Telecom Italia FINANCE

2017 Annual Report

Telecom Italia Finance Société Anonyme
12, rue Eugène Ruppert L-2453 Luxembourg
R.C.S. Luxembourg B 76.448

Audited Annual Accounts as at December 31, 2017, which have been authorized by the Board of Directors, held on March 05, 2018.

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Management's report

Dear Shareholder,

The year 2017 of Telecom Italia Finance (the "Company" or "TI Finance") ends with a profit of EUR 56.327.824,41 vs a positive result of EUR 137.927.425,46 in the year 2016. The year 2016 comprises one off gain of EUR 111,2 million net of withholding tax due to the divestment of the 18,50% shareholding in Sofora Telecommunications S.A. (the holding company for the TIM Group's controlling stake in Telecom Argentina).

In 2017 the Company's activities continue to be segmented into two business: holding of participations and financial assistance to Telecom Italia Group ("TIM Group") companies.

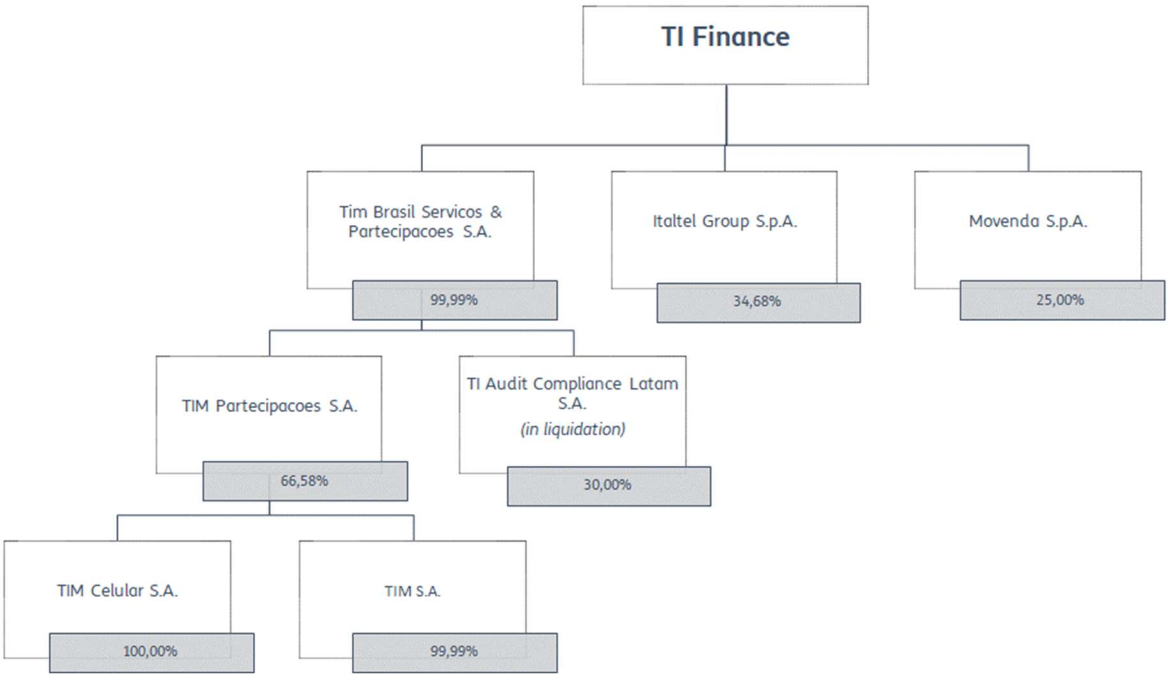
a) Participations

The main operations during year 2017 are the following:

- **Dividends:** during the year 2017 TI Finance registered a dividend from TIM Brasil of EUR 55,6 million (EUR 77,2 million in the year 2016).
- **Value adjustments:** the book value of TIM S.p.A. shares has been reduced by EUR -3,9 million (EUR -35,8 million in 2016) based on the weighted average price of last twelve months.
- Telecom Italia Finance Ireland Limited and Tierra Argentea S.A. have been **liquidated**.

As of December 31, 2017, the overall **net book value** of the Company's **equity investments** is worth EUR 3.283 million, compared to EUR 4.647 million as of December 31, 2016.

The table here below shows the main shareholdings as at December 31, 2017:



b) Financial activity

The **borrowing and lending activity** as per December 31, 2017 generated a contribution of EUR 15,2 million, compared to EUR -6,2 million for the same period 2016. The improvement is due to the repayment at maturity on November 15, 2016 of the mandatory convertible bond worth EUR 1.300 million net of the reduction of bank deposits.

The **net financial position** as of December 31, 2017 is positive for EUR 3.029 million (EUR 3.087 million as of December 31, 2016).

As of December 31, 2017, the total outstanding nominal amount of **notes** issued by TI Finance amounts to EUR 1.015 million (same amount as of December 31, 2016). The Parent Company TIM S.p.A. unconditionally and irrevocably guarantees the notes.

Share Capital

As of December 31, 2017 and December 31, 2016, the authorized, issued and fully paid-up capital is worth EUR 1.818.691.978,50 represented by no. 185.960.325 ordinary shares with a nominal value EUR 9,78 per share.

Risks

The Directors consider the following as the principal risks that could materially affect the result and the financial position of the Company:

- **the value of holdings** in associated undertakings, equity investments and securities issued from third parties may be adversely affected by financial and economic development;
- **foreign currency risk**: according to risk TIM Group management policies, TI Finance hedges the foreign currency exposure on its assets and liabilities in currencies other than euro through currency swap contracts or natural hedge positions;
- **interest rate risk**: in order to modify its interest rate exposure, TI Finance enters into interest rate swaps. However, no assurance can be given that fluctuations in interest rates will not adversely affect its results of operations or cash flows;
- moreover, the Company is exposed to generic **market, credit and liquidity risks**:
  - credit risk: representing the risk of non-fulfilment of obligations assumed by a counterparty in relation to lending and liquidity management activities;
  - liquidity risk: related to the need to meet short-term financial liabilities.

