to apply a modified retrospective method by recognizing, for leases previously classified under IAS 17 as operating leases, a financial liability for lease agreements and the corresponding value of the user rights, measured on the basis of the remaining lease payments at the transition date.

Those agreements that fall within the scope of application of IFRS 16 mainly refer to:

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

With reference to the options and exemptions provided for by IFRS 16, the Company will adopt the following choices:

- IFRS 16 is not usually applied to intangible assets or to short-term (i.e. less than 12 months) contracts with low unit value;
- user rights and financial liabilities relating to lease agreements are classified on specific line items in the statements of financial position;
- any service contract component included in the lease payments is generally excluded from the IFRS 16 scope;

- contracts with similar characteristics are assessed using a single discount rate;

- lease agreements previously considered finance leasing pursuant to IAS 17 retain the previously recognized values.

The main impacts on the financial statements of the Company are currently being assessed and refined, but will consist of:

- Statements of financial position: higher non-current assets due to the recognition of user rights for the leased assets as a balancing entry to the higher financial liabilities recognized; as a result, a lease liability is expected to be included for between 2.9 and 3.4 billion euros during the transition.

- Separate income statements: a positive impact on EBITDA, due to the different nature, description, and classification of expenses (the amortization of user rights for the asset and financial expense for interest instead of Lease and rental costs payments for operating leases , as per IAS 17), equal to between 0.5 and 0.7 billion euros. Furthermore, the combination of the straight-line amortization of user rights for the asset and the application of the effective interest rate method for lease liabilities will result in higher total income statement expenses in the first few years, compared to IAS 17, and decreasing total expenses in the last years of the lease.

- Statements of Cash Flows: lease payments for the principal of the debt repayment will be reclassified from Cash flows from operating activities to Cash flows from financing activities .

The process of implementing the new accounting standard entails significant updates and modifications on the IT systems, modification and updating of the control and compliance models and of their processes. The impacts are based on the results of the analyses at the date these financial statements are prepared, and might change since implementation is still in progress.

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

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NOTE 3

GOODWILL

Goodwill at December 31, 2018 amounted to 24,341 million euros (27,027 million euros at December 31, 2017) and consisted of the goodwill allocated to the domestic activities segment of TIM S.p.A., within which the cash-generating units (CGU) Core Domestic and International Wholesale are located, and to which the goodwill is allocated.

In accordance with IAS 36, goodwill is not subject to amortization, but is tested for impairment at least annually when preparing the company s separate financial statements.

In the course of 2018 and in preparing the 2018 Annual Report, TIM S.p.A. conducted impairment tests on the recoverability of the goodwill, in accordance with the procedure adopted by the Company, resulting in a total impairment loss of 2,686 million euros.

In more detail, at the end of the impairment testing of Goodwill process for the purposes of the separate financial statements of TIM S.p.A.:

- the Core Domestic CGU of TIM S.p.A. differs, in respect of the same CGU in the consolidated financial statements, exclusively for the shares held by the non-controlling interests in the investments included in the CGU (in particular Inwit S.p.A., of which TIM S.p.A. holds 60% of the capital). The value used to determine the recoverable amount is the value in use, calculated on the basis of the flows used to determine the value in use related to the Core Domestic CGU in the consolidated financial statement, net of the value attributable to the non-controlling interests above.

- the International Wholesale CGU consists of the investment held in Telecom Italia Sparkle S.p.A. and goodwill allocated to it of 412 million euros. The value used to determine the recoverable amount is the fair value, through the application of direct market multiples referring to the average values of the Enterprise Value/EBITDA ratio applied to the 2019 EBITDA forecast of the CGU (fair value level 3 hierarchy of the reference standards, corresponding to prices calculated on factors other than observable market data).

At December 31, 2018 the recoverable amount of the CGUs was equal to the greater of the fair value net of disposal costs and the value in use .

The recoverable amount as at December 31, 2018 was lower than the carrying amount for the Core Domestic CGU and this resulted in the recognition of a loss in value of the goodwill equal to 2,686 million euros, while there were no impairment losses related to the goodwill allocated to the International Wholesale CGU.`

The Value in use estimated for the Core Domestic CGU was 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 expert appraisers and industry experts (the experts), and based on the data from the 2019-2021 Industrial Plan approved by the Board of Directors.

Expected average cash flows were measured for the three years of the 2019-2021 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 (2019-2023). The extrapolation of data for 2022-2023 enabled market and competition trends that will become manifest beyond the time horizon of the 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 2023, adjusted as necessary to take into consideration a suitable level of long-term capital expenditure. Furthermore, with specific reference to the valuation of the incremental share of the value deriving from 5G license use, and therefore from the development of new and innovative business areas, an evaluation model has been adopted that takes into account the net incremental flows for a period of defined time which only concerns the duration of the license. This approach is consistent with the need in the value used to capture on one hand the negative flows deriving from the payment of the license (2019-2022) and the supporting capex of its development (included in the Industrial Plan), and on the other to capture the positive net flows from the incremental business component of the license acquisition that will develop over a broad period of time and over the 5 years of explicit forecast.

The 2019-2021 Industrial Plan incorporates valuations of potential risk factors and the actions adopted to mitigate them. In defining the average normal flows for the purposes of impairment testing, management, with the help of the experts, identified additional risk factors, modifying the amount and/or distribution over time of future cash flows, giving a greater weighting to external data available.

The cost of capital used to discount the future cash flows in the estimate of the value in use for the Core Domestic CGU 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;

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- it reflects current market estimates of the time value of money and the specific risks associated with the asset groups, and 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 for the Core Domestic CGU are provided below for the:

- weighted average cost of capital (WACC rate) used to discount the future cash flows and the equivalent rate before tax;

- growth rates used to estimate the residual value after the explicit forecast period (the G-Rates), expressed in nominal terms;

- implicit capitalization rates 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 CGU of the TIM S.p.A. financial statements
WACC	6.60%
WACC before tax	8.91%
Growth rate beyond the explicit period (g)	0.5%
Capitalization rate net of taxes (WACC-g)	6.10%
Capitalization rate before taxes (WACC-g)	8.41%
Capex/Revenues, perpetual	20.15%

The growth rate of terminal value g of the Core Domestic CGU was 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.

In estimating the level of capital expenditure required to sustain the perpetual generation of cash flows after the explicit forecast period, the phase of capital expenditure, competitive positioning and the technological infrastructure operated were taken into account.

In addition to the average normal flows used to determine the value in use of the Core Domestic CGU, sensitivity analyzes were also carried out on the risk factors identified by the experts to take into account the market operator s perspective.

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NOTE 4

INTANGIBLE ASSETS WITH A FINITE USEFUL LIFE

Intangible assets with a finite useful life increased by 2,090 million euros compared to December 31, 2017. The breakdown and movements are as follows:

(millions of euros)	12/31/2016	Capital expenditures	Depreciation and amortization	Impairment (losses) / reversals	Disposals	Other changes	12/31/2017
Industrial patents and intellectual property rights	1,328	453	(870)			312	1,223
Concessions, licenses, trademarks and similar rights	2,065	13	(281)			3	1,800
Other intangible assets	65	98	(83)				80
Work in progress and advance payments	428	1,063		(30)		(315)	1,146
Total	3,886	1,627	(1,234)	(30)			4,249

(millions of euros)	12/31/2017	IFRS 15 adoption	Capital expenditures	Depreciation and amortization	Impairment (losses) / reversals	Disposals	Other changes	12/31/2018
Industrial patents and intellectual property rights	1,223		498	(847)			382	1,256
Concessions, licenses, trademarks and similar rights	1,800		23	(297)			634	2,160
Other intangible assets	80	(78)		(2)				
Work in progress and advance payments	1,146		2,789		4		(1,016)	2,923
Total	4,249	(78)	3,310	(1,146)	4			6,339

Industrial patents and intellectual property rights mostly consisted of software (divided mainly between application software and plant operation software), purchased outright and under user license. They are amortized over an expected useful life of two/three years, whereas patents are amortized over five years.

Concessions, licenses, trademarks and similar rights mainly related to the unamortized cost of licenses for mobile and fixed telecommunications services. Compared to December 31, 2017, they increased by 360 million euros, mainly following the reclassification of the extension of user rights to the 900 and 1800 MHz band (GSM license) acquired in 2017 with starting date July 1, 2018 to licenses in use.

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The amount of telephone licenses and similar rights in operation at December 31, 2018 (2,040 million euros) and their useful lives are detailed below:

Type	Residual amount at 12/31/2018 (thousands of euros)	Useful life (Years)	Maturity	Total Amortization of 2018 (thousands of euros)
UMTS	402,836	18	12/31/2021	134,279
UMTS 2100 MHz	22,085	12	12/31/2021	7,362
WiMax	4,066	15	5/31/2023	921
LTE 1800 MHz	94,261	18	12/31/2029	8,571
LTE 800 MHz	660,347	17	12/31/2029	60,032
LTE 2600 MHz	72,624	17	12/31/2029	6,602
L Band (1452-1492 MHz)	181,177	14	12/31/2029	16,471
GSM (extension)		3	6/30/2018	17,098
900 and 1800 MHz band	602,232	12	12/31/2029	27,374

Other intangible assets fell mainly due to the introduction of IFRS 15, under which mobile customer acquisition costs (Subscriber Acquisition Costs SACs), relating to contracts with minimum contractual term clauses are no longer capitalized and amortized. Instead they are reclassified as deferred contract costs and then subsequently recognized in the income statement over the term of the contract in the item Acquisition of goods and services , at December 31, 2017 SACs amounted to 78 million euros.

Work in progress and advance payments amounted to 2,923 million euros (1,146 million euros at December 31, 2017) and posted a net 1,777 million-euro increase following the investment connected with the acquisition of the user rights to the frequencies in the 694-790 MHz, 3600-3800 MHz and 26.5-27.5 GHz bands, which will be reserved for 5G mobile telecommunications services for the total amount of 2,399 million euros (after the 8 million-euro discount applied to the award proportionate to the population in the areas affected by the testing), due to the participation in the auction for their award in 2018 by the Ministry of Economic Development. The user rights were formally awarded on October 9, 2018, with the rights to 3600 3800 MHz and 26.5 27.5 GHz frequencies made available on a definitive basis in January 2019; the user rights to 694 790 MHz frequencies will be made available in July 2022. The awarded rights will be paid in six annual installments, the first of which was paid at the end of October 2018 for the amount of 477 million euros.

In the year, an adjustment of 4 million euros for Construction contracts previously subject to impairment was carried out.

Work in progress and advance payments at December 31, 2017 included the advance payment of 630 million euros for the extension of the user rights to the 900 and 1800 MHz band up until December 31, 2029, starting from July 1, 2018. As a result, in 2018 the value of the license extension was reclassified in Concessions, licenses, trademarks and similar rights .

Industrial investments in 2018, which came to 3,310 million euros, increased by 1,683 million euros compared to December 31, 2017, mainly following the aforementioned acquisition of the user rights to the frequencies in the 694-790 MHz, 3600-3800 MHz and 26.5-27.5 bands (equal to 2,399 million euros), partially offset by the absence of the effects resulting from the 2017 investment for extending user rights to the 900 and 1800 MHz band (GSM license) and by the reclassification of the mobile subscriber acquisition costs (SAC) after IFRS 15 was introduced (116 million euros in 2018).

Investments included 197 million euros for internally generated assets (217 million euros in 2017) concerning:

- development and evolutionary maintenance of software programs and platforms;
- engineering, design of solutions, applications and innovative network services.

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Amortization relating to the intangible assets came to 1,146 million euros, falling 88 million euros compared to those recognized in 2017 (1,234 million euros), mainly following lesser amortization resulting from the aforementioned reclassification of subscriber acquisition costs SACs after IFRS 15 was introduced and for reducing amortizable software stock (about 23 million euros). It was partially offset by the increase of approximately 10 million euros on the Licenses component in the aftermath of the start-up of amortization of the GSM Extension acquired during 2017.

Amortization is recorded in the income statement under the components of EBIT.

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The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2018 and December 31, 2017 can be summarized as follows:

	12/31/2017			
(millions of euros)	**Gross carrying amount**	**Accumulated impairment losses**	**Accumulated depreciation**	**Net carrying amount**
Industrial patents and intellectual property rights	8,074	(7)	(6,844)	**1,223**
Concessions, licenses, trademarks and similar rights	4,352		(2,552)	**1,800**
Other intangible assets	238		(158)	**80**
Work in progress and advance payments	1,176	(30)		**1,146**
Total	**13,840**	**(37)**	**(9,554)**	**4,249**

	12/31/2018			
(millions of euros)	**Gross carrying amount**	**Accumulated impairment losses**	**Accumulated depreciation**	**Net carrying amount**
Industrial patents and intellectual property rights	6,761		(5,505)	**1,256**
Concessions, licenses, trademarks and similar rights	5,006		(2,846)	**2,160**
Other intangible assets	55		(55)	
Work in progress and advance payments	2,949	(26)		**2,923**
Total	**14,771**	**(26)**	**(8,406)**	**6,339**

With regard to the gross carrying amounts of tangible assets with a finite useful life, in 2018 disposals were made for a total amount of 2,195 million euros, mainly in relation to obsolete releases of software systems; consequently, where present, the accumulated impairment losses and the accumulated depreciation related to them were also canceled.

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NOTE 5

TANGIBLE ASSETS (OWNED AND UNDER FINANCE LEASES)

PROPERTY, PLANT AND EQUIPMENT OWNED

Property, plant and equipment owned decreased by 89 million euros compared to December 31, 2017. The breakdown and movements are as follows.

