Telecom Italia Finance Group

Consolidated Financial Statements 2016

Audited Consolidated Annual Accounts as at December 31, 2016, which have been authorized by the Board of Directors held on March 22, 2017

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Directors' report

The Business Units

BRAZIL

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

- TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A.
  - TIM PARTICIPAÇÕES S.A.
    - INTELIG TELECOMUNICAÇÕES LTDA
    - TIM CELULAR S.A.

OTHER OPERATIONS

This Business Unit mainly provides financial assistance to TIM Group companies, the management of liquidity buffer through money market instruments and also includes several minor companies.
As of December 31, 2016:

- The amount of notes (issued by Telecom Italia Finance and listed on Bourse of Luxembourg) worth 1.015 million euros (2.315 million euros as of December 2015).
- The amount of net financial debt is equal to -3.226 million euros.

- TELECOM ITALIA FINANCE
- OTHER COMPANIES

Key operating Financial Data

Consolidated Operating and Financial Data

(millions of euros)	Year 2016	Year 2015
Revenues	**4.407**	**4.636**
EBITDA	**1.319**	**1.441**
EBIT before goodwill impairment loss	361	868
Goodwill impairment loss	-	-240
EBIT	**361**	**628**
Profit (loss) before tax from continuing operations	325	661
Profit (loss) for the year	**243**	**384**
Profit (loss) for the year attributable to Owners of the Parent	179	195
Capital expenditures	**1.166**	**1.288**

Consolidated Financial Position Data

(millions of euros)	31/12/2016	31/12/2015	01/01/2015
Total assets	**16.493**	**17.052**	**20.701**
Total equity	**9.054**	**7.740**	**10.799**
Attributable to Owners of the Parent	7.350	6.410	9.213
Attributable to non-controlling interests	1.704	1.330	1.586
Total liabilities	**7.439**	**9.312**	**9.902**
Total equity and liabilities	**16.493**	**17.052**	**20.701**
Share capital	**1.819**	**542**	**542**
Net financial debt carrying amount	**-2.440**	**-2.534**	**-4.451**

Headcount

	31/12/2016	31/12/2015	01/01/2015
Number in the Group at year end	9.859	13.058	12.857
Average number in the Group	10.439	11.946	11.467

Highlights

During 2016, the Parent company Telecom Italia Finance, herein referred as "TIF", entered in a process of changing its corporate structure. Until 2016, TIF was mainly operating in providing financial services to TIM Group companies. On August 1, 2016 become effective the merger of Telecom Italia International (hereinafter referred as well as to "TII"), a Dutch TIM subsidiary active as holding of participations, into TIF.

Since the merger, TIF is the holding company of TIM Brasil, that is one of the big players in the telecommunications sector in Brazil and whose activity represents the main field the Group is involved in.

During 2016 Brazil Business Unit showed signs of recovery, with a quarter-over-quarter improvement in EBITDA, thanks to the benefits from the cost containment program and the repositioning of the commercial offering.

THE MARKET

During 2016 the European monetary policy has been characterized by a very low level of interest rates both in fixed income and in the money market products where is mainly invested the liquidity of the Group.

In Brazil, the market was affected by a further deterioration in the macroeconomic scenario, which caused a contraction in internal demand.

PROJECT AND NON-RECURRING EVENTS

The financial results for 2016 were characterized, among others, by the impact of a number of non-recurring events and some projects to rationalize and improve operating efficiency.

On November 21, 2014 TIM Celular signed an agreement with American Tower do Brasil for the sale of part of the mobile infrastructure (6.481 telecommunication towers) for a total value of around 3 billion reais. The sales agreement was signed in conjunction with a master lease agreement lasting 20 years and, accordingly, the transaction is to be considered as a partial sale and lease back.
During 2015, the TIM Brasil Group had finalized the sales of the first three blocks, for a total of 5.483 towers. The transaction involved the simultaneous execution of a finance lease contract for the portion of the towers used by the TIM Brasil Group, recorded as a financial debt for leases.
In 2016 the agreement is still being implemented: the fourth and fifth tranches of the sale of 336 towers were completed at a price of approximately 134 million reais, corresponding to around 35 million euros. The final realized gain, already net of transaction costs, was 44 million reais (around 12 million euros at the average exchange rate for 2016); the amount of non-current assets reacquired under finance leases came to 93 million reais (around 24 million euros at the average exchange rate for 2016).
In 2016, financial leases were also taken out on newly-built towers for 15 million reais (about 4 million euros), as already envisaged in the above-mentioned contractual arrangements with American Tower.

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

In 2016, the Brazil Business Unit recorded non-recurring expenses resulting from the implementation of the company restructuring plan totaling 15 million euros.

During 2016, following the approval by the Enacom, the Argentinian communications regulatory authority, the Group completed the sale of the entire remaining interest in Sofora - Telecom Argentina.
In particular, on March 8, 2016 Telecom Italia International N.V. sold the 18,50% of the share capital of Sofora Telecommunications S.A. for a total consideration of 226 million U.S. dollars (204 million euros). The buyer paid the sale price net of withholding tax of 15 million U.S. dollars (14 million euros). The non-recurring gain realized was 82 million euros.

Net non-recurring expenses

(millions of euro)	Year 2016
Employee benefits expenses	-15
Impact on EBITDA	**-15**
Gain from Brazil Towers disposal	12
Impact on EBIT	**-3**
Gain on disposal of participation in Sofora	82
Impact on Profit (loss) before tax from continuing operations	**79**
Fiscal impact on above transactions	-12
Impact on Profit (loss) from continuing operations	**67**

FINANCIAL HIGHLIGHTS

In terms of economic and financial performance of 2016:

- **Consolidated revenues** amounted to 4,0 billion euros, down by 8,9% on the 2015.
- **EBITDA** amounted to 1,3 billion euros, down by 4,7% on 2015.
- **Operating profit (EBIT)** was 0,4 billion euros, down by 39,9% compared to 2015.
- The **Profit for the year attributable to Owners of the Parent** amounted to 179 million euros (Profit attributable to Owners of the Parent for 195 million euros for the year 2015).
- **Capital expenditures** in 2016 amounted to 1.166 million euros (1.288 million euros in 2015).
- **Net financial debt** amounts to -2.440 million euros at December 31, 2016, down of 94 million euros compared to the end of 2015 (-2.534 million euros).

Consolidated operating performance

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

	Other operations (millions of euros)		**Brazil Business Unit** (millions of euros)		(millions of reais)			
	2016	2015	2016	2015	2016	2015	Change	
							Amount	%
					(a)	(b)	(a-b)	(a-b)/b
Revenues	-	-	**4.047**	**4.636**	**15.617**	**17.142**	**-1.525**	**-8,9**
EBITDA	**-7**	**-9**	**1.326**	**1.450**	**5.114**	**5.365**	**-251**	**-4,7**
EBITDA Margin	-	-	32,7	31,3	32,7	31,3		1,4 pp
EBIT	**-7**	**-9**	**368**	**637**	**1.418**	**2.358**	**-940**	**-39,9**
EBIT Margin	-	-	9,1	13,8	9,1	13,8		-4,7 pp
Headcount at year end (number)	**10**	**16**			**9.849**	**13.042**	**-3.193**	**-24,5**

	Year 2016	Year 2015
Lines at period end (thousands)	63.418	66.234
MOU (minutes/month)	116,6	119,5
ARPU (reais)	18,0	16,7

REVENUES

Revenues amounted to 4.047 million euros in 2016, compared to 4.636 in 2015. All the revenues are related to Brazil Business Unit.
Revenues for 2016, amounting to 15.617 million reais, were down by 1.525 million reais (-8,9%) on the previous year and reflected the deterioration in the macroeconomic scenario, which caused a contraction in internal Brazilian demand. Service revenues totaled 14.720 million reais (3.814 million euros), a decrease of 667 million reais (978 million euros) compared to 15.387 million reais (4.162 million euros) for 2015 (-4,3%).
Mobile Average Revenue Per User (ARPU) amounted to 18,0 reais (5 euros) for 2016 compared with 16,7 reais (4 euros) for the previous year (+7,8%).

The total number of lines at December 31, 2016 was 63.418 million, representing a decrease of 2.816 thousand (-4,3%) compared to December 31, 2015; the market share at year end 2016 was 26,0% (25,7% at December 31, 2015). Revenues from product sales came to 897 million reais (261 million euros) from 1.755 million reais (475 million euros) in 2015 (-48,9%), reflecting a commercial policy less focused on the sale of handsets, in addition to the impact of the Brazilian economic crisis on household spending.

The performance of the fourth quarter of 2016 confirms a recovery already performed in the previous quarter compared to the previous year, both in terms of total revenues, amounting to 4.043 million reais (1.048 million euros; -1,7% compared to -5,2% in the third quarter, -12,4% in the second quarter and -15,3% in the first quarter) and of service revenues, which amounted to 3.842 million reais (996 million euros; -0,7% compared to -2,4% in the third quarter, -5,9% in the second quarter and -8,3% in the first quarter), mainly driven by the steady improvement in service revenues generated by mobile customers.

EBITDA

EBITDA totaled 1.319 million euros, of which 1.326 million euros attributable to the Brazil BU.

The Brazil's EBITDA amounted to 5.114 million reais (1.325 million euros), 251 million reais (126 million euros) lower than 2015 (-4,7%). In the fourth quarter 2016, thanks to the efficiency improvement actions on the structure of operating expenses and the repositioning of the commercial offerings started in the second half, there was a significant improvement in performance, with a positive change of +5,8% against the same period of the previous year (compared to -1,2% for the third quarter). Costs for the acquisition of goods and services showed a significant decrease, for all components, compared to 2015 (-1.207 million reais corresponding to 313 million euros; -13,4%); on the other hand, employee benefits expenses increased (+7 million reais corresponding to 2 million euros; +0,5%), mainly due to the salary inflation adjustment, in addition to other net non-recurring costs for termination benefits of 56 million reais (15 million euros) and other operating expenses (+212 million reais corresponding to 55 million euros; +12,2%), which were especially affected by the increase in TLC operating fees and charges.
The EBITDA margin stood at 32,7%, 1,4 percentage points higher than in 2015.
Excluding the impact of non-recurring expenses, EBITDA in the fourth quarter of 2016 confirmed the trend of improvement over the same period of 2015, with an increase of +2,1%, following +0,5% in the third quarter, -6,7% in the second quarter and -15,0% in the first quarter of 2016.
The changes in the main costs for the BU are shown below:

	(millions of euros) 2016 (a)	2015 (b)	(millions of reais) 2016 (c)	2015 (d)	Change (c-d)
Acquisition of goods and services	2.028	2.443	7.826	9.033	-1.207
Employee benefits expenses	336	349	1.296	1.289	7
Other operating expenses	505	470	1.948	1.736	212
Change in inventories	-1	33	-2	122	-124

EBIT

EBIT totaled 361 million euros (628 million euros in 2015), a decrease of 267 million euros.

Considering Brazil BU, EBIT amounted to 1.418 million reais (368 million euros), down 940 million reais (270 million euros) compared to 2015. This result reflected the lower contribution from EBITDA, the effect of the higher depreciation and amortization (+423 million reais corresponding to 110 million euros) and the lower benefit from the sale of telecommunication towers, which in 2015 resulted in a gain of 1.211 million reais (around 328 million euros at the average exchange rate for 2015) compared to a gain of 44 million reais in 2016 (around 12 million euros at the average exchange rate for 2016).

PROFIT (LOSS) FOR THE YEAR

The details are as follows:

(millions of euro)	Year 2016	Year 2015
Profit (loss) for the year	**243**	**384**
Attributable to		
Owners of the Parent	179	195
Non-controlling interests	64	189

CAPITAL EXPENDITURE

All the capital expenditure is referred to the Brazil Business Unit and showed a reduction of 122 million euros (including a negative exchange rate effect of 55 million euros) compared to 2015, due to the combined effects of the efficiency measures initiated in the course of 2016 (renegotiation of contracts with suppliers and projects to optimize recurring expenses on the traditional investment components) and a more efficient allocation of capital to infrastructure investments for the development of 4G coverage. Through these initiatives the development of the mobile broadband network was accelerated and expanded, with a population coverage at year-end 2016 of 89% on the 3G network (up 7 percentage points from 2015) and 74% on the 4G network (up 15 percentage points compared to 2015).

Consolidated financial position and cash flows performance

Non-current assets

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

- **Goodwill** increased by 216 million euros as a result of changes in foreign exchange rates applicable to the Group's Brazilian operations. Further details are provided in the Note "Goodwill".
- **Other intangible assets** increased by 660 million euros representing the balance of the following items:
  - Capex (+527 million euros)
  - Amortization charge for the year (-440 million euros)
  - Disposals, exchange differences, reclassifications and other changes (for a net positive balance of 573 million euros).
- **Tangible assets** increased by 725 million euros representing the balance of the following items:
  - Capex (+638 million euros)
  - Change in financial lease contracts (+36 million euros)
  - Depreciation charge for the year (-541 million euros)
  - Disposals, exchange differences, reclassifications and other changes (for a net positive balance of 592 million euros).

Consolidated equity

Consolidated equity amounted to 9.054 million euros (7.740 million euros at December 31, 2015), of which 7.350 million euros attributable to Owners of the Parent (6.410 million euros at December 31, 2015) and 1.704 million euros attributable to non-controlling interests (1.330 million euros at December 31, 2015).

Cash flows

The details of Group cash flows are as follow:

(millions of euros)	Year 2016	Year 2015
Cash flows from (used in) operating activities	1.190	1.134
Cash flows from (used in) investing activities	1.787	-402
Cash flows from (used in) financing activities	-2.792	-1.617
Aggregate cash flows	**185**	**-885**
Net foreign exchange differences on net cash and cash equivalents	311	-424
Net cash and cash equivalents at beginning of the year	**2.691**	**3.576**
Net cash and cash equivalents at end of the year	**2.876**	**2.691**

Net financial debt

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

(millions of euros)	Other operations		Brazil Business Unit	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Non-current financial liabilities	1.984	2.515	2.175	1.707
Current financial liabilities	396	2.400	372	582
Total gross financial debt	**2.380**	**4.915**	**2.547**	**2.289**
Non-current financial assets	-2	-3	-59	-47
Current financial assets	-3.554	-4.128	-1.663	-1.725
Net financial debt as per ESMA	**-1.176**	**784**	**825**	**517**
Non-current financial assets	-2.050	-3.720	-39	-115
Net financial debt	**-3.226**	**-2.936**	**786**	**402**

Main commercial developments of the business units of the Group

Brazil

MARKETING POLICY EVOLUTION

TIM Brasil Group is implementing a major revision of its commercial policies with a view to evolving from a cheap brand label to a leading total quality operator, in order to successfully compete in the top value mobile business segment of Postpaid customers.

To implement this strategic repositioning, TIM Brasil Group is developing new business plans differentiated by customer segment and by geographical region in relation to the various market shares, in order to improve business performance and profitability through the following main actions:

- ensuring TIM Brasil Group is the preferred choice for the primary SIM (main chip) and defending the second SIM on Prepaid customers, through the launch of a new range of recurring bundled offerings with complete solutions for the use of voice and data services, leveraging on our leadership position on the 4G network;
- accelerating the growth of "Controle" in the Postpaid segment, through the increase of new acquisitions and the development of up-selling actions on the existing customer base;
- returning to growth in the high-value postpaid segment through the launch of a premium brand and lock-in offers;
- developing convergent n-Play offers by leveraging 700Mhz LTE / WTTX network coverage;
- growing in the Corporate mobile segment with a focus on large companies (more than 10 SIMs), SOHOs and SMEs, through the redefinition of differentiated marketing and caring policies.

Main changes in the regulatory framework

Brazil

Revision of the model for the provision of telecommunications services
In April 2016, the working group composed of the Ministry of Communications and Anatel published its final report with a "diagnosis" on the telecommunications industry and proposed guidelines for the revision of the Brazilian regulatory model. Meanwhile, bill No. 79/2016, which proposes amendments to the General Telecommunications Law (LGT), is currently under review by the Senate. According to the proposal, at the request of the concession holders for the fixed services, Anatel could authorize the transformation of the concession for fixed telephone services (expiring 2025) into authorizations (open-ended), whilst however also imposing compliance with particular requirements and obligations. Based on the bill, Anatel would determine the "economic value" associated with the changeover from concession to authorization and would convert it into capital expenditure commitments, favoring the installation of network infrastructure for high-capacity data communications in places without sufficient levels of competition. The project also proposes new rules for radio frequencies, including the possibility of subsequently renewing licenses beyond the second period and the possibility of exchanging spectrums between operators.

700 MHz and Analog TV switch off
In September 2014, TIM Brasil Group won the tender for the award of the 700MHz (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 Brasil Group, Algar, Claro and Vivo) awarded the contract for managing the freeing up of the 700MHz band through the switch off of analog TV, the redistribution of channels and the reduction of interference. To that end, the first payment (370 million reais) was made in April 2015 and the subsequent two payments (for a total of 860 million reais) were both made in January 2017. The switch off of the analog signal had already been completed in Rio Verde (state of Goiás) in February 2016, and in Brazilia and nine other towns in Goiás in November 2016. The switch off in the cities of San Paolo and Rio de Janeiro is scheduled for March and October 2017, respectively. TIM Brasil Group already provides mobile telephone services in the 700 MHz band in three towns on an experimental basis: Rio Verde, Ituiutaba (Minas Gerais), and Fernando de Noronha (Pernambuco).

Revision of Competition Rules
In November 2012, the Brazilian regulator Anatel introduced the 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).
In December 2016, Anatel started the public consultation for the revision of the markets and criteria of the "PGMC", which will be among the main themes of regulatory discussion during 2017. Currently, TIM Brasil Group has SMP in (i) passive infrastructure (towers); (ii) mobile network termination, and (iii) national roaming. The revision will result in the adoption of several new concepts, such as the classification by town and the proportional application of ex ante measures based on the degree of competition, ranging from the obligations of transparency and non-discrimination to the cost orientation of the wholesale prices for markets and areas with lower competition.

Exemption limit into the Fixed Broadband segment
The restraining order No. 1/2016/SEI/SRC remains in force, in which Anatel established that fixed broadband providers with more than 50.000 accesses must refrain from adopting restrictive practices at the end of the exemption period in relation to: (i) speed reduction, (ii) suspension of service, or (iii) charging for excess traffic, although such actions are set in the subscription agreement or in the service plan. In December 2016, Anatel issued a public consultation on this issue with the participation of public and private stakeholders and operators and the public and private entities involved. This is due to be completed by April 2017.

"Marco Civil da Internet" and Network Neutrality
The "Marco Civil da Internet" (MCI), approved 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. Both the law and the decree are still being discussed with respect to their interpretations and applications in terms of business models, such as the "zero-rating" offers.

Competition

Brazil

The main macroeconomic indicators still show mixed signals in terms of recovery of the Brazilian economy. In particular, GDP decreased throughout 2016, with a slightly better forecast at year end than that recorded in 2015 (-3,8% GDP in 2015). Conversely, inflation in 2016 showed signs of improvement after the peak recorded in 2015 (+10,7%), but with year-end values still expected to remain at high levels (+6,7%).
In the course of 2016, direct taxation increased more than expected to cope with the increased budget deficit of the Federal and Central States, which also affected the telecommunications industry through a series of increases in the main tax on services (ICMS) recorded in almost all States.
The entire telecommunications sector has been affected by the ongoing economic crisis, which, again in 2016, resulted in a decline in overall revenues.
As regards the total number of mobile lines, in 2016 the market consolidation process for the second SIM cards continued, which led to a 7,8% contraction in November over the previous year.
As the largest player in the Prepaid segment, TIM Brasil Group was especially exposed; in the second half of 2016, it therefore launched a thorough review of its business strategies in order to increase its customer base in the Postpaid segment and improve/strengthen the retention rate in the Prepaid segment with the launch of new recurring bundled offerings (weekly and monthly). As a result of the new repositioning of its offering, TIM Brasil Group achieved 14,9 million lines in the Postpaid segment at year-end, up +9,6% on the previous year with a 23% penetration rate on the total customer base (up 3 percentage points on 2015); it also significantly reduced the

level of net line-disconnections on the Prepaid segment (4,1 million SIMs in 2016 compared with 10,6 million SIMs in 2015).