The above-described financial risks are managed through:

- the application of the following guidelines defined at TIM Group level:
  - for **market risk**: fully hedging the exchange risk and minimizing exposure to interest rates through appropriate diversification of the portfolio, including the use of derivative financial instruments;
  - for **credit risk**: liquidity management is based on prudential criteria and articulated in investment of temporary cash surplus (money market instruments) and investment of a permanent level of liquidity (bond portfolio management). In both situations, in order to manage the counterparty risk, the counterparties are selected according to their credit rating and the exposure is regulated both by names diversification and by tenor;
  - for **liquidity risk**: an adequate level of financial flexibility is obtained by maintaining a treasury margin that allows the refinancing requirements to be covered for at least the next twelve months.
- the identification of the most suitable financial instruments, including derivatives, to reach prefixed objectives;
- the monitoring of the results achieved.

Telecom Italia Finance is committed to the following TIM Group organizational model:

- Definition of strategic guidelines: in charge of the TIM Group Finance "Risk Committee" of which the CEO and the Treasurer of Telecom Italia Finance are members.
- Execution activity: in charge of Telecom Italia Finance Front and Back Office, which, among others, implements such guidelines in coordination with the TIM Group Treasurer and Capital Markets.
- TIM Group Financial Planning & Risk Control: any deviation from the guidelines is reported by the TIM Group Financial Risk Controller to the Finance "Risk Committee".

Additional details on financial risk management policies of TIM Group are available in the TIM S.p.A. consolidated accounts and related documents.

Events subsequent to December 31, 2017 - Evolution of the year 2018

During the year 2018 it is foreseen to continue the activity of financial assistance to TIM Group companies and continue to manage the market risks above mentioned. The Board remarks that the current financial environment continues to be characterized by either negative or very low level of short-term interest rates which will influence the return on liquid assets and will adversely impact the earnings of the year.
The Company does not perform research and development activities.
The Company did not acquire and does not hold its own shares.

Financials as of December 31, 2017 herein reported comprise the balance sheet, the profit and loss account, the cash flow statement and the explanatory notes.

Allocation of the result

The Board reminds that out of the result of EUR 56.327.824,41, at least EUR 2.816.391,22 must be allocated to the legal reserve, the difference of EUR 53.511.433,19 remains at disposal of the shareholder. Therefore, the Board proposes the following allocation:

- EUR 2.816.391,22 to the legal reserve;
- EUR 37.500.000,00 to be distributed to the sole shareholder;
- EUR 16.011.433,19 to be allocated to profit or loss brought forward.

For the Board of Directors
The Managing Director
Adriano Trapletti

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Annual Accounts

Balance Sheet – Assets

TELECOM ITALIA FINANCE S.A.
BALANCE SHEET AS AT DECEMBER 31, 2017

ASSETS - [EUR]		31.DECEMBER.2017	31.DECEMBER.2016
A. Subscribed capital unpaid		**0,00**	**0,00**
I. Subscribed capital not called		0,00	0,00
II. Subscribed capital called but unpaid		0,00	0,00
B. Formation expenses	[n.3]	**3.014.602,44**	**3.214.589,70**
C. Fixed assets		**5.094.634.691,70**	**5.822.722.456,29**
I. Intangible assets			
1. Costs of development		0,00	0,00
2. Concessions, patents, licenses, trade marks and similar rights and assets , if they were			
a) acquired for valuable consideration and need not be shown under C.I.3.	[n.4]	23.213,02	41.378,02
b) created by the undertaking itself		0,00	0,00
3. Goodwill, to the extent that it was acquired for valuable consideration		0,00	0,00
4. Payments on account and intangible fixed assets under development		0,00	0,00
II. Tangible assets			
1. Land and buildings		0,00	0,00
2. Plant and machinery		0,00	0,00
3. Other fixtures and fittings, tools and equipment	[n.5]	57.395,03	108.778,14
4. Payments on account and tangible assets in the course of construction		0,00	0,00
III. Financial assets			
1. Shares in affiliated undertakings	[n.6]	3.283.338.066,40	4.647.223.862,03
2. Loans to affiliated undertakings	[n.7]	1.811.012.624,54	1.174.680.790,34
3. Participating interests	[n.6]	48.896,01	33.826,37
4. Loans to undertakings with which the undertaking is linked by virtue of participating interests		0,00	0,00
5. Investments held as fixed assets	[n.8]	154.496,70	633.821,39
6. Other loans		0,00	0,00
D. Current assets		**2.822.826.186,25**	**3.907.375.237,42**
I. Stocks			
1. Raw materials and consumables		0,00	0,00
2. Work in progress		0,00	0,00
3. Finished good and goods for resale		0,00	0,00
4. Payments on account		0,00	0,00
II. Debtors			
1. Trade debtors		0,00	0,00
a) becoming due and payable within one year		0,00	0,00
b) becoming due and payable after more than one year		0,00	0,00
2. Amounts owed by affiliated undertakings	[n.9]		
a) becoming due and payable within one year		155.131.912,32	1.099.916.619,87
b) becoming due and payable after more than one year		35.705.808,29	17.075.797,22
3. Amounts owed by undertakings with which the undertaking is linked by virtue of participating interests		0,00	0,00
a) becoming due and payable within one year		0,00	0,00
b) becoming due and payable after more than one year		0,00	0,00
4. Other debtors	[n.10]		
a) becoming due and payable within one year		103.959.907,91	16.123.699,67
b) becoming due and payable after more than one year		92.126.808,07	343.639.287,48
III. Investments			
1. Shares in affiliated undertakings		0,00	0,00
2. Own shares		0,00	0,00
3. Other investments	[n.11]	540.333.311,50	1.117.313.023,11
IV. Cash at bank and in hand	[n.12]	1.895.568.438,16	1.313.306.810,07
E. Prepayments		**366.407,91**	**946.952,58**
TOTAL ASSETS		7.920.841.888,30	9.734.259.235,99