(millions of euros)	12/31/2016	Mergers OMS and TIM Real Estate	Capital expenditures	Depreciation and amortization	Impairment (losses) / reversals	Disposals	Other changes	12/31/2017
Land	118	73	1				1	193
Buildings (civil and industrial)	232	256	10	(36)			7	469
Plant and equipment	8,779	1	1,778	(1,670)		(6)	301	9,183
Manufacturing and distribution equipment	38		11	(15)			1	35
Other	238		55	(89)			31	235
Construction in progress and advance payments	641	1	462		1	(22)	(327)	756
Total	10,046	331	2,317	(1,810)	1	(28)	14	10,871

(millions of euros)	12/31/2017	Capital expenditures	Depreciation and amortization	Impairment (losses) / reversals	Disposals	Other changes	12/31/2018
Land	193					31	224
Buildings (civil and industrial)	469	78	(33)			60	574
Plant and equipment	9,183	1,210	(1,669)		(10)	448	9,162

Manufacturing and distribution equipment	35	7	(14)			2	30
Other	235	45	(95)			34	219
Construction in progress and advance payments	756	320			(7)	(496)	573
Total	10,871	1,660	(1,811)		(17)	79	10,782

Land includes both built-up land (with buildings or light constructions) and other available land (on which various building works stand that are not recorded in the land registry, such as pylons, building podia, etc.). Land, including land pertaining to buildings, is not depreciated.

Buildings (civil and industrial) almost exclusively consists of buildings for industrial use hosting telephone exchanges or for office use and light constructions (referring to constructions built with light structures and walls and registered containers). As part of the project to rationalize industrial and office space in progress, during the year the Company signed an agreement with a primary real estate firm that entailed the acquisition of owned property previously leased and the release of other properties no longer considered strategic; the transaction entailed a 69 million-euro investment for a financial disbursement of 158 million euros, resulting in the reclassification of the residual value of the leased property and of the improvements introduced to owned buildings.

Plant and equipment includes the aggregate of all the structures used for the functioning of voice and data telephone services. They refer to the entire company infrastructure and are divided into macro categories comprising switching, power supply systems, access and carrier networks in copper and fiber, fixed-line and mobile transmission equipment and telephone systems for termination used by the different clientele segments. This line item dropped by 21 million euros compared to December 31, 2017, primarily after the depreciation of the year, partially offset by the investments and the exercisability carried out on the Network Infrastructures (primarily on access and carrier network in optical fiber for 274 million euros, underground and overhead copper network for 222 million euros, subscriber connection units for 180 million euros, LTE/UMTS for 140 million euros, NGAN equipment for 115 million euros, transmission equipment including SDH-Wdm for 121 million euros, and data network for 96 million euros).

Manufacturing and distribution equipment consists of instruments and equipment used for the operation and maintenance of plant and equipment; the item shows a decrease of 5 million euros compared to December 31, 2017.

Other is mostly made up of hardware for the functioning of the Data Centers and for work stations, furniture and fixtures and, to a minimal extent, transport vehicles and office machines; the item shows a decrease of 16 million euros compared to December 31, 2017.

Construction in progress and advance payments refers to the internal and external costs incurred for the acquisition and internal production of tangible assets, which are not yet in use; the item shows a decrease of 183 million euros compared to December 31, 2017. Other changes included the entry intro operation of capitalizations from previous years.

Disposals totaled 17 million euros and mainly relate to the sale of infrastructure to the subsidiaries Flash Fiber and Inwit.

Capital expenditures in 2018 totaled 1,660 million euros and included 237 million euros of internally generated assets (240 million euros in 2017). They decreased by 657 million euros compared to 2017, mainly in the aftermath of a greater selectivity in investments for Network infrastructures.

Depreciation connected with the tangible assets owned amounted to 1,811 million euros in 2018, basically unchanged compared to the previous year.

Depreciation is calculated using the straight-line method over the remaining useful lives of the assets in accordance with the depreciation plan reviewed annually to take account of useful lives by single class of fixed asset. The effects of any changes in the useful life are recognized in the separate income statement prospectively.

Depreciation for the year 2018 is calculated on a straight-line basis over the estimated useful lives of the assets according to the following minimum and maximum rates:

Buildings (civil and industrial)	3.33	5.55%
Plant and equipment	3	50%
Manufacturing and distribution equipment		20%
Other	11	33%

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The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2018 and December 31, 2017 can be summarized as follows:

	12/31/2017			
(millions of euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	196	(3)		193
Buildings (civil and industrial)	1,618		(1,149)	469
Plant and equipment	60,565	(5)	(51,377)	9,183
Manufacturing and distribution equipment	276		(241)	35
Other	2,791	(2)	(2,554)	235
Construction in progress and advance payments	756			756
Total	66,202	(10)	(55,321)	10,871

	12/31/2018			
(millions of euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	224			224
Buildings (civil and industrial)	1,767		(1,193)	574
Plant and equipment	61,932	(5)	(52,765)	9,162
Manufacturing and distribution equipment	285		(255)	30
Other	2,736	(3)	(2,514)	219
Construction in progress and advance payments	573			573
Total	67,517	(8)	(56,727)	10,782

With regard to the gross carrying amounts of tangible assets, in 2018 disposals were made for a total amount of 431 million euros, mainly in relation to fully depreciated assets; consequently, where present, the accumulated impairment losses and the accumulated depreciation related to them were also canceled. The line item affected to the greatest extent is the one relating to Plant and equipment for 288 million euros, with particular mention of disposals of FTTC and ADSL equipment for 26 million euros, power supply systems for 16 million euros, Access and Core

Mobile for 20 million euros, subscriber connection units following rebuilding for 81 million euros, and underground and overhead network for 26 million euros.

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ASSETS HELD UNDER FINANCE LEASES

Assets held under finance leases decreased by 378 million euros compared to December 31, 2017. The breakdown and movements are as follows.

(millions of euros)	12/31/2016	Mergers OMS and TIM Real Estate	Capital expenditures	Increases in finance leasing contracts	Depreciation and amortization	Disposals	Other change	12/31/2017
Land	16							16
Buildings (civil and industrial)	1,899	(67)	47	2	(131)	(1)	19	1,768
Plant and equipment			72		(1)		28	99
Other	117			52	(27)	(9)		133
Construction in progress and advance payments	73		32				(49)	56
Total	2,105	(67)	151	54	(159)	(10)	(2)	2,072

(millions of euros)	12/31/2017	Capital expenditures	Increases in finance leasing contracts	Depreciation and amortization	(Write-downs) /Reversals	Disposals	Other changes	12/31/2018
Land	16							16
Buildings (civil and industrial)	1,768	32	12	(159)		(9)	(279)	1,365
Plant and equipment	99	9		(4)			5	109
Other	133		46	(35)		(4)		140
Construction in progress and advance payments	56	32					(24)	64
Total	2,072	73	58	(198)		(13)	(298)	1,694

Additions consisted mainly of the acquisition of IRU transmission capacity (totaling 9 million euros), in view of the payment at the beginning of the contract, and improvements and incremental expenses incurred for movable and immovable third-party assets used on the basis of finance lease agreements.

The item Buildings (civil and industrial) includes buildings under financial leases and related building adaptations. The decrease of 403 million euros compared to December 31, 2017 reflects 215 million euros for the impacts of the real estate restructuring and rationalization plan, under which office space and industrial premises will be progressively released, with consequent updates to the estimated life of the renegotiated leases, as the renewal option on some longer-term leases is unlikely to be exercised. Moreover, several properties previously leased (71 million euros) were acquired under ownership following the aforementioned real estate space rationalization agreement, resulting in reclassification to owned buildings for a total of 82 million euros, including 11 million euros for improvements to third-party properties.

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Plant and equipment rose by 10 million euros compared to December 31, 2017, reflecting the surplus from the acquisition of IRU transmission capacity (of which 6 million euros were allocated to capex for the period and 3 million euros were allocated pro-rata to work in progress recognized in 2016).

Other rose by 7 million euros over December 31, 2017 and reflected the effects resulting from recognition of different leases on vehicles as finance leases based on the provisions of IAS 17. This resulted in an overall impact on the balance sheet at December 31, 2018 of 47 million euros in terms of higher tangible assets and related payables for finance leases.

Depreciation and impairment losses have been recorded in the income statement as components of EBIT.

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2018 and December 31, 2017 can be summarized as follows:

	12/31/2017			
(millions of euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	16			16
Buildings (civil and industrial)	3,391	(27)	(1,596)	1,768
Plant and equipment	101		(2)	99
Other	192		(59)	133
Construction in progress and advance payments	56			56
Total	3,756	(27)	(1,657)	2,072

	12/31/2018			
(millions of euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	16			16
Buildings (civil and industrial)	2,792	(13)	(1,414)	1,365
Plant and equipment	114		(5)	109
Other	230		(90)	140
Construction in progress and advance payments	64			64

Total	3,216	(13)	(1,509)	1,694

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At December 31, 2018, lease payments due in future years and their present value were as follows:

	12/31/2018		12/31/2017	
(millions of euros)	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within 1 year	180	165	221	212
From 2 to 5 years after the end of the reporting period	804	663	842	689
Beyond 5 years after the end of the reporting period	1,245	697	2,306	1,052
Total	2,229	1,525	3,369	1,953

(millions of euros)	12/31/2018	12/31/2017
Future net minimum lease payments	2,229	3,369
Interest portion	(704)	(1,416)
Present value of lease payments	1,525	1,953
Finance lease liabilities (1)	1,604	2,003
Financial receivables for lease contracts (2)	(79)	(50)
Total net finance lease liabilities	1,525	1,953

(1) These included 8 million euros of financial payables to Teleleasing (11 million euros at December 31, 2017) for direct and indirect lease transactions.

(2) These relate to the present value of the payments to be received from the contractual relationships recognized as finance leases in accordance with IAS 17, as detailed in the Note Financial assets (non-current and current) .

At December 31, 2018, adjustments to lease payments based on the ISTAT price index totaled 13 million euros (13 million euros at December 31, 2017).

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NOTE 6

INVESTMENTS

Investments increased by 74 million euros compared to December 31, 2017 and included:

(millions of euros)	12/31/2018	*of which Financial Instruments*	12/31/2017	*of which Financial Instruments*
Subsidiaries	7,781		7,705	
Associates and joint ventures	7		9	
Other investments	33	33	33	33
Total	7,821	33	7,747	33

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

In 2018, there were no significant transactions with subsidiaries, associates and joint ventures of TIM S.p.A..

As permitted by IFRS 9, TIM S.p.A. now measures all Other Investments at fair value through other comprehensive income (FVTOCI).

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Movements during 2018 for each investment and the corresponding amounts at the beginning and end of the year are reported below. The list of investments in subsidiaries, associates and joint ventures at December 31, 2018 is presented in compliance with Article 2427 of the Italian Civil Code and reported in the Note List of investments in subsidiaries, associates and joint ventures .

Investments

(thousands of euros)	Carrying amount at 12/31/2017	New IFRS 9 standards adoption	Acquisitions/ Subscriptions/ Payments to cover losses	Disposals/ Reimbursements	Impairment losses/ Reversals/ Fair value adjustments	Other changes and reclassifications	Total changes	Carrying amount at 12/31/2018
Investments in subsidiaries								
4G RETAIL	15,108							15,108
ADVANCED CARING CENTER (#)	4							4
CD FIBER	50							50
FLASH FIBER	76,824		86,400				86,400	163,224
HR SERVICES	570							570
INFRASTRUTTURE WIRELESS ITALIANE	828,494							828,494
NOVERCA	20,202		40,000		(41,511)		(1,511)	18,691
OLIVETTI	16,530				(4,546)		(4,546)	11,984
PERSIDERA	137,641				(4,455)		(4,455)	133,186
TELECOM ITALIA CAPITAL	2,388							2,388
TELECOM ITALIA FINANCE	5,914,971							5,914,971
TELECOM ITALIA LATAM PARTICIPAÇÕES E								

GESTÃO ADMINISTRATIVA						
TELECOM ITALIA SAN MARINO	7,565					7,565
TELECOM ITALIA SPARKLE	586,651			17	17	586,668
TELECOM ITALIA TRUST TECHNOLOGY	8,498					8,498
TELECOM ITALIA VENTURES	2,541					2,541
TELECONTACT CENTER	12,523					12,523
TELENERGIA	50					50
TELSY	14,517					14,517
TI AUDIT COMPLIANCE LATAM (in liquidation)	313					313
TI SPARKLE MED (#)	3					3
TIM BRASIL SERVIÇOS E PARTICIPAÇÕES						
TIM TANK	18,375	800			800	19,175
TIMB 2						
TIMVISION	1,050	1,500			1,500	2,550
TN FIBER	39,800		(1,302)		(1,302)	38,498
	7,704,668	128,700	(51,814)	17	76,903	7,781,571

(#) Company indirectly controlled by TIM S.p.A. whose employees subscribed to the 2010 and/or 2014 Broad-Based Share Ownership Plans (BBSOP).

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(thousands of euros)	Carrying amount at 12/31/2017	New IFRS 9 standards adoption	Acquisitions/ Subscriptions/ Payments to cover losses	Disposals/ Reimbursements	Impairment losses/ Reversals/ Fair value adjustments	Other changes and reclassifications	Total changes	Carrying amount at 12/31/2018
Investments in associates and joint ventures								
ALFIERE								
AREE URBANE (in liquidation)								
ASSCOM INSURANCE BROKERS	20							20
DONO PER (in liquidation)	3			(3)			(3)	
NORDCOM	2,143							2,143
TIGLIO I	6,597				(1,762)		(1,762)	4,835
TIGLIO II (in liquidation)	119							119
Consorzio EO (in liquidation)								
	8,882			(3)	(1,762)		(1,765)	7,117

(thousands of euros)	Carrying amount at 12/31/2017	New IFRS 9 standards adoption	Acquisitions/ Subscriptions/ Payments to cover losses	Disposals/ Reimbursements	Impairment losses/ Reversals/ Fair value adjustments	Other changes and reclassifications	Total changes	Carrying amount at 12/31/2018
Investments in other companies								
ASSICURAZIONI GENERALI (**)	2,855				(116)		(116)	2,739
BANCA UBAE	1,898	2,218					2,218	4,116
FIN. PRIV.(**)	19,933				(4,340)		(4,340)	15,593
IST. ENCICLOPEDIA ITALIANA G. TRECCANI	3,832							3,832

ISTITUTO EUROPEO DI ONCOLOGIA	2,116	269					269	2,385
Other minor investments	2,782		1,712	(544)			1,168	3,950
	33,416	2,487	1,712	(544)	(4,456)		(801)	32,615
Total Investments	7,746,966	2,487	130,412	(547)	(58,032)	17	74,337	7,821,303

(**) Investments measured at fair value.