Research and development

Brazil

In the last three years, TIM Brasil has invested more than 16 billion reais, most of which in innovative infrastructure. The business plan for the three years 2017-2019 envisages investments of around 12 billion reais, almost entirely in the development of the country's 3G and 4G networks, with the aim of reaching cover of more than 92% of the urban population by 2019.
At TIM Brasil, Research and development is carried out by the Innovation & Technology department - headed by the Chief Technology Officer - numbering 27 telecommunications engineers, electrics and electronics engineers, IT experts and other technicians of varying origin, competence and experience, which cover all the network operations, pursue the innovative needs and provide support to R&D. The main responsibilities are the definition of the network's technological innovation, the evolutionary needs for new technologies and devices and the architectural guidelines together with the development of strategic partnerships, so as to exploit the new business models and guarantee the evolution of the network infrastructure according to business strategy.
The Innovation Lab is extremely relevant, which is a multi-purpose test environment based in Rio de Janeiro, which is able to guarantee the assessment/validation of innovative services, products and technologies, certifying their functional efficiency and performance and developing new models and configurations, consolidating the innovation flow. The Innovation Lab plays a strategic role in providing support for the conduct of Credibility Test, Trials and Proof of Concept, 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 2016, 206 projects of validation and innovation were completed, which will tend to increase in view of the extensive range of innovation and research and development initiatives underway. In this sense, the latest technological plan approved (2017-2019), envisages investments in excess of 24 million reais in this project, which also includes the construction of a new Innovation centre in Barra da Tijuca, in the state of Rio de Janeiro. This new office, which will operate as a national reference point for R&D activities will host technicians and researchers and will be used as an open space of innovation for new opportunities and the development of innovation for the Brazilian telecommunications market.
The Innovation & Technology department has worked on projects 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.

Events subsequent to December 31, 2016

For details of subsequent events, see the specific Note "Events Subsequent to December 31, 2016".

Business outlook for the year 2017

Despite the economic conditions of the EUR Area are showing signs of improvement, the downside risk cannot be excluded and the financial markets are still fragile. There is no expectation of a significant increase in interest rates.

In Brazil, the Plan provides for the continued turnaround of TIM Brasil through its re-positioning based on product and network quality and on convergence, thereby enabling the company to successfully compete in the postpaid segment, while recovering a solid profitability. More specifically, further impetus will be given to the construction of the UBB Mobile infrastructure – at completion of the Plan, the 4G network will reach 95% of the population with coverage of about 3.600 cities – and the development of convergent offers, including through agreements with major premium content providers.

Main risks and uncertainties

Risk related to competition

In Brazil, the deterioration of the macroeconomic environment continues to negatively impact on the telecommunications market. Competitive risk comprises both an acceleration in the deterioration of the business model tied to traditional services not fully replaced by innovative services and the rationalization of consumption by customers as a result of a contraction of their purchasing power. In this scenario, the TIM Brasil Group may be further impacted in the short term to a greater extent than its main competitors, due to the higher proportion of customers with prepaid services, which are more affected by the current macroeconomic situation, and by a slowdown in their replacement with postpaid customers.

Risks related to business continuity

Our success depends heavily on the ability to deliver the services we provide through the IT infrastructure and network on a continuous and uninterrupted basis. The infrastructure is susceptible to interruptions due to failures of information and communication technologies, lack of electricity, floods, storms and human errors. Unexpected problems in installations, system failures, hardware and software failures, computer viruses or hacker attacks could affect the quality of services and cause service interruptions. Each of these events could result in a reduction in traffic and a reduction in revenues and/or in an increase of restoration costs, with an adverse impact on the level of customer satisfaction and number of customers, as well as our reputation.

Financial risks

For details of financial risks, see the specific Note "Financial risks management".

Group internal control and risk management

The internal control and risk management system consists of the set of rules, procedures and organizational structures that, through a process of identifying, measuring, managing and monitoring the principal risks, allows the sound, fair and consistent operation of the company in line with the pre-established objectives.
It is organized and operates according to the principles and criteria of the Corporate Governance Code of the TIM Group, to which the TIF Group adheres, and involves several components that act in a coordinated way according to their respective responsibilities – the responsibility of the Board of Directors to direct and provide strategic supervision, the responsibility of the Executive Directors and management to control and manage, the responsibility of the control and risk Committee and the Head of the Group Audit Department to monitor and provide support to the Board of Directors.

Information for investors

Brazil – shares

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

Waiver of the obligation to present activities in one report only

The Board of Directors waived the previsions of art. 339 (3) of the Luxembourg law dated as September 10, 2015, as modified by time to time, which allows the Board to present one report only where consolidated annual accounts are prepared.

Consolidated Statements of Financial Position

Assets

(millions of euros)	Note	31/12/2016	31/12/2015	01/01/2015
Non-current assets				
Intangible assets		**3.766**	**2.890**	**3.888**
Goodwill	[4]	1.123	907	1.471
Intangible assets with a finite useful life	[5]	2.643	1.983	2.417
Tangible assets	[6]	**3.234**	**2.509**	**2.764**
Property, plant and equipment owned		2.862	2.225	2.764
Assets held under finance leases		372	284	-
Other non-current assets		**2.982**	**4.674**	**4.519**
Investments in associates accounted for using the equity method	[7]	-	122	122
Other investments	[7]	106	149	113
Non-current financial assets	[8]	2.150	3.885	3.423
Miscellaneous receivables and other non-current assets	[9]	714	515	582
Deferred tax assets	[10]	12	3	279
Total Non-current assets		**9.982**	**10.073**	**11.171**
Current assets				
Inventories	[11]	41	33	82
Trade and miscellaneous receivables and other current assets	[12]	1.168	1.064	1.746
Current income tax receivables	[10]	85	29	17
Current financial assets	[8]	**5.217**	**5.853**	**7.685**
Securities other than investments, financial receivables and other current financial assets		2.329	3.135	4.060
Cash and cash equivalents		2.888	2.718	3.625
Total Current assets		**6.511**	**6.979**	**9.530**
TOTAL ASSETS		**16.493**	**17.052**	**20.701**

The accompanying notes are an integral part of these annual accounts.

Equity and Liabilities

(millions of euros)	Note	31/12/2016	31/12/2015	01/01/2015
Equity	[13]			
Share capital issued		1.819	542	542
Other reserves and retained earnings (accumulated losses), including profit (loss) for the year		5.531	5.868	8.671
Equity attributable to owners of the Parent		**7.350**	**6.410**	**9.213**
Non-controlling interests		**1.704**	**1.330**	**1.586**
TOTAL EQUITY		**9.054**	**7.740**	**10.799**
Non-current liabilities				
Non-current financial liabilities	[14]	4.159	4.222	5.872
Deferred tax liabilities	[10]	32	28	149
Provisions	[19]	126	106	216
Miscellaneous payables and other non-current liabilities	[20]	393	323	123
Total Non-current liabilities		**4.710**	**4.679**	**6.360**
Current liabilities				
Current financial liabilities	[14]	768	2.982	785
Trade and miscellaneous payables and other current liabilities	[19][21]	1.880	1.621	2.729
Current income tax payables	[10]	81	30	28
Total Current Liabilities		**2.729**	**4.633**	**3.542**
TOTAL LIABILITIES		**7.439**	**9.312**	**9.902**
TOTAL EQUITY AND LIABILITIES		**16.493**	**17.052**	**20.701**

The accompanying notes are an integral part of these annual accounts.

Separate Consolidated Income Statements

(millions of euros)	Note	Year 2016	Year 2015
Revenues	[23]	4.047	4.636
Other income	[24]	51	22
Total operating revenues and other income		**4.098**	**4.658**
Acquisition of goods and services	[25]	-2.032	-2.447
Employee benefits expenses	[26]	-338	-351
Other operating expenses	[27]	-505	-473
Change in inventories		1	-33
Internally generated assets	[28]	95	87
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)		**1.319**	**1.441**
Depreciation and amortization	[29]	-981	-909
Gains/(losses) on disposals of non-current assets	[30]	23	336
Impairment reversals (losses) on non-current assets	[31]	-	-240
Operating profit (loss) (EBIT)		**361**	**628**
Other income (expenses) from investments		46	34
Finance income	[32]	1.725	1.948
Finance expenses	[32]	-1.807	-1.949
Profit (loss) before tax from continuing operations		**325**	**661**
Income tax expenses	[10]	-82	-277
Profit (loss) from continuing operations		**243**	**384**
PROFIT (LOSS) FOR THE YEAR		**243**	**384**
Attributable to			
Owners of the Parent		179	195
Non-controlling interests		64	189

The accompanying notes are an integral part of these annual accounts.

Consolidated Statements of Comprehensive Income

(millions of euros)		Year 2016	Year 2015
Profit (loss) for the year	**(a)**	**243**	**384**
Other components that subsequently will not be reclassified in the Separate Consolidated Income Statements	**(b=c)**	**-**	**-1**
Remeasurements of employee defined benefit plans (IAS 19)	**(c)**	**-**	**-1**
Actuarial gains (losses)		-	-1
Other components that subsequently will be reclassified in the Separate Consolidated Income Statements	**(d=e+f+g)**	**1.084**	**-1.401**
Available-for-sale financial assets	**(e)**	**-3**	**1**
Profit (loss) from fair value adjustments		-10	-3
Loss (profit) transferred to the Separate Consolidated Income Statements		7	4
Hedging instruments:	**(f)**	**-2**	**4**
Profit (loss) from fair value adjustments		1	8
Loss (profit) transferred to the Separate Consolidated Income Statements		-3	-4
Exchange differences on translating foreign operations:	**(g)**	**1.089**	**-1.406**
Profit (loss) on translating foreign operations		1.089	-1.406
Total other components of the Consolidated Statements of Comprehensive Income	**(h=b+d)**	**1.084**	**-1.402**
Total comprehensive income (loss) for the year	**(i=a+h)**	**1.327**	**-1.018**
Attributable to			
Owners of the Parent		940	-805
Non-controlling interests		387	-213

The accompanying notes are an integral part of these annual accounts.

Consolidated Statements of Changes in Equity

Changes from January 1, 2016 to December 31, 2016
Equity attributable to owners of the Parent

(millions of euros)	Share capital	Additional paid in capital	Reserve for available-for-sale financial assets	Reserve for cash-flow hedges	Reserve for exchange differences on translating foreign operations	Reserve for remeasurements of employee defined benefit plans (IAS 19)	Share of other profits (losses) of associates and joint ventures accounted for using the equity method	Other reserves and retained earnings (accumulated losses), including profit (loss) for the year	**Total**	**Non-controlling interests**	**Total equity**
Balance at December 31, 2015	**542**	**-**	**2**	**5**	**-1.193**	**-**	**-**	**7.054**	**6.410**	**1.330**	**7.740**
Merger of TII into TI Finance[*]	1.277	3.148	-	-	-	-	-	-4.425	**-**	**-**	**-**
Balance at January 1, 2016	**1.819**	**3.148**	**2**	**5**	**-1.193**	**-**	**-**	**2.629**	**6.410**	**1.330**	**7.740**
Changes in equity during the year:											
Dividends approved	-	-	-	-	-	-	-	-	**-**	-13	**-13**
Total comprehensive income (loss) for the year	-	-	-3	-2	766	-	-	179	**940**	387	**1.327**
Balance at December 31, 2016	**1.819**	**3.148**	**-1**	**3**	**-427**	**-**	**-**	**2.808**	**7.350**	**1.704**	**9.054**

[*] For details of the merger, see Note 1.

Changes from January 1, 2015 to December 31, 2015
Equity attributable to owners of the Parent

(millions of euros)	Share capital	Additional paid in capital	Reserve for available-for-sale financial assets	Reserve for cash-flow hedges	Reserve for exchange differences on translating foreign operations	Reserve for remeasurements of employee defined benefit plans (IAS 19)	Share of other profits (losses) of associates and joint ventures accounted for using the equity method	Other reserves and retained earnings (accumulated losses), including profit (loss) for the year	**Total**	**Non-controlling interests**	**Total equity**
Balance at January 1, 2015	**542**	**-**	**1**	**1**	**-189**	**1**	**-**	**8.857**	**9.213**	**1.586**	**10.799**
Changes in equity during the year:											
Dividends approved	-	-	-	-	-	-	-	-2.000	**-2.000**	-45	**-2.045**
Total comprehensive income (loss) for the year	-	-	1	4	-1.004	-1	-	195	**- 805**	-213	**-1.018**
Other changes	-	-	-	-	-	-	-	2	**2**	2	**4**
Balance at December 31, 2015	**542**	**-**	**2**	**5**	**-1.193**	**-**	**-**	**7.054**	**6.410**	**1.330**	**7.740**

The accompanying notes are an integral part of these annual accounts.

Consolidated Statements of Cash Flows

(millions of euros)	Note	Year 2016	Year 2015
Cash flows from operating activities:			
Profit (loss) from continuing operations		243	384
Adjustments for:			
Depreciation and amortization		981	909
Impairment losses (reversals) on non-current assets (including investments)		36	212
Net change in deferred tax assets and liabilities		-6	154
Losses (gains) realized on disposals of non-current assets (including investments)		-106	-336
Change in inventories		-9	46
Change in trade receivables and net amounts due from customers on construction contracts		-179	428
Change in trade payables		64	-685
Net change in miscellaneous receivables/payables and other assets/liabilities and other changes		166	22
Cash flows from (used in) operating activities		**1.190**	**1.134**
Cash flows from investing activities:			
Total purchase of intangible and tangible assets on a cash basis		-996	-1.537
Change in financial receivables and other financial assets		2.545	458
Proceeds from sale/repayment of intangible, tangible and other non-current assets		238	677
Cash flows from (used in) investing activities		**1.787**	**-402**
Cash flows from financing activities:			
Change in current financial liabilities and other		-670	599
Proceeds from non-current financial liabilities (including current portion)		365	341
Repayments of non-current financial liabilities (including current portion)		-2.457	-508
Dividends paid		-30	-2.049
Cash flows from (used in) financing activities		**-2.792**	**-1.617**
Aggregate cash flows		**185**	**-885**
Net foreign exchange differences on net cash and cash equivalents		**311**	**-424**
Net cash and cash equivalents at beginning of the year	**[8]**	**2.691**	**3.576**
Net cash and cash equivalents at end of the year	**[8]**	**2.876**	**2.691**

Additional Cash Flow Information

(millions of euros)	Year 2016	Year 2015
Income taxes (paid) received	-95	-87
Interest expense paid	-562	-594
Interest income received	468	607
Dividends received	2	-5

The accompanying notes are an integral part of these annual accounts.

Notes to the Annual Accounts

Note 1 – Form, content and other general information

FORM AND CONTENT

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

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

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

The Consolidated Financial Statements of the Group for the year ended December 31, 2016 were authorized for issue with a resolution of the Board of Directors on March 22, 2017.

The Consolidated Financial Statements for the year ended December 31, 2016 represent the first set of Consolidated Financial Statements prepared by the Group and they have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board as endorsed by EU ("IFRS").
Since the Parent was exempted from establishing consolidated accounts until December 31, 2015 under article 317 of the Law August 10, 1915, the reconciliation between Local GAAP and IFRS figures has not been performed. On August 1, 2016, the Parent merged with Telecom Italia International N.V., a limited liability company incorporated in the law of the Netherlands. After the merger, the Parent absorbed all the assets and the liabilities under universal succession of title including the controlling interest in TIM Brasil Serviços & Partecipações S.A., the holding company of TIM Celular S.A., which is one of the most important players in the telecommunication industry in Brazil. Following the merger with Telecom Italia International N.V., being the subsidiaries incorporated of material interest for the purposes of art 319 (paragraph 3) of the Law of August 10, 1915 on commercial companies, the Parent incurred in the obligation of preparing Consolidated Financial Statements according to IFRS. The management of the Group has decided to apply the predecessor accounting method.

The Consolidated Financial Statements for the year ended December 31, 2016 have been prepared on a going concern basis (for further details see Note "Accounting policies").

The Consolidated Financial Statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets held for trading and derivative financial instruments which have been measured at fair value. The carrying amounts of hedged assets and liabilities have been adjusted to reflect the changes in fair value of the hedged risks (fair value hedge).

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

FINANCIAL STATEMENT FORMATS

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

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

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

SEGMENT REPORTING

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

In particular, the operating segments of the Group are organized according to the specific businesses.

The term operating segment is considered synonymous with Business Unit.
The operating segments of the Group are as follows:
- Telecommunications (or Brazil Business Unit): includes mobile (TIM Celular) and fixed (TIM Celular and Intelig) telecommunications operations in Brazil;
- Other Operations: includes finance companies and other minor companies not strictly related to the core business of the Group.

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

Note 2 – Accounting policies

GOING CONCERN

The Consolidated Financial Statements for the year ended December 31, 2016 have been prepared on a going concern basis as there is the reasonable expectation that the Group will continue its operational activities in the foreseeable future (and in any event with a time horizon of at least twelve months).
In particular, consideration has been given to the following factors:
- the main risks and uncertainties (that are for the most part of an external nature) to which the Group and the various activities of the Group are exposed:
  - macroeconomic changes in the European and the Brazilian market, as well as the volatility of financial markets in the Eurozone, also as a result of the “Brexit” referendum in the United Kingdom;
  - variations in business conditions, and fluctuations in the competitive environment;
  - changes to laws and regulations (price and rate variations or decisions that may affect the technological choices);
  - outcomes of legal disputes and proceedings with regulatory authorities, competitors and other parties;
  - financial risks (interest rate and/or exchange rate trends, changes in the Group's credit rating by rating agencies);
- the optimal mix between risk capital and debt capital;
- the policy for financial risk management (market risk, credit risk and liquidity risk) as described in the Note "Financial risk management".

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

PRINCIPLES OF CONSOLIDATION

The predecessor accounting method as adopted by the management of the Group involved the following:
- The assets and liabilities of the combining entities are reflected at their carrying amounts.
- No adjustments are made to reflect fair values or recognize any new assets or liabilities, at the date of the combination that would otherwise be done under the acquisition method. The only adjustments that are made are to align accounting policies.
- No 'new' goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid/transferred and the equity 'acquired' is reflected within equity.

In the context of the predecessor accounting method, as permitted by IFRS 1, the management of the Group decided to base the amounts, for the entities over which the Parent has now control, on the carrying values reported in the IFRS Consolidated Financial Statements of the ultimate Parent as opposed to the carrying values as reported at the level of the financial statements of the combining entities.

With respect to the comparative figures, the management of the Group decided to restate the financial information in the Consolidated Financial Statements for periods prior to the combination under common control, to reflect the combination as if it had occurred from the beginning of the earliest period presented in the financial statements, regardless of the actual date of the combination.

In the Consolidated Financial Statements, investments in associates are accounted for using the equity method, as provided by IAS 28 (Investments in Associates and Joint Ventures).

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.

Associates are included in the Consolidated Financial Statements from the date that significant influence commences until the date such significant influence ceases. Under the equity method, on initial recognition the investment in an associate 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 statement. 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 equals or exceeds its interest in the associate, 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. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

Gains and losses resulting from "upstream" and "downstream" transactions between an investor (including its consolidated subsidiaries) and its associate are recognized in the investor's financial statements only to the extent of unrelated investors' interests in the associate.
Gains and losses arising from transactions with associates are eliminated to the extent of the Group's interest in those entities.

<u>INTANGIBLE ASSETS</u>

<u>Goodwill</u>
The goodwill recorded in the Consolidated Financial Statements of the Group refers to the goodwill which was generated in connection with the acquisition of the Brazilian Business Unit.