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

Balance Sheet – Liabilities

TELECOM ITALIA FINANCE S.A.
BALANCE SHEET AS AT DECEMBER 31, 2017

LIABILITIES - [EUR]		31.DECEMBER.2017	31.DECEMBER.2016
A. Capital and reserves		**6.308.179.167,47**	**6.441.851.343,06**
I. Subscribed capital	[n.13]	1.818.691.978,50	1.818.691.978,50
II. Share premium account	[n.14]	3.147.555.262,50	3.147.555.262,50
III. Revaluation reserves		0,00	0,00
IV. Reserves	[n.15]		
1. Legal reserve		32.098.030,40	25.201.659,13
2. Reserve for own shares		0,00	0,00
3. Reserves provided for by the articles of association		0,00	0,00
4. Other reserves, including the fair value reserve			
a) other available reserves		468.947.819,09	468.947.819,09
b) other non available reserves		394.805.662,41	394.805.662,41
V. Profit or loss brought forward		389.752.590,16	448.721.535,97
VI. Profit or loss for the financial year		56.327.824,41	137.927.425,46
VII. Interim dividends		0,00	0,00
VIII. Capital investment subsidies		0,00	0,00
B. Provisions		**4.601.154,50**	**3.384.195,66**
1. Provisions for pensions and similar obligations		0,00	0,00
2. Provisions for taxation	[n.16]	3.212.393,19	1.883.011,35
3. Other provisions	[n.17]	1.388.761,31	1.501.184,31
C. Creditors		**1.608.029.477,41**	**3.288.991.787,27**
1. Debenture loans			
a) Convertible loans			
i) becoming due and payable within one year		0,00	0,00
ii) becoming due and payable after more than one year		0,00	0,00
b) Non convertible loans	[n.18]		
i) becoming due and payable within one year		73.756.481,69	73.770.024,91
ii) becoming due and payable after more than one year		1.015.714.912,25	1.015.765.709,02
2. Amounts owed to credit institutions	[n.19]		
a) becoming due and payable within one year		123.353.263,96	284.544.309,71
b) becoming due and payable after more than one year		148.137.175,02	162.074.554,29
3. Payments received on account of orders in so far as they are shown separately as deductions from stocks			
a) becoming due and payable within one year		0,00	0,00
b) becoming due and payable after more than one year		0,00	0,00
4. Trade creditors			
a) becoming due and payable within one year		648.552,76	299.216,54
b) becoming due and payable after more than one year		0,00	0,00
5. Bills of exchange payable			
a) becoming due and payable within one year		0,00	0,00
b) becoming due and payable after more than one year		0,00	0,00
6. Amounts owed to affiliated undertakings	[n.20]		
a) becoming due and payable within one year		111.646.632,66	1.386.205.716,96
b) becoming due and payable after more than one year		90.807.266,60	341.652.597,55
7. Amounts owed to undertakings with which the undertaking is linked by virtue of participating interests			
a) becoming due and payable within one year		0,00	0,00
b) becoming due and payable after more than one year		0,00	0,00
8. Other creditors			
a) Tax authorities		0,00	0,00
b) Social security autorithies		45.494,29	41.905,58
c) Other creditors	[n.21]		
i) becoming due and payable within one year		8.213.889,89	7.484.772,49
ii) becoming due and payable after more than one year		35.705.808,29	17.152.980,22
D. Deferred income		**32.088,92**	**31.910,00**
TOTAL LIABILITIES		**7.920.841.888,30**	**9.734.259.235,99**

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

Profit & Loss

TELECOM ITALIA FINANCE S.A. PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31, 2017			
[EUR]		31.DECEMBER.2017	31.DECEMBER.2016
1. Net turnover		**128.355,68**	**150.599,04**
2. Variation in stocks of finished goods and in work in progress		**0,00**	**0,00**
3. Work performed by the undertaking for its own purposes and capitalised		**0,00**	**0,00**
4. Other operating income		**146.338,03**	**81.010,38**
5. Raw materials and consumables and other external expenses		**2.997.587,63**	**4.113.994,67**
a) Raw materials and consumables		12.985,10	15.747,00
b) Other external expenses		2.984.602,53	4.098.247,67
6. Staff costs		**1.138.064,92**	**1.405.513,94**
a) Wages and salaries		967.757,15	1.178.750,56
b) Social security costs		170.307,77	226.763,38
i) relating to pensions		58.428,81	57.044,72
ii) other social security costs		111.878,96	169.718,66
c) Other staff costs		0,00	0,00
7. Value adjustments		**-526.278,06**	**6.728.551,37**
a) in respect of formation expenses and of tangible and intangible fixed assets		271.525,95	7.421.560,55
b) in respect of current assets	[n.22]	-797.804,01	-693.009,18
8. Other operating expenses		**260.987,63**	**280.581,00**
9. Income from participating interests	[n.23]	**55.649.232,43**	**202.064.427,33**
a) derived from affiliated undertakings		55.649.232,43	202.064.427,33
b) other income from participating interests		0,00	0,00
10. Income from other investments and loans forming part of the fixed assets	[n.24]	**104.616.509,68**	**136.198.004,00**
a) derived from affiliated undertakings		95.624.778,04	130.606.189,85
b) other income not included under a)		8.991.731,64	5.591.814,15
11. Other interest receivable and similar income	[n.25]	**400.146.137,76**	**368.847.094,94**
a) derived from affiliated undertakings		98.992.877,39	119.734.810,93
b) other interest and similar income		301.153.260,37	249.112.284,01
12. Share of profit or loss of undertakings accounted for under the equity method		**0,00**	**0,00**
13. Value adjustments in respect of financial assets and of investments held as current assets	[n.26]	**5.376.920,48**	**44.307.898,45**
14. Interest payable and similar expenses	[n.27]	**487.031.836,87**	**498.220.394,92**
a) concerning affiliated undertakings		95.131.784,38	99.194.133,98
b) other interest and similar expenses		391.900.052,49	399.026.260,94
15. Tax on profit or loss	[n.28]	**4.900.923,70**	**13.914.192,82**
16. Profit or loss after taxation		**59.506.530,41**	**138.370.008,52**
17. Other taxes not shown under items 1 to 16	[n.29]	**3.178.706,00**	**442.583,06**
18. Profit or loss for the financial year		**56.327.824,41**	**137.927.425,46**