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NOTE 7

FINANCIAL ASSETS (NON-CURRENT AND CURRENT)

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

(millions of euros)		12/31/2018	12/31/2017
Non-current financial assets			
Financial receivables and other non-current financial assets			
Financial receivables from subsidiaries		306	75
Financial receivables from associates and joint ventures			
Financial receivables from other related parties			
Financial receivables for lease contracts		15	17
Receivables from employees		39	43
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature		385	310
Non-hedging derivatives		897	1,016
Other financial receivables			150
Total non-current financial assets	(a)	1,642	1,611
Current financial assets			
Securities other than investments			
Held for trading			
Held-to-maturity			
Available-for-sale			746
Measured at amortized cost (AC)			
Measured at fair value through other comprehensive income (FVTOCI)		466	
Measured at fair value through profit or loss (FVTPL)			

		466	746
Financial receivables and other current financial assets			
Liquid assets with banks, financial institutions and post offices (with maturity over 3 months)			100
Financial receivables for lease contracts		64	33
Receivables from employees		13	14
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature		79	79
Non-hedging derivatives		165	98
Financial receivables from subsidiaries		4	1
Financial receivables from associates and joint ventures			
Other financial receivables			
Prepaid expenses		2	1
		327	326
Cash and cash equivalents		885	771
Total current financial assets	(b)	1,678	1,843
Total financial assets	(c)=(a+b)	3,320	3,454

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

Financial receivables for lease contracts amounted to 79 million euros (50 million euros at December 31, 2017), showing an increase of 29 million euros. The item includes the following contractual relationships recognized as finance leases in accordance with IAS 17:

new commercial offers for Consumer and Business customers involving the rental of ADSL routers (37 million euros, 37 million euros at December 31, 2017);

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- Lease agreements entered into in prior years by Teleleasing and full rent rental agreements (8 million euros, 13 million euros at December 31, 2017);
- IRU network infrastructure sales agreements (equal to 34 million euros) recognized as finance leases in accordance with IAS 17 in consideration of the contractual term substantially close to the economic life of the asset.

Receivables from employees (current and non-current) include the remaining amount due on loans granted.

Hedging derivatives amounted to 464 million euros (389 million euros at December 31, 2017) and related to:

- hedged items classified as non-current assets/liabilities of a financial nature (385 million euros), mainly pertaining to the mark-to-market spot valuation component of cash flow hedge derivative contracts (of which 167 million euros entered into with Telecom Italia Finance S.A.) and fair value hedge derivative contracts;
- hedged items classified as current assets/liabilities of a financial nature (79 million euros), relating mainly to accrued income on cash flow hedge and fair value hedging derivative contracts.

Non-hedging derivatives amounted to 1,062 million euros (1,114 million euros at December 31, 2017) and included the asset value of transactions that TIM S.p.A. carries out on behalf of Group companies under centralized treasury arrangements. This item is offset by the corresponding item classified in financial liabilities. At December 31, 2018, non-hedging derivatives consisted of:

- elements classified as non-current financial assets (897 million euros), mainly pertaining to mark to market spot valuation of non-hedging derivative contracts;
- elements classified as current financial assets (165 million euros), relating to mark to market spot valuation and accrued income of non-hedging derivative contracts.

Further details are provided in the Note Derivatives .

Securities other than investments available-for-sale, maturing beyond three months and recognized at market value, amounting to 466 million euros (746 million euros at December 31, 2017), consisted of:

- Italian Treasury bonds (252 million euros). Under IFRS 9, such securities are classified as financial assets measured at fair value through other comprehensive income (FVTOCI). 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 240 million, resulting from the public buyback offer on bonds of Telecom Italia Capital S.A. completed on July 20, 2015.

Cash and cash equivalents rose by 114 million euros compared to December 31, 2017. The figure breaks down as follows:

(millions of euros)	12/31/2018	12/31/2017
Liquid assets with banks, financial institutions and post offices	881	722
Checks, cash and other receivables and deposits for cash flexibility	1	
Receivables from subsidiaries	3	49
Total	885	771

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 and with a rating of at least BBB- according to Standard & Poor s or similar rating agencies;

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

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NOTE 8

MISCELLANEOUS RECEIVABLES AND OTHER NON-CURRENT ASSETS

I Miscellaneous receivables and other non-current assets at December 31, 2018 breaks down as follows:

(millions of euros)		12/31/2018	*of which Financial Instruments*	12/31/2017	*of which Financial Instruments*
Miscellaneous receivables (non-current)					
Miscellaneous receivables from subsidiaries		9	5	6	5
Miscellaneous receivables from associates					
Other receivables		43	5	43	7
	(a)	52	10	49	12
Other non-current assets					
Deferred contract costs		1,631			
Other cost deferrals		21			
Medium/long-term prepaid expenses				1,703	
	(b)	1,652		1,703	
Total	(a+b)	1,704	10	1,752	12

The impacts caused by the adoption of IFRS 15 are summarized below:

(millions of euros)		12/31/2017	Adoption of new standards: IFRS 15 reclassifications	IFRS 15 adjustments	1/1/2018
Miscellaneous receivables (non-current)					
Miscellaneous receivables from subsidiaries		6			6
Miscellaneous receivables from associates					
Other receivables		43			43
	(a)	49			49

Other non-current assets					
Deferred contract costs			1,729	(234)	1,495
Other cost deferrals			16		16
Medium/long-term prepaid expenses		1,703	(1,703)		
	(b)	1,703	42	(234)	1,511
Total	(a+b)	1,752	42	(234)	1,560

For more detailed information on the impacts caused by the adoption of IFRS 15, please refer to the Note Accounting Standards .

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

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Miscellaneous receivables (non-current)

Miscellaneous receivables (non-current) rose by 3 million euros compared to December 31, 2017 and include:

- Receivables from subsidiaries (9 million euros at December 31, 2018): these referred mainly to the purchase for consideration under the joint investment agreement with the Editoriale L Espresso group, which resulted in the acquisition of Rete A, relating to the possibility for TIM (as the absorbing entity) to acquire the TIMB2 Multiplex (5 million euros) and receivables from Inwit (4 million euros), subject to the relevant ministerial approvals;

- other receivables(43 million euros at December 31, 2018): include current income tax receivables of 38 million euros (substantially unchanged compared to December 31, 2017).

Other non-current assets

Other non-current assets fell by 51 million euros compared to December 31, 2017 and includes:

- Deferred contract costs (1,631 million euros at December 31, 2018): these relate to the deferral of costs connected with the activation and acquisition of new contracts with customers, classified at December 31, 2017 as Medium/long-term prepaid expenses.

Under previous accounting policies, contract costs (incremental costs of obtaining a contract and costs to fulfill a contract) were capitalized or deferred and recognized in the income statement on the basis of the expected duration of the contract and the type of customer.

That approach is substantially confirmed under IFRS 15, with the exception of the reclassification of subscriber acquisition costs (SACs) connected to contracts with lock-in clauses from intangible assets, equal, at January 1, 2018, to 78 million euros (of which 42 million euros medium/long-term).

Contract costs from the activation of the phone service are deferred throughout the expected life of the relationship with the customer, taking also into account the reasonable expectations of cash flows arising from these services. The average expected duration at December 31, 2018 was 7 years for fixed and 3 years for mobile;

- Other cost deferrals (21 million euros at December 31, 2018): at December 31, 2017 they were included in the item Medium/long-term prepaid expenses; they mainly refer to rental costs;

- Medium/long-term prepaid expenses as described in detail above, no longer present at December 31, 2018 in so far as they are included in the forgoing items; as at December 31, 2017, they mainly referred to the deferral of costs connected with the activation and acquisition of new contracts with customers.

The breakdown of the total deferred contract costs (non-current and current) at December 31, 2018 is provided below with details of the acquisition costs and costs for executing contracts, as well as their movements during the year:

(millions of euros)	12/31/2018
Deferred contract costs	
Contract acquisition costs	1,253
Contract execution costs	1,033
Total	2,286

(millions of euros)	1/1/2018	Increase	Release to income statement	12/31/2018
Contract acquisition costs	1,129	476	(352)	1,253
Contract execution costs	904	348	(219)	1,033
Total deferred contract costs	2,033	825	(571)	2,286

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NOTE 9

INCOME TAX EXPENSE (CURRENT AND DEFERRED)

CURRENT INCOME TAX RECEIVABLES

Non-current income tax receivables (classified as Miscellaneous receivables and other non-current assets) amounted to 38 million euros at December 31, 2018, basically unchanged compared to December 31, 2017; they relate to non-assigned receivables for taxes and interest resulting from the recognized deductibility from IRES tax of the IRAP tax calculated on labor costs, relating to years prior to 2012, following the entry into force of Italian Decree Law 16/2012.

Current income tax receivables amounted to 166 million euros, up compared to the December 31, 2017 figure (0.5 million euros) as they comprise the IRES receivable for excess advances paid for the year 2018 (140 million euros) and the IRAP receivable of TIM for excess advances paid (26 million euros).

DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The net balance is composed as follows:

(millions of euros)	12/31/2018	12/31/2017
Deferred tax assets	882	902
Deferred tax liabilities	(3)	(2)
Total	879	900

The presentation of deferred tax assets and liabilities in the financial statements takes account of offsets to the extent that such offsets are legally permitted. The composition of the gross amounts prior to offsetting is presented below:

(millions of euros)	12/31/2018	12/31/2017
Deferred tax assets	945	978
Deferred tax liabilities	(66)	(78)
Total	879	900

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The temporary differences which made up this line item at December 31, 2018 and 2017, as well as the movements during 2018 were as follows:

(millions of euros)	12/31/2017	Adoption of new standards	Recognized in profit or loss	Recognized in equity	Other changes	12/31/2018
Deferred tax assets:						
Provisions for pension fund integration Law 58/92	5					5
Provisions	382		(37)			345
Provision for bad debts	91	28	(1)			118
Financial instruments	345			(25)		320
Capital grants	1		(1)			
Taxed depreciation and amortization	105		7			112
Discounting of provision for employee severance indemnities	27		(2)	(5)		20
Other deferred tax assets	22		2			24
Total	978	28	(31)	(30)		945
Deferred tax liabilities:						
Accelerated depreciation	(6)		1			(5)
Deferred gains	(3)		1			(2)
Financial instruments	(12)			1		(11)
Bond issue expense	(11)		2			(9)
Other deferred tax liabilities	(46)	(34)	41			(39)
Total	(78)	(34)	45	1		(66)
Total Net deferred tax assets (liabilities)	900	(6)	14	(29)		879

The expirations of deferred tax assets and deferred tax liabilities at December 31, 2018 were as follows:

(millions of euros)	Within 1 year	Beyond 1 year	Total at 12/31/2018
Deferred tax assets	288	657	945
Deferred tax liabilities	(12)	(54)	(66)
Total Net deferred tax assets (liabilities)	276	603	879

CURRENT INCOME TAX PAYABLES

Current income tax payables amounted to 14 million euros at December 31, 2018 (55 million euros at December 31, 2017), down by 41 million euros.

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INCOME TAX EXPENSE

The income tax expense for the years ended December 31, 2018 and 2017 is detailed below.

(millions of euros)	2018	2017
IRAP taxes for current year	131	158
IRES taxes for current year	253	357
Expenses/(income) from tax consolidation	17	9
Current taxes of prior years	47	(45)
Total current taxes	448	479
Deferred income taxes	12	(185)
Deferred taxes of prior years	(26)	17
Total deferred taxes	(14)	(168)
Total income tax expense for the year	434	311

The current IRES tax rate is 24%, while the IRAP tax rate is set at 3.9%.

The charge for current taxes of prior years (47 million euros) reflects the effects of the income tax return compared to the estimate made in the 2017 financial statements on the basis of the elements available at the time and the tax impact for the realignment of the initial tax differences arising from the adoption of IFRS 15 (22 million euros).

On the other hand, income from deferred taxes of prior years includes the benefit of removing the deferred tax liabilities recognized when IFRS 15 was adopted (34 million euros).

Realignment of the initial tax differences arising from adopting IFRS 15 therefore resulted in a net benefit of 12 million euros.

The reconciliation between the theoretical tax charge, calculated on the basis of the IRES tax rate in effect at December 31, 2018 (24%), and the effective tax charge in the separate financial statements is as follows:

(millions of euros)	2018	2017
Profit (loss) before tax		
From continuing operations	(1,420)	1,399

Total profit (loss) before tax	(1,420)	1,399
Theoretical income tax	(341)	336
Income tax effect on increases (decreases) in variations:		
dividends recognized in income	(28)	(58)
non-deductible impairments and losses on investments	13	7
Non-deductible depreciation and amortization and write-downs	646	1
non-deductible costs	21	3
other items (accelerated depreciation and amortization, economic growth aid (ACE), etc.)	(31)	(81)
IRES taxes for previous years	25	(26)
Effective income tax recognized in income statement, excluding IRAP tax	305	182
IRAP tax	129	129
Total effective income tax recognized in income statement	434	311

For a better understanding of the above reconciliation, the Regional Income Tax (IRAP tax) has been shown separately so as to avoid any distorting effect arising from the fact that this tax is calculated on a different tax base to the pre-tax profit.

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NOTE 10

INVENTORIES

Inventories amounted to 262 million euros at December 31, 2018, showing an increase of 84 million euros compared to December 31, 2017 (178 million euros). They mainly consist of equipment and handsets for fixed-line and mobile telecommunications and related accessories.

In 2018, write-downs of inventories amounted to 2 million euros.

No inventories are pledged as collateral.