Under IFRS 3 (Business Combinations), goodwill is recognized as at the date of acquisition of control and measured as the excess of (a) over (b) below:
a) the aggregate of:
- the consideration transferred (measured in accordance with IFRS 3; it is generally recognized on the basis of the acquisition date fair value);
- the amount of any non-controlling interest in the acquiree measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets at the acquisition date fair value;
- in a business combination achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree;

b) the acquisition date fair value of the identifiable assets acquired net of the identifiable liabilities assumed measured at the acquisition date of control.

IFRS 3 requires, *inter alia*, the following:
- incidental costs incurred in connection with a business combination are charged to the Separate Consolidated Income Statement;

- in a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its fair value at the acquisition date of control and recognize the resulting gain or loss, if any, in the Separate Consolidated Income Statement.

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 tangible and intangible 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 in 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 in the Separate Consolidated Income Statement prospectively. For a small portion of mobile offerings, the Group capitalizes directly attributable subscriber acquisition costs (currently mainly represented by commissions for the sales network) when the following conditions are met:

- the capitalized costs can be measured reliably;
- there is a contract binding the customer for a specific period of time;
- it is probable that the amount of the capitalized costs will be recovered through the revenues generated by the services contractually provided, or, where the customer withdraws from the contract in advance, through the collection of a penalty.

Capitalized subscriber acquisition costs are amortized on a straight-line basis over the foreseen minimum period of the underlying contract (between 12 and 36 months).
In all other cases, subscriber acquisition costs are recognized in the Separate Consolidated Income Statement when incurred.

TANGIBLE ASSETS

Property, plant and equipment owned

Property, plant and equipment owned is stated at acquisition or production cost. Subsequent expenditures are capitalized only if they increase the future economic benefits embodied in the related item of property, plant and equipment. All other expenditures are expensed as incurred.
Cost also includes the expected costs of dismantling the asset and restoring the site if a legal or constructive obligation exists. The corresponding liability is recognized at its present value as a provision in the statement of financial position. These capitalized costs are depreciated and charged to the Separate Consolidated Income Statement 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 Statement, 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 Statement 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 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 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 Statement on a straight-line basis over the lease term.

When a lease includes both land and buildings, 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 a qualifying asset, that is 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 Statement and deducted 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 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, 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 converted to euro at the spot rate on the date of the impairment test (in the case of the 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 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 Statement.

FINANCIAL INSTRUMENTS

Other investments
Other investments (other than those in subsidiaries, associates and joint ventures) are classified as non-current or current assets if they will be kept in the Group's portfolio for a period of more or not more than 12 months, respectively.
Upon acquisition, investments are classified in the following categories:

- "available-for-sale financial assets", as non-current or current assets;
- "financial assets at fair value through profit or loss", as current assets held for trading.

Other investments classified as "available-for-sale financial assets" are measured at fair value; changes in the fair value of these investments are recognized in a specific equity reserve under the other components of the statement of comprehensive income (Reserve for available-for-sale financial assets) until the financial asset is disposed of or impaired, at which time the equity reserve is reversed to the Separate Consolidated Income Statement.
Other unlisted investments classified as "available-for-sale financial assets" whose fair value cannot be measured reliably are measured at cost adjusted by any impairment losses which are recognized in the Separate Consolidated Income Statement, as required by IAS 39 (Financial instruments: recognition and measurement).
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 Statement.
For the assessment of the impairment of equity instruments classified as available-for-sale that are quoted on an active market, the management of the Group determines the impairment and its reversal, if any, on the basis of the VWAP (Volume Weighted Average Price). This method takes in consideration quoted prices and volumes exchanged during the previous twelve months.

Securities other than investments
Securities other than investments classified as non-current assets are those held-to-maturity. The assets are recorded on the trade date and, on initial recognition, are stated at acquisition cost, including transaction costs, and subsequently measured at amortized cost. Amortized cost represents the initial cost of the financial instrument net of principal repayments received, adjusted (up or down) by the amortization of any differences between the initial amount and the maturity amount using the effective interest method, less any write-down for impairment or uncollectibility, if any.

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

- held-to-maturity (originally more than 3 months but less than 12 months, or, with an original maturity of more than 12 months but the remaining maturity at the date of purchase is more than 3 months but less than 12 months) and measured at amortized cost;
- held for trading and measured at fair value through profit or loss;
- available-for-sale and measured at fair value with a contra-entry to an equity reserve (Reserve for available-for-sale financial assets) which is reversed to the Separate Consolidated Income Statement when the financial asset is disposed of or impaired.

When the conditions that gave rise to impairment losses on securities other than investments held-to-maturity or classified as "available-for-sale financial assets" no longer exist, the impairment losses are reversed.

Receivables and loans
Receivables and loans classified as either non-current or current assets are initially recognized at fair value and subsequently measured at amortized cost.

Cash and cash equivalents
Cash and cash equivalents are recorded, according to their nature, at nominal value or amortized cost.
Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash, subject to an insignificant risk of change in value and their original maturity or the remaining maturity at the date of purchase does not exceed 3 months.

Impairment of financial assets
At every closing date, assessments are made as to whether there is any objective evidence that a financial asset or a group of financial assets may be impaired. If any such evidence exists, an impairment loss is recognized in the Separate Consolidated Income Statement for financial assets measured at cost or amortized cost; for "available-for-sale financial assets" reference should be made to the accounting policy described above.

Financial liabilities
Financial liabilities comprise financial debt, including advances received on the assignment of accounts receivable, and other financial liabilities such as derivatives and finance lease obligations.
In accordance with IAS 39, they also include trade and other payables.
Financial liabilities other than derivatives are initially recognized at fair value and subsequently measured at amortized cost.
Financial liabilities hedged by derivative instruments designed to manage exposure to changes in fair value of the liabilities (fair value hedge derivatives) are measured at fair value in accordance with the hedge accounting principles of IAS 39. Gains and losses arising from re-measurement at fair value, to the extent of the hedged component, are recognized in the Separate Consolidated Income 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.

Financial guarantee contracts
Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure requiredto settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Derivatives
Derivatives are used by the 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 Statement. 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 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 forecastedtransaction, the effective portion of any gain or loss on the derivative financial instrument is recognized directly in a specific equity reserve (Reserve for hedging instruments). The cumulative gain or loss is removed from equity and recognized in the Separate Consolidated Income Statement at the same time the hedged transaction affects the Separate Consolidated Income Statement. The gain or loss associated with the ineffective portion of a hedge is recognized in the Separate Consolidated 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 Consolidated Income Statement.

If hedge accounting is not appropriate, gains or losses arising from the measurement of the fair value of derivative financial instruments are directly recognized in the Separate Consolidated Income Statement.

<u>AMOUNTS DUE FROM CUSTOMERS ON CONSTRUCTION CONTRACTS</u>

Amounts due from customers on construction contracts, regardless of the duration of the contracts, are recognized in accordance with the percentage of completion method and classified under current assets.
Losses on such contracts, if any, are recorded in full in the Separate Consolidated Income Statement when they become known.

<u>INVENTORIES</u>

Inventories are measured at the lower of purchase and/or 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.

<u>EMPLOYEE BENEFITS</u>

<u>Equity compensation plans</u>
The companies of the Group provide additional benefits to certain managers of the Group through equity compensation plans (i.e. 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 Statement 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 deducted from "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.

<u>PROVISIONS</u>

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 as "Finance expenses".

<u>FOREIGN CURRENCY TRANSACTIONS</u>

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 converted 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 Statement.

REVENUES

Revenues are the gross inflows of economic benefits during the period arising in the course of the ordinary activities of an entity. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenues.
Revenues are recognized to the extent that it is probable that economic benefits will flow to the Group and their amount can be measured reliably. Revenues are stated net of discounts, allowances, and returns.

- Revenues from services rendered
  Revenues from services rendered are recognized in the Separate Consolidated Income Statement according to the stage of completion of the service and only when the outcome of the service rendered can be estimated reliably.
  Traffic revenues from interconnection and roaming are reported gross of the amounts due to other TLC operators.
  Revenues for delivering information or other content are recognized on the basis of the amount invoiced to the customer, when the service is rendered directly by the Group. In the event that the Group is acting as agent (for example non-geographic numbers) only the commission received from the content provider is recognized as revenue.
  Revenues from the activation of telephone services (and the related costs) are deferred over the expected duration of the relationship with the customer. In particular, costs from the activation of telephone services are deferred taking also into account the reasonable expectations of cash flows arising from these services.
  Revenues from prepaid traffic are recorded on the basis of the minutes used at the contract price per minute. Deferred revenues for unused minutes are recorded in "Trade and miscellaneous payables and other current liabilities" in the Consolidated Statement of Financial Position.

- Revenues from sales and bundled offerings
  Revenues from sales (telephone and other equipment) are recognized when the significant risks and rewards of ownership are transferred to the buyer.
  For offerings which include the sale of mobile handsets and service contracts, the Group recognizes revenues related to the sale of the handset when it is delivered to the final customer whereas traffic revenues are recorded on the basis of the minutes used; the related subscriber acquisition costs, including sales commissions, are expensed as incurred. The revenues allocated to the handset sale are limited to the contract amount that is not contingent upon the rendering of telecommunication services, i.e. the residual of the amount paid by the customer exceeding the services value.
  A small portion of the bundle mobile offerings involves contracts with a minimum contractual period between 12 and 36 months which include an enforced termination penalty. For these contracts, the subscriber acquisition costs are capitalized under "Intangible assets with a finite useful life" if the conditions for capitalization as described in the related accounting policy are met.

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

RESEARCH COSTS AND ADVERTISING EXPENSES

Research costs and advertising expenses are charged directly to the Separate Consolidated Income Statement 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 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 to third parties are reported as a change in equity in the year in which they are approved by the shareholders' meeting.

INCOME TAXES (CURRENT AND DEFERRED)

Income taxes include all taxes calculated on the basis of the taxable income of the companies of the Group.
Income taxes are recognized in the Separate Consolidated Income Statement, except to the extent that they relate to items directly charged or credited to equity, in which case the related tax is recognized in the relevant equity reserves. In the Statement of comprehensive income, the amount of income taxes relating to each item included as "Other components of the Statement of comprehensive income" is indicated.
The income tax expense that could arise on the remittance of a subsidiary's retained 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 carry-forwards 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".

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 hypotheses considered reasonable and realistic in relation to the information known at the time of the estimate. Such estimates have an effect on the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the amount of revenues and costs during the 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 addressed below.

Financial statement area	Accounting estimates
Impairment of goodwill	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 tangible and intangible assets with a finite useful life	At every closing date, the Group assesses whether there are any indications of impairment of tangible and intangible assets with a finite useful life. Both internal and external sources of information are used for this purpose. The identification of impairment indicators, the estimation of future cash flows and the determination of the fair value of each asset require management to make significant judgments including the applicable discount rate, useful life and residual value. These estimates can have a material impact on fair value and the amount of any write-downs.

Bad debt provision	The recoverability of receivables is measured by considering the uncollectibility of receivables, their age and losses on receivables recognized in the past by type of similar receivables.
Depreciation and amortization expense	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 amount of depreciation and amortization expense.
Accruals and contingent liabilities	As regards the provisions for restoration costs the estimate of future costs to dismantle tangible assets and restore the site is a complex process that requires an assessment of the liability arising from such obligations which seldom are entirely defined by law, administrative regulations or contract clauses and which normally are to be complied with after an interval of several years. The accruals related to legal, arbitration and fiscal disputes are the result of a complex estimation process based upon the probability of an unfavorable outcome.
Revenues	Revenue recognition is influenced by: • the expected duration of the relationship with the customer for revenues from telephone service activations (as well as the related costs); • the estimate of the amount of discounts, allowances and returns to be recorded as a direct deduction from revenues.
Income tax expense (current and deferred)	Income taxes (current and deferred) are calculated in each country in which the Group operates according to a prudent interpretation of the tax laws in effect. This process sometimes involves complex estimates to determine taxable income and deductible and taxable temporary differences between the carrying amounts and the taxable amounts. In particular, deferred tax assets are recognized to the extent that future taxable income will be available against which they can be utilized. The measurement of the recoverability of deferred tax assets, recognized based on both unused tax loss carry-forwards to future years and deductible differences, takes into account the estimate of future taxable income and is based on conservative tax planning.
Derivative instruments and equity instruments	The fair value of derivative instruments and equity instruments is determined both using valuation models which also take into account subjective measurements such as, for example, cash flow estimates, expected volatility of prices, etc., or on the basis of either prices in regulated markets or quoted prices provided by financial counterparts. For further details, please also see the Note "Supplementary disclosures on financial instruments".

As required by IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) par. 10, in the absence of a Standard or an Interpretation that specifically applies to a particular transaction, management carefully considers subjective valuation techniques and uses its judgment as to 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 Group, which reflect the economic substance of the transactions, are neutral, prepared on a prudent basis and complete in all material respects.
Regarding the merger with TII occurred during 2016, please refer to the Note "Form, content and other general information".

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

At the date of preparation of the accompanying consolidated financial statements, the following IFRS, Amendments and IFRIC interpretations had been published, but their application was not yet mandatory:

	Mandatory application starting from
IFRS 15 (Revenue from Contracts with Customers)	January 1, 2018
IFRS 9 (Financial Instruments)	January 1, 2018
IFRS 16 (Leases)	January 1, 2019
Amendments to IFRS 10 (Consolidated Financial Statements) and IAS 28 (Investments in Associates and Joint Ventures) – Sale or contribution of assets between an investor and its associate or joint venture	Effective date indefinitely deferred
Amendments to IAS 12 (Income taxes – Recognition of deferred tax assets for unrealized losses)	January 1, 2017
Amendments to IAS 7 (Statement of Cash Flows): Disclosure Initiative	January 1, 2017
Clarifications to IFRS 15 (Revenue from Contracts with Customers)	January 1, 2018
Amendments to IFRS 2 (Share based Payment)	January 1, 2018
Improvements to IFRSs (2014–2016 Cycle) – Amendments to IFRS 12 and to IAS 28	IFRS 12: January 1, 2017
IFRIC 22 (Foreign Currency Transactions and Advance Consideration)	IAS 28: January 1, 2018
Amendments to IAS 40 (Transfers of Investment Property)	January 1, 2018

The impacts, if any, arising from their application on the consolidated financial statements are currently being assessed. In particular, with reference to the adoption of IFRS 15, IFRS 16 and IFRS 9, please note that specific projects at Group level have been set and, therefore, a reliable estimate of the quantitative effects will only be possible when each project will be completed.

IFRS 15 (Revenue from Contracts with Customers)
IFRS 15 supersedes the previous revenue Standards: IAS 18 (Revenue), IAS 11 (Construction Contracts) as well as the related Interpretations on revenue recognition (IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue Barter Transactions Involving Advertising Services).
IFRS 15 shall be applied retrospectively starting from January 1, 2018 using one of the following two methods:
- the “full retrospective approach” which involves the restatement of each prior reporting period;
- the “modified retrospective approach” with the recognition of the cumulative effect of initially applying the standard as an adjustment to opening retained earnings of the annual reporting period that includes the date of initial application. All the data of the comparative periods presented in the financial statements remain unchanged.

The adoption of this standard by the Group will mainly affect the methods of recognition of:
- goods and/or services packages (i.e. bundle offers): as a result of the new revenue recognition model, for the offers, including an asset component (handset) at a discounted price and a TLC services component, this model will involve an anticipation of revenues, with higher revenues at inception allocated to sales of goods and lower revenues from services recognized over the time (however the total amount of revenues services plus handset remains unchanged);
- revenues from the activation/installation of telephone service: these revenues will be allocated to the main contract services (Performance Obligations) resulting in a different timing of recognition of the amount in the Separate income statements;
- contractual costs (Incremental costs to obtain a contract and Fulfillment costs of a contract) will be recorded as non-current assets and recognized - on a different timing - in the Separate income statements according to the contract period.

IFRS 16 (Leases)
IFRS 16 supersedes IAS 17 (Leases) and the related interpretations (IFRIC 4 Determining whether an arrangement contains a lease; SIC 15 Operating leases – Incentives; SIC 27 Evaluating the substance of transactions involving the legal form of a lease).
IFRS 16 shall be applied retrospectively starting from January 1, 2019 using one of the following two methods:
- the “full retrospective approach” which involves the restatement of each prior reporting period;
- the “modified retrospective approach” with the recognition of the cumulative effect of initially applying the standard as an adjustment to opening retained earnings in the first year of adoption, without restating prior- period financial statements.

Early application is permitted, but only in the case of the contemporary adoption of IFRS 15 Revenue from Contracts with Customers.
From the lessee's (customer) point of view, IFRS 16 provides that all passive lease contracts (without the distinction between operating leases and finance leases) are recorded in the Statement of financial position as a liability, represented by the present value of future lease payments, against the corresponding recording of the asset "Right of use of the leased asset". Short term leases contracts having a duration equal or less than 12 months and the leases of low value goods can be excluded from the application of IFRS 16.
The main impacts on the consolidated financial statements are summarized as follows:
- statements of financial position: greater non-current assets for the recognition of the “right of use of the lease asset” against lease financial liabilities;
- separate income statements: different nature, qualification and classification of expenses (depreciation of the "right of use of the leased asset" and “finance expenses for interest” instead of “fees for operating leases”, according to IAS 17) with consequent impact on operating profitability (gross and net). Furthermore, the combination of the straight-line depreciation of the "right of use of the leased asset" and the method of the effective interest rate applied to the lease liabilities entail, compared to IAS 17, additional expenses in the income statement in the first years of the lease contract and decreasing costs in the last years.

IFRS 9 (Financial Instruments)
IFRS 9 sets out the principles for the classification, measurement and derecognition of financial assets and liabilities, the impairment of financial instruments as well as hedge accounting.
IFRS 9 shall be applied starting from January 1, 2018.

The Group has not yet completed its analysis of the impact of the application of the provisions of IFRS 9 on the classification and measurement of financial assets, on the impairment of financial instruments and on the hedge accounting.

Note 3 – Scope of consolidation

INVESTMENTS IN CONSOLIDATED SUBSIDIARIES

Composition of the Group
The Group holds a majority of the voting rights in all the subsidiaries included in the scope of consolidation.
A complete list of consolidated subsidiaries is provided in the Note "List of companies of the Telecom Italia Finance Group".

SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

At December 31, 2016, the Group held equity investments in subsidiaries with significant non-controlling interests in TIM Brasil Group.

As concerns 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 held at December 31, 2016 amounted to 33,4% of the share capital of TIM Participações (which in turn holds 100% of the share capital of the operating companies TIM Celular S.A. and Intelig Telecomunicações Ltda), equivalent to the corresponding share of voting rights.

Financial Position Data TIM Brasil Group

(millions of euros)	31/12/2016	31/12/2015	01/01/2015
Non-current assets	7.822	6.077	7.709
Current assets	2.956	2.845	3.486
Total Assets	**10.777**	**8.922**	**11.195**
Non-current liabilities	2.726	2.164	2.305
Current liabilities	2.331	2.229	3.170
Total Liabilities	**5.057**	**4.393**	**5.475**
Equity	**5.720**	**4.529**	**5.720**
of which Non-controlling interests	1.704	1.329	1.584

Income statement Data TIM Brasil Group

(millions of euros)	Year 2016	Year 2015
Revenues	4.047	4.636
Profit (loss) for the year	**194**	**324**
of which Non-controlling interests	65	188

Financial Data TIM Brasil Group
In 2016, aggregate cash flows generated a positive amount of 58 million euros, essentially due to a positive exchange rate effect of 311 million euros, without which cash flow would have generated a negative amount of 253 million euros. In 2015, aggregate cash flows generated a negative amount of 186 million euros, due to a negative exchange rate effect of 424 million euros, without which cash flow would have generated a positive amount of 238 million euros. This was driven in part by the effects of the sale of the first three blocks of telecommunication towers to American Tower do Brasil (around 676 million euros).
Lastly, again with reference to the TIM Brasil Group, 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.