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

Cash Flow Statement

TELECOM ITALIA FINANCE S.A.
CASH FLOW STATEMENT AS AT DECEMBER 31, 2017

[EUR]		31.DICEMBRE.2017	31.DICEMBRE.2016
Operating Activities			
Net profit		56.327.824,41	137.927.425,46
Adjustments for			
Amortization of formation expenses and on tangible and intangible fixed assets		271.525,95	7.421.560,55
Amortization and impairment of intangible assets		0,00	0,00
Value adjustments in respect of financial fixed assets	[n.26]	3.875.808,64	38.764.247,34
Value adjustments in respect of investments held as current assets	[n.26]	1.501.111,84	5.543.651,11
Capital gains/losses realised on disposal of non-current assets	[n.23/24]	-8.991.731,64	-130.449.436,32
Finance Income		-546.519.224,53	-562.852.188,81
Finance Expenses		486.682.895,72	497.788.940,77
Changes in trade and other receivables		932.420,64	5.511.969,26
Changes in trade and other payables		1.509.209,68	-2.665.374,36
Income Taxes Paid		0,00	0,00
Net cash flows from operating activities		**-4.410.159,29**	**-3.009.205,00**
Cash flows from Investing activities			
Changes in Property, plant and equipment	[n.5]	-1.990,58	-10.324,46
Changes in Intangible assets	[n.4]	0,00	-54.495,00
Changes in Participations, funds and other securities		579.539.624,30	131.691.577,14
Investments and re-payments in Financial Receivables		282.028.887,70	1.859.341.200,79
Interest, commissions and other financial income received		306.659.812,60	358.520.053,90
Dividends received		49.663.744,17	81.778.717,07
Income received from participations and funds		0,10	111.260.816,05
Net cash flows from investing activities		**1.217.890.078,29**	**2.542.527.545,49**
Cash flows from Financing activities			
Net change in short-term Financial Payables		-160.460.573,63	-79.030.487,88
Proceeds from borrowings		0,00	27.166.530,83
Repayments of borrowings		0,00	-1.871.108.575,20
Interest, commissions and other financial expenses paid		-280.743.078,37	-376.210.055,31
Dividends paid	[n.15]	-190.000.000,00	0,00
Net cash flows from financing activities		**-631.203.652,00**	**-2.299.182.587,56**
Net Increase / Decrease in Cash and Cash Equivalents		582.276.267,00	240.335.752,93
Net foreign exchange differences in C&CE		-13.815,75	-10.837.301,27
Cash and cash equivalents at 01 January		1.313.305.250,95	1.083.362.168,37
Changes due to the merger with Telecom Italia International NV			444.630,92
Cash and cash equivalents at 01 January - After Merger		1.313.305.250,95	1.083.806.799,29
Cash and cash equivalents at the end of the year	[n.12]	**1.895.567.702,19**	**1.313.305.250,95**

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

Notes to the Annual Accounts

as at December 31, 2017, which have been authorized by the Board of Directors held on March 05, 2018.

Note 1 – General information

Telecom Italia Finance (the "Company", "TI Finance") was incorporated on June 2, 2000 for an unlimited duration. The registered office is established at 12, Rue Eugène Ruppert L-2453 Luxembourg. The registered number is B 76.448.
The corporate object is to provide any financial assistance to TIM S.p.A. (the "Parent Company") itself as well as to all companies in which the Parent Company has a direct or indirect interest. This is implemented by the provision of loans and the granting of guarantees or securities in any kind or form. The object of the Company is further to provide domiciliation and administration services to companies being part of the TIM Group and to exercise any activity in relation thereto as provided in the law of May 31, 1999 on the domiciliation of companies, as amended. The Company may acquire and hold interests in Luxembourg and/or in foreign undertakings. The Company may also use its funds to invest in real estate and in intellectual property rights in any kind or form. The Company may participate at the creation and development of any other companies and entities and provide financial assistance in any kind or form. The Company may borrow in any kind or form and issue bonds or notes. Generally, the Company may carry out any commercial, industrial or financial operation, relating directly or indirectly to its object.
The financial year begins on January 1st and ends on December 31st of each year.

Note 2 – Summary of significant accounting policies

Basis of preparation
The accounts in hand are prepared in accordance with the accounting principles and regulations generally accepted in the Grand Duchy of Luxembourg ("Luxembourg GAAP") under the historical cost convention.
As allowed by the amended law of December 19, 2002, the Board of Directors of the Company has decided to include the cash flow statement based on the indirect method.
Euro (EUR) is the book accounting currency.
Certain values referred to December 31, 2016 value adjustments and financial income/charges reported herein have been reclassified in order to give better understanding to the accounts.

Use of estimates
The preparation of financial statements in accordance with Luxembourg GAAP, requires Board of Directors to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the accounts, and reported amounts of revenues and expenses during that reporting period. Actual results could differ from those estimates.

Foreign currency translation
The Company follows the multi-currency accounting policy that consists in recording the assets and the liabilities in their original currencies, the same being converted into EUR at the balance sheet date.
The exchange differences arising from the transactions expressed in currencies other than EUR are hedged either by balanced deposits and loans or through derivative instruments, such as Cross Currency Interest Rate Swaps ("CCIRS") or foreign exchange agreements, all hereby referred to as "currency swaps".
Currency swaps combine two positions that are represented by the amounts that will be exchanged with the counterparty at the maturity of the contract. They are recorded as assets or liabilities to the net between the payable and the receivable amount. Generally, one is in EUR and the other in currencies other than EUR. This latter is converted into EUR at the balance sheet date.
The unrealized exchange differences that arise from all these conversions are reflected in the profit and loss account in the items "Other interest and similar expenses/Other interest and similar income".
The realized income and charges in currencies other than EUR are recorded in their respective currencies and converted at the exchange rate prevailing on the respective transaction dates.

The exchange rates used to translate foreign assets and liabilities are summarized in the table here below.

Local currency against 1 EUR	December 31, 2017	December 31, 2016
BRL (Brazilian real)	3,96728	3,43542
CHF (Swiss franc)	1,17020	1,07390
GBP (Pound sterling)	0,88723	0,85618
JPY (Japan Yen)	135,01000	123,40000
USD (U.S. dollar)	1,19930	1,05410

Formation expenses
Formation expenses may include incorporation expenses and bond issuance expenses. Incorporation expenses are valued at purchase price including the expenses incidental thereto less cumulated depreciation amounts written off over maximum 5 years. Bond issuance expenses are written off on a straight-line basis over the period of the note.