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NOTE 11

TRADE AND MISCELLANEOUS RECEIVABLES AND OTHER CURRENT ASSETS

I Trade and miscellaneous receivables and other current assets at December 31, 2018 breaks down as follows:

(millions of euros)		12/31/2018	*of which Financial Instruments*	12/31/2017	*of which Financial Instruments*
Amounts due on construction contracts	(a)	51		34	
Trade receivables					
Receivables from customers		1,364	*1,364*	1,586	*1,586*
Receivables from other telecommunications operators		888	*888*	791	*791*
Receivables from subsidiaries		357	*357*	320	*320*
Receivables from associates and joint ventures		2	*2*	2	*2*
Receivables from other related parties		1	*1*	4	*4*
Customer collections pending credit		13	*13*	42	*42*
	(b)	2,625	*2,625*	2,745	*2,745*
Miscellaneous receivables (current)					
Receivables from subsidiaries		10		12	
Receivables from associates and joint ventures					
Receivables from other related parties					
Other receivables		298	*121*	417	*146*
	(c)	308	*121*	429	*146*
Other current assets					
Contract assets		46	*46*		
Deferred contract costs		655			
Other cost deferrals		165			
Trade and miscellaneous prepaid expenses				727	

	(d)	866	*46*	727	
Total	(a+b+c+d)	3,850	*2,792*	3,935	*2,891*

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The impacts caused by the adoption of IFRS 9 and IFRS 15 are summarized below:

(millions of euros)			Adoption of new standards			
			Reclassifications			
		12/31/2017	IFRS 15	Adjustments IFRS 9	Adjustments IFRS 15	1/1/2018
Amounts due on construction contracts	(a)	34				34
Trade receivables						
Receivables from customers		1,586		(114)		1,472
Receivables from other telecommunications operators		791				791
Receivables from subsidiaries		320				320
Receivables from associates and joint ventures		2				2
Receivables from other related parties		4				4
Customer collections pending credit		42				42
	(b)	2,745		(114)		2,631
Miscellaneous receivables (current)						
Receivables from subsidiaries		12				12
Receivables from associates and joint ventures						
Receivables from other related parties						
Other receivables		417				417
	(c)	429				429
Other current assets						
Contract assets					33	33
Deferred contract costs			588		(50)	538
Other cost deferrals			175			175
Trade and miscellaneous prepaid expenses		727	(727)			

	(d)	727	36		(17)	746
Total	(a+b+c+d)	3,935	36	(114)	(17)	3,840

For more detailed information on the impacts caused by the adoption of IFRS 9 and IFRS 15, please refer to the Note Accounting Standards .

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

The analyses of the aging of Financial Instruments included in trade, miscellaneous and other current assets at December 31, 2018 and 2017 are provided below:

(millions of euros)	12/31/2018	Total current	Total overdue	*Overdue:* *0-90 days*	*91-180 days*	*181-365 days*	*More than 365 days*
Trade, miscellaneous and other current assets	2,792	2,281	511	*40*	*94*	*121*	*256*

(millions of euros)	12/31/2017	Total current	Total overdue	*Overdue:* *0-90 days*	*91-180 days*	*181-365 days*	*More than 365 days*
Trade, miscellaneous receivables and other current assets	2,891	2,264	627	*207*	*128*	*122*	*170*

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Net trade and miscellaneous receivables include assets deriving from contracts with customers (Contract Assets) for 46 million euros; a decrease of 99 million euros compared to December 31, 2017, mainly as a result of the impact totaling 135 million euros at December 31, 2018 - of the application of the new IFRS 9 standard on the adjustment of credit risk hedging in expected credit loss, with effects on all age bands and segments. In particular:

- current net receivables: posted a growth of 17 million euros, due to the adoption of IFRS 15 and the consequent recognition of Assets deriving from contracts with customers (Contract Assets) following the early recognition of revenues, as well as of the gross credit line of Consumer Subscribers (as a result of tariff reformulation and new commercial offers). This performance is offset by the impacts of the aforementioned application of IFRS 9 and by the recognition of the significant financial component for installment sales ;

- overdue net receivables: fell by 116 million euros, due to the effect of the short-term receivables (-167 million for overdue receivables from 0 to 90 days) resulting from the further disposals, as well as the aforementioned impacts related to the credit risk adjustment, the reformulation of billing calendars and the improvement in collections from Top customers. This decrease is partially offset by the increase in wholesale receivables from other telecommunications operators with a maturity of over 365 days (+97 million).

Amounts due on construction contracts

Amounts due on construction contracts totaled 51 million euros (34 million euros at December 31, 2017) and included 2 million euros of receivables due from the subsidiary Flash Fiber.

Trade receivables

Trade receivables amounted to 2,625 million euros (2,745 million euros at December 31, 2017) and are stated net of the provision for bad debts of 541 million euros (416 million euros at December 31, 2017).

Movements in the provision for bad debts were as follows:

(millions of euros)	12/31/2018	12/31/2017
At January 1	416	479
IFRS 9 adoption effect	114	
Provision charges to the income statement	172	145
Draw downs and other changes	(161)	(208)
At December 31	541	416

As already previously discussed, the adoption of the new standard IFRS 9 (Financial Instruments) starting from January 1, 2018 resulted in the recognition of 114 million euros of higher write-downs for expected credit losses on trade receivables, due to the introduction of the *expected credit loss* model as per IFRS 9, replacing the *incurred loss* model required by IAS 39.

The decrease in trade receivables of 120 million euros compared to December 31, 2017 was mainly due to the changes in the receivables due from customers, partially offset by the changes in receivables due from other operators. In particular, we report:

- Receivables from customers: amounted to 1,364 million euros and fell by 222 million euros compared to December 31, 2017;
- Receivables from other operators: amounted to 888 million euros and rose by 97 million euros compared to December 31, 2017;
- Receivables from subsidiaries: amounted to 357 million euros and rose by 37 million euros compared to December 31, 2017; they mainly related to TLC services and products provided to Flash Fiber (166 million euros), INWIT (45 million euros), 4G Retail (33 million euros), Telecom Italia Sparkle (30 million euros) and Olivetti (26 million euros);
- Receivables from associates and joint ventures: amounted to 2 million euros and mainly refer to the companies Alfiere and Tiglio 1.

Miscellaneous receivables (current)

Miscellaneous receivables (current) amounted to 308 million euros (net of a provision for bad debts totaling 51 million euros), decreasing 121 million euros compared to December 31, 2017. Specifically, they consisted of:

- Receivables from subsidiaries: they amounted to 10 million euros (12 million euros at December 31, 2017) and refer to receivables from Group companies under the tax consolidation arrangement totaling 3 million euros (mainly from INWIT) and to other receivables for 7 million euros (mainly from INWIT, Persidera and Telecom Italia Capital);

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Other receivables: totaled 298 million euros and break down as follows:

(millions of euros)	12/31/2018	12/31/2017
Advances to suppliers	11	2
Receivables from employees	9	9
Tax receivables	3	15
Receivables for grants from the government and public entities	91	207
Sundry receivables	184	184
Total	298	417

Tax receivables totaling 3 million euros mostly consisted of credits resulting from tax returns, tax credits, as well as the VAT receivable on the purchase of vehicles and related accessories for which refunds were requested under Italian Decree Law 258/2006, converted with amendments by Italian Law 278/2006.

Receivables for grants from the government and public entities (91 million euros) mainly relate to Ultra-Broadband-UBB and Broadband-BB projects. The grants are recognized to the income statement when the related plants become ready for use.

Sundry receivables mainly included:

- receivables for with-recourse assignments to factoring companies (60 million euros);
- receivables from social security and assistance agencies (23 million euros);
- miscellaneous receivables from OLOs (42 million euros).

Other current assets

This item rose by 139 million euros compared to December 31, 2017 and includes:

- Contract assets: the item, totaling 33 million euros, was introduced at January 1, 2018 in light of the adoption of IFRS 15 due to early recognition of revenues for those contracts including performance obligations with different recognition time schedules (such as bundled goods and services) in which the goods recognized at point in time are sold at a discounted price or for those contracts that include a discount for a time period under the minimum contractual term. Contract Assets amounted to 46 million euros at December 31, 2018 and are stated net of the relevant provision of 3 million euros for bad debts. The increase of the year, due to early recognition of revenues with resulting recognition of the Contract Asset, is associated with the recognition of bundle offers of goods and services entailing giving the customer a discount for a period less than the minimum contractual term (usually 6 or 12 months in 24-month contracts), and with the contractual amendments introduced following changes in pricing, new subscribed services and discounts granted to customers.

Deferred contract costs: amounted to 655 million euros and mainly related to the deferral of costs connected with the activation and acquisition of new contracts with customers (which at December 31, 2017 were classified as trade and miscellaneous prepaid expenses).

Under previous accounting policies, contract costs (incremental costs of obtaining a contract and costs to fulfill a contract) were capitalized or deferred and recognized in the income statement on the basis of the expected duration of the contract and the type of customer. That approach is substantially confirmed under IFRS 15, with the exception of the reclassification of subscriber acquisition costs (SACs) connected to contracts with lock-in clauses from intangible assets, equal, at January 1, 2018, to 78 million euros (of which 36 million euros short-term). Contract costs from the activation of the phone service are deferred throughout the expected life of the relationship with the customer, taking also into account the reasonable expectations of cash flows arising from these services. The average expected duration at December 31, 2018 was 7 years for fixed and 3 years for mobile.

For additional details on the deferred contract costs and their movement during the year, please refer to the Note Miscellaneous receivables and other non-current assets ;

Other cost deferrals: amounted to 165 million euros, and at December 31, 2017 they were included in the line item Trade and miscellaneous prepaid expenses . They referred for 17 million euros, to cost deferrals connected to building leases, for 59 million euros to rent payments, for 2 million euros to maintenance fees and for 5 million euros to insurance premiums;

Trade and miscellaneous prepaid expenses: as detailed above, no longer present at December 31, 2018 as included in the aforementioned items; at December 31, 2017 they totaled 727 million euros, of which 521 million euros related to the deferral of costs for the activation and acquisition of new contracts with customers (reclassified in 2018 as explained above to the item deferred contract costs).

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NOTE 12

EQUITY

Equity consisted of:

(millions of euros)	12/31/2018	12/31/2017
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
Legal reserve	2,294	2,240
Other reserves:		
Merger surplus reserve	1,721	1,721
Other	(271)	(365)
Total other reserves	1,450	1,356
Retained earnings, including profit (loss) for the year	644	2,723
Total	18,138	20,069

Movements in share capital during 2018 are presented in the following tables:

Reconciliation between the number of shares outstanding at December 31, 2017 and at December 31, 2018

(number of shares)		At 12/31/2017	Share issues	At 12/31/2018	% of share capital
Ordinary shares issued	(a)	15,203,122,583		15,203,122,583	71.61
less: treasury shares	(b)	(37,672,014)		(37,672,014)	
Ordinary shares outstanding	(c)	15,165,450,569		15,165,450,569	
Savings shares issued and outstanding	(d)	6,027,791,699		6,027,791,699	28.39

Total shares issued	(a+d)	21,230,914,282	21,230,914,282	100.00
Total shares outstanding	(c+d)	21,193,242,268	21,193,242,268	

Reconciliation between the value of shares outstanding at December 31, 2017 and at December 31, 2018

(thousands of euros)		Share capital at 12/31/2017	Change in share capital	Share capital at 12/31/2018
Ordinary shares issued	(a)	8,361,718		8,361,718
less: treasury shares	(b)	(20,720)		(20,720)
Ordinary shares outstanding	(c)	8,340,998		8,340,998
Savings shares issued and outstanding	(d)	3,315,285		3,315,285
Total share capital issued	(a+d)	11,677,003		11,677,003
Total share capital outstanding	(c+d)	11,656,283		11,656,283

The share capital was unchanged compared to December 31, 2017.

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Share capital information

The TIM S.p.A. ordinary and savings shares are listed respectively in Italy (FTSE index) and on the NYSE in the form of American Depositary Shares, each ADS corresponding to 10 shares of ordinary or savings shares, respectively, represented by American Depositary Receipts (ADRs) issued by JPMorgan Chase Bank.

In the shareholder resolutions passed to increase share capital against cash payments, the pre-emptive right can be excluded to the extent of a maximum of ten percent of the pre-existing share capital, on condition that the issue price corresponds to the market price of the shares and that this is confirmed in a specific report issued by the firm charged with the audit of the Company.

The Company sources itself with the capital necessary to fund its requirements for business development and operations; the sources of funds are found in a balanced mix of equity, permanently invested by the shareholders, and debt capital, to guarantee a balanced financial structure and minimize the total cost of capital, with a resulting advantage to all the stakeholders.

Debt capital is structured according to different maturities and currencies to ensure an adequate diversification of the sources of funding and an efficient access to external sources of financing (taking advantage of the best opportunities offered in the financial markets of the euro, U.S. dollar and Pound sterling areas to minimize costs), taking care to reduce the refinancing risk.

The remuneration of equity is proposed by the board of directors to the shareholders meeting, which meets to approve the annual financial statements, based upon market trends and business performance, once all the other obligations are met, including debt servicing. Therefore, in order to guarantee an adequate remuneration of capital, safeguard company continuity and business development, the Company constantly monitors the change in debt levels in relation to equity, the level of net debt and the operating margin of industrial operations.

Rights of savings shares

The rights of the TIM S.p.A. savings shares are indicated below:

- the profit shown in the duly approved separate financial statements, less the amount appropriated to the legal reserve, must be distributed to the holders of savings shares in an amount up to 5% of the 0.55 euros per share;
- after assigning preferred dividends to the savings shares, the distribution of which is approved by the shareholders meeting, the remaining profit shall be assigned to all the shares so that the savings shares have the right to dividends that are higher, than the dividends to which the ordinary shares are entitled, by 2% of 0.55 euros per share;
- if in any one year dividends of below 5% of the 0.55 euros per share are paid to the savings shares, the difference is carried over and added to the preferred dividends for the next two successive years;

in the case of the distribution of reserves, the savings shares have the same rights as ordinary shares. Moreover, when there is no profit or insufficient profit reported in the separate financial statements for the year to satisfy the rights of the savings shares, the shareholders meeting called to approve those separate financial statements may choose to satisfy the dividend right and/or the additional right by distributing available reserves. The distribution of available reserves for such payments excludes the application of the mechanism extending the right to the preferred dividend not paid through the distribution of profits for the following two years;

the reduction of share capital as a result of losses does not affect the savings shares except for the amount of the loss which is not covered by the portion of the share capital represented by the other shares;

upon the wind-up of TIM S.p.A., the savings shares have a pre-emptive right in the reimbursement of capital up to the amount of 0.55 euros per share;

in the event of the cessation of trading in the Company s ordinary or savings shares, the holder of savings shares may ask TIM S.p.A. to convert its shares into ordinary shares, according to the manner resolved by the special session of the shareholders meeting called for that purpose within two months of being excluded from trading.