Note 4 – Goodwill

Goodwill is only referred to Brazil Cash Generating unit ("CGU") and shows the following changes during 2016 and 2015:

(millions of euros)	31/12/2015	Increase	Decrease	Impairments	Exchange differences	31/12/2016
Brazil	907	-	-	-	216	1.123

(millions of euros)	01/01/2015	Increase	Decrease	Impairments	Exchange differences	31/12/2015
Brazil	1.471	-	-	-240	-324	907

The gross carrying amounts of goodwill and the relative accumulated impairment losses can be summarized as follows:

(millions of euros)	31/12/2016			31/12/2015			01/01/2015		
	Gross carrying amount	Accumulated impairment losses	**Net carrying amount**	Gross carrying amount	Accumulated impairment losses	**Net carrying amount**	Gross carrying amount	Accumulated impairment losses	**Net carrying amount**
Brazil	**1.389**	266	**1.123**	1.123	216	**907**	1.478	7	**1.471**

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, after the impairment loss of 887 million Brazilian reais applied in 2015, corresponds to 3.854 million Brazilian reais.

Goodwill is not subject to amortization, but it is tested for impairment at least annually. Accordingly, the Group conducted impairment tests on the recoverability of the goodwill. The results showed that the recoverable amount of the assets at December 31, 2016 was higher than the net carrying amount for the Brazil CGU.

The value used to determine the recoverable amount of the Cash Generating Unit to which goodwill has been allocated is the value in use.

As described in the Accounting Policies, the Goodwill amount is the same as reported in Consolidated Financial Statements of the ultimate Parent.

The value in use estimates have been made, in accordance with IAS 36 and the valuation principles and best practices, based on the expected cash flows in different scenarios. The various expected cash flows are summarized into an average normal cash flow, which has been determined with the aid of the analyses by expert appraisers, based on the data from the (2017-2019) three-year industrial plan produced by management, weighted according to their observations regarding the possible market and operating scenarios. The average normal cash flow is the median of a hypothetical fluctuation range, delimited by the upside and downside scenarios for the expected cash flows.

The figures from the three years of the Group's industrial plan (2017-2019) have been supplemented by data extrapolated for two more years, so the explicit forecast period for the future cash flows is a total of five years (2017-2021). Based on the three forecast years of the Group's Industrial Plan (2017-2019), the Experts, with the aid of management, identified specific risk factors and the related areas to test with challenges, also with respect to their evolution over time. The extrapolation to 2020-2021 enabled the identification of competition factors that only start showing their initial signs from the final forecast year of the 2017-2019 industrial plan.
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 2021.

The forward looking figures are stated in the currency in which they were generated, and therefore in Brazilian reais for the Brazil CGU. For the unit, the recoverable amount of the assets is denominated in the functional currency and subsequently translated at the spot exchange rate at the reporting date.

The cost of capital used to discount the future cash flows in the estimate of the value in use has been determined as follows:

- it has been estimated using the Capital Asset Pricing Model ("CAPM") model, which is one of the generally accepted application criteria referred to in IAS 36;

- it reflects the current market estimates of the time value of money and the specific risks of the groups of assets; it includes appropriate yield premiums for country risk and the risk associated with the depreciation of the currency of denomination of the cash flows;
- it has been 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 of the weighted average cost of capital (WACC rate) used to discount the future cash flows, and the equivalent rate before tax.

Details are also provided of the growth rates used to estimate the residual value after the explicit forecast period (the G-Rates), expressed in nominal terms and related to the cash flows in their functional currency. Lastly, details are provided of the implicit capitalization rates resulting from the difference between the cost of capital, after tax, and the G-Rate.

PRINCIPAL PARAMETERS FOR THE ESTIMATES OF VALUE IN USE

	Year 2016	Year 2015
WACC	12,41%	13,0%
WACC before tax	16,08%	16,5%
Growth rate beyond the explicit period (g)	4,51%	5,2%
Capitalization rate (WACC-g)	11,57%	11,3%
Capex/Revenues, % perpetual	17,70%	16,0%

The estimate of the growth rate for the Brazil CGU also takes into account the country's expected rate of inflation over the long term, as estimated by market observers.

Separate parameters have also been used in the estimate of 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.

Moreover, for the appraisal of the value in use, the Group's plan figures were adjusted according to the expected financial flows approach, on the basis of information reasonably available, giving higher weight to observable parameters and to information from external sources which are deemed important from the market operator perspective.

For the Brazil CGU, the recoverable amount 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.

For the estimate of values in use, simulations were conducted on the results with respect to changes in the relevant rate parameters. Details are provided below of the variables needed to make the recoverable amount of the Brazil CGU equal to its net carrying amount.

PARAMETERS THAT MAKE THE VALUE IN USE EQUAL TO THE CARRYING AMOUNT

	Brazil CGU
WACC before tax	17,59%
Capitalization rate (WACC-g)	13,08%
Capex/Revenues, % on TV	21,30%

In addition to the average normal cash flows, downside sensitivity and market sensitivity analyses were used to determine the recoverable amount (value in use) of Brazil. Even after these sensitivity analyses (downside and market) the recoverable amount was still higher than the net carrying amount for the CGU.

Note 5 – Intangible assets with a finite useful life

All intangible assets with a finite useful life in 2016 and 2015 are referred to Brazil Business Unit.

(millions of euros)	01/01/2016	Additions	Depreciation and amortization	Disposals	Exchange differences	Capitalized borrowing costs	Other changes	31/12/2016
Industrial patents and intellectual property rights	**823**	414	-334	-	206	-	-	**1.109**
Concessions, licenses, trademarks and similar rights	**357**	56	-76	-	84	-	6	**427**
Other intangible assets with a finite useful life	**12**	45	-30	-	5	-	-	**32**
Work in progress and advance payments	**791**	12	-	-	199	73	-	**1.075**
Total	**1.983**	**527**	**- 440**	**-**	**494**	**73**	**6**	**2.643**

(millions of euros)	01/01/2015	Additions	Depreciation and amortization	Disposals	Exchange differences	Capitalized borrowing costs	Other changes	31/12/2015
Industrial patents and intellectual property rights	**938**	430	-305	-	-243	-	3	**823**
Concessions, licenses, trademarks and similar rights	**550**	31	-98	-	-125	-	-1	**357**
Other intangible assets with a finite useful life	**13**	8	-5	-	-4	-	-	**12**
Work in progress and advance payments	**916**	37	-	-	-235	73	-	**791**
Total	**2.417**	**506**	**-408**	**-**	**-607**	**73**	**2**	**1.983**

Industrial patents and intellectual property rights at December 31, 2016 consisted mainly of application software purchased outright and user license rights acquired, amortized over a period between 2 and 5 years.

Concessions, licenses, trademarks and similar rights at December 31, 2016 mainly related to the remaining cost of telephone licenses and similar rights (319 millions of euros).

The net carrying amount of telephone licenses and similar rights and their useful lives are detailed below:

Type	Net carrying amount at 31/12/2016 (millions of euros)	Useful life in years	Amortization charge for 2016 (millions of euros)
GSM and 3G (UMTS)	233	15	59
4G (LTE)	86	15	8

Other intangible assets with a finite useful life at December 31, 2016 essentially consist of capitalized subscriber acquisition costs (SAC) of 30 million euros mainly related to commissions for the sales network, for a number of commercial deals that lock in customers for a set period. Subscriber acquisition costs are amortized over the underlying minimum contract period (between 12 or 36 months).
Work in progress and advance payments includes the user rights for the 700 MHz frequencies, acquired in 2014 by the TIM Brasil Group for a total of 2,9 billion Brazilian reais. Since the assets require a period of more than 12 months to be ready for use, again in 2016, borrowing costs of 73 million euros have been capitalized, as they are directly attributable to the acquisition. The yearly rate used for the capitalization of borrowing costs in Brazilian reais is 13,40%. Capitalized borrowing costs in Brazilian reais have been recorded as a direct reduction of the income statement item "Finance expenses - Interest expenses to banks".

Amortization and impairment losses have been recorded in the income statement as components of the operating result.

The gross carrying amount, accumulated impairment losses and accumulated amortization at December 31, 2016, 2015 and January 1, 2015 can be summarized as follows:

	31/12/2016			
(millions of euros)	Gross carrying amount	Accumulated impairment losses	Accumulated amortization	Net carrying amount
Industrial patents and intellectual property rights	4.275	-	-3.166	1.109
Concessions, licenses, trademarks and similar rights	1.684	-	-1.257	427
Other intangible assets with a finite useful life	219	-	-187	32
Work in progress and advance payments	1.075	-	-	1.075
Total intangible assets with a finite useful life	**7.253**	**-**	**-4.610**	**2.643**

	31/12/2015			
(millions of euros)	Gross carrying amount	Accumulated impairment losses	Accumulated amortization	Net carrying amount
Industrial patents and intellectual property rights	3.079	-	-2.256	823
Concessions, licenses, trademarks and similar rights	1.303	-	-946	357
Other intangible assets with a finite useful life	564	-	-552	12
Work in progress and advance payments	791	-	-	791
Total intangible assets with a finite useful life	**5.737**	**-**	**-3.754**	**1.983**

	01/01/2015			
(millions of euros)	Gross carrying amount	Accumulated impairment losses	Accumulated amortization	Net carrying amount
Industrial patents and intellectual property rights	3.567	-	-2.629	938
Concessions, licenses, trademarks and similar rights	1.683	-	-1.133	550
Other intangible assets with a finite useful life	170	-	-157	13
Work in progress and advance payments	916	-	-	916
Total intangible assets with a finite useful life	**6.336**	**-**	**-3.919**	**2.417**

With regard to the item “Other intangible assets with a finite useful life”, the Brazil Business Unit carried out accounting eliminations in relation to fully amortized gross carrying amounts.

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

All tangible assets (owned and under finance leases) in 2016 and 2015 are referred to Brazil Business Unit.

PROPERTY, PLANT AND EQUIPMENT OWNED

(millions of euros)	31/12/2015	Additions	Depreciation and amortization	Impairment (losses) / reversals	Disposals	Exchange differences	Other changes	31/12/2016
Land	**10**	-	-	-	-	2	-	**12**
Buildings (civil and industrial)	**18**	2	-1	-	-	4	2	**25**
Plant and equipment	**1.934**	297	-456	-	-6	453	113	**2.335**
Other	**122**	34	-66	-	-4	28	25	**139**
Construction in progress and advance payments	**141**	305	-	-	-	53	-148	**351**
Total	**2.225**	**638**	**-523**	**-**	**-10**	**540**	**-8**	**2.862**

(millions of euros)	01/01/2015	Additions	Depreciation and amortization	Impairment (losses) / reversals	Disposals	Exchange differences	Other changes	31/12/2015
Land	**13**	-	-	-	-	-3	-	**10**
Buildings (civil and industrial)	**23**	1	-1	-	-	-5	-	**18**
Plant and equipment	**2.361**	556	-425	-	-123	-591	156	**1.934**
Other	**159**	57	-65	-	-3	-39	13	**122**
Construction in progress and advance payments	**208**	169	-	-	-	-48	-188	**141**
Total	**2.764**	**783**	**-491**	**-**	**-126**	**-686**	**-19**	**2.225**

Land comprises both built-up land and available land and is not subject to depreciation.

Buildings (civil and industrial) almost exclusively includes buildings for industrial use hosting telephone exchanges or for office use, and light constructions.

Plant and equipment includes the aggregate of all the structures used for the functioning of voice and data telephone traffic.

The item **Other** mainly consists of hardware for work stations, furniture and fixtures and, to a minimal extent, transport vehicles and office machines.

Construction in progress and advance payments refers to the internal and external costs incurred for the acquisition and internal production of tangible assets, which are not yet in use.

Depreciation, impairment losses and reversals have been recorded in the income statement as components of the operating result.

Depreciation for the years 2016 and 2015 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)	4%
Plant and equipment	4% - 33%
Other	5% - 50%

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2016, 2015 and January 1, 2015 can be summarized as follows:

	31/12/2016			
(millions of euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	12	-	-	12
Buildings (civil and industrial)	38	-	-13	25
Plant and equipment	6.523	-	-4.188	2.335
Other	1.199	-	-1.060	139
Construction in progress and advance payments	351	-	-	351
Total	**8.123**	**-**	**-5.261**	**2.862**

	31/12/2015			
(millions of euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	10	-	-	10
Buildings (civil and industrial)	27	-	-9	18
Plant and equipment	4.930	-	-2.996	1.934
Other	933	-	-811	122
Construction in progress and advance payments	141	-	-	141
Total	**6.041**	**-**	**-3.816**	**2.225**

	01/01/2015			
(millions of euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	13	-	-	13
Buildings (civil and industrial)	34	-	-11	23
Plant and equipment	6.290	-	-3.929	2.361
Other	1.163	-	-1.004	159
Construction in progress and advance payments	208	-	-	208
Total	**7.708**	**-**	**-4.944**	**2.764**

ASSETS HELD UNDER FINANCE LEASES

(millions of euros)	**31/12/2015**	Additions	Change in financial leasing contracts	Depreciation and amortization	Exchange differences	Other changes	**31/12/2016**
Plant and equipment leased	284	-	28	-17	69	-	364
Other	-	-	8	-1	1	-	8
Total	**284**	**-**	**36**	**-18**	**70**	**-**	**372**

(millions of euros)	**01/01/2015**	Additions	Change in financial leasing contracts	Depreciation and amortization	Exchange differences	Other changes	**31/12/2015**
Plant and equipment leased	-	-	337	-10	-43	-	284
Total	**-**	**-**	**337**	**-10**	**-43**	**-**	**284**

The item **Plant and equipment leased** 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 sale of the fourth and fifth tranche, which took place in 2016, resulted in leasebacks of 93 millions of Brazilian reais (around 24 million euros at the average exchange rate for 2016). The TIM Brasil Group also took out financial leases on newly-built towers for around 4 million euros, as already envisaged in the contractual arrangements with American Tower.

Depreciation and impairment losses are recorded in the income statement as components of the operating result.

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2016 and 2015 can be summarized as follows:

	31/12/2016			
(millions of euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Plant and equipment leased	394	-	-30	364
Other	9	-	-1	8
Total	**403**	**-**	**-30**	**372**

	31/12/2015			
(millions of euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Plant and equipment leased	293	-	-9	284
Total	**293**	**-**	**-9**	**284**

At December 31, 2016 and December 31, 2015 and January 1, 2015, finance lease payments due in future years and their present value are as follows:

	31/12/2016		31/12/2015		01/01/2015	
(millions of euros)	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within 1 year	79	27	45	9	-	1
From 2 to 5 years	207	3	146	-	-	-
Beyond 5 years	684	435	520	325	97	41
Total	**970**	**465**	**711**	**334**	**97**	**42**

(millions of euros)	31/12/2016	31/12/2015	01/01/2015
Future net minimum lease payments	970	711	97
Interest portion	-505	-377	-55
Present value of lease payments	**465**	**334**	**42**

Note 7 – Investments

INVESTMENTS IN ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

Investments in associates accounted for using the equity method include:

(millions of euros)	31/12/2016	31/12/2015	01/01/2015
Sofora Telecomunicaciones S.A.	-	122	122
Total	**-**	**122**	**122**

Itatel Group S.p.A., TI Audit Compliance Latam S.A. and Movenda S.p.A. are associates to the Group, but their contributions in the Consolidated Financial Statements is considered to be non material individually and in an aggregate form.

According to IAS 28, since the Group had a significant influence on Sofora Telecommunicaciones S.A., this latter has been considered as an associate by the management.
In 2016, following the approval by the Enacom, the Argentinian communications regulatory authority, the Group completed the sale of the entire remaining interest in Sofora - Telecom Argentina.
In particular, on March 8, 2016 Telecom Italia International N.V. sold the 18,50% of the share capital of Sofora Telecommunications S.A. for a total consideration of 226 million U.S. dollars (204 million euros). The buyer paid the sale price net of withholding tax of 15 million U.S. dollars (14 million euros).

INVESTMENTS IN STRUCTURED ENTITIES

The Group does not hold investments in structured entities.

OTHER INVESTMENTS

(millions of euros)	31/12/2016	31/12/2015	01/01/2015
TIM S.p.A.	106	149	111
Telecom Italia Media S.p.A.[*]	-	-	2
Total	**106**	**149**	**113**

[*] On September 30, 2015, Telecom Italia Media S.p.A. merged into TIM S.p.A.

Note 8 – Financial assets (non-current and current)

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

(millions of euros)	31/12/2016	31/12/2015	01/01/2015
Non-current financial assets	**2.150**	**3.885**	**3.423**
Securities, financial receivables and other non-current financial assets	**2.150**	**3.885**	**3.423**
Securities other than investments	1	2	6
Financial receivables for lease contracts	59	47	60
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	2	3	26
Non-hedging derivatives	914	974	1.044
Loans and receivables	1.174	2.859	2.287
Current financial assets	**5.217**	**5.853**	**7.685**
Securities other than investments	**1.261**	**1.226**	**1.041**
Held for trading	140	491	-
Available-for-sale	1.121	735	1.041
Financial receivables and other current financial assets	**1.068**	**1.909**	**3.019**
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	1	7	5
Non-hedging derivatives	51	732	42
Loans and receivables	1.016	1.170	2.972
Cash and cash equivalents	**2.888**	**2.718**	**3.625**
Total non-current and current financial assets	**7.367**	**9.738**	**11.108**

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

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

Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature refers mainly to the mark-to-market component of the hedging derivatives, whereas **Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature** mainly consists of accrued income on derivative contracts.

Non-hedging derivatives relating to items classified as current and non-current financial assets totaled 965 million euros (1.706 million euros at December 31, 2015). These include the measurement of derivatives which, although put into place for hedging purposes, do not possess the formal requisites to be considered as such under IFRS and derivatives put in place in the framework of the activity of centralizing all the banking exposures of the TIM Group (further details are provided in the Note “Derivatives”).

The decrease is mainly explained by the measurement of the option towards TIM S.p.A. embedded in the mandatory convertible bond of 1,3 billion euros issued by Telecom Italia Finance ("Guaranteed Subordinated Mandatory Convertible Bonds due 2016 convertible into ordinary shares of the TIM S.p.A.") resulted in the recognition in the income statement of a loss of 565 million euros (income of 454 million euros at December 31, 2015).

Loans and receivables both in current and non-current financial assets amounts to 2.190 million euros (4.029 million euros at December 31, 2015) and refers to loans granted by the Parent to the ultimate Parent and other TIM Group companies. The decrease of 1.839 million euros is mainly referred to the reimbursement of loans occurred during the year. Regarding the loans granted to the ultimate Parent company, the credit risk is considered low based on the financial capability of TIM S.p.A.

Securities other than investments included in current assets relates to:

- listed securities, classified as available-for-sale due beyond three months. They consist of 548 million euros of Italian treasury bonds and 573 million euros of bonds purchased by the Parent with different maturities, all with an active market and consequently readily convertible into cash. The above government bonds represent investments in "Sovereign debt securities".
- securities, classified as held for trading due beyond three months. They are related to the investment made by the Brazil Business Unit for an equivalent value of 140 million euros in a monetary fund that invests almost entirely in instruments in U.S. dollars.

Cash and cash equivalents:

(millions of euros)	31/12/2016	31/12/2015	01/01/2015
Liquid assets with banks, financial institutions and post offices	1.417	1.210	2.039
Securities other than investments (due within 3 months)	1.471	1.508	1.586
Total	**2.888**	**2.718**	**3.625**

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 December:

(millions of euros)	31/12/2016	31/12/2015	01/01/2015
Liquid assets with banks, financial institutions and post offices	1.417	1.210	2.039
Securities other than investments (due within 3 months)	1.471	1.508	1.586
	2.888	**2.718**	**3.625**
Financial payables (due within 3 months)	-12	-27	-49
Total	**2.876**	**2.691**	**3.576**

The different technical forms of investing available cash at December 31, 2016 can be analyzed as follows:

- maturities: all deposits have a maximum maturity date of three months;
- counterparty risk: deposits have been made with leading high-credit-quality banks and financial institutions with a rating of at least BBB- according to Standard & Poor's with regard to Europe, and with leading local counterparts with regard to investments in South America;
- country risk: deposits have been made mainly by the Parent company in major European financial markets.