Tangible fixed assets
Tangible fixed assets are stated at cost less accumulated depreciation and any impairment adjustments. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets. The carrying values of tangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Financial fixed assets
Equity investments and securities held as fixed assets in non-current assets are evaluated according to the historical cost method. The contingent write-downs are recorded in case of a permanent impairment loss of the investments estimated by the Board of Directors while comparing the net book value with the market value or with the net equity of the company. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

Debtors
Debtors are valued at their nominal value. They are subject to value adjustments where their recovery is compromised. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

Other investments
Transferable securities in current assets are evaluated to the lower between the market value and the acquisition cost. A value adjustment is recorded where the market value is lower than the purchase price. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

Cash at bank and in hand
Cash at bank and in hand is defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash at bank and in hand and short-term deposits which are held to maturity are carried at cost.

Accrued interest
Accrued interest are shown with their principal amount.

Prepayments/Deferred income
“Prepayments” and “Deferred income” accounts include prepaid charges and deferred income.
Issue discounts and issue premiums are listed with the related notes, while other similar charges are classified in “Formation expenses”. All are amortized through the profit and loss account on a straight-line basis over the lifetime of the notes.

Derivative instruments
The commitments related to derivative instruments are recorded off-balance sheet at their nominal value as of transaction date.
In case of negative Mark to Market value of non-hedging instruments at the financial statements closing date, a provision is recorded.

Creditors
Creditors are recorded at their reimbursement value. Where the amount repayable on account is greater than the amount received, the difference is shown in the same line of the debt and is written off over the period of the debt based on a linear method.

Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions for taxation

Provisions for taxation, corresponding to the difference between the tax liability estimated by the Company and the advance payments for the financial years, are recorded under the caption "Provisions for taxation".

Note 3 – Formation expenses

All the formation expenses of EUR 3.014.602,44 (EUR 3.214.589,70 as per December 31, 2016) consist of issuance expenses related to long-term debts. Movements for the period are only due to depreciation.

Note 4 – Concessions, patents, licenses, trade marks and similar right and assets

EUR	December 31, 2017	December 31, 2016
Acquisitions at the beginning of the period	54.495,00	0,00
Acquisitions during the period	0,00	54.495,00
Acquisition cost at the end of the period	**54.495,00**	**54.495,00**
Value adjustments at the beginning of the period	13.116,98	0,00
Value adjustments during the period	18.165,00	13.116,98
Value adjustments at the end of the period	**31.281,98**	**13.116,98**
	23.213,02	**41.378,02**

Note 5 – Other fixtures and fittings, tools and equipment

EUR	December 31, 2017	December 31, 2016
Acquisitions at the beginning of the period	412.656,51	368.798,97
Acquisitions during the period	1.990,58	10.324,46
Acquisition due to the merger with Telecom Italia International N.V.	0,00	37.362,58
Disposal or reductions during the period	-1.279,76	-3.829,50
Acquisition cost at the end of the period	**413.367,33**	**412.656,51**
Value adjustments at the beginning of the period	303.878,37	216.474,15
Value adjustments during the period	53.373,69	53.871,14
Acquisition due to the merger with Telecom Italia International N.V.	0,00	37.362,58
Disposal or reduction during the period	-1.279,76	-3.829,50
Value adjustments at the end of the period	**355.972,30**	**303.878,37**
	57.395,03	**108.778,14**

Note 6 – Shares in affiliated undertakings and Participating interests

			Ownership (%)	Number of shares	**Net Book value at the beginning of the year**	Gross book value at the beginning of the year	Gross book value other changes during the year	Gross book value at the end of the year	Value Adjustments at the beginning of the year	Value Adjustments other changes during the year	Value Adjustments at the end of the year	**Net Book value at the end of the year**	Fair Value at the end of the year
1. Shares in affiliated undertakings													
TIM S.p.A.	[1]	Via Negri 1, Milan (Italy)	0,59	126.082.374	**104.226.154,27**	518.876.962,83	.	518.876.962,83	414.650.808,56	3.930.305,86	418.581.114,42	**100.295.848,41**	91.258.422,30
Telecom Italia Finance Ireland Ltd (liquidated)	[2]	3 Harbourmaster place, International financial Services Centre, Dublin 1 (Ireland)	100,00	1.360.000.000	**1.360.000.000,00**	1.360.000.000,00	-1.360.000.000,00	.	.	.	.	.	
Italtel Group S.p.A.	[3] [4]	Via Reiss Romoli, Località Castelletto Settimo Milanese (Italy)	34,68	6.160.999	.	145.993.930,23	.	145.993.930,23	145.993.930,23	.	145.993.930,23	.	
Movenda S.p.A.	[3]	Via Pian Di Sco 82, Rome (Italy)	25,00	33.333	.	44.510,23	.	44.510,23	44.510,23	-44.510,23	.	**44.510,23**	
TIM Brasil Serviços e Participações S.A.	[3] [5]	Avenida das Américas 3434, Rio de Janeiro (Brazil)	99,99	15.865.086.849	**3.182.997.707,76**	6.203.645.986,87	.	6.203.645.986,87	3.020.648.279,11	.	3.020.648.279,11	**3.182.997.707,76**	5.322.582.082,00
Tierra Argentea S.A. (liquidated and cancelled)	[6]	Avenida Alicia Moreau de Justo 50, Buenos Aires (Argentina)	69,37	8.225.043	.	40.929.115,90	-40.929.115,90	.	40.929.115,90	-40.929.115,90	.	.	
Total EUR					**4.647.223.862,03**	8.269.490.506,06	-1.400.929.115,90	6.868.561.390,16	3.622.266.644,03	-37.043.320,27	3.585.223.323,76	**3.283.338.066,40**	
3. Participating interests													
Venture Investors Property Recovery LLC (ex Consolidated IP Holdings Inc.)		c/o Sherwood Partners 101 University Avenue, Suite 100 Palo Alto (California - United States)	0,50	99.164	**0,01**	0,01	.	0,01	.	.	.	**0,01**	
Infomaster S.p.A.		Via V maggio 81 Genova (Italy)	2,93	19.412	**33.826,35**	413.304,84	.	413.304,84	379.478,49	-15.069,64	364.408,85	**48.895,99**	
Docunet Inc.		400 Oyster Pt Blvd Ste 111 South San Francisco (California - United States)	0,18	124.528	**0,01**	0,01	.	0,01	.	.	.	**0,01**	
TT-2 (liquidated and cancelled)	[7]	Avenida Afrnio de Melo Franco 135, Rio de Janeiro (Brazil)	2,86	200.000	.	171.392,79	-171.392,79	.	171.392,79	171.392,79	.	.	
Total EUR					**33.826,37**	584.697,65	-171.392,79	413.304,86	550.871,28	-186.462,43	364.408,85	**48.896,01**	