Share capital carries a restriction on tax suspension for an amount of 1,191 million euros.

Additional paid-in capital at December 31, 2018 amounted to 2,094 million euros, showing no change on December 31, 2017.

The Legal reserve at December 31, 2018, amounted to 2,294 million euros, an increase of 54 million euros due to the allocation of the profit for the year 2017. The legal reserve carries a tax suspension restriction up to the amount of 1,835 million euros.

Other reserves totaled 1,450 million euros at December 31, 2018, increasing by 94 million euros compared to December 31, 2017.

The Other reserves moved through the Statements of Comprehensive Income were broken down as follows:

Reserve for remeasurements of employee defined benefit plans (negative 81 million euros): the item rose by 15 million euros compared to December 31, 2017, due to the recognition of actuarial gains on employee severance indemnities in 2018, net of related tax effects (5 million euros);

Reserve for cash flow hedges (a negative 992 million euros; a negative 1,053 million euros at December 31, 2017): this reserve is related to the accounting of cash flow hedge transactions. In particular, it refers to unrealized gains and losses, net of the related tax effect, on the fair value adjustment of a financial instrument designated as a cash flow hedge;

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Reserve for financial assets measured at fair value through other comprehensive income (17 million euros): increased by 15 million euros compared to December 31, 2017, following the adoption, on January 1, 2018, of the new IFRS 9 standard (11 million euros), as well as the positive change to securities other than investments (8 million euros), partially offset by the decline in investments (4 million euros).

The Other reserves also include:

Merger surplus reserve (1,721 million euros) unchanged compared to December 31, 2017;

Reserve for other equity instruments: this reserve amounted to 196 million euros (up by 2 million euros compared to December 31, 2017) and consisted of:

the amount of the convertible bond maturing 2015-2022 (186 million euros);

the amount of the Special Award incentive plan, approved by the Shareholders Meeting on May 25, 2016 (2 million euros);

the amount of the 2018-2020 Long Term Incentive Plan, approved by the Shareholders Meeting on April 24, 2018 (2 million euros);

the value of the stock options granted under the 2014-2016 Stock Option Plan (6 million euros).

For further details, please refer to the Note Equity Compensation Plans .

Unavailable reserve originating from the application of Article 7, paragraph 7 of Italian Legislative Decree 38/2005 (521 million euros): unchanged from December 31, 2017;

Miscellaneous reserves (68 million euros).

Retained earnings (accumulated losses), including profit (loss) for the year, was positive by 664 million euros at December 31, 2018, with a decrease of 2,079 million euros compared to December 31, 2017. The changes are linked to the following declines:

1,854 million euros referring to the profit of 2018;

166 million euros following the distribution of dividends relating to the 2017 financial statements, as approved by the same Shareholders Meeting of April 24, 2018.

54 million euros associated with the allocation to the legal reserve of 5% of the profit for 2017, as approved by the Shareholders Meeting on April 24, 2018;

5 million euros relating to the adoption of the new IFRS 9 and IFRS 15 standards as at January 1, 2018.

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The following statement provides additional disclosure on equity and is prepared pursuant to Article 2427, number 7-bis, showing the items in equity separately according to their source, possibility of utilization and distribution, in addition to their utilization in the three-year period 2015-2017.

Statement according to Article 2427, 7-bis

Nature/Description (millions of euros)	Amount at 12/31/2018	Possibility of utilization	Amount available	Summary of the amounts utilized in the three-year period 2016-2018 for absorption of losses	for other reasons
Share capital	11,656				
Capital reserves:					
Additional Paid-in capital	2,095	A,B,C	2,095		
Legal reserve	1,953	B			
Reserve for other equity instruments	196	B			
Other	59	A,B,C	59	25	
Reserve for remeasurements of employee defined benefit plans	57	A,B,C	57		
Reserve pursuant to Article 7, paragraph 7, Italian Law Decree 38/2005	521	B			
Merger surplus reserve	1,678	A,B,C	1,678		166
Profit reserves:					
Additional Paid-in capital	(1)	A,B,C	(1)		
Legal reserve	341	B			
Reserve pursuant to Article 34, Italian Law 576/1975	13	A,B,C	13		
Other	14		14	69	
Reserve for cash flow hedges and related underlyings	(992)	A,B,C	(992)		

Reserve for financial assets measured at *fair value* through other comprehensive income	17	B			
Reserve for remeasurements of employee defined benefit plans	(138)	B	(138)		
Merger surplus reserve	43	A,B,C	43		
Retained earnings	2,498	A,B,C	2,498	363	
Total	20,010		5,326	457	166
Treasury shares			(40)		
Amount not distributable [1]			(42)		
Remaining amount distributable			5,244		

Key:

A = for share capital increase;
B = for absorption of losses;
C = for distribution to shareholders

[3] Represents the amount not distributable as the part of additional paid-in capital needed to supplement the legal reserve to reach 1/5 of the share capital.

Specifically, the amounts shown in the column Summary of the amounts utilized in the three-year period 2016/2018 for other reasons mainly relate to the distribution of dividends, as well as costs connected to the distribution of the dividends.

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The table below shows the restrictions, pursuant to Article 109, paragraph 4, letter b) of TUIR, relating to off-book deductions effected for income tax purposes in past years:

(millions of euros)	
Off-book deductions at December 31, 2017	25
Reversal for taxation during the year	(2)
Off-book deductions at December 31, 2018	23
Deferred taxes (IRES and IRAP)	(6)
Restriction on equity at December 31, 2018	17

This regime imposes a restriction on all equity reserves, without distinction, for an amount equal to the off-book deductions net of the relative deferred taxes provided. This restriction remains until such time as the excess tax deductions and consequent taxation are recovered in the books.

More specifically, compared to December 31, 2017, the deductions decreased by 2 million euros as a result of taxation during the year.

Therefore, taking into account the residual deductions effected in prior years and not covered by the fiscal realignment carried out in accordance with Italian Law 244 dated December 24, 2007, the total restriction on equity in the separate financial statements amounts to 17 million euros.

At December 31, 2018, the Company had tax-suspended reserves of 1,848 million euros, subject to taxation in the event of distribution, on which deferred taxes had not been allocated as their distribution is not foreseen.

POTENTIAL FUTURE CHANGES IN SHARE CAPITAL

The table below shows future potential changes in share capital, based on the issuance of the convertible bond by TIM S.p.A. in March 2015, the authorizations to increase the share capital in place at December 31, 2018, and the options and rights granted under equity compensation plans, still outstanding at December 31, 2018:

	Number of maximum shares issuable	Share capital (thousands of euros)	Additional Paid-in capital (thousands of euros)	Subscription price per share (euros)

Capital increases already approved (ordinary shares)				
2014-2016 Stock Option Plan				
	133,042	73	80	1.15
	343,069	189	158	1.01
	893,617	492	393	0.99
	13,497,406	7,423	5,264	0.94
Stock Options	14,867,134	8,177	5,895	
2015 Convertible Bond (ordinary shares) (*)	1,082,485,386	2,000,000	n.a.	n.a.
Convertible bonds		2,000,000		
Total		2,008,177		

(*) The number of shares potentially issuable shown may be subject to adjustments.

Further information is provided in the Notes Financial liabilities (non-current and current) and Equity compensation plans .

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NOTE 13

FINANCIAL LIABILITIES (NON-CURRENT AND CURRENT)

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

(millions of euros)		12/31/2018	12/31/2017
Non-current financial liabilities			
Financial payables (medium/long-term)			
Bonds		12,091	13,040
Convertible bonds		1,893	1,862
Amounts due to banks		2,854	2,853
Payables to other lenders			
Payables to subsidiaries		4,174	5,970
		21,012	23,725
Finance lease liabilities (medium/long-term)			
Payables to subsidiaries			1
Payables to associates			
Payables to others		1,445	1,855
		1,445	1,856
Other financial liabilities (medium/long-term)			
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature		1,423	1,870
Non-hedging derivatives		897	1,016
Deferred income			
		2,320	2,886
Total non-current financial liabilities	(a)	24,777	28,467
Current financial liabilities			
Financial payables (short-term)			
Bonds		2,120	1,522

Convertible bonds		6	6
Amounts due to banks		1,459	1,666
Payables to other lenders		60	85
Payables to subsidiaries		3,572	531
Payables to associates			
		7,217	3,810
Finance lease liabilities (short-term)			
Payables to subsidiaries			1
Payables to associates			
Payables to others		159	146
		159	147
Other financial liabilities (short-term)			
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature		362	143
Non-hedging derivatives		165	97
Deferred income			
		527	240
Total Current financial liabilities	(b)	7,903	4,197
Total financial liabilities (Gross Financial Debt)	(a+b)	32,680	32,664

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

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Gross financial debt according to the original currency of the transaction is as follows:

	12/31/2018 (millions of foreign currency)	12/31/2018 (millions of euros)	12/31/2017 (millions of foreign currency)	12/31/2017 (millions of euros)
USD	2,506	2,189	2,512	2,094
GBP	1,267	1,416	1,266	1,426
JPY	20,034	159	20,033	148
EURO		28,916		28,996
		32,680		32,664

The breakdown of gross financial debt by effective interest-rate bands applicable to the original transaction is provided below, excluding the effect of any derivative hedging instruments:

(millions of euros)	12/31/2018	12/31/2017
Up to 2.5%	7,813	7,298
From 2.5% to 5%	11,590	10,707
From 5% to 7.5%	8,063	8,805
From 7.5% to 10%	1,794	2,019
Over 10%	59	201
Accruals/deferrals, MTM and derivatives	3,361	3,634
	32,680	32,664

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

(millions of euros)	12/31/2018	12/31/2017
Up to 2.5%	12,198	11,388
From 2.5% to 5%	7,740	7,129
From 5% to 7.5%	7,528	8,293

From 7.5% to 10%	1,794	2,019
Over 10%	59	201
Accruals/deferrals, MTM and derivatives	3,361	3,634
	32,680	32,664

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

Details of the maturities of financial liabilities at nominal repayment amount:

	maturing by 12/31 of the year:						
(millions of euros)	2019	2020	2021	2022	2023	After 2023	Total
Bonds	1,783	1,267	564	3,086	2,419	6,730	15,849
Loans and other financial liabilities	3,213	728	1,275	873	437	4,141	10,667
Finance lease liabilities	141	141	140	115	117	932	1,586
Total	**5,137**	**2,136**	**1,979**	**4,074**	**2,973**	**11,803**	**28,102**
Current financial liabilities	2,247						2,247
Total	**7,384**	**2,136**	**1,979**	**4,074**	**2,973**	**11,803**	**30,349**

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The main components of financial liabilities are commented below.

Bonds are broken down as follows:

(millions of euros)	12/31/2018	12/31/2017
Non-current portion	12,091	13,040
Current portion	2,120	1,522
Total carrying amount	14,211	14,721
Fair value adjustment and measurement at amortized cost	(362)	(335)
Total nominal repayment amount	13,849	14,227

The convertible bonds include the unsecured equity-linked bond for 2,000 million euros, with a coupon of 1.125%, issued by TIM S.p.A., convertible into newly-issued ordinary shares maturing in 2022.

This item was broken down as follows:

(millions of euros)	12/31/2018	12/31/2017
Non-current portion	1,893	1,862
Current portion	6	6
Total carrying amount	1,899	1,868
Fair value adjustment and measurements at amortized cost	101	132
Total nominal repayment amount	2,000	2,000

The nominal repayment amount of bonds and convertible bonds totaled 15,849 million euros, down by 378 million euros compared to December 31, 2017 (16,227 million euros) as a result of new issues and repayments in 2018.

The following table lists the bonds issued by TIM S.p.A., expressed at the nominal repayment amount, net of bond repurchases, and also at market value:

Currency	Amount (millions)	Nominal repayment amount (millions of	Coupon	Issue date	Maturity date	Issue price (%)	Market price at 12/31/18 (%)	Market value at 12/31/18 (millions of

		euros)						euros)
Bonds issued								
Euro	832.4	832.4	5.375%	1/29/04	1/29/19	99.070	100.486	836
GBP	850	950.2	6.375%	6/24/04	6/24/19	98.850	101.761	967
Euro	719.4	719.4	4.000%	12/21/12	1/21/20	99.184	103.331	743
Euro	547.5	547.5	4.875%	9/25/13	9/25/20	98.966	106.290	582
Euro	563.6	563.6	4.500%	1/23/14	1/25/21	99.447	105.849	597
Euro	[a] 202.7	202.7	6 month Euribor (base 365)	1/1/02	1/1/22	100	100	203
Euro	883.9	883.9	5.250%	2/10/10	2/10/22	99.295	108.430	958
Euro	[b] 2,000	2,000	1.125%	3/26/15	3/26/22	100	93.934	1,879
Euro	1,000	1,000	3.250%	1/16/15	1/16/23	99.446	102.010	1,020
GBP	375	419.2	5.875%	5/19/06	5/19/23	99.622	104.518	438
Euro	1,000	1,000	2.500%	1/19/17	7/19/23	99.288	98.417	984
Euro	750	750	3.625%	1/20/16	1/19/24	99.632	103.328	775
USD	1,500	1,310	5.303%	5/30/14	5/30/24	100	95.530	1,251
Euro	1,000	1,000	3.000%	9/30/16	9/30/25	99.806	97.468	975
Euro	750	750	2.875%	6/28/16	1/28/26	100	95.218	714
Euro	1,000	1,000	3.625%	5/25/16	5/25/26	100	99.952	1,000
Euro	1,250	1,250	2.375%	10/12/17	10/12/27	99.185	89.357	1,117
Euro	670	670	5.250%	3/17/05	3/17/55	99.667	97.104	651
Total		15,849						15,690

[a] Reserved for employees.
[c] Bond convertible into newly-issued TIM S.p.A. ordinary treasury shares.

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The regulations and/or Offering Circulars relating to the bonds described above are available on the corporate website at the address: www.telecomitalia.com.