Securities other than investments (due within 3 months) included 1.471 million euros (1.414 million euros at December 31, 2015) of Brazilian bank certificates of deposit (Certificado de Depósito Bancário) taken out by the Brazil Business Unit with premier local banking and financial institutions.

Note 9 – Miscellaneous receivables and other non-current assets

(millions of euros)	31/12/2016	Of which IAS 39 Financial Instruments	31/12/2015	Of which IAS 39 Financial Instruments	01/01/2015	Of which IAS 39 Financial Instruments
Miscellaneous receivables	698	386	502	268	560	329
Medium/long-term prepaid expenses	16	-	13	-	22	-
Total	**714**	**386**	**515**	**268**	**582**	**329**

As at December 31, 2016 Miscellaneous receivables and other non-current assets included Income tax receivables of 60 million euros (42 million euros at December 31, 2015).

As at December 31, 2016 **Miscellaneous receivables** mainly relate to the Brazil Business Unit for an amount of 696 million euros (499 million euros at December 31, 2015) including receivables for court deposits of 382 million euros (348 million euros at December 31, 2015).

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

Note 10 – Income taxes (current and deferred)

INCOME TAX RECEIVABLES

Non-current and current income tax receivables at December 31, 2016 amounted to 145 million euros (71 million euros at December 31, 2015).
Specifically, they consisted of:

- non-current receivables of 60 million euros (42 million at December 31, 2015);
- current income tax receivables of 85 million euros (29 million euros at December 31, 2015) related to the Brazil Business Unit.

DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The net balance of 20 million euros at December 31, 2016 (25 million euros at December 31, 2015) was broken down as follows.

(millions of euros)	31/12/2016	31/12/2015	01/01/2015
Deferred tax assets	12	3	279
Deferred tax liabilities	-32	-28	-149
Total	**-20**	**-25**	**130**

The deferred tax liabilities are related to Brazil Business Unit for 32 million euros (28 million euros at December 31, 2015).

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)	31/12/2016	31/12/2015	01/01/2015
Deferred tax assets	171	165	279
Deferred tax liabilities	-191	-190	-149
Total	**-20**	**-25**	**130**

The temporary differences that made up this line item at December 31, 2016 and December 31, 2015, as well as the movements during 2016 were as follows:

(millions of euros)	31/12/2015	Recognized in profit or loss	Recognized in equity	Change in scope of consolidation and other changes	31/12/2016
Deferred tax assets	**165**	**-29**	**-**	**35**	**171**
Tax loss carryforwards	84	-33	-	15	66
Provision for bad debts	26	2	-	7	35
Provisions	40	-	-	10	50
Other deferred tax assets	15	2	-	3	20
Deferred tax liabilities	**-190**	**39**	**-**	**-40**	**-191**
Derivatives	-79	75	-	-9	-13
Business combinations - for step-up of net assets in excess of tax basis	-91	-13	-	-23	-127
Other deferred tax liabilities	-20	-23	-	-8	-51
Total Net deferred tax assets (liabilities)	**-25**	**-**	**-**	**-**	**-20**

The temporary differences that made up this line item at December 31, 2015 and January 1, 2015, as well as the movements during 2015 were as follows:

(millions of euros)	01/01/2015	Recognized in profit or loss	Recognized in equity	Change in scope of consolidation and other changes	31/12/2015
Deferred tax assets	**279**	**-55**	**-**	**-59**	**165**
Tax loss carryforwards	178	-59	-	-35	84
Provision for bad debts	37	-2	-	-9	26
Provisions	37	13	-	-10	40
Other deferred tax assets	27	-7	-	-5	15
Deferred tax liabilities	**-149**	**-88**	**-**	**47**	**-190**
Derivatives	-47	-50	-	18	-79
Business combinations - for step-up of net assets in excess of tax basis	-102	-15	-	26	-91
Other deferred tax liabilities	-	-23	-	3	-20
Total Net deferred tax assets (liabilities)	**130**	**-143**	**-**	**-12**	**-25**

At December 31, 2016, the Group had unused tax loss carry-forwards of 2.180 million euros with no expiration dates:

Year of expiration	(millions of euros)
2017	-
2018	-
2019	-
2020	-
2021	-
Expiration after 2021	-
Without expiration	2.180
Total unused tax loss carryforwards	**2.180**

As of December 31, 2015, the amount of unused tax losses carried forward was as follows:

Year of expiration	(millions of euros)
2016	-
2017	-
2018	-
2019	-
2020	-
Expiration after 2020	142
Without expiration	2.030
Total unused tax loss carryforwards	**2.172**

As of January 1, 2015, the amount of unused tax losses carried forward was as follows:

Year of expiration	(millions of euros)
2015	-
2016	-
2017	-
2018	-
2019	-
Expiration after 2019	119
Without expiration	2.620
Total unused tax loss carryforwards	**2.739**

Unused tax loss carryforwards considered in the calculation of deferred tax assets amounted to 175 million euros at December 31, 2016 (251 million euros at December 31, 2015) and referred to the Brazil Business Unit. Deferred tax assets are recognized when it is 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 294 million euros (282 million euros at December 31, 2015) have not been recognized on 1.006 million euros (966 million euros at December 31, 2015) of tax loss carryforwards since, at this time, their recoverability is not considered probable.
At December 31, 2016, deferred tax liabilities have not been recognized on approximately 0,6 billion euros (0,2 billion euros at December 31, 2015) of tax-suspended reserves and undistributed earnings of subsidiaries, because the 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.

INCOME TAX PAYABLES

Income tax payables amounted to 148 million euros (79 million euros at December 31, 2015) and are mainly related to Brazil Business Unit. They were broken down as follows:

(millions of euros)	31/12/2016	31/12/2015	01/01/2015
Non-current	67	49	60
Current	81	30	28
Total	**148**	**79**	**88**

INCOME TAX EXPENSE

Details are as follows:

(millions of euros)	Year 2016	Year 2015
Current taxes for the year	92	111
Net difference in prior year estimates	-	24
Total current taxes	**92**	**135**
Deferred taxes	-10	142
Total income tax for the year	**82**	**277**

The reconciliation between the theoretical tax expense, and the effective tax expense for the years ended December 31, 2016 and December 31, 2015 is the following:

(millions of euros)	Year 2016	Year 2015
Profit (loss) before tax	**325**	**661**
Theoretical income tax of 29,22%	**95**	**193**
Income tax effect on increases (decreases) in variations		
Tax losses of the year not considered recoverable	16	8
Tax losses from prior years not recoverable (recoverable) in future years	-	-16
Non-deductible goodwill impairment charge	-	70
Different rate compared to theoretical rate in force in Luxembourg and other changes	2	47
Brazil: incentive on investments in the north-east of the country	-31	-25
Total effective income tax recognized in income statement	**82**	**277**

Note 11 – Inventories

(millions of euros)	31/12/2016	31/12/2015	01/01/2015
Finished goods	41	33	82
Total	**41**	**33**	**82**

The inventories mainly consist of equipment, handsets and relative fixed and mobile telecommunications accessories, as well as office products, special printers and gaming terminals and are referred to Brazil Business Unit.

Note 12 – Trade and miscellaneous receivables and other current assets

(millions of euros)	31/12/2016	Of which IAS 39 Financial Instruments	31/12/2015	Of which IAS 39 Financial Instruments	01/01/2015	Of which IAS 39 Financial Instruments
Trade receivables	**858**	**858**	**678**	**678**	**1.106**	**1.106**
Receivables from customers	706	706	590	590	968	968
Receivables from other telecommunications operators	152	152	88	88	138	138
Miscellaneous receivables and other current assets	**310**	**1**	**386**	**1**	**640**	**-**
Other receivables	271	1	336	1	557	-
Trade and miscellaneous prepaid expenses	39	-	50	-	83	-
Total	**1.168**	**859**	**1.064**	**679**	**1.746**	**1.106**

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

The aging of financial instruments included in "Trade and miscellaneous receivables and other current assets" at December 31, 2016, 2015 and January 1, 2015 was as follows:

				overdue:			
(millions of euros)	**31/12/2016**	Total current	Total overdue	0-90 days	91-180 days	181-365 days	More than 365 days
Trade and miscellaneous receivables and other current assets	859	691	168	123	33	13	-

				overdue:			
(millions of euros)	**31/12/2015**	Total current	Total overdue	0-90 days	91-180 days	181-365 days	More than 365 days
Trade and miscellaneous receivables and other current assets	679	505	174	139	27	8	-

				overdue:			
(millions of euros)	**01/01/2015**	Total current	Total overdue	0-90 days	91-180 days	181-365 days	More than 365 days
Trade and miscellaneous receivables and other current assets	1.106	890	216	171	30	15	-

The increase in the Brazil Business Unit (+185 million euros) includes a positive exchange adjustment of around 122 million euros.

Overdue receivables were essentially unchanged compared to December 31, 2015. Specifically, the Brazil Business Unit reported a decrease of 6 million euros, but this included a positive exchange difference of around 43 million euros, without which there would have been a reduction of around 49 million euros.

As at December 31, 2016 **Trade receivables** related to the Brazil Business Unit amount to 858 million euros (678 million euros at December 31, 2015).
Movements in the provision for bad debts were as follows:

(millions of euros)	31/12/2016	31/12/2015
At January 01	**83**	**116**
Provision charges to the income statement	69	62
Utilization and decreases	-64	-68
Exchange differences and other changes	20	-27
At December 31	**108**	**83**

As at December 31, 2016 **Other receivables** amounted to 271 million euros (336 million euros at December 31, 2015) and were net of a provision for bad debts of nil(72) million euros (nil (93) million euros at December 31, 2015). Details are as follows:

(millions of euros)	31/12/2016	31/12/2015	01/01/2015
Advances to suppliers	34	18	47
Receivables from employees	2	1	1
Tax receivables	200	272	497
Sundry receivables	35	45	12
Total	**271**	**336**	**557**

As at December 31, 2016 **Tax receivables** included 200 million euros (272 million euros at December 31, 2015) relating to the Brazil Business Unit, largely with reference to local indirect taxes.

Trade and miscellaneous prepaid expenses mainly related to building leases, rent and maintenance payments, as well as the deferral of costs related to contracts for the activation of telecommunications services.

Note 13 – Equity

As at December 31, 2016 the authorized, issued and fully paid capital of 1.818.691.978,50 euros (542.090.241,00 euros at December 31, 2015 and January 1, 2015) is represented by 185.960.325 ordinary shares (55.428.450 at December 31, 2015 and January 1, 2015) with a nominal value of EUR 9,78 per share.
As at December 31, 2016, December 31, 2015 and January 1, 2015 the Parent is 100% held by TIM S.p.A.

Movements in Share Capital in 2016, amounting to 1.277 million euros, are shown in the tables below:

(number of shares)	At 31/12/2015	Share issues	At 31/12/2016	% of share capital
Total Telecom Italia Finance shares issued and outstanding	55.428.450	130.531.875	185.960.325	100

(millions of euros)	Share capital at 31/12/2015	Change in share capital	Share capital at 31/12/2016
Total Telecom Italia Finance share capital issued and outstanding	542	1.277	1.819

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)	31/12/2016	31/12/2015	01/01/2015
Non-current financial liabilities	**4.159**	**4.222**	**5.872**
Financial payables (medium/long-term):	**2.840**	**3.059**	**4.936**
Bonds	1.012	1.012	1.179
Convertible bonds	-	-	1.401
Amounts due to banks	1.623	1.317	1.697
Other financial payables	205	730	659
Finance lease liabilities (medium/long-term)	**496**	**372**	**101**
Other financial liabilities (medium/long-term):	**823**	**791**	**835**
Non-hedging derivatives	823	791	835
Current financial liabilities	**768**	**2.982**	**785**
Financial payables (short-term):	**703**	**2.357**	**733**
Bonds	74	74	74
Convertible bonds	-	1.357	10
Amounts due to banks	616	893	594
Other financial payables	13	33	55
Finance lease liabilities (short-term)	**28**	**9**	**1**
Other financial liabilities (short-term):	**37**	**616**	**51**
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	-	4	4
Non-hedging derivatives	37	612	47
Total financial liabilities (gross financial debt)	**4.927**	**7.204**	**6.657**

Convertible bonds (short-term) consisted of the Mandatory Convertible Bond "Guaranteed Subordinated Mandatory Convertible Bonds due 2016 convertible into ordinary shares of TIM S.p.A.", for 1.300 million euros, issued by the Parent. On September 22, 2016 a total of 0,3 million euros had been converted in relation to the voluntary conversion of 3 bondholders. The residual amount was converted on November 15, 2016.

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

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

(millions of euros)	31/12/2016	31/12/2015	01/01/2015
Up to 2,5%	482	1.122	971
From 2,5% to 5%	1.062	1.068	1.061
From 5% to 7,5%	172	1.475	1.478
From 7,5% to 10%	1.718	1.567	1.732
Over 10%	495	382	265
Accruals/deferrals, MTM and derivatives	998	1.590	1.150
Total	**4.927**	**7.204**	**6.657**

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

(millions of euros)	31/12/2016	31/12/2015	01/01/2015
Up to 2,5%	197	555	565
From 2,5% to 5%	425	669	584
From 5% to 7,5%	13	1.303	1.333
From 7,5% to 10%	1.044	1.326	1.732
Over 10%	2.250	1.761	1.293
Accruals/deferrals, MTM and derivatives	998	1.590	1.150
Total	**4.927**	**7.204**	**6.657**

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

Details of the maturities of financial liabilities – at nominal repayment amount as at December 2016, December 2015 and January 2015

	maturing by 31/12 of the year						
(millions of euros)	2017	2018	2019	2020	2021	After 2021	Total
Bonds	-	-	-	-	-	1.015	1.015
Loans and other financial liabilities	148	148	257	63	652	230	1.498
Finance lease liabilities	4	3	-	-	-	485	492
Total	**152**	**151**	**257**	**63**	**652**	**1.730**	**3.005**
Current financial liabilities	291	-	-	-	-	-	291
Total	**443**	**151**	**257**	**63**	**652**	**1.730**	**3.296**

	maturing by 31/12 of the year						
(millions of euros)	2016	2017	2018	2019	2020	After 2020	Total
Bonds	1.300	-	-	-	-	1.015	2.315
Loans and other financial liabilities	332	113	90	406	613	590	2.144
Finance lease liabilities	-	-	-	-	-	366	366
Total	**1.632**	**113**	**90**	**406**	**613**	**1.971**	**4.825**
Current financial liabilities	370	-	-	-	-	-	370
Total	**2.002**	**113**	**90**	**406**	**613**	**1.971**	**5.195**

	maturing by 31/12 of the year						
(millions of euros)	2015	2016	2017	2018	2019	After 2019	Total
Bonds	-	1.300	-	-	-	1.153	2.453
Loans and other financial liabilities	162	302	157	138	452	1.043	2.254
Finance lease liabilities	-	-	-	-	-	97	97
Total	**162**	**1.602**	**157**	**138**	**452**	**2.293**	**4.804**
Current financial liabilities	244	-	-	-	-	-	244
Total	**406**	**1.602**	**157**	**138**	**452**	**2.293**	**5.048**

The following tables list the bonds issued by the Group and guaranteed by the ultimate Parent expressed at the nominal repayment amount, net of bond repurchases, and also at market value as at December 31, 2016 and December 31, 2015:

Currency	Amount (millions)	Nominal repayment amount at 31/12/16 (millions of euros)	Coupon	Issue date	Maturity date	Issue price (%)	Market price at 31/12/16 (%)	Market value at 31/12/16 (millions of euros)
Bonds issued by Telecom Italia Finance and guaranteed by TIM S.p.A.								
Euro	1.015	1.015	7,750%	24/01/2003	24/01/2033	109,646[*]	128,264	1.302
Total		**1.015**						**1.302**

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

Currency	Amount (millions)	Nominal repayment amount at 31/12/15 (millions of euros)	Coupon	Issue date	Maturity date	Issue price (%)	Market price at 31/12/15 (%)	Market value at 31/12/15 (millions of euros)
Bonds issued by Telecom Italia Finance and guaranteed by TIM S.p.A.								
Euro	1.015	1.015	7,750%	24/01/2003	24/01/2033	109,646[*]	131,482	1.335
Total		**1.015**						**1.335**

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

The following table lists the changes in bonds during 2016 and 2015:

Repayments

(millions of original currency)	Currency	Amount	Repayment date
Telecom Italia Finance 20.000 million JPY 3,550% [*]	JPY	20.000	14/05/2015
Telecom Italia Finance 1.300 million EUR 6,125%	EUR	1.300	15/11/2016

[*] Early repayment of the AFLAC Private Placement maturing 14/05/2032.

As at December 31, 2016 **Other financial payables** (medium/long-term) amounted to 205 million euros (730 million euros at December 31, 2015) and fell by 525 million euros (following the repayment of the debt security in favor of the Fintech group amounting to 600,6 million U.S. dollars for the completion of the sale of ownership interests held by the Group in Sofora – Telecom Argentina).
They mainly included 162 million euros of Telecom Italia Finance loan of 20.000 million Japanese yens expiring in 2029.

Finance lease liabilities (medium/long-term) totaled 496 million euros at December 31, 2016 (372 million euros at December 31, 2015) and mainly related to property leases accounted for using the financial method established by IAS 17.

Non-hedging derivatives relating to items classified as current and non-current financial liabilities totaled 860 million euros (1.403 million euros at December 31, 2015 of which 565 million euros relating to the value of the embedded option in the mandatory convertible bond of 1,3 billion euros ("Guaranteed Subordinated Mandatory Convertible Bonds due 2016 convertible into ordinary shares of the TIM S.p.A.", expired during the year). In addition, 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 and derivatives put in place in the framework of the activity of centralizing all the banking exposures of the TIM Group (further details are provided in the Note “Derivatives”).

Note 15 – Net financial debt

The following table shows the net financial debt at December 31, 2016, December 31, 2015 and January 1, 2015.

(millions of euros)	31/12/2016	31/12/2015	01/01/2015
Non-current financial liabilities	**4.159**	**4.222**	**5.872**
Current financial liabilities	**768**	**2.982**	**785**
Total gross financial debt	**4.927**	**7.204**	**6.657**
Non-current financial assets	**-61**	**-50**	**-86**
Non-current financial receivables for lease contract	-59	-47	-60
Non-current hedging derivatives	-2	-3	-26
Current financial assets	**-5.217**	**-5.853**	**-7.685**
Securities other than investments	-1.261	-1.226	-1.041
Financial receivables and other current financial assets	-1.068	-1.909	-3.019
Cash and cash equivalents	-2.888	-2.718	-3.625
Net financial debt as per ESMA	**-351**	**1.301**	**-1.114**
Non-current financial assets	**-2.089**	**-3.835**	**-3.337**
Securities other than investments	-1	-2	-6
Other financial receivables and other non-current financial assets	-2.088	-3.833	-3.331
Net financial debt [*]	**-2.440**	**-2.534**	**-4.451**

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

Note 16 – Financial risk management

<u>Financial risk management objectives and policies of the Group</u>
The 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-fulfilment 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 a Group committee that monitors the level of exposure to market risks in accordance with pre-established general objectives;
- the identification of the most suitable financial instruments, including derivatives, to reach pre-established 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 Group are described below.

<u>Identification of risks and analysis</u>
The 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, principally Europe and Latin America.
The financial risk management policies of the 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 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 to the functional currencies of the operating companies.

Derivative financial instruments may be 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. 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:

- 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, 2016;
- 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, they are accounted for at their fair value. 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 Group has not applied fair value hedge accounting for the year ended 31 December 2016;
- 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, 2016 (and also at December 31, 2015), the exchange 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, 2016 the interest rates in the various markets in which the 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 4 million euros (37 million euros at December 31, 2015).

Credit risk
Exposure to credit risk for the Group consists of possible losses that could arise from the failure of either commercial or financial counterparties to fulfill their assumed obligations. 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 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 might also make 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".

For the 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-fulfilment 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 Guidelines on "Management and control of financial risk" established by the ultimate Parent entity TIM S.p.A.

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.