[1] The Net Book value of TIM S.p.A. corresponds to the VWAP (Volume Weighted Average Price). This method takes in consideration prices and volumes exchanged during the last twelve months.
The Board of Directors has assessed that the variance in the market value of TIM S.p.A. and consequently the difference between 'Fair Value at the end of the year' and 'Net Book Value at the end of the year' is not permanent, therefore no additional value adjustments are recorded on this financial asset in the accounts of the Company.
[2] On October 27, 2017 Telecom Italia Finance Ireland Ltd has been liquidated.
[3] The amount of capital and reserves, as well as the result for the latest financial year available of the entities held for more than 20% are not disclosed as considered as having negligible importance for the purposes of art. 26 paragraph 3 of the law December 19, 2002 except for the following:
TIM Brasil Serviços e Participações S.A. - Capital : 7.169 ; Reserves : 5.988 ; Result of the year : 186 in millions of BRL as of December 31, 2017.
[4] The held percentage of Ordinary Share Capital is 19,373% (No. 1.720.634 Ordinary shares). 34,68% is the fully diluted percentage taking into account the No. 4.440.365 Preferred shares having limited voting rights.
[5] The fair value is determined through the market capitalization of the operational company TIM Participacoes. This amount appears to be higher than the current net book value, however the management considers that the volatility of the macroeconomic and financial environment in Brazil is such that it is prudent not to increase, for the time being, such net book value.
[6] On February 23, 2017 Tierra Argentea completed the final distribution; on May 11, 2017 the company has been liquidated and on November 08, 2017 has been cancelled.
[7] During the year Telecom Italia Finance verified that TT-2 has been liquidated and cancelled from the brasilian companies register.

Note 7 – Loans to affiliated undertakings

This item is composed by EUR 1.811.012.624,54 being the total amount of medium-long term loans granted to the Parent Company and other TIM Group companies (2016 – EUR 1.174.680.790,34). The detail by final payment date is as follows:

EUR	December 31, 2017	December 31, 2016
Nominal value: EUR 1.000.000.000,00 Expiring July 29, 2033 Fixed rate: 8,00000%	1.000.000.000,00	1.000.000.000,00
Nominal value: JPY 20.000.000.000 [*] Expiring October 29, 2029 Floater rate: JPYLibor 6m + 0,94630%	148.137.175,02	162.074.554,29
Nominal value: EUR 650.000.000,00 Expiring November 09, 2020 Floater rate: Euribor 6m + 0,26000%	650.000.000,00	0,00
Total to Parent Company	**1.798.137.175,02**	**1.162.074.554,29**
TI Sparkle Turkey Telekomünikasyon Anonim Şirketi Nominal value: USD 1.000.000,00 Expiring December 03, 2021 Fixed rate: 3,65333%	833.819,73	0,00
TI Sparkle Brasil Nominal value: USD 3.000.000,00 Expiring December 18, 2020 Fixed rate: 3,52609%	2.501.459,18	0,00
TI Sparkle St Croix Nominal value: USD 1.400.000,00 Expiring December 14, 2020 Fixed rate: 3,71581%	1.167.347,62	0,00
TI Sparkle St Croix Nominal value: USD 563.918,25 Expiring December 14, 2020 Fixed rate: 3,67224%	470.206,16	0,00
TI Sparkle Puerto Rico Nominal value: USD 5.258.600,93 Expiring November 06, 2020 Fixed rate: 3,05430%	4.384.725,20	0,00
TI Sparkle Panama S.A. Nominal value: USD 1.317.244,90 Expiring November 06, 2020 Fixed rate: 3,28223%	1.098.344,78	0,00
TI Sparkle Panama S.A. Nominal value: USD 1.000.000,00 Expiring November 06, 2020 Fixed rate: 3,38216%	833.819,73	0,00
TI Sparkle Panama S.A. Nominal value: USD 1.901.762,53 Expiring December 16, 2019 Fixed rate: 3,61332%	1.585.727,12	0,00
Telecom Italia Latam Participações e Gestão Administrativa Ltda Nominal value: BRL 18.337.533,70 Expiring October 31, 2018 Fixed rate: 16,87000% *Accrued interest*	*Classified in* *short term portion*	5.337.785,10 153.376,49
TI Sparkle Turkey Telekomünikasyon Anonim Şirketi Nominal value: USD 7.500.000,00 Expiring July 30, 2018 Fixed rate: 4,31222%	*Classified in* *short term portion*	7.115.074,46
Total to TIM Group companies	**12.875.449,52**	**12.606.236,05**
	1.811.012.624,54	**1.174.680.790,34**

[*] Differences between December 31, 2017 and December 31, 2016 are due to exchange rate impact.

The board of Directors is of the opinion that the value of the loans above is fully recoverable.

Note 8 – Investments held as fixed assets

This item is composed by the investment in Clessidra Capital Partners fund:

EUR	
Balance as at 31.12.2016	633.821,39
Adjustments for the period	23.632,09
Distributions	-502.956,78
Balance as at 31.12.2017	**154.496,70**

On December 2017, Clessidra Capital Partners fund has completed the liquidation procedures and also informed about the plan of distribution of the liquidation proceeds. The Company adjusted the net book value of the investment according to that plan.

Until 2016, the item also included the financial participation instruments ("FPI") that have been converted on March 2013 from a loan granted to Italtel S.p.A. on the basis of a financial restructuring agreement under the Italian bankruptcy law. The FPI have been originally booked for EUR 4.500.000,00 and entirely adjusted to zero at the end of the year 2013. On December 14, 2017 the instruments have been sold.