The change in bonds during 2018 was as follows:

New issues

(millions of original currency)	Currency	Amount	Issue date
Telecom Italia S.p.A. 750 million euros 2.875% (1/28/2026)	Euro	750	6/28/2018

Repayments

(millions of original currency)	Currency	Amount	Repayment date
Telecom Italia S.p.A. 593 million euros 4.750% (1)	Euro	593	5/25/2018
Telecom Italia S.p.A. 582 million euros 6.125% (2)	Euro	582	12/14/2018

Net of buy-backs totaling 157 million euros made by the company in 2015.
Net of buy-backs totaling 168 million euros made by the company in 2015.

Medium/long-term amounts due to banks totaled 2,854 million euros (2,853 million euros at December 31, 2017). Short-term amounts due to banks totaled 1,459 million euros, down by 207 million euros (1,666 million euros at December 31, 2017) and included 924 million euros of the current portion of medium/long-term amounts due to banks.

Short-term payables to other lenders amounted to 60 million euros (85 million euros at December 31, 2017).

Medium/long-term payables to subsidiaries amounted to 4,174 million euros, showing a decrease of 1,796 million euros compared to December 31, 2017 (5,970 million euros). They consisted of loans obtained from Telecom Italia Capital S.A. (2,565 million euros) and from Telecom Italia Finance S.A. (1,609 million euros), following the issues of bonds placed by the financial companies of the Group on the United States and Luxembourg markets.

Short-term payables to subsidiaries amounted to 3,572 million euros and increased by 3,041 million euros compared to December 31, 2017 (531 million euros). They consist of:

- the current portion of medium/long-term loans to Telecom Italia Capital S.A. (1,921 million euros), Telecom Italia Finance S.A. (35 million euros);

short-term financing relationships entered into with Telecom Italia Finance S.A. (800 million euros);

current account transactions as part of the treasury services which are conducted at market rates for a total of 816 million euros, particularly conducted with Telecom Italia Finance S.A. (530 million euros), Telecom Italia Sparkle (156 million euros), Telecontact (27 million euros), TN Fiber (23 million euros), Telenergia (20 million euros), Noverca (14 million euros), H.R. Services (13 million euros), Telecom Italia Trust Technology (10 million euros).

Medium/long-term finance lease liabilities totaled 1,445 million euros (1,856 million euros at December 31, 2017) and mainly related to property leases recognized under IAS 17 using the financial method. Short-term finance lease liabilities amounted to 159 million euros (147 million euros at December 31, 2017) and referred to the current portion of medium/long-term finance lease liabilities. In view of the real estate rationalization plan currently underway and the consequent reconsideration of the likelihood of exercising the option of renewing the real-estate lease agreements at expiry, the liability and the value of the assets held under finance lease were written down by 215 million euros. Moreover, during 2018, 47 million euros of higher debt for finance leases and higher tangible assets were posted, following the recognition of additional vehicle lease agreements in accordance with IAS 17.

Hedging derivatives relating to hedged items classified as non-current liabilities of a financial nature amounted to 1,423 million euros (1,870 million euros at December 31, 2017). Hedging derivatives relating to hedged items classified as current liabilities of a financial nature amounted to 362 million euros (143 million euros at December 31, 2017).

Medium/long-term non-hedging derivatives amounted to 897 million euros (1,016 million euros at December 31, 2017). Short-term non-hedging derivatives amounted to 165 million euros (97 million euros at December 31, 2017). These line items include the measurement of transactions which TIM S.p.A. carries out with banking counterparts to service the companies of the Group in its exclusive role as the centralized treasury function, and are offset in full by the corresponding items classified as financial assets.

Further details are provided in the Note Derivatives .

COVENANTS, NEGATIVE PLEDGES AND OTHER CONTRACT CLAUSES IN EFFECT AT DECEMBER 31, 2018

Bonds issued by the TIM Group do not contain financial *covenants* (e.g. ratios such as Debt/EBITDA, EBITDA/Interest, etc.) or clauses that result in the automatic early redemption of the bonds in relation to events other than the insolvency of the TIM Group[(17)]; furthermore, the repayment of the bonds and the payment of interest are not covered by specific guarantees nor are there commitments provided relative to the assumption of future guarantees, except for the full and unconditional guarantees provided by TIM S.p.A. for the bonds issued by Telecom Italia Finance S.A. and Telecom Italia Capital S.A..

Since the bonds were placed principally with institutional investors in major world capital markets (Euromarket and the U.S.A.), the terms which regulate the bonds are in line with *market practice* for similar transactions effected on these same markets. Consequently, they carry negative pledges, such as, for example, the commitment not to pledge the company s assets as collateral for loans.

With regard to loans taken out by TIM S.p.A. with the European Investment Bank (EIB), at December 31, 2018, the nominal amount of outstanding loans amounted to 1,350 million euros, of which 800 million euros at direct risk and 550 million euros secured.

EIB loans not secured by bank guarantees for a nominal amount equal to 800 million euros are subject to the following covenants:

in the event the company becomes the target of a merger, demerger or contribution of a business segment outside the Group, or sells, disposes of or transfers assets or business segments (except in certain cases, expressly provided for), it shall immediately inform the EIB which shall have the right to ask for guarantees to be provided or changes to be made to the loan contract, or, only for certain loan contracts, the EIB shall have the option to demand the immediate repayment of the loan (should the merger, demerger or contribution of a business segment outside the Group compromise the Project execution or cause a prejudice to EIB in its capacity as creditor);

with the 500 million euros loan, signed on December 14, 2015, TIM undertook to ensure that, for the entire duration of the loan, the total financial debt of the Group companies other than TIM S.p.A. except for the cases when that debt is fully and irrevocably secured by TIM S.p.A. is lower than 35% (thirty-five percent) of the Group s total financial debt.

EIB loans secured by banks or entities approved by the EIB for a total nominal amount of 550 million euros, and direct risk loans are subject to the following covenants:

Inclusion clause , under which, in the event TIM commits to uphold financial covenants in other loan contracts (and even more restrictive clauses for 2014 and 2015 direct risk loans, including, for instance, cross default clauses and commitments restricting the sale of goods) that are not present in or are stricter than those granted to the EIB, the EIB will have the right if, in its reasonable opinion, it considers that such changes may have a negative impact on TIM s financial capacity to request the provision of guarantees or an amendment of the loan contract in order to establish an equivalent provision in favor of the EIB;

Network Event , under which, in the event of the disposal of the entire fixed network or of a substantial part of it (in any case, more than half in quantitative terms) to third parties not controlled by the Company, or in the event of disposal of the controlling interest in the company in which the network or a substantial part of it has previously been transferred, TIM must immediately inform the EIB, which may then opt to demand collateral or an amendment of the loan contract or choose an alternative solution.

The loan agreements of TIM S.p.A. do not contain financial covenants (e.g. ratios such as Debt/EBITDA, EBITDA/Interests, etc.) which would oblige the Company to repay the outstanding loan if the covenants are not observed.

The loan agreements contain the usual other types of *covenants*, including the commitment not to pledge the Company s *assets* as collateral for loans (*negative pledge*) and the commitment not to change the business purpose or sell the assets of the Company unless specific conditions exist (e.g. the sale takes place at *fair market value*). *Covenants* with basically the same content are also found in *export credit loan agreements*.

In the Loan Agreements and the Bonds, TIM is required to provide notification of change of control. Identification of the occurrence of a change of control and the applicable consequences including, at the discretion of the investors, the establishment of guarantees or the early repayment of the amount paid in cash or as shares and the cancellation of the commitment in the absence of agreements to the contrary are specifically covered in the individual agreements.

In addition, the outstanding loans generally contain a commitment by TIM, whose breach is an Event of Default, not to implement mergers, demergers or transfers of business, involving entities outside the Group. Such an Event of Default may entail, upon request of the Lender, the early redemption of the drawn amounts and/or the annulment of the undrawn commitment.

Finally, as at December 31, 2018, no covenant, negative pledge or other clause relating to the debt position, had in any way been breached or violated.

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

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REVOLVING CREDIT FACILITY

The following table shows committed credit lines available at December 31, 2018.

(billions of euros)		12/31/2018		12/31/2017	
		Approved	Drawdowns	Approved	Drawdowns
Revolving Credit Facility	maturing May 2019			4.0	
Revolving Credit Facility	maturing March 2020			3.0	
Revolving Credit Facility	maturing January 2023	5.0			
Total		5.0		7.0	

On January 16, 2018, two syndicated Revolving Credit Facilities existing at December 31, 2017 were closed in advance and replaced by a new syndicated Revolving Credit Facility for a total of 5 billion euros, maturing on January 16, 2023, currently not drawn.

At December 31, 2018, TIM had bilateral Term Loans for 1,475 million euros and overdraft facilities for 250 million euros, drawn down for the full amount.

TIM S RATING

At December 31, 2018, the three rating agencies Standard & Poor s, Moody s and Fitch Ratings rated TIM as follows:

	Rating	Outlook
STANDARD & POOR S	BB+	Stable
MOODY S	Ba1	Stable
FITCH RATINGS	BBB-	Negative

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NOTE 14

NET FINANCIAL DEBT

As required by Consob Communication DEM/6064293 of July 28, 2006, the following table presents the net financial debt at December 31, 2018 and December 31, 2017, calculated in accordance with the criteria indicated in the Recommendations for the Consistent Implementation of European Commission Regulation implementing the Prospectus Directive , issued by the former CESR (Committee of European Securities Regulators) on February 10, 2005 (now the European Securities & Markets Authority ESMA), and adopted by Consob.

For the purpose of determining such figure, the amount of financial liabilities has been adjusted by the effect of the relative hedging derivatives recorded in assets and the receivables arising from financial subleasing.

This table also shows the reconciliation of net financial debt determined according to the criteria indicated by ESMA and net financial debt calculated according to the criteria of the TIM Group and presented in the Report on Operations.

(millions of euros)		12/31/2018	12/31/2017
Non-current financial liabilities		24,777	28,467
Current financial liabilities		7,903	4,197
Total gross financial debt	(a)	32,680	32,664
Non-current financial assets (°)			
Non-current financial receivables for lease contract		(15)	(17)
Non-current hedging derivatives		(385)	(310)
	(b)	(400)	(327)
Current financial assets			
Securities other than investments		(466)	(746)
Financial receivables and other current financial assets		(327)	(326)
Cash and cash equivalents		(885)	(771)
	(c)	(1,678)	(1,843)
Net financial debt as per Consob communication DEM/6064293/2006 (ESMA)	(d=a+b+c)	30,602	30,494
Non-current financial assets (°)			

Other financial receivables and other non-current financial assets	(e)	(1,242)	(1,284)
Net financial debt (*)	(f=d+e)	29,360	29,210
Reversal of fair value measurement of derivatives and related financial liabilities/assets	*(g)*	*(1,307)*	*(1,414)*
Adjusted net financial debt	(f+g)	28,053	27,796

(*) As regards the effects of related party transactions on net financial debt, reference should be made to the specific table included in the Note Related party transactions .

(°) At December 31, 2018 and at December 31, 2017, Non-current financial assets (b + e) amounted to 1,642 million euros and 1,611 million euros, respectively.

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

Additional cash flow information required by IAS 7

			Cash movements		Non-cash movements			
(thousands of euros)		12/31/2017	Receipts and/or issues	Payments and/or reimbursements	Differences exchange rates	Fair value changes	Other changes and reclassifications	12/31/2018
Financial payables (medium/long-term):								
Bonds		14,562	750	(1,175)	48	23	3	14,211
Convertible bonds		1,868					31	1,899
Amounts due to banks		3,739	1,627	(1,591)			3	3,778
Other financial payables		6,358	255	(534)	50		1	6,130
	(a)	26,527	2,632	(3,300)	98	23	38	26,018
of which short-term		*2,802*						*5,006*
Finance lease liabilities (medium/long-term):		2,003	91	(234)			(256)	1,604
	(b)	2,003	91	(234)			(256)	1,604
of which short-term		*147*						*159*
Other financial liabilities (medium/long-term):								
Hedging derivative liabilities relating to hedged items classified as non-current assets/liabilities of a financial nature		1,927			(28)	(146)	(3)	1,750
Non-hedging derivatives		1,113			228	(278)	(1)	1,062
	(c)	3,040			200	(424)	(4)	2,812
of which short-term		154			341	1	(4)	492
Financial payables (short-term):								

Amounts due to banks		780					(245)	535
Other financial payables		228					1,448	1,676
Hedging derivative liabilities relating to hedged items classified as current assets/liabilities of a financial nature		86			(52)	3	(2)	35
	(d)	1,094			(52)	3	1,201	2,246
Total Financial liabilities (Gross financial debt)	(e=a+b+c+d)	32,664	2,723	(3,534)	246	(398)	979	32,680
Hedging derivative receivables relating to hedged items classified as current and non-current assets/liabilities of a financial nature	(f)	389			70	1	4	464
Non-hedging derivative receivables	(g)	1,114			228	(278)	(2)	1,062
Total	(h=e-f-g)	31,161	2,723	(3,534)	(52)	(121)	977	31,154

In relation to Exchange rate differences , the line item Hedging derivative liabilities relating to hedged items classified as current assets/liabilities of a financial nature referred to the hedging of bonds issued in US dollars by Telecom Italia Capital S.A., which were acquired on the market on July 20, 2015 and are held in portfolio by TIM S.p.A.. The bonds have not been presented in the table shown above as their presentation is not required under new paragraph 44 of IAS 7 (they are not assets hedging liabilities arising from financial assets).

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NOTE 15

FINANCIAL RISK MANAGEMENT

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES OF TIM S.p.A.

As reported in the Note Financial Risk Management of the consolidated financial statements of the TIM Group, TIM S.p.A. adheres to the Guidelines on Management and control of financial risk established for the Group.

The risk management policies of TIM S.p.A. observe the policies for the diversification of risks identified for the Group. An optimum fixed-rate and variable-rate debt composition is defined for the entire Group and is not established for the individual companies.

As for the exchange rate risk on financial payables contracted by TIM S.p.A. denominated in currencies other than euro, such risk is hedged in full.

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

All derivative financial instruments are entered into with leading banking and financial counterparts whose credit ratings are constantly monitored to reduce the credit risk.

TIM S.p.A. has current account transactions with subsidiaries, as part of its treasury services which are conducted at market rates, and multi-year loan agreements with them which are also at market rates.