Current financial assets at December 31, 2016, 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, 2016. The portions of principal and interest of the hedged liabilities includes both the disbursements and the receipts of the relative hedging derivatives.

Financial liabilities – Maturities of contractually expected disbursements as at December 31, 2016, December 31, 2015 and January 1, 2015

	maturing by 31/12 of the year:						
(millions of euros)	2017	2018	2019	2020	2021	After 2021	Total
Bonds							
Principal	-	-	-	-	-	1.015	1.015
Interest Portion	79	79	79	79	79	944	1.339
Loans and other financial liabilities							
Principal	317	482	466	316	275	246	2.102
Interest Portion	298	187	129	47	36	45	742
Finance lease liabilities							
Principal	4	3	-	-	-	484	491
Interest Portion	13	14	16	17	19	314	393
Non-current financial liabilities							
Principal	**321**	**485**	**466**	**316**	**275**	**1.745**	**3.608**
Interest Portion	**390**	**280**	**224**	**143**	**134**	**1.303**	**2.474**
Current financial liabilities							
Principal	**280**	**-**	**-**	**-**	**-**	**-**	**280**
Interest Portion	**5**	**-**	**-**	**-**	**-**	**-**	**5**
Total Financial liabilities							
Principal	**601**	**485**	**466**	**316**	**275**	**1.745**	**3.888**
Interest Portion	**395**	**280**	**224**	**143**	**134**	**1.303**	**2.479**

	maturing by 31/12 of the year:						
(millions of euros)	2016	2017	2018	2019	2020	After 2020	Total
Bonds							
Principal	1.300	-	-	-	-	1.015	2.315
Interest Portion	158	79	79	79	79	1.023	1.497
Loans and other financial liabilities							
Principal	531	285	268	357	758	354	2.553
Interest Portion	162	178	156	108	45	61	710
Finance lease liabilities							
Principal	-	-	-	-	-	366	366
Interest Portion	9	10	10	11	12	233	285
Non-current financial liabilities							
Principal	**1.831**	**285**	**268**	**357**	**758**	**1.735**	**5.234**
Interest Portion	**329**	**267**	**245**	**198**	**136**	**1.317**	**2.492**
Current financial liabilities							
Principal	**343**	**-**	**-**	**-**	**-**	**-**	**343**
Interest Portion	**5**	**-**	**-**	**-**	**-**	**-**	**5**
Total Financial liabilities							
Principal	**2.174**	**285**	**268**	**357**	**758**	**1.735**	**5.577**
Interest Portion	**334**	**267**	**245**	**198**	**136**	**1.317**	**2.497**

	maturing by 31/12 of the year:						
(millions of euros)	2015	2016	2017	2018	2019	After 2019	Total
Bonds							
Principal	-	1.300	-	-	-	1.153	2.453
Interest Portion	161	161	81	81	81	1.135	1.700
Loans and other financial liabilities							
Principal	377	513	286	250	314	967	2.707
Interest Portion	269	308	125	103	120	108	1.033
Finance lease liabilities							
Principal	-	-	-	-	-	97	97
Interest Portion	10	11	12	12	13	188	246
Non-current financial liabilities							
Principal	**377**	**1.813**	**286**	**250**	**314**	**2.217**	**5.257**
Interest Portion	**440**	**480**	**218**	**196**	**214**	**1.431**	**2.979**
Current financial liabilities							
Principal	**195**	**-**	**-**	**-**	**-**	**-**	**195**
Interest Portion	**4**	**-**	**-**	**-**	**-**	**-**	**4**
Total Financial liabilities							
Principal	**572**	**1.813**	**286**	**250**	**314**	**2.217**	**5.452**
Interest Portion	**444**	**480**	**218**	**196**	**214**	**1.431**	**2.983**

Derivatives on financial liabilities – Contractually expected interest flows as at December 31, 2016, December 31, 2015 and January 1, 2015

	maturing by 31/12 of the year:						
(millions of euros)	2017	2018	2019	2020	2021	After 2021	Total
Disbursements	2	1	1	1	1	8	14
Receipts	-3	-1	-1	-1	-1	-11	-18
Hedging derivatives – net (receipts) disbursements	**-1**	**-**	**-**	**-**	**-**	**-3**	**-4**
Disbursements	280	339	304	195	140	1.350	2.608
Receipts	-269	-324	-297	-218	-144	-1.402	-2.654
Non-Hedging derivatives – net (receipts) disbursements	**11**	**15**	**7**	**-23**	**-4**	**-52**	**-46**
Total net receipts (disbursements)	**10**	**15**	**7**	**-23**	**-4**	**-55**	**-50**

	maturing by 31/12 of the year:						
(millions of euros)	2016	2017	2018	2019	2020	After 2020	Total
Disbursements	4	4	3	3	3	25	42
Receipts	-12	-11	-10	-10	-10	-88	-141
Hedging derivatives – net (receipts) disbursements	**-8**	**-7**	**-7**	**-7**	**-7**	**-63**	**-99**
Disbursements	550	273	214	267	173	1.406	2.883
Receipts	-637	-289	-204	-274	-198	-1.404	-3.006
Non-Hedging derivatives – net (receipts) disbursements	**-87**	**-16**	**10**	**-7**	**-25**	**2**	**-123**
Total net receipts (disbursements)	**-95**	**-23**	**3**	**-14**	**-32**	**-61**	**-222**

	maturing by 31/12 of the year:						
(millions of euros)	2015	2016	2017	2018	2019	After 2019	Total
Disbursements	4	4	4	3	3	27	45
Receipts	-12	-12	-12	-11	-11	-113	- 171
Hedging derivatives – net (receipts) disbursements	**-8**	**-8**	**-8**	**-8**	**-8**	**-86**	**-126**
Disbursements	369	542	272	191	226	1.492	3.092
Receipts	-258	-354	-211	-158	-167	-1.468	-2.616
Non-Hedging derivatives – net (receipts) disbursements	**111**	**188**	**61**	**33**	**59**	**24**	**476**
Total net receipts (disbursements)	**103**	**180**	**53**	**25**	**51**	**-62**	**350**

Market value of derivatives

In order to determine the fair value of derivatives, the 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.

Note 17 - Derivatives

Derivative financial instruments are used by the Group to hedge its exposure to foreign exchange rate risk, to manage interest rate risk and to diversify the parameters of debt so that costs and volatility can be reduced to within predetermined operational limits.
Derivative financial instruments in place at December 31, 2016 are principally used to manage debt positions. They include interest rate swaps (IRSs) to reduce interest rate exposure on fixed-rate and variable-rate bank loans and bonds, as well as cross currency and interest rate swaps (CCIRSs), and currency forwards to convert the loans/receivables secured in currencies different from the functional currencies of the various Group companies.
IRS transactions, provide for or may entail, at specified maturity dates, the exchange of flows of interest, calculated on the notional amount, at the agreed fixed or variable rates.
The same also applies to CCIRS transactions which, in addition to the settlement of periodic interest flows, may provide for the exchange of principal, in the respective currencies of denomination, at maturity and possibly spot.

In carrying out its role of providing financial assistance to TIM Group companies, Telecom Italia Finance aggregates all the exposure with some banking counterparties in just one entity. As a consequence, the Group has derivative contracts signed with banks and analogous intercompany derivative contracts with other TIM Group companies for a notional amount of 3.885 million euros (3.957 at December 31, 2015).

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

The following tables show the derivative financial instruments of the Group at December 31, 2016 and at December 31, 2015, by type:

Type (millions of euros)	Hedged risk	Notional amount at 31/12/2016	Notional amount at 31/12/2015	Spot Mark-to-Market (Clean Price) at 31/12/2016	Spot Mark-to-Market (Clean Price) at 31/12/2015
Cross Currency and Interest Rate Swaps [*]	Interest rate risk and currency exchange rate risk	277	766	2	5
FX Options[**]	Currency exchange rate risk	-	158	-	-
Total Cash Flow Hedge Derivatives [***]		**277**	**924**	**2**	**5**
Total Non-Hedge Accounting Derivatives [****]		**4.489**	**4.805**	**98**	**316**
Total Telecom Italia Finance Group Derivatives		**4.766**	**5.729**	**100**	**321**

Type (millions of euros)	Hedged risk	Notional amount at 31/12/2015	Notional amount at 01/01/2015	Spot Mark-to-Market (Clean Price) at 31/12/2015	Spot Mark-to-Market (Clean Price) at 01/01/2015
Interest rate swaps	Interest rate risk	-	138	-	25
Total Fair Value Hedge Derivatives		**-**	**138**	**-**	**25**
Cross Currency and Interest Rate Swaps [*]	Interest rate risk and currency exchange rate risk	766	766	5	1
FX Options[**]	Currency exchange rate risk	158	-	-	-
Total Cash Flow Hedge Derivatives [***]		**924**	**766**	**5**	**1**
Total Non-Hedge Accounting Derivatives [****]		**4.805**	**6.656**	**316**	**211**
Total Telecom Italia Finance Group Derivatives		**5.729**	**7.560**	**321**	**237**

[*] For these instruments contracts no exchange of notional amounts has been agreed with the counterparties.
[**] The notional amount of the FX options is reflected in both the CFH section and the NH section because only the intrinsic value portion is documented in the hedge accounting, whereas the time value is treated as a NH derivative.
[***] On the liability expiring on 2029, derivatives are both accounted in CFH and non hedge; accordingly, although it is a single issue, the notional amount of derivatives is included in both the CFH and non hedging groupings.
[****] Telecom Italia Finance Group entered into some derivatives on other TIM Group companies request. Since TIF Group has a contract with an external counterparty and the opposite contract with an intercompany, the MTM exposure on these positions is neutral and there is no risk connected. The notional amounts are exposed for all these positions.

The category "Non-Hedge Accounting Derivatives" also included the embedded option of the mandatory convertible bond issued by the Group amounting to 1,3 billion euros. This component, embedded in the financial instrument, had a notional amount equal to the amount of the loan and was offset by a specular position towards TIM S.p.A.; both positions ended in 2016.

The hedging of cash flows by cash flow hedges was considered highly effective and at December 31, 2016 led to:
- recognition in equity of unrealized gains of 3 million euros (5 million euros as at December 31, 2015);
- reversal from equity to the income statement of net income from exchange rate adjustments of 3 million euros (4 million euros as at December 31, 2015).

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
USD	186	Jan-17	Oct-29	0,75%	Semiannually
USD	186	Jan-17	Oct-17	1,00%	Semiannually

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.
No ineffective portion has been recognized in the income statement from designated cash flow hedge derivatives during 2016.

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 Group consists 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 “Current and non-current financial liabilities”).
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, 2016;
- 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 three levels of input:

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

The following tables set out, for assets and liabilities at December 31, 2016, December 31, 2015 and January 1, 2015 and in accordance with the categories established by IAS 39, the supplementary disclosure on financial instruments required by IFRS 7 and the schedules of gains and losses. It does not include Discontinued operations/Non-current assets held for sale and Liabilities directly associated with Discontinued operations/Non-current assets held for sale.

Key for IAS 39 categories

	Acronym
Loans and Receivables	LaR
Financial assets Held-to-Maturity	HtM
Financial assets Available-for-Sale	AfS
Financial Assets/Liabilities Held for trading	FAHfT/FLHfT
Financial Liabilities at Amortized Cost	FLAC
Hedging Derivatives	HD
Not applicable	n.a.

Carrying amount and fair value hierarchy for each category/class of financial asset/liability and comparison with their fair value at 31/12/2016

				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 31/12/2016	Amortized cost	Cost	Fair value taken to equity	Fair value recognized in the income statement	Level1	Level 2	Amounts recognized in financial statements according to IAS 17	Fair Value at 31/12/2016
Assets											
Loans and Receivables	**LaR**		**6.323**	**6.323**	**-**	**-**	**-**	**-**	**-**	**-**	**6.323**
Non-current assets											
Other financial receivables		[8]	1.174	1.174	-	-	-	-	-	-	
Miscellaneous receivables		[9]	386	386	-	-	-	-	-	-	
Current assets											
Other short-term financial receivables		[8]	1.016	1.016	-	-	-	-	-	-	
Cash and cash equivalents		[8]	2.888	2.888	-	-	-	-	-	-	
Trade receivables		[12]	858	858	-	-	-	-	-	-	
Other receivables		[12]	1	1	-	-	-	-	-	-	
Available-for-Sale financial assets	**AfS**		**1.228**	**-**	**-**	**1.228**	**-**	**1.227**	**1**	**-**	**1.228**
Non-current assets											
Other investments		[7]	106	-	-	106	-	106	-	-	
Securities other than investments		[8]	1	-	-	1	-	-	1	-	
Current assets											
Securities other than investments		[8]	1.121	-	-	1.121	-	1.121	-	-	
Financial assets at fair value through profit or loss held for trading	**FAHfT**		**1.105**	**-**	**-**	**-**	**1.105**	**140**	**965**	**-**	**1.105**
Non-current assets											
Non-hedging derivatives		[8]	914	-	-	-	914	-	914	-	
Current assets											
Non-hedging derivatives		[8]	51	-	-	-	51	-	51	-	
Securities other than investments		[8]	140	-	-	-	140	140	-	-	
Hedging Derivatives	**HD**		**3**	**-**	**-**	**3**	**-**	**-**	**3**	**-**	**3**
Non-current assets											
Hedging derivatives		[8]	2	-	-	2	-	-	2	-	
Current assets											
Hedging derivatives		[8]	1	-	-	1	-	-	1	-	
Financial receivables for lease contracts	**n.a.**		**59**	**-**	**-**	**-**	**-**	**-**	**-**	**59**	**59**
Non-current assets		[8]	59	-	-	-	-	-	-	59	
Current assets		[8]	-	-	-	-	-	-	-	-	
Total			**8.718**	**6.323**	**-**	**1.231**	**1.105**	**1.367**	**969**	**59**	**8.718**

				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 31/12/2016	Amortized cost	Cost	Fair value taken to equity	Fair value recognized in the income statement	Level1	Level 2	Amounts recognized in financial statements according to IAS 17	Fair Value at 31/12/2016
Liabilities											
Financial Liabilities at Amortized Cost	**FLAC/HD**		**5.096**	**5.096**	**-**	**-**	**-**	**-**	**-**	**-**	**5.386**
Non-current liabilities											
Financial payables		[14]	2.840	2.840	-	-	-	-	-	-	
Current liabilities											
Financial payables		[14]	703	703	-	-	-	-	-	-	
Trade and miscellaneous payables and other current liabilities		[21]	1.553	1.553	-	-	-	-	-	-	
Financial liabilities at fair value through profit or loss held for trading	**FLHfT**		**860**	**-**	**-**	**-**	**860**	**-**	**860**	**-**	**860**
Non-current liabilities											
Non-hedging derivatives		[14]	823	-	-	-	823	-	823	-	
Current liabilities											
Non-hedging derivatives		[14]	37	-	-	-	37	-	37	-	
Finance lease liabilities	**n.a.**		**524**	**-**	**-**	**-**	**-**	**-**	**-**	**524**	**524**
Non-current liabilities		[14]	**496**	**-**	**-**	**-**	**-**	**-**	**-**	**496**	
Current liabilities		[14]	**28**	**-**	**-**	**-**	**-**	**-**	**-**	**28**	
Total			**6.480**	**5.096**	**-**	**-**	**860**	**-**	**860**	**524**	**6.770**

Carrying amount and fair value hierarchy for each category/class of financial asset/liability and comparison with their fair value at 31/12/2015

				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 31/12/2015	Amortized cost	Cost	Fair value taken to equity	Fair value recognized in the income statement	Level1	Level 2	Amounts recognized in financial statements according to IAS 17	Fair Value at 31/12/2015
Assets											
Loans and Receivables	**LaR**		**7.694**	**7.694**		**-**	**-**	**-**	**-**	**-**	**7.694**
Non-current assets											
Other financial receivables		[8]	2.859	2.859	-	-	-	-	-	-	
Miscellaneous receivables		[9]	268	268	-	-	-	-	-	-	
Current assets											
Other short-term financial receivables		[8]	1.170	1.170	-	-	-	-	-	-	
Cash and cash equivalents		[8]	2.718	2.718	-	-	-	-	-	-	
Trade receivables		[12]	678	678	-	-	-	-	-	-	
Other receivables		[12]	1	1	-	-	-	-	-	-	
Available-for-Sale financial assets	**AfS**		**886**	**-**	**-**	**886**	**-**	**884**	**2**	**-**	**886**
Non-current assets											
Other investments		[7]	149	-	-	149	-	149	-	-	
Securities other than investments		[8]	2	-	-	2	-	-	2	-	
Current assets											
Securities other than investments		[8]	735	-	-	735	-	735	-	-	
Financial assets at fair value through profit or loss held for trading	**FAHfT**		**2.197**	**-**	**-**	**-**	**2.197**	**491**	**1.706**	**-**	**2.197**
Non-current assets											
Non-hedging derivatives		[8]	974	-	-	-	974	-	974	-	
Current assets											
Non-hedging derivatives		[8]	732	-	-	-	732	-	732	-	
Securities other than investments		[8]	491	-	-	-	491	491	-	-	
Hedging Derivatives	**HD**		**10**	**-**	**-**	**10**	**-**	**-**	**10**	**-**	**10**
Non-current assets											
Hedging derivatives		[8]	3	-	-	3	-	-	3	-	
Current assets											
Hedging derivatives		[8]	7	-	-	7	-	-	7	-	
Financial receivables for lease contracts	**n.a.**		**47**	**-**	**-**	**-**	**-**	**-**	**-**	**47**	**47**
Non-current assets		[8]	47	-	-	-	-	-	-	47	
Total			**10.834**	**7.694**	**-**	**896**	**2.197**	**1.375**	**1.718**	**47**	**10.834**

				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 31/12/2015	Amortized cost	Cost	Fair value taken to equity	Fair value recognized in the income statement	Level1	Level 2	Amounts recognized in financial statements according to IAS 17	Fair Value at 31/12/2015
Liabilities											
Financial Liabilities at Amortized Cost	**FLAC/HD**		**6.738**	**6.738**	**-**	**-**	**-**	**-**	**-**	**-**	**7.061**
Non-current liabilities											
Financial payables		[14]	3.059	3.059	-	-	-	-	-	-	
Current liabilities											
Financial payables		[14]	2.357	2.357	-	-	-	-	-	-	
Trade and miscellaneous payables and other current liabilities		[21]	1.322	1.322	-	-	-	-	-	-	
Financial liabilities at fair value through profit or loss held for trading	**FLHfT**		**1.403**	**-**	**-**	**-**	**1.403**	**-**	**1.403**	**-**	**1.403**
Non-current liabilities											
Non-hedging derivatives		[14]	791	-	-	-	791	-	791	-	
Current liabilities											
Non-hedging derivatives		[14]	612	-	-	-	612	-	612	-	
Hedging Derivatives	**HD**		**4**	**-**	**-**	**4**	**-**	**-**	**4**	**-**	**4**
Current liabilities											
Hedging Derivatives		[14]	4	-	-	4	-	-	4	-	
Finance lease liabilities	**n.a.**		**381**	**-**	**-**	**-**	**-**	**-**	**-**	**381**	**381**
Non-current liabilities		[14]	**372**	**-**	**-**	**-**	**-**	**-**	**-**	**372**	
Current liabilities		[14]	**9**	**-**	**-**	**-**	**-**	**-**	**-**	**9**	
Total			**8.526**	**6.738**	**-**	**4**	**1.403**	**-**	**1.407**	**381**	**8.849**

Carrying amount and fair value hierarchy for each category/class of financial asset/liability and comparison with their fair value at 01/01/2015