Note 9 – Amounts owed by affiliated undertakings

a) becoming due and payable within one year

EUR	December 31, 2017	December 31, 2016
Loans - Principal and accrued interest and commissions		
Noverca S.r.l.	4.791,67	0,00
Olivetti S.p.A.	73.539.761,85	73.541.117,73
Telecom Italia Austria	1.100.528,80	0,00
Telecom Italia Capital	0,00	62.500,00
Telecom Italia Latam Participações e Gestão Administrativa Ltda	7.292.981,51	152,49
Ti Sparkle Brasil Telecomunicacoes Limitada	2.998,03	0,00
TI Sparkle Bulgaria Eood	1.708.448,48	0,00
TI Sparkle Greece S.A.	14.996.661,17	14.970.002,21
TI Sparkle Panama S.A.	37.520,86	0,00
TI Sparkle Puerto Rico Llc	19.757,10	0,00
TI Sparkle Singapore Pte Ltd	5.092.923,59	5.881.505,93
Ti Sparkle Slovakia S.r.o.	300.566,60	352.235,06
Ti Sparkle St. Croix Llc	1.026,89	0,00
TI Sparkle Turkey Telekomünikasyon Anonim Şirketi	6.258.654,49	6.439,60
TIM S.p.A.	35.073.139,24	994.409.695,85
Dividend receivables		
Tierra Argentea S.A.	0,00	81.192,11
TIM Brasil Serviços e Partecipações S.A.	0,00	1.153.155,65
Derivatives		
Accruals on derivatives with Parent Company	6.546.226,28	6.376.598,32
Accruals on derivatives with TIM Group companies	3.153.205,76	3.082.024,92
Other receivables from Parent Company	2.720,00	0,00
	155.131.912,32	**1.099.916.619,87**

b) becoming due and payable after more than one year

EUR	December 31, 2017	December 31, 2016
Currency swaps with Parent Company	35.705.808,29	17.075.797,22
	35.705.808,29	**17.075.797,22**

Note 10 – Other debtors

a) becoming due and payable within one year

EUR	December 31, 2017	December 31, 2016
Accruals on derivatives	11.613.065,50	13.421.341,09
Currency swaps	92.346.768,15	2.701.021,22
Other receivables	74,26	1.337,36
	103.959.907,91	**16.123.699,67**

b) becoming due and payable after more than one year

EUR	December 31, 2017	December 31, 2016
Receivables from Lehman Brothers Special Financing Inc. in liquidation (“LBSF”)	1.319.541,47	1.986.689,93
Currency swaps	90.807.266,60	341.652.597,55
	92.126.808,07	**343.639.287,48**

The receivable from LBSF was originally booked for EUR 25.016.035,74. Based on the documentation filed with the US Courts, the position has been converted during 2009 from EUR into USD for an amount of USD 35.552.789,99 and then in 2012 updated to USD 35.590.272,35.
As of December 31, 2017 the following amounts have been distributed to TI Finance and the receivable has been consequently reduced:

On October 01, 2012	USD	9.902.109,46
On April 04, 2013	USD	904.595,34
On April 05, 2013	USD	1.029.741,89
On October 03, 2013	USD	2.359.453,91
On April 03, 2014	USD	2.442.185,91
On October 02, 2014	USD	1.642.017,14
On April 02, 2015	USD	1.114.712,60
On October 01, 2015	USD	838.577,06
On March 31, 2016	USD	173.026,77
On June 16, 2016	USD	799.565,99
On October 06, 2016	USD	551.778,41
On April 06, 2017	USD	355.877,11
On October 10, 2017	USD	262.289,71
On December 07, 2017	USD	850.283,30
	USD	**23.226.214,60**

In accordance with market evaluations, the receivable is registered at its recoverable value of 4,43% (USD 1.582.526,08) of the principal value after distributions. The credit in hands is supported by the guarantee from Lehman Brothers Holding Inc. in liquidation.

Note 11 – Other investments

This item refers to the accrued value of the securities in portfolio for an amount of EUR 540.333.311,50 (EUR 1.117.313.023,11 at December 31, 2016).

Note 12 – Cash at bank and in hand

EUR	December 31, 2017	December 31, 2016
Cash in hand	660,00	178,72
Bank current accounts	1.407.832.158,30	811.963.365,21
Bank term deposit accounts	487.727.738,85	500.948.676,60
Other Liquid Assets	7.145,04	393.030,42
Cash and cash equivalent as shown in Cash Flow Statement	**1.895.567.702,19**	**1.313.305.250,95**
Accruals	735,97	1.559,12
	1.895.568.438,16	**1.313.306.810,07**

Note 13 – Subscribed capital

As of December 31, 2017 and December 31, 2016 the authorized, issued and fully paid capital of 1.818.691.978,50 EUR is represented by 185.960.325 ordinary shares with a nominal value EUR 9,78 per share.
As of December 31, 2017 and December 31, 2016 the Company is 100% held by TIM S.p.A.

Note 14 – Share premium account

The extraordinary shareholders meeting held on July 28, 2016 that approved the merger with Telecom Italia International N.V. decided to increase the share capital of the Company by EUR 1.276.601.737,50 through the creation and issue of 130.531.875 shares with a nominal value of EUR 9,78 each.
The issue of new shares has been made together with a share premium of EUR 3.147.555.262,50, in exchange for all the assets and liabilities of the absorbed company, as they appeared in the 2015 accounts.

Note 15 – Reserves

Reserves are split as follows:

EUR	December 31, 2017	December 31, 2016
Legal reserve	32.098.030,40	25.201.659,13
Other reserves:		
Reserves unavailable for distribution	394.805.662,41	394.805.662,41
Other distributable reserves	468.947.819,09	468.947.819,09
Total other reserves	**863.753.481,50**	**863.753.481,50**

The Company is required to allocate a minimum of 5% of its annual net income to a legal reserve, until this reverse equals 10% of the subscribed share capital. This reserve cannot be distributed. Legal reserve is detailed as below:

shareholders meeting of April 4, 2008	EUR	1.584.401,26
shareholders meeting of April 28, 2010	EUR	3.228.314,61
shareholders meeting of April 11, 2011	EUR	6.351.000,00
shareholders meeting of April 4, 2012	EUR	3.495.988,92
shareholders meeting of April 3, 2013	EUR	1.053.103,05
shareholders meeting of April 2, 2014	EUR	913.935,61
shareholders meeting of April 1, 2015	EUR	5.172.486,37
shareholders meeting of April 6, 2016	EUR	3.402.429,31
shareholders meeting of April 21, 2017	EUR	6.896.371,27
	EUR	**32.098.030,40**

Movements for the year on the reserves and profit and loss items are as follows:

EUR	Legal Reserve	Other reserves	Profit or Loss brought forward	Profit or Loss for the financial year
Balance as at 31.12.2016	25.201.659,13	863.753.481,50	448.721.535,97	137.927.425,46
Movements for the year:				
Allocation of prior year's profit	6.896.371,27	0,00	131.031.054,19	-137.927.425,46
Profit for the year	0,00	0,00	0,00	56.327.824,41
Dividend distributed [*]	0,00	0,00	-190.000.000,00	0,00
Balance as at 31.12.2017	**32.098.030,40**	**863.753.481,50**	**389.752.590,16**	**56.327.824,41**

[*] On June 15, 2017 a dividend of EUR 190.000.000,00 has been paid to the sole shareholder.