INTEREST RATE RISK: SENSITIVITY ANALYSIS

The change in interest rates on the variable component of payables and liquidity may lead to higher or lower finance income and expenses, while the changes in the level of the expected interest rate affect the fair value measurement of TIM S.p.A. derivatives. In particular:

- with regard to derivatives that convert the liabilities contracted by TIM S.p.A. to fixed rates (cash flow hedging), in keeping with international accounting standards that regulate hedge accounting, the fair value (mark-to-market) measurement of such instruments is set aside in a specific unavailable Equity reserve. The combined change of the numerous market variables to which the mark-to-market calculation is subject between the transaction inception date and the measurement date renders any assumption about the trend of the variables of little significance. As the contract expiration date approaches, the accounting effects described will gradually be absorbed until they cease to exist;

if, at December 31, 2018, the interest rates in the various markets in which TIM S.p.A. operates had been 100 basis points higher/lower compared to the actual rates, then higher/lower finance expenses, before the tax effect, would have been recognized in the income statement for 83 million euros (77 million euros at December 31, 2017).

ALLOCATION OF THE FINANCIAL STRUCTURE BETWEEN FIXED RATE AND VARIABLE RATE

As for the allocation of the financial structure between the fixed-rate component and the variable-rate component, for both financial assets and liabilities, reference should be made to the following tables. They show the nominal repayment/investment amount (insofar as that amount expresses the effective interest rate exposure of the Group) and, as far as financial assets are concerned, the intrinsic nature (financial characteristics and duration) of the transactions under consideration rather than just the stated contractual terms alone. Bearing that in mind, a transaction whose characteristics (short or very short time frame and frequent renewal) are such that the interest rate is periodically reset on the basis of market parameters, even though the contract does not call for re-fixing the interest rate (such as in the case of bank deposits, Euro Commercial Papers and receivables on sales of securities), has been considered in the category of variable rate.

Total Financial liabilities (at the nominal repayment amount)

	12/31/2018			12/31/2017		
(millions of euros)	Fixed rate	Variable rate	Total	Fixed rate	Variable rate	Total
Bonds	11,312	4,537	15,849	11,689	4,438	16,227
Loans and other financial liabilities (*)	9,486	5,014	14,500	9,220	4,163	13,383
Total	20,798	9,551	30,349	20,909	8,701	26,610

(*) At December 31, 2018, current liabilities totaled 2,247 million euros, of which 1,451 million euros at variable rates (1,097 million euros at December 31, 2016, of which 722 million euros at variable rates).

Total Financial assets (at the nominal investment amount)

	12/31/2018			12/31/2017		
(millions of euros)	Fixed rate	Variable rate	Total	Fixed rate	Variable rate	Total
Cash and cash equivalents		885	885		871	871
Securities	431		431	720		720
Other receivables	779	361	1,140	602	135	737
Total	1,210	1,246	2,456	1,322	1,006	2,328

With regard to variable-rate financial instruments, the contracts provide for revisions of the relative parameters to take place within the subsequent 12 months.

Effective interest rate

As to the effective interest rate, for the categories where that parameter can be determined, such parameter refers to the original transaction net of the effect of any derivative hedging instruments. The disclosure, since it is provided by class of financial asset and liability, was determined, for purposes of calculating the weighted average, using the carrying amount adjusted by accruals, prepayments, deferrals and changes in *fair value*: this is therefore the amortized cost, net of accruals and any changes in fair value as a consequence of hedge accounting.

Total Financial liabilities

(millions of euros)	12/31/2018 Adjusted carrying amount	12/31/2018 Effective interest rate (%)	12/31/2017 Adjusted carrying amount	12/31/2017 Effective interest rate (%)
Bonds	15,677	4.06	16,013	4.20
Loans and other financial liabilities	13,642	3.15	13,018	3.41
Total	29,319	3.64	29,031	3.85

Total Financial assets

(millions of euros)	12/31/2018 Adjusted carrying amount	12/31/2018 Effective interest rate (%)	12/31/2017 Adjusted carrying amount	12/31/2017 Effective interest rate (%)
Cash and cash equivalents	885	0.02	871	0.08
Securities	431	3.36	720	4.82
Other receivables	440	1.51	335	0.86
Total	1,756	1.21	1,926	1.99

As for financial assets, the weighted average effective interest rate is not essentially influenced by the existence of derivatives.

As for market risk management using derivatives, reference should be made to the Note Derivatives .

CREDIT RISK

Credit risk represents TIM s exposure to possible losses arising from the failure of commercial or financial counterparties to fulfill their assumed obligations. To measure this risk over time for impairment of financial assets (trade receivables due from customers included), the introduction of IFRS 9 required switching from the incurred loss model pursuant to IAS 39 to the expected credit loss model.

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Such risk stems principally from economic and financial factors, or from the possibility that a default situation of a counterpart could arise, or from factors more strictly technical, commercial or administrative.

TIM s maximum theoretical exposure to credit risk is represented by the carrying amount of the financial assets and trade receivables recorded in the financial statements, excluding guarantees received, described in the Note Contingent liabilities, other information, commitments and guarantees .

Risk related to trade receivables is managed using customer scoring and analysis systems. For specific categories of trade receivables, the Group also makes use of factoring, mainly on a non-recourse basis.

In referring to the details indicated in the Note Trade and miscellaneous receivables and other current assets , it should be pointed out that provision charges for bad debts are recorded on specific credit positions that present an element of individual risk. On credit positions that do not have such characteristics, provision charges are recorded by customer segment according to the average uncollectibility estimated on the basis of statistics.

Financial assets other than trade receivables are written down for impairment on the basis of a general model which estimates expected credit losses over the following 12 months, or over the residual life of the asset in the event of a substantial increase in its credit risk. The expected credit loss is calculated based on the default probability and the percentage of credit that cannot be recovered in the event of a default (the loss given default).

Moreover, again for the credit risk relating to the asset components which contribute to the determination of Net financial debt it should be noted that, as per Group policy, the management of the liquidity of TIM S.p.A. is guided by conservative criteria and is principally based on money market management. As part of this management, investments are made during the year with temporary excess cash resources, which are expected to turn around within the subsequent 12-month period.

In order to limit the risk of non-fulfillment of the obligations undertaken by the counterpart, deposits were made with banking and financial institutions with a rating no lower than the investment grade; moreover, the terms of deposits are shorter than three months. With regard to the other temporary investments of liquidity, there were investments for 250 million euros in Italian Treasury Bonds.

As concerns the credit risk relating to the current asset components and with particular reference to the trade receivables, the risk is managed on two levels:

- operational management along the entire process chain, starting from the checks during acquisition and continuing to the internal management checks of still active customers and the subsequent service interruption stages, contractual termination and assignment to specific institutions specialized in credit collection

- management of specific securitization programs rather than of non-recurring disposals, most of which non-recourse in nature.

Following a specific assessment, during 2018 several improvement initiatives were launched as further reinforcement, and will be further developed over the years to come. They include replacement of the non-performing loan management platform, introduction of a new master legal solution for mass management retail positions, and definition of several specific plans (canvasses) for handling the most critical positions. A few projects to develop new evolved models for E2E assessment, prevention, management and control of risk in a predictive logic were also started up.

LIQUIDITY RISK

TIM S.p.A. pursues the Group s objective of achieving an adequate level of financial flexibility.

Current financial assets at December 31, 2018, together with unused committed bank lines, ensure complete coverage of debt repayment obligations for the next 18-24 months.

24% of gross financial debt at December 31, 2018 (nominal repayment amount) will become due in the next 12 months.

The following tables report the contractual cash flows, not discounted to present value, relative to gross financial debt at nominal repayment amounts and the interest flows, determined using the terms and the interest and exchange rates in place at December 31, 2018. The portions of principal and interest of the hedged liabilities included both the disbursements and the receipts of the relative hedging derivatives.

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Financial liabilities   Maturities of contractually expected disbursements

		maturing by 12/31 of the year:						
(millions of euros)		2019	2020	2021	2022	2023	After 2023	Total
Bonds	Principal	1,783	1,267	564	3,086	2,419	6,730	15,849
	Interest portion	578	482	426	390	331	1,540	3,747
Loans and other financial liabilities (*)	Principal	3,213	728	1,275	873	437	4,141	10,667
	Interest portion	325	241	238	231	227	3,168	4,430
Finance lease liabilities	Principal	141	141	140	115	117	932	1,586
	Interest portion	89	82	74	66	60	286	657
Non-current financial liabilities (*)	Principal	**5,137**	**2,136**	**1,979**	**4,074**	**2,973**	**11,803**	**28,102**
	Interest portion	**992**	**805**	**738**	**687**	**618**	**4,994**	**8,834**
Current financial liabilities (**)	Principal	**2,247**						**2,247**
	Interest portion	**1**						**1**
Total Financial liabilities	Principal	**7,384**	**2,136**	**1,979**	**4,074**	**2,973**	**11,803**	**30,349**
	Interest portion	**993**	**805**	**738**	**687**	**618**	**4,994**	**8,835**

(*) These include hedging derivatives, but exclude non-hedging derivatives.

(**) These exclude non-hedging derivatives.

Derivatives on financial liabilities   Contractually expected interest flows

	maturing by 12/31 of the year:					
(millions of euros)	2019	2020	2021	2022	2023	Total

						After 2023	
Disbursements	**243**	**215**	**214**	**215**	**207**	**1,453**	**2,547**
Receipts	(227)	(177)	(177)	(177)	(167)	(480)	(1,405)
Hedging derivatives net (receipts) disbursements	**16**	**38**	**37**	**38**	**40**	**973**	**1,142**
Disbursements	**362**	**317**	**317**	**317**	**320**	**3,809**	5,442
Receipts	(362)	(317)	(317)	(317)	(320)	(3,809)	(5,442)
Non-Hedging derivatives net (receipts) disbursements							
Total net disbursements (receipts)	**16**	**38**	**37**	**38**	**40**	**973**	**1,142**

In order to name the Parent as the sole counterparty of the banking system, all the derivatives of the Group, except for those relating to two banking counterparties, have been centralized under TIM S.p.A.. In the TIM S.p.A. separate financial statements, this centralization has resulted in the presence of two non-hedging derivatives for each centralized transaction (one with the bank and the other for the same amount and opposite sign with the company of the Group), while the hedging relationship remains with the subsidiary and the Group.

The flows relating to the non-hedging derivatives that were placed under centralized management have therefore been excluded from the analysis of the maturities of contractually expected disbursements for financial liabilities and the analysis of the maturities of contractually expected interest flows for derivatives, because the positions are fully offset and, consequently, are not significant for the analysis of liquidity risk.

MARKET VALUE OF DERIVATIVES

In order to determine the fair value of derivatives, the TIM Group uses various valuation models. The mark-to-market calculation is determined by discounting to present value the interest and notional future contractual flows using market interest rates and exchange rates.

The notional amount of IRS does not represent the amount exchanged between the parties and therefore does not constitute a measurement of credit risk exposure which, instead, is limited to the amount of the differential between the interest rates paid/received.

The market value of CCIRSs, instead, also depends on the differential between the reference exchange rate at the date of signing the contract and the exchange rate at the date of measurement, since CCIRSs imply the exchange of the reference interest and principal, in the respective currencies of denomination.

The options are measured according to the Black & Scholes or Binomial models and involve the use of various measurements factors, such as: time horizon of the life of the option, risk-free rate of return, current price, volatility and any cash flows (e.g. dividend) of the underlying instrument, and exercise price.

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NOTE 16

DERIVATIVES

Derivative financial instruments are used by TIM S.p.A. to hedge its exposure to foreign exchange rate and interest rate risks and also to diversify the parameters of debt so that costs and volatility can be reduced to within predetermined operational limits.

Derivative financial instruments at December 31, 2018 are principally used to manage debt positions. They include interest rate swaps (IRS) to reduce interest rate exposure on fixed-rate and variable-rate bank loans and bonds, as well as cross currency and interest rate swaps (CCIRS), and currency forwards to convert the loans/receivables secured in different foreign currencies to the functional currency.

IRS transactions, at specified maturity dates, provide for the exchange of flows of interest with the counterparts, calculated on the notional amount, at the agreed fixed or variable rates.

The same also applies to CCIRS transactions which, in addition to the settlement of periodic interest flows, may provide for the exchange of principal, in the respective currencies of denomination, at maturity and possibly spot.

In carrying out its role as the Treasury function of the Group and with the aim of centralizing all exposures with banking counterparties in just one entity (i.e. TIM S.p.A.), TIM has derivative contracts signed with banks and analogous intercompany derivative contracts with Telecom Italia Capital S.A. and Telecom Italia Finance S.A., for a notional amount of 5,015 million euros. The balance of asset and liability measurements of these contracts is equal to zero.

HEDGES: ECONOMIC RELATIONSHIP BETWEEN THE UNDERLYING AND DERIVATIVES

The hedge relationships documented in hedge accounting at TIM S.p.A. belong to four categories: i) hedging of the fair value of bond issues denominated in euro and ii) hedging of the cash flows coming from the coupon flow of bond issues denominated in currencies other than euro, iii) hedging of the cash flows coming from the flow of floating interest on intercompany loans denominated in euro, iv) hedging of the cash flows coming from the flow of floating interest on intercompany loans denominated in foreign currency.

In the first case, the hedged risk is the fair value of the bond attributable to the interest rates and the hedging derivatives are IRSs, which allow all or part of the bond coupon flow to be received against a flow of floating interest.

The current value of both instruments, underlying and derivatives, depends on the structure of the Euro market interest rates at the foundation of the calculation of the discount factors and flows of floating interest of the derivative. In particular, oscillating rates will translate as changes in the discount factor of the fixed interest expense on the underlying; on the derivative, changes in the discount factor of interest income will occur, as well as changes in the nominal flow of variable interest (only partially corrected by the discounting effect). The effects on the derivative will be opposite, in accounting terms, to the effects on the underlying.

In the second case, the hedged risk is represented by the variability in cash flows (and the repayment of the nominal amount) generated by exchange rates; hedging comprises combinations of IRS and CCIRS that synthetically transform fixed rate coupon flows into currency into fixed rate flows in euro. In this case, exchange rate oscillations will usually produce contrary effects on the underlying and on the derivative as the asset leg of the latter faithfully reflects the underlying, while the liability leg is denominated in euros and is therefore insensitive to the exchange rate.