				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 01/01/2015	Amortized cost	Cost	Fair value taken to equity	Fair value recognized in the income statement	Level1	Level 2	Amounts recognized in financial statements according to IAS 17	Fair Value at 01/01/2015
Assets											
Loans and Receivables	**LaR**		**10.319**	**10.319**	**-**	**-**	**-**	**-**	**-**	**-**	**10.319**
Non-current assets											
Other financial receivables		[8]	2.287	2.287	-	-	-	-	-	-	
Miscellaneous receivables		[9]	329	329	-	-	-	-	-	-	
Current assets											
Other short-term financial receivables		[8]	2.972	2.972	-	-	-	-	-	-	
Cash and cash equivalents		[8]	3.625	3.625	-	-	-	-	-	-	
Trade receivables		[12]	1.106	1.106	-	-	-	-	-	-	
Available-for-Sale financial assets	**AfS**		**1.160**	**-**	**-**	**1.160**	**-**	**1.154**	**6**	**-**	**1.160**
Non-current assets											
Other investments		[7]	113	-	-	113	-	113	-	-	
Securities other than investments		[8]	6	-	-	6	-	-	6	-	
Current assets											
Securities other than investments		[8]	1.041	-	-	1.041	-	1.041	-	-	
Financial assets at fair value through profit or loss held for trading	**FAHfT**		**1.086**	**-**	**-**	**-**	**1.086**	**-**	**1.086**	**-**	**1.086**
Non-current assets											
Non-hedging derivatives		[8]	1.044	-	-	-	1.044	-	1.044	-	
Current assets											
Non-hedging derivatives		[8]	42	-	-	-	42	-	42	-	
Hedging Derivatives	**HD**		**31**	**-**	**-**	**6**	**25**	**-**	**31**	**-**	**31**
Non-current assets											
Hedging derivatives		[8]	26	-	-	1	25	-	26	-	
Current assets											
Hedging derivatives		[8]	5	-	-	5	-	-	5	-	
Financial receivables for lease contracts	**n.a.**		**60**	**-**	**-**	**-**	**-**	**-**	**-**	**60**	**60**
Non-current assets		[8]	60	-	-	-	-	-	-	60	
Total			**12.656**	**10.319**	**-**	**1.166**	**1.111**	**1.154**	**1.123**	**60**	**12.656**

				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 01/01/2015	Amortized cost	Cost	Fair value taken to equity	Fair value recognized in the income statement	Level1	Level 2	Amounts recognized in financial statements according to IAS 17	Fair Value at 01/01/2015
Liabilities											
Financial Liabilities at Amortized Cost	**FLAC/HD**		**8.012**	**8.012**	**-**	**-**	**-**	**-**	**-**	**-**	**8.351**
Non-current liabilities											
Financial payables		[14]	4.936	4.936	-	-	-	-	-	-	-
Current liabilities											
Financial payables		[14]	733	733	-	-	-	-	-	-	-
Trade and miscellaneous payables and other current liabilities		[21]	2.343	2.343	-	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss held for trading	**FLHfT**		**882**	**-**	**-**	**-**	**882**	**-**	**882**	**-**	**882**
Non-current liabilities											
Non-hedging derivatives		[14]	835	-	-	-	835	-	835	-	-
Current liabilities											
Non-hedging derivatives		[14]	47	-	-	-	47	-	47	-	-
Hedging Derivatives	**HD**		**4**	**-**	**-**	**4**	**-**	**-**	**4**	**-**	**4**
Current liabilities											
Hedging Derivatives		[14]	4	-	-	4	-	-	4	-	-
Finance lease liabilities	**n.a.**		**102**	**-**	**-**	**-**	**-**	**-**	**-**	**102**	**102**
Non-current liabilities		[14]	**101**	**-**	**-**	**-**	**-**	**-**	**-**	**101**	**-**
Current liabilities		[14]	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**-**
Total			**9.000**	**8.012**	**-**	**4**	**882**	**-**	**886**	**102**	**9.339**

Gains and losses by IAS 39 category - Year 2016

(millions of euros)	IAS 39 Categories	Net gains/(losses) 31/12/2016	of which interest
Loans and Receivables	LaR	331	273
Available-for-Sale financial assets	AfS	3	-
Financial Assets/Liabilities Held for Trading	FAHfT/FLHfT	-140	-
Financial Liabilities at Amortized Cost	FLAC	-283	-271
Total		**-89**	**2**

Gains and losses by IAS 39 category - Year 2015

(millions of euros)	IAS 39 Categories	Net gains/(losses) 31/12/2015	of which interest
Loans and Receivables	LaR	419	371
Available-for-Sale financial assets	AfS	15	-
Financial Assets/Liabilities Held for Trading	FAHfT/FLHfT	222	-
Financial Liabilities at Amortized Cost	FLAC	-322	-326
Total		**334**	**45**

Note 19 – Provisions

(millions of euros)	31/12/2015	Increase	Taken to income	Used directly	Exchange differences and other changes	31/12/2016
Provision for taxation and tax risks	**55**	-	-	-2	12	**65**
Provision for restoration costs	**7**	-	-	-	-1	**6**
Provision for legal disputes	**45**	103	-	-84	13	**77**
Other provisions	**2**	-	-	-	-	**2**
Total	**109**	**103**	**-**	**-86**	**24**	**150**
of which:						
non-current portion	**106**	84	-	-86	22	**126**
current portion	**3**	19	-	-	2	**24**

(millions of euros)	01/01/2015	Increase	Taken to income	Used directly	Exchange differences and other changes	31/12/2015
Provision for taxation and tax risks	**62**	7	-	-4	-10	**55**
Provision for restoration costs	**89**	1	-55	-	-28	**7**
Provision for legal disputes	**66**	87	-	-93	-15	**45**
Other provisions	**2**	1	-	-1	-	**2**
Total	**219**	**96**	**-55**	**-98**	**-53**	**109**
of which:						
non-current portion	**216**	96	-55	-98	-53	**106**
current portion	**3**	-	-	-	-	**3**

Provision for taxation and tax risks. The figure at December 31, 2016 mainly related to companies in the Brazil Business Unit (63 million euros *vs.* 53 million euros at December 31, 2015).

Provision for restoration costs relates to the provision for the estimated cost of dismantling tangible assets – in particular: batteries, wooden poles and equipment – and for the restoration of the sites used for mobile telephony by companies belonging to the Brazil Business Unit (6 million euros at December 31, 2016 *vs.* 7 million euros December 31, 2015).

Provision for legal disputes includes the provision for litigation with employees, social security entities, regulatory authorities and other counterparties and refers to the Brazil Business Unit. The uses consisted of 84 million euros and resulted from settlement agreements reached.

Note 20 – Miscellaneous payables and other non-current liabilities

(millions of euros)	31/12/2016	31/12/2015	01/01/2015
Deferred income	309	258	43
Income tax payables [*]	67	49	60
Other	17	16	20
Total	**393**	**323**	**123**

[*] Analysed in the Note "Income taxes (current and deferred)" section 'Income tax expenses'.

Deferred income includes the non-current portion of approximately 273 million euros in 2016 (217 million euros as at December 31, 2015) of deferred gain on the sale and lease back of the telecommunication towers of the Brazil Business Unit.

Note 21 – Trade and miscellaneous payables and other current liabilities

(millions of euros)	31/12/2016	Of which IAS 39 Financial Instruments	31/12/2015	Of which IAS 39 Financial Instruments	01/01/2015	Of which IAS 39 Financial Instruments
Trade payables	**1.369**	**1.369**	**1.134**	**1.134**	**2.069**	**2.069**
Payables to suppliers	1.286	1.286	1.093	1.093	1.996	1.996
Payables to other telecommunication operators	83	83	41	41	73	73
Tax payables	**153**	**153**	**137**	**137**	**218**	**218**
Miscellaneous payables and other current liabilities	**358**	**31**	**350**	**51**	**442**	**56**
Payables for employee compensation	45	-	30	-	47	-
Payables to social security agencies	15	-	14	-	17	-
Trade and miscellaneous deferred income	28	-	20	-	11	-
Advances received	1	-	1	-	2	-
Customer-related items	207	-	225	-	296	-
Payables for TLC operating fee	6	-	5	-	10	-
Dividends approved, but not yet paid to shareholders	31	31	50	50	55	55
Other current liabilities	1	-	2	1	1	1
Provisions for risks and charges for the current portion expected to be settled within 1 year	24	-	3	-	3	-
Total	**1.880**	**1.553**	**1.621**	**1.322**	**2.729**	**2.343**

Trade payables amounting to 1.369 million euros as at December 31, 2016 (1.134 million euros at December 31, 2015) are referred to the Brazil Business Unit.

Tax payables amounting to 153 million euros as at December 31, 2016 are referred to the Brazil Business Unit (137 million euros at December 31, 2015).

Note 22 – Contingent liabilities, other information, commitments and guarantees

A description is provided below of the most significant judicial, arbitration and tax disputes in which the Group companies are involved as at December 31, 2016, as well as those that came to an end during the financial year.

SIGNIFICANT DISPUTES AND PENDING LEGAL ACTIONS

International tax and regulatory disputes
On March 22, 2011 TIM Celular was served notice of a tax assessment issued by the Federal Tax Authorities of Brazil for a total sum of 1.265 millions of Brazilian reais as at the date of the notification, including fines and interest, as a result of the completion of a tax investigation of financial years 2006, 2007, 2008 and 2009 for the companies TIM Nordeste Telecomunicações S.A. and TIM Nordeste S.A (previously called Maxitel), companies which have been progressively incorporated into TIM Celular with the aim of rationalising the corporate structure in Brazil.
The assessment notice includes various adjustments; the main claims may be summarised as follows:

- non-recognition of the fiscal effects of the merger of TIM Nordeste Telecomunicações S.A. and Maxitel S.A.;
- non-recognition of the fiscal deductibility of the write-down of goodwill relating to the purchase of Tele Nordeste Celular Participações S.A. ("TNC").

The adjustments included in the assessment notice were challenged by TIM Celular, before the administrative court, with the submission of an initial defence on April 20, 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 Management, as confirmed by fitting legal opinions, believes it is unlikely that the company could suffer any negative consequences in relation to these matters.
Again with regard to TIM Participações' subsidiary Brazilian companies, other cases of tax disputes are present including for significant amounts but with a risk of losing deemed improbable (for the aforementioned companies), on the basis of the legal opinions issued to the companies.
The most relevant cases relate to the fiscal deductibility of the write-down of goodwill, indirect taxation and contributions to the local regulatory authority (ANATEL). Of the main disputes concerning indirect taxation, several disputes regarding lowering the tax base on the basis of discounts granted to customers may be noted; the regulatory authority however alleges that the company did not pay sufficient contributions to the FUST/FUNTTEL funds.
Finally, note that in December 2013 TIM Celular received a tax assessment served by the Brazilian Federal District Finance Secretariat equal to approximately 582 millions of Brazilian reais at the date of formal notice, including penalties and interest, on account of alleged non-payments of indirect taxes for the years 2008 to 2012. The assessment was served following a decision by the Supreme Court declaring that a state tax incentive was unconstitutional. The Company promptly filed an initial defence statement, in administrative proceedings, in January 2014. On October 23, 2015, TIM Celular was served notice of the decision of the lower administrative court which substantially confirmed the claims included in the assessment notice, although it reduced the amount in dispute, but by a small amount. TIM Celular promptly filed an appeal, again in administrative proceedings, against this decision on 24 November 2015. Also on the basis of specific legal advice, TIM Celular does not consider an unfavourable outcome to be likely.

In December 2016 the state of São Paulo notified TIM Celular of a claim similar in nature to the previous one, for a sum of about 52 millions of Brazilian reais (including penalties and interest); in this case, too, the assessment carried out by the company rates the risk of losing the case improbable.

It should be noted that for some disputes described below, on the basis of the information available at the closing date of the present document 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 the case in which the disclosure of information relative to the dispute could seriously jeopardise the position of the Group or its subsidiaries, only the general nature of the dispute is described.

Brazil - Opportunity Arbitration
In May 2012, Telecom Italia and Telecom Italia International N.V. were served with an arbitration brought by the Opportunity Group, claiming restoration of damages allegedly suffered as a consequence of the presumed breach of a certain settlement agreement signed in 2005. Based on claimant's allegations, such damages would be related to matters emerged in the framework of the criminal proceedings pending before the Court of Milan regarding, among others, unlawful activities of former employees of TIM.

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 judgement, 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.

Brazil - Docas/JVCO arbitration
In March 2013, the Brazilian companies Docas Investimentos S.A. (Docas) and JVCO Participações Ltda. (JVCO) started arbitration proceedings against TIM Brasil Serviços e Participações S.A. (TIM Brasil), TIM Participações S.A. (TIM Participações) and Intelig Telecomunicações Ltda. (Intelig) requesting the restitution of the TIM Participações shares held by the TIM Group as guarantee (“Alienaçao Fiduciaria”) for the indemnity obligations undertaken by the Docas Group upon acquisition of Intelig (a Docas Group subsidiary) by the merger by incorporation of its controlling company into TIM Participações, as well as compensation for damages for alleged breach of the merger agreement and alleged offences by TIM Participações in determining the exchange ratio between TIM Participações shares and Intelig shares, for an amount not yet specified and to be paid during the proceedings. After the Arbitration Board had been constituted in May 2013, TIM Brasil, TIM Participações and Intelig filed their response, including a counterclaim against the Docas Group for compensation for damages.
In October 2013, in order to preserve the status quo until the arbitration decision is made, the Court of Arbitration ordered that the guarantee represented by the aforementioned TIM Participações shares could not be enforced and that they would remain in "Alienaçao Fiduciaria" in the custody of Banco Bradesco. The voting rights connected to the Shares are "frozen" and future dividends must be paid into an escrow account.
In December 2013, Docas and JVCO filed their Statement of Claim. In March 2014, the counterclaim by TIM Brasil, TIM Participações and Intelig was filed, and the discovery phase started. In February 2015, the Statements of Defence of all the parties were filed, in view of the examination hearing.
In September 2015, there was an examination hearing in Rio de Janeiro, in which the witnesses were cross-examined and legal and financial experts gave evidence.
In the month of December, the parties filed their final arguments. The TIM Group also asked that the JVCO's application for the appointment of an expert by the Court be rejected.
The statements of costs were filed in January 2016. In June 2016, the Board issued its judgement, with which it rejected the application of Docas and JVCO relating to the adjustment of the exchange ratio for the Intelig merger, as well as the expert's request to verify alleged offences in the preparation of the financial statements for the merger. Moreover, in addition to ordering it to pay some of TIM’s legal costs, the Board also ordered Docas and JVCO to compensate TIM for some of the losses it had actually suffered (over 5,8 millions of Brazilian reais, plus interest and penalties) and ruled that TIM was entitled to retain TIM Participações shares (in "Alienação Fiduciaria") as guarantee of these losses, and of the potential losses deriving from some specific liabilities identified by the Board (totalling approximately 169,6 millions of Brazilian reais plus interest and penalties). The Board ruled that Docas and JVCO were entitled to receive the payment of dividends on shares held as guarantee for the period December 2012 – April 2014, plus interest. The Board's decision is immediately enforceable. Docas and JVCO subsequently filed applications interpreting and correcting the judgement with the Board and TIM has filed its opposing arguments against these applications. The Board of Arbitration issued its decision on these demands (“Addendum to the Final Award”) on December 1, 2016.

Brazil – CAM JVCO Arbitration
In September 2015, JVCO Participações Ltda filed an application for arbitration before the Camara de Arbitragem do Mercado (CAM), based in Rio de Janeiro, against Telecom Italia, Telecom Italia International, TIM Brasil Serviços e Participações S.A. and TIM Participações S.A., claiming compensation for damages due to an alleged abuse of controlling power over TIM Participações. The following October, all the companies entered appearances and filed statements of defence and TIM Participações, by way of a counter-claim, called for the conviction of JVCO for abuse of its position as minority shareholder.
A Board of Arbitration was subsequently established, and in May 2016, there was a preliminary hearing, at which the Terms of Reference were signed. After the hearing, the Board of Arbitration issued a procedural order accepting the Group's request for a preliminary examination of the issue of whether JVCO were entitled to issue proceedings and establishing a provisional schedule for the arbitration. In June the parties exchanged claims and counterclaims, and in their defence TIM, Telecom Italia International, TIM Brasil Serviços e Participações S.A. and TIM Participações S.A. contested the other party' entitlement to bring proceedings and the legality of proceedings against TIM Participações, and disputed that there was any abuse of power. In the month of July, the parties filed their responses. On October 19 the Board of Arbitration issued a preliminary procedural order on the legitimacy of the proceedings brought by the parties, upholding the legality of JVCO bringing proceedings and the legality of proceedings being brought against TIM Participações, and fixing the timetable for subsequent replies by the parties. On November 21 and December 19, 2016 the parties filed further replies. On January 31, 2017, the Board

of Arbitration issued a procedural order, ruling on trial questions, summarising the principal disputed questions in the proceedings and making provision in relation to the preliminary investigation. The parties then indicated the evidence which they intend to produce in court.

COMMITMENTS AND GUARANTEES

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

(millions of euros)	31/12/2016	31/12/2015	01/01/2015
Guarantee on bonds issued by the Group	1.177	2.468	2.590
Guarantee on derivatives financial instruments	210	186	234
Total	**1.387**	**2.654**	**2.824**

There are also surety bonds on the telecommunication services in Brazil for 759 million euros.

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

ASSETS PLEDGED TO GUARANTEE FINANCIAL LIABILITIES

The contracts for low-rate loans granted by the Brazilian development bank BNDES (Banco Nacional de Desenvolvimento Econômico e Social) to TIM Celular for a total equivalent amount of 1.526 million euros are covered by specific covenants. In the event of non-compliance with the covenant obligations, BNDES will have a right to the receipts which transit on the bank accounts of the company.

Note 23 – Revenues

(millions of euros)	Year 2016	Year 2015
Equipment sales	232	474
Services	3.815	4.162
Total	**4.047**	**4.636**

Revenues from telecommunications services are presented gross of amounts due to other TLC operators, equal to 275 million euros in 2016 (323 million euros in 2015, -14,9% change), included in the costs of services.
For a breakdown of revenues by operating segment/geographical area, reference should be made to the Note "Segment Reporting".

Note 24 – Other income

(millions of euros)	Year 2016	Year 2015
Late payment fees charged for telephone services	10	10
Other income	41	12
Total	**51**	**22**

Note 25 – Acquisition of goods and services

(millions of euros)	Year 2016	Year 2015
Acquisition of raw materials and merchandise	**260**	**477**
Costs of services	**1.301**	**1.481**
Revenues due to other TLC operators	275	323
Commissions, sales commissions and other selling expenses	465	507
Advertising and promotion expenses	113	148
Professional and consulting services	121	154
Utilities	90	77
Maintenance	60	77
Outsourcing costs for other services	91	98
Mailing and delivery expenses for telephone bills, directories and other materials to customers	37	38
Other service expenses	49	59
Lease and rental costs	**471**	**489**
Rent and leases	262	228
TLC circuit lease rents and rents for use of satellite systems	209	260
Other lease and rental costs	-	1
Total	**2.032**	**2.447**

Note 26 – Employee benefits expenses

(millions of euros)	Year 2016	Year 2015
Wages and salaries	216	239
Social security expenses	65	75
Other employee benefits	42	37
Charges for termination benefit incentives	15	-
Total	**338**	**351**

The employee benefits expenses are mainly related to the Brazil Business Unit for 336 million euros (349 million euros in 2015).

Note 27 – Other operating expenses

(millions of euros)	Year 2016	Year 2015
Write-downs and expenses in connection with credit management	69	62
Provision charges	93	87
TLC operating fees and charges	319	285
Indirect duties and taxes	6	9
Penalties, settlement compensation and administrative fines	-	7
Association dues and fees, donations, scholarships and traineeships	2	2
Sundry expenses	16	21
Total	**505**	**473**
of which, included in the supplementary disclosure on financial instruments	*69*	*62*

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

Note 28 – Internally generated assets

(millions of euros)	Year 2016	Year 2015
Intangible assets with a finite useful life	26	21
Tangible assets owned	69	66
Total	**95**	**87**

Internally generated assets mainly include labour costs of dedicated technical staff for software development and work in connection with the executive design, construction and testing of network installations.