In the third case, the hedged risk is the variability of the cash flow against the performance of Euro market interest rates. It is hedged with IRSs that allow a varying flow of interest to be collected against payment of a flow of fixed rate interest. The current value of underlying and derivatives depends on the structure of the Euro market interest rates. The fluctuations of the rates generate an impact on the nominal amount of the flow of floating rate interest of the loan (only partially corrected by the discounting effect); on the derivative, there are changes in the discount factors of the passive flow of fixed interest and changes in the nominal flow of floating interest income (only partially corrected by the discounting effect). The effects on the derivative will be opposite, in accounting terms, to the effects on the underlying.

In the fourth case, the hedged risk is the variability of the cash flows (including the nominal repayment) induced by the exchange rate in addition to the market interest rates in foreign currency; the hedge consists of IRS and CCIRS derivatives which turn floating rate in foreign currency into Euro fixed rate. In this case, exchange rate oscillations (in addition to oscillations of the interest rates in foreign currency) will usually produce contrary effects on the underlying and on the derivative as the asset leg of the latter faithfully reflects the underlying, while the liability leg is denominated in euros and is therefore insensitive to the exchange rate (and to the interest rates in foreign currency). The impacts caused on the other hand by the Euro interest rates on the liability leg of the derivative are restricted to just discounting.

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HEDGES: DETERMINATION OF THE HEDGE RATIO

The types of hedging adopted by the Group require a hedge ratio equal to 1:1, as the types of risk hedged (interest rate and exchange risks) are such as to generate economic effects on the underlying instruments that can only be offset by the same notional quantities of derivative instruments.

HEDGES: POTENTIAL SOURCES OF INEFFECTIVENESS

The contractualization of derivatives to hedge financial risks takes place at arm s length and aims to fully neutralize the effects of such risks.

However, in practice, both fair value hedges and cash flows hedges, although financially perfect, cannot guarantee absolute effectiveness due to the many banks involved, the particular nature of some derivatives attributable to fixing and/or the indexing of variable parameters, and the possible imperfect correspondence of critical terms.

The following table shows the total balances of the derivative financial instruments of TIM S.p.A. at December 31, 2018 and 2017, in compliance with the requirements of IFRS 7, a move has been made from the representation of the synthetic notional value of the hedge to the current representation, where the notional amounts are shown in relation to all derivative instruments involved in hedging.

The following tables break down the financial derivatives by type of risk for each kind of hedging, separating financial assets and liabilities. For CCIRS, the notional amount refers to the contractual value in euros, for IRS in a currency other than the euro, the value is indicated at the market exchange rate.

Type	Hedged risk	Notional amount at 12/31/2018 (millions of euros)	Notional amount at 12/31/2017 (millions of euros)	Spot Mark-to-Market* (Clean Price) at 12/31/2018 (millions of euros)	Spot Mark-to-Market* (Clean Price) at 12/31/2017 (millions of euros)
Interest rate swaps	Interest rate risk	4,334	4,334	52	2
Cross Currency and Interest Rate Swaps	Interest rate risk and currency exchange rate risk				
Total Fair Value Hedge Derivatives		4,334	4,334	52	2

Interest rate swaps	Interest rate risk	2,213	2,401	(679)	(675)
Cross Currency and Interest Rate Swaps	Interest rate risk and currency exchange rate risk	4,061	4,269	(754)	(1,003)
Total Cash Flow Hedge Derivatives		6,274	6,970	(1,433)	(1,678)
Total Non-Hedge Accounting Derivatives			3		
Total TIM derivatives		10,608	11,307	1,381	(1,676)

* Spot Mark-to-market above represents the market measurement of the derivative net of the accrued portion of the flow in progress.

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Fair value hedges (millions of euros)	**Accounting item**		**Notional amount**	**Carrying amount**	**Change in fair value for the year**
Interest rate swaps	Hedging derivatives relating to hedged items classified as current (non current) assets/liabilities of a financial nature - Current / non-current assets.	a)	4,334	52	50
Assets				52	
Liabilities					
Cross Currency and Interest Rate Swaps	Hedging derivatives relating to hedged items classified as current (non current) assets/liabilities of a financial nature - Current / non-current assets.	b)			
Assets					
Liabilities					
Derivative instruments (*spot value*)		a)+b)	4,334	52	50
Accruals				21	
Derivative instruments (*gross value*)				73	
Underlying instruments (1)	Bonds - Current / non-current liabilities		4,334	(4,368)	
of which the fair value adjustment	Fair value adjustment and measurements at amortized cost	c)		(58)	(53)
Ineffectiveness		a)+b)+c)			(3)
Fair value adjustment for hedging settled in advance (2)				(157)	

(1) Includes the amortized cost value of bonds currently hedged plus the fair value adjustment
(2) Referred to bonds no longer hedged, which are therefore not presented in the table.

Cash flow hedges (millions of euros)	**Accounting item**		**Notional amount**	**Carrying amount**	**Change in fair value**	**Change in cumulative fair value**
Interest rate swaps	Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature - Current / non-current assets.	a)	2,213	(679)	(4)	
Assets				62	(21)	
Liabilities				(741)	17	
Cross Currency and Interest Rate Swaps	Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature - Current / non-current assets.	b)	4,061	(754)	249	
Assets				236	61	
Liabilities				(990)	188	
Derivative instruments (*spot value*)		a)+b)	6,274	(1,433)	245	
Accruals				39		
Derivative instruments (*gross value*)				(1,394)		
of which equity reserve gains and losses					107	
Determination of ineffectiveness						
Change in derivatives		c)				(688)
Underlying instruments [3]		d)				688
Ineffectiveness [4]	Positive fair value adjustment of financial derivatives - non-hedging	c)+d)				(8)
Equity reserve						

Equity reserve balance		(1,304)	
of which due to the fair value of hedging settled in advance		25	
Reclassification to P&L	Negative reversal of the reserve for the fair value adjustment of hedging derivatives (cash flow hedges)		

(3) Hypothetical derivatives used in measuring the effectiveness of cash flow hedges.
(4) The ineffectiveness, due to its nature and calculation, does not necessarily coincide with the difference in cumulative changes in the fair value of derivatives and the underlying; the effect due to the adoption of CVA/DVA is not considered

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The transactions hedged by cash flow hedges will generate cash flows and produce economic effects in the income statement in the periods indicated in the following table:

Currency of denomination	Notional amount in currency of denomination (millions)	Start of period	End of period	Rate applied	Interest period	Notional in euro hedging (millions)	Rate in euro hedging
GBP	850	Jan-19	Jun-19	6.375%	Annually	1,214	5.311%
GBP	375	Jan-19	May-23	5.875%	Annually	552	5.535%
JPY	20,000	Jan-19	Oct-29	6 month JPY Libor + 0.94625%	Semiannually	174	5.940%
USD	1,000	Jan-19	Nov-33	3 month USD Libor + 0.756%	Quarterly	849	5.994%
USD	1,500	Jan-19	May-24	5.303%	Semiannually	1,099	4.226%
USD*	240	Jan-19	Jun-19	7.175%	Semiannually	174	6.709%
EURO	794	Jan-19	Sept-34	6 month Euribor + 0.8787%	Semiannually	794	4.332%
EURO	791	Jan-19	July-36	6 month Euribor + 1.45969%	Semiannually	791	5.884%

* Financial asset.

The method selected to test the effectiveness retrospectively and, whenever the principal terms do not fully coincide, prospectively, for Cash Flow Hedge derivatives, is the *Volatility Risk Reduction* (VRR) Test. This test assesses the ratio between the portfolio risk (where the portfolio means the derivative and the item hedged) and the risk of the hedged item taken separately. In essence, the portfolio risk must be significantly less than the risk of the hedged item.

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NOTE 17

SUPPLEMENTARY DISCLOSURES ON FINANCIAL INSTRUMENTS

MEASUREMENT AT *FAIR VALUE*

For the purposes of the comparative information between the carrying amounts and fair value of financial instruments, required by IFRS 7, the majority of the non-current financial liabilities of TIM consist of bonds, whose fair value is directly observable in the financial markets, as they are financial instruments that due to their size and diffusion among investors, are commonly traded on the relevant markets (see the Note Financial Liabilities (non-current and current)). For other types of financing, however, the following assumptions have been made in determining *fair value*:

(3) for variable-rate loans: the nominal repayment amount has been assumed;

(4) for fixed-rate loans: fair value has been assumed to be the present value of future cash flows using market interest rates at December 31, 2018.

Lastly, for the majority of financial assets, their carrying amount constitutes a reasonable approximation of their fair value since these are short-term investments that are readily convertible into cash.

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

(5) Level 1: quoted prices in active market;

(6) Level 2: prices calculated using observable market inputs;

(7) Level 3: prices calculated using inputs that are not based on observable market data.

The following tables state:

(8) the assets and liabilities at December 31, 2018 presented based on the categories established by IFRS 9 (adopted commencing on January 1, 2018);

(9) classification of financial assets and liabilities at the date of first application of IFRS 9 (1/1/2018);

(10) the assets and liabilities at December 31, 2017 presented based on the categories established in IAS 39.

Key for IFRS 9 categories

		Acronym
Financial assets measured at:		
Amortized cost	Amortized cost	AC
Fair value through other comprehensive income	Fair value through other comprehensive income	FVTOCI
Fair value through profit or loss	Fair value through profit or loss	FVTPL
Financial liabilities measured at:		
Amortized cost	Amortized cost	AC
Fair value through profit or loss	Fair value through profit or loss	FVTPL
Hedging Derivatives	Hedging Derivatives	HD
Not applicable	Not applicable	n.a.

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Key for IAS 39 categories

		Acronym
Loans and Receivables	Loans and Receivables	LaR
Financial assets Held-to-Maturity	Financial assets Held-to-Maturity	HtM
Available-for-Sale financial assets	Financial assets Available-for-Sale	AfS
Financial Assets/Liabilities Held for Trading	Financial Assets/Liabilities Held for Trading	FAHfT/FLHfT
Financial Liabilities at Amortized Cost	Financial Liabilities at Amortized Cost	FLAC
Hedging Derivatives	Hedging Derivatives	HD
Not applicable	Not applicable	n.a.

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Carrying amount and fair value hierarchy for each category/class of financial asset/liability and comparison with their fair value at 12/31/2018

				Amounts recognized in financial statements			Levels of hierarchy or				
(millions of euros)	IFRS 9 categories	note	Carrying amount in financial statements at 12/31/2018	Amortized cost	Fair value recognized in the statements of comprehensive income	Fair value recognized in the separate income statement	Level 1	Level 2	Level 3	Amounts recognized in financial statements according to IAS 17	Fair Value at 12/31/2018
ASSETS											
Financial assets measured at amortized cost	AC		4,051	4,051							4,051
Non-current assets											
Receivables from employees		7)	*39*	39							
Other financial receivables		7)	*306*	306							
Miscellaneous receivables from others (non-current)		8)	*10*	10							
Current assets											
Receivables from employees		7)	*13*	13							
Other short-term financial receivables		7)	*6*	6							
Cash and cash equivalents		7)	*885*	885							
Trade receivables		11)	*2,625*	2,625							
Miscellaneous receivables from others (current)		11)	*121*	121							
Contract assets		11)	*46*	46							
	FVTOCI		499		499						499

Financial assets measured at fair value through other comprehensive income											
Non-current assets											
Other investments		6)	*33*		33		3	16	14		
Securities other than investments		7)									
Current assets											
Trade receivables		11)									
Securities other than investments		7)	*466*		466		466				
Financial assets measured at fair value through profit or loss	FVTPL		1,062			1,062					1,062
Non-current assets											
Non-hedging derivatives		7)	*897*			897		897			
Current assets											
Securities other than investments		7)									
Non-hedging derivatives		7)	*165*			165		165			
Hedging Derivatives	HD		464		391	73					464
Non-current assets											
Hedging Derivatives		7)	*385*		333	52		385			
Current assets											
Hedging Derivatives		7)	*79*		58	21		79			
Financial receivables for lease contracts	n.a.		79							79	79
Non-current assets		7)	*15*							15	
Current assets		7)	*64*							64	
Total			6,155	4,051	890	1,135	469	1,542	14	79	6,155

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The financial instruments belonging to hierarchy level 3 of fair value are represented by the following Other investments recognized as Non-current assets, for which directly or indirectly observable prices on the market are not available:

- Banca UBAE
- Istituto Europeo di Oncologia
- Other minor companies.

Banca UBAE, Istituto Europeo di Oncologia and the other minor companies were measured on the basis of an analysis, deemed reliable, of the financial elements recognized.

In 2018, there were no effects on the income statement deriving from the measurement of financial instruments at fair-value hierarchy level 3.

The profit/(loss) recognized in Other components of the Statements of Comprehensive Income were recognized within the scope of the Reserve for financial assets measured at fair value through other comprehensive income.

				Amounts recognized in financial statements			Levels of hierarchy or of fair value			
(millions of euros)	IFRS 9 categories	note	Carrying amount in financial statements at 12/31/2018	Amortized cost	Fair value recognized in the statements of comprehensive income	Fair Value taken to separate income statement	Level 1	Level 2	Amounts recognized in financial statements according to IAS 17	Fair Value at 12/31/2018
LIABILITIES										
Financial liabilities measured at amortized cost	FLAC/HD		31,685	31,685						31,689
Non-current liabilities										
Financial payables (medium/long-term)		13)	*21,012*	21,012						
Current liabilities										

Financial payables (short-term)		13)	*7,217*	7,217				
Trade and miscellaneous payables and other current liabilities		21)	*3,267*	3,267				
Contract liabilities		21)	*189*	189				
Financial liabilities measured at fair value through profit or loss	FLHfT		1,062			1,062		1,062
Non-current liabilities								
Non-hedging derivatives		13)	*897*			897	897	
Current liabilities								
Non-hedging derivatives		13)	*165*			165	165	
Hedging Derivatives	HD		1,785		1,785			1,785
Non-current liabilities								
Hedging Derivatives		13)	*1,423*		1,423		1,423	
Current liabilities								