Note 29 – Depreciation and amortization

(millions of euros)	Year 2016	Year 2015
Amortization of intangible assets with a finite useful life	**440**	**408**
Industrial patents and intellectual property rights	334	305
Concessions, licenses, trademarks and similar rights	102	99
Other intangible assets	4	4
Depreciation of tangible assets owned	**523**	**491**
Buildings (civil and industrial)	1	1
Plant and equipment	455	425
Other	67	65
Depreciation of tangible assets held under finance leases	**18**	**10**
Plant and equipment	18	10
Total	**981**	**909**

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, reference should be made to the Note "Segment Reporting".

Note 30 – Gains/(losses) on disposals of non-current assets

(millions of euros)	Year 2016	Year 2015
Gains on disposals of non-current assets	**23**	**336**
Gains on the retirement/disposal of intangible and tangible assets	23	336
Total	**23**	**336**

In 2016, this item amounted to 23 million euros, mainly attributable to the non-recurring gain realized by the Brazil Business Unit of 44 millions of Brazilian reais - approximately 12 million euros (1.211 millions of Brazilian reais - approximately 328 million euros in 2015) from the sale of other two tranches of telecommunications towers to American Tower do Brasil.

Note 31 – Impairment reversals (losses) on non-current assets

(millions of euros)	Year 2016	Year 2015
Impairment losses on non-current assets	**-**	**240**
on intangible assets	-	240
Total	**-**	**240**

The amount of 240 million euros reported for financial year 2015 refers to the Goodwill of the Brazil Business Unit due to the results of the impairment testing conducted at December 31, 2015, carried out using the same method as the previous impairment testing and in particular by comparing the value in use of the Brazil Cash Generating Unit (CGU) with its recoverable amount at the same date. No impairment has been recorded in 2016.

Further details are provided in the Note "Goodwill" in the Consolidated Financial Statements at December 31, 2016 of the Group.

Note 32 – Finance income and expenses

FINANCE INCOME

(millions of euros)	Year 2016	Year 2015
Interest income and other finance income	**1.023**	**1.067**
Income from financial receivables, recorded in non-current assets	131	154
Income from securities other than investments, recorded in non-current assets	4	14
Income from securities other than investments, recorded in current assets	10	18
Income other than the above:		
Interest income	150	218
Exchange gains	507	332
Income from fair value hedge derivatives	-	1
Reversal of the Reserve for cash flow hedge derivatives to the income statement (interest rate component)	10	27
Income from non-hedging derivatives	191	232
Miscellaneous finance income	20	71
Positive fair value adjustments to non-hedging derivatives	**702**	**881**
Total	**1.725**	**1.948**
of which, included in the supplementary disclosure on financial instruments	*273*	*371*

FINANCE EXPENSES

(millions of euros)	Year 2016	Year 2015
Interest expenses and other finance expenses	**875**	**1.219**
Interest expenses and other costs relating to bonds	11	16
Interest expenses to banks	50	52
Interest expenses to others	193	178
Expenses other than the above:		
Commissions	20	16
Exchange losses	259	491
Reversal of the Reserve for cash flow hedge derivatives to the income statement (interest rate component)	7	23
Charges from non-hedging derivatives	236	287
Miscellaneous finance expenses	99	156
Negative fair value adjustments to	**932**	**730**
Securities Held for trading	-	1
Non-hedging derivatives	932	729
Total	**1.807**	**1.949**
of which, included in the supplementary disclosure on financial instruments	*271*	*326*

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

(millions of euros)	Year 2016	Year 2015
Exchange gains	507	332
Exchange losses	-259	-491
Net exchange gains and losses	**248**	**-159**
Income from fair value hedge derivatives	-	1
Net result from fair value hedge derivatives	**-**	**1**
Positive effect of the reversal of the Reserve of cash flow hedge derivatives to the income statement (interest rate component)	10	27
Negative effect of the reversal of the Reserve of cash flow hedge derivatives to the income statement (interest rate component)	-7	-23
Net effect of the Reversal of the Reserve of cash flow hedge derivatives to the income statement (interest rate component)	**3**	**4**
Income from non-hedging derivatives	191	232
Charges from non-hedging derivatives	-236	-287
Net result from non-hedging derivatives	**-45**	**-55**
Net result from derivatives	**-42**	**-50**
Positive fair value to non-hedging derivatives	702	881
Negative fair value adjustments to non-hedging derivatives	-932	-729
Net fair value adjustments to non-hedging derivatives	**-230**	**152**

Note 33 – Segment reporting

SEGMENT REPORTING

Segment reporting is based on the following operating segments:

- Telecommunications (Brazil)
- Other Operations

Separate Consolidated Income Statements by Operating Segment

(millions of euros)	Brazil		Other Operations		Consolidated Total	
	Year 2016	Year 2015	Year 2016	Year 2015	Year 2016	Year 2015
Third-party revenues	4.047	4.636	-	-	4.047	4.636
Revenues by operating segment	**4.047**	**4.636**	**-**	**-**	**4.047**	**4.636**
Other income	51	22	-	-	51	22
Total operating revenues and other income	**4.098**	**4.658**	**-**	**-**	**4.098**	**4.658**
Acquisition of goods and services	-2.028	-2.443	-4	-4	-2.032	-2.447
Employee benefits expenses	-336	-349	-2	-2	-338	-351
Other operating expenses	-504	-470	-1	-3	-505	-473
of which: write-downs and expenses in connection with credit management and provision charges	*-162*	*-148*	*-*	*-1*	*-162*	*-149*
Change in inventories	1	-33	-	-	1	-33
Internally generated assets	95	87	-	-	95	87
EBITDA	**1.326**	**1.450**	**-7**	**-9**	**1.319**	**1.441**
Depreciation and amortization	-981	-909	-	-	-981	-909
Gains/(losses) on disposals of non-current assets	23	336	-	-	23	336
Impairment reversals (losses) on non-current assets	-	-240	-	-	-	-240
EBIT	**368**	**637**	**-7**	**-9**	**361**	**628**
Other income (expenses) from investments					46	34
Finance income					1.725	1.948
Finance expenses					-1.807	-1.949
Profit (loss) before tax					**325**	**661**
Income tax expense					-82	-277
Profit (loss) for the year					**243**	**384**
Attributable to:						
Owners of the Parent					179	195
Non-controlling interests					64	189

Revenues by operating segment
The revenues only relate to the Brazil Business Unit.

Purchase of intangible and tangible assets by operating segment
Purchase of intangible and tangible assets only relates to the Brazil Business Unit.

Assets and liabilities by Operating Segment

(millions of euros)	Brazil			Other operations			Consolidated Total		
	31/12/2016	31/12/2015	01/01/2015	31/12/2016	31/12/2015	01/01/2015	31/12/2016	31/12/2015	01/01/2015
Non-current operating assets	7.711	5.912	7.230	2	2	4	7.713	5.914	7.234
Current operating assets	1.208	1.092	1.824	2	5	4	1.210	1.097	1.828
Total operating assets	**8.919**	**7.004**	**9.054**	**4**	**7**	**8**	**8.923**	**7.011**	**9.062**
Investments accounted for using the equity method	-	-	-	-	122	122	-	122	122
Unallocated assets							7.570	9.919	11.517
Total Assets							**16.493**	**17.052**	**20.701**
Total operating liabilities	**2.395**	**2.043**	**3.062**	**4**	**7**	**6**	**2.399**	**2.050**	**3.068**
Unallocated liabilities							5.040	7.262	6.834
Equity							9.054	7.740	10.799
Total Equity and Liabilities							**16.493**	**17.052**	**20.701**

INFORMATION ABOUT MAJOR CUSTOMERS

None of the Group's customers exceeds 10% of consolidated revenues.

Note 34 – Related party transactions

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

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

The effects on the individual line items of the Group's Separate Consolidated Income Statements for the years 2016 and 2015 are as follows:

Separate Consolidated Income Statement line items 2016

(millions of euros)		Related Parties					
	Total	Associates, companies controlled by associates and joint ventures	Other related parties	Pension funds	Key managers	Total related parties	% of financial statement item
Revenues	**4.047**	-	185	-	-	185	4,6
Other income	**51**	-	-	-	-	-	0,1
Acquisition of goods and services	**2.032**	-	-172	-	-	-172	8,5
Employee benefits expenses	**338**	-	-	3	2	5	1,5
Other operating expenses	**505**	-	2	-	-	2	0,3
Other income (expenses) from investments	**46**	82	-36	-	-	46	100,0
Finance income	**1.725**	-	301	-	-	301	17,5
Finance expenses	**1.807**	-	714	-	-	714	39,5

Separate Consolidated Income Statement line items 2015

(millions of euros)		Related Parties					
	Total	Associates, companies controlled by associates and joint ventures	Other related parties	Pension funds	Key managers	Total related parties	% of financial statement item
Revenues	**4.636**	-	245	-	-	245	5,3
Other income	**22**	-	-	-	-	-	0,0
Acquisition of goods and services	**2.447**	-	186	-	-	186	7,6
Employee benefits expenses	**351**	-	-	5	1	6	1,7
Other operating expenses	**473**	-	1	-	-	1	0,2
Other income (expenses) from investments	**34**	5	27	-	-	32	100,0
Finance income	**1.948**	-	784	-	-	784	40,2
Finance expenses	**1.949**	-	392	-	-	392	20,1

The effects on the individual line items of the consolidated statements of financial position at December 31, 2016, December 31, 2015 and at January 1, 2015 are as follows:

Consolidated Statement of Financial Position line items at 31/12/2016

(millions of euros)	Total	Associates, companies controlled by associates and joint ventures	Other related parties	Pension funds	Total related parties	% of financial statement item
Net financial debt	**-2.440**	**-**	**-2.495**	**-**	**-2.495**	**102,2**
Non-current financial assets	**-2.150**	**-**	**-1.506**	**-**	**-1.506**	**70,1**
Current financial assets	**-5.217**	**-**	**-1.622**	**-**	**-1.622**	31,1
Securities other than investments (current assets)	**-1.261**	-	-110	-	-110	**8,7**
Financial receivables and other current financial assets	**-1.068**	-	-1.026	-	-1.026	96,0
Cash and cash equivalents	**-2.888**	-	-486	-	-486	16,8
Non-current financial liabilities	**4.159**	**-**	**603**	**-**	**603**	**14,5**
Current financial liabilities	**768**	**-**	**30**	**-**	**30**	**3,9**
Other statement of financial position line items						
Trade and miscellaneous receivables and other current assets	**1.168**	-	40	-	40	3,4
Trade and miscellaneous payables and other current liabilities	**1.880**	3	44	-	47	2,5

Consolidated Statement of Financial Position line items at 31/12/2015

(millions of euros)	Total	Associates, companies controlled by associates and joint ventures	Other related parties	Pension funds	Total related parties	% of financial statement item
Net financial debt	**-2.534**	**-**	**-4.401**	**-**	**-4.401**	**173,7**
Non-current financial assets	**-3.885**	**-**	**-3.158**	**-**	**-3.158**	**81,3**
Current financial assets	**-5.853**	**-**	**-1.893**	**-**	**-1.893**	**32,3**
Securities other than investments (current assets)	**-1.226**	-	-47	-	-47	3,8
Financial receivables and other current financial assets	**-1.909**	-	-1.745	-	-1.745	91,4
Cash and cash equivalents	**-2.718**	-	-101	-	-101	3,7
Non-current financial liabilities	**4.222**	**-**	**609**	**-**	**609**	**14,4**
Current financial liabilities	**2.982**	**-**	**41**	**-**	**41**	**1,4**
Other statement of financial position line items						
Trade and miscellaneous receivables and other current assets	1.064	1	35	-	36	3,4
Trade and miscellaneous payables and other current liabilities	1.621	11	42	-	53	3,3

Consolidated Statement of Financial Position line items at 01/01/2015

(millions of euros)	Total	Associates, companies controlled by associates and joint ventures	Other related parties	Pension funds	Total related parties	% of financial statement item
Net financial debt	**-4.451**	**-5**	**-5.448**	**-**	**-5.453**	**122,5**
Non-current financial assets	**-3.423**	**-5**	**-2.753**	**-**	**-2.758**	**80,6**
Current financial assets	**-7.685**	**-**	**-3.255**	**-**	**-3.255**	**42,4**
Securities other than investments (current assets)	**-1.041**	-	-52	-	-52	5,0
Financial receivables and other current financial assets	**-3.019**	-	-2.985	-	-2.985	98,9
Cash and cash equivalents	**-3.625**	-	-218	-	-218	6,0
Non-current financial liabilities	**5.872**	**-**	**494**	**-**	**494**	**8,4**
Current financial liabilities	**785**	**-**	**66**	**-**	**66**	**8,4**
Other statement of financial position line items						
Trade and miscellaneous receivables and other current assets	1.746	-	41	-	41	2,3
Trade and miscellaneous payables and other current liabilities	2.729	12	37	-	49	1,8

TRANSACTIONS WITH PENSION FUNDS

The most significant amounts are summarized as follows:

Separate Consolidated Income Statement line items

(millions of euros)	Year 2016	Year 2015	Type of contract
Other pension funds	3	5	Contributions to pension funds
Total employee benefits expenses	**3**	**5**	

There are no transactions with pension funds in the Consolidated Statement of Financial Position.

REMUNERATION TO KEY MANAGERS

The remuneration to key managers in 2016 amounted to 2 million euros (1 million euros in 2015).

Note 35 – Equity compensation plans

The equity compensation plans in force at December 31, 2015 are used for retention purposes and as a long-term incentive for the managers and employees of the Group.
A summary is provided below of the plans in place at December 31, 2015.

DESCRIPTION OF STOCK OPTION PLANS

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 prices 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 2011-2014 and performance is recorded in July of each year. 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 2011
  The grantees of the options were granted the right to purchase a total of 2.833.596 shares.
  At December 31, 2016 no options were pending or exercisable. All the plan options have been exercised or have expired due to failure to achieve the minimum conditions set by the plan.
  At December 31, 2015, no options were pending or exercisable. All the plan options had been exercised or had expired due to failure to achieve the minimum conditions set by the plan.
  At January 1, 2015 1.532.132 options had been exercised. No further options are exercisable.

- Year 2012
  On September 5, 2012 the grantees of the options were granted the right to purchase a total of 2.661.752 shares.
  At December 31, 2016 , all pending options were vested, but were not exercisable since the minimum performance condition had not been reached. A total of 502.289 options are still pending. At December 31, 2015, all pending options were still vested, but were not exercisable since the minimum performance condition had not been reached. A total of 513.904 options were still pending.
  At January 1, 2015, all the 896.479 options relating to the 2012 allocation had been exercised.

- Year 2013
  On July 30, 2013, the grantees of the options were granted the right to purchase a total of 3.072.418 shares.
  At December 31, 2016 no option was exercisable. A total of 971.221 options have been exercised, 1.185.303 have lapsed and 1.091.464 options are still pending because the minimum performance condition has not yet been reached.
  At December 31, 2015 no option was exercisable. A total of 971.221 options had been exercised, whereas 1.531.984 options did not reach the minimum performance condition or have not yet vested.
  At January 1, 2015, a total of 971.221 options had been exercised.

• 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 December 31, 2016, 623.027 could be considered lapsed due to failure to achieve the minimum exercise conditions set in the Plan, whereas 502.097 were considered vested. No option has been exercised.
  At December 31, 2015, out of the total of those options, 150.791 could be considered as lapsed due to failure to achieve the minimum exercise conditions set in the Plan, whereas 435.188 could be considered as vested. No option has been exercised.
  At January 1, 2015, no options could be considered as vested.

- Year 2015
  On October 16, 2015, the grantees of the options were granted the right to purchase a total of 3.355.229 shares.
  At December 31, 2016, 780.144 could be considered as lapsed, whereas 338.266 could be considered as vested.

- Year 2016
  On November 8, 2016, the grantees of the options were granted the right to purchase a total of 3.922.198 shares.
  At December 31, 2016, no option could be considered as vested. No options have lapsed.

Parameters used to determine fair value – TIM Participações S.A. as of December 31, 2016, December 31, 2015 and January 1, 2015

Plans/Parameters	Exercise price (Brazilian reais)	Volatility (%)	Period	Expected dividends (Brazilian 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	44,60	6 years	-	10,66% per annum
Stock option plan 2015	8,45	35,50	6 years	-	16,10% per annum
Stock option plan 2016	8,10	36,70	6 years	-	11,73% per annum

Note 36 – Other information

RESEARCH AND DEVELOPMENT

Expenditures for research and development activities are represented by external costs, labour costs of dedicated staff and depreciation and amortization. Details are as follows:

(millions of euros)	Year 2016	Year 2015
Development costs capitalized	26	21
Total research and development costs (expensed and capitalized)	**26**	**21**

AUDITOR'S FEES

The following schedule reports the fees due to PricewaterhouseCoopers for the audit of the 2016 financial statements.

(thousands of euros)	Year 2016
Audit services	1.516
Verification services with issue of certification	22
Other services	48
Total fees due to PwC network for the audit and other services	**1.586**
Out of pocket	79
Total	**1.665**

Note 37 – Events subsequent to December 31, 2016

No event after the closing has a material impact on the financials herein reported.

Note 38 – List of companies of the Telecom Italia Finance Group

Company name	Head office	Currency	Share Capital	% Ownership	% of voting	Held by
PARENT COMPANY						
Telecom Italia Finance	Luxembourg	EUR				
SUBSIDIARIES CONSOLIDATED LINE-BY-LINE						
Brazil Business Unit						
• TIM Brasil Serviços & Partecipações S.A.	Rio de Janeiro	BRL	7.169.029.859	99,9999 0,0001		Telecom Italia Finance TIM S.p.A.
• TIM Participações S.A.	Rio de Janeiro	BRL	9.913.414.422	66,5819 0,0329		TIM Brasil Serviços & Partecipações S.A. TIM Participações S.A.
• TIM Celular S.A.	Sao Paulo	BRL	9.434.215.720	100,0000		TIM Participações S.A.
• Intelig Telecomunicações Ltda	Rio de Janeiro	BRL	4.041.956.045	99,9999 0,0001		TIM Participações S.A. TIM Celular S.A.
Telecom Italia Finance Ireland Ltd (in liquidation)	Dublin	EUR	1.360.000.000	100,0000		Telecom Italia Finance
Tierra Argentea S.A. (in liquidation)	Buenos Aires	ARS	-	69,3702 30,6298		Telecom Italia Finance TIM S.p.A.
ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD						
Italtel Group S.p.A.	Settimo Milanese	EUR	825.695	34,6845	19,3733	Telecom Italia Finance
Movenda S.p.A.	Roma	EUR	133.333	24,9998		Telecom Italia Finance
TI Audit Compliance Latam S.A.	Rio de Janeiro	BRL	1.500.000	69,9996 30,0004		TIM S.p.A. TIM Brasil Serviços & Partecipações S.A.
OTHER RELEVANT SHAREHOLDERS						
TIM S.p.A.	Milano	EUR	11.677.002.855	0,5900		Telecom Italia Finance

Certification of the Consolidated Financial Statements with amendments and additions

Pursuant to paragraph 3 of Luxembourg's Transparency Law, the undersigned Adriano Trapletti, Managing Director of the Company, to the best of his knowledge, hereby declares that the above financial statements prepared in accordance with IFRS legal and regulatory requirements as adopted by EU give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole and that the management report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Adriano Trapletti
Managing Director

pwc

Audit report

To the Shareholder of
Telecom Italia Finance S.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Telecom Italia Finance S.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income (including the separate consolidated income statement), statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the "Réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgment of the "Réviseur d'entreprises agréé" including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the "Réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of consolidated the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group Telecom Italia Finance as of 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other Matter

The Group has prepared consolidated financial statement for the year ended 31 December 2016 and related comparative data for the first time and in accordance with International Financial Reporting Standards as adopted by the European Union. We examined the comparative information to the extent deemed necessary to enable us to express an opinion on the consolidated financial statements as at 31 December 2016.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Directors' report but does not include the financial statements and our audit report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Report on other legal and regulatory requirements

The Directors' report is consistent with the consolidated financial statements and has been prepared in accordance with the applicable legal requirements.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 12 April 2017

Fabrice Goffin