Note 16 – Provisions for taxation

EUR	December 31, 2017	December 31, 2016
Provisions for Net Wealth Tax	3.143.258,25	1.649.618,25
Provisions for Value Added Tax	53.340,31	43.573,87
Provisions for Chamber of Commerce subscription	0,00	162.402,03
Other provisions for taxes	15.794,63	27.417,20
	3.212.393,19	**1.883.011,35**

Note 17 – Other provisions

In the framework of the liquidation of the 100% owned subsidiary, Olivetti Holding N.V., TI Finance on 2012 acquired the obligation to take part to the decontamination of a site in Burlington, New Jersey (USA), formerly owned by an Olivetti' subsidiary. Olivetti Holding transferred as well a provision for the completion of the concerned activity.

EUR	December 31, 2017	December 31, 2016
Provisions for future expenses	1.388.761,31	1.501.184,31
	1.388.761,31	**1.501.184,31**

Note 18 – Non convertible loans

i) becoming due and payable within one year

EUR	December 31, 2017	December 31, 2016
Issue premiums on notes - Current portion	285.581,80	285.581,80
Issue discounts on notes - Current portion	-234.785,04	-234.785,04
Accrued interest on notes	73.705.684,93	73.719.228,15
	73.756.481,69	**73.770.024,91**

ii) becoming due and payable after more than one year

EUR	December 31, 2017	December 31, 2016
Nominal value: EUR 765.000.000,00 Expiring January 24, 2033 Fixed rate: 7,7500%	765.000.000,00	765.000.000,00
Nominal value: EUR 250.000.000,00 Expiring January 24, 2033 Fixed rate: 7,7500%	250.000.000,00	250.000.000,00
Issue premiums on notes - Long term portion	4.019.270,47	4.304.852,28
Issue discounts on notes - Long term portion	-3.304.358,22	-3.539.143,26
	1.015.714.912,25	**1.015.765.709,02**

Note 19 – Amounts owed to credit institutions

a) becoming due and payable within one year

EUR	December 31, 2017	December 31, 2016
Payables to banks	120.379.903,32	280.228.438,47
Accrued interest	2.973.360,64	4.315.871,24
	123.353.263,96	**284.544.309,71**

b) becoming due and payable after more than one year

EUR	December 31, 2017	December 31, 2016
Nominal value: JPY 20.000.000.000 [*] Expiring October 29, 2029 Fixed rate: 6,7500%	148.137.175,02	162.074.554,29
	148.137.175,02	**162.074.554,29**

[*] Differences between December 31, 2017 and December 31, 2016 are due to exchange rate impact.

Note 20 – Amounts owed to affiliated undertakings

This item refers to the sums owed to TIM Group companies under the deposit agreements (included accrued interest thereon), to accruals on interest rate swaps with Parent and TIM Group companies and currency swaps with TIM Group companies.

a) becoming due and payable within one year

EUR	December 31, 2017	December 31, 2016
Borrowings and other payables – Principal and accrued interest		
Inwit	1.500.129,17	0,00
Telecom Italia Capital	4.899,59	0,00
Telecom Italia Finance Ireland Ltd	0,00	1.358.000.000,00
TI Sparkle Americas Inc.	566,26	3.950.490,68
TI Sparkle Austria GmbH	0,00	400.577,59
TI Sparkle Israel Ltd	5.950.114,57	6.692.808,09
TIM S.p.A.	374.096,92	439.957,99
Others	0,00	945,12
Derivatives		
Accruals on derivatives with Parent Company	2.691.226,62	3.368.207,05
Accruals on derivatives with TIM Group companies	9.317.941,69	10.698.498,67
Currency swaps with Parent Company	0,00	2.654.231,77
Currency swaps with TIM Group companies	91.807.657,84	0,00
	111.646.632,66	**1.386.205.716,96**

b) becoming due and payable after more than one year

EUR	December 31, 2017	December 31, 2016
Currency swaps with Parent Company	30.056.521,86	89.209.608,89
Currency swaps with TIM Group companies	60.750.744,74	252.442.988,66
	90.807.266,60	**341.652.597,55**

Note 21 – Other creditors

a) becoming due and payable within one year

EUR	December 31, 2017	December 31, 2016
Accruals on derivatives	8.213.320,78	7.478.053,32
Others	569,11	6.719,17
	8.213.889,89	**7.484.772,49**

b) becoming due and payable after more than one year

EUR	December 31, 2017	December 31, 2016
Currency swaps	35.705.808,29	17.152.980,22
	35.705.808,29	**17.152.980,22**

Note 22 – Value adjustments in respect of current assets

The amount of EUR -797.804,01 (EUR -693.009,18 – 2016) refers entirely to reversal of value adjustments on receivables from Lehman Brothers.

Note 23 – Income from participating interests

a) derived from affiliated undertakings

EUR	December 31, 2017	December 31, 2016
Dividend received		
Tierra Argentea S.A.	0,00	647.490,57
TIM Brasil Serviços e Partecipações S.A.	55.649.232,43	76.559.314,59
Gain on participation disposal	0,00	124.857.622,17
	55.649.232,43	**202.064.427,33**

Note 24 – Income from other investments and loans forming part of the fixed assets

a) derived from affiliated undertakings

EUR	December 31, 2017	December 31, 2016
Interest on long term loans to Parent Company	94.405.789,26	129.498.855,24
Interest on long term loans to TIM Group companies	1.218.988,78	1.107.334,61
	95.624.778,04	**130.606.189,85**

b) other income not included under a)

EUR	December 31, 2017	December 31, 2016
Gain on securities disposal	8.991.731,54	5.591.814,15
Gain on disposal of investment held as fixed asset	0,10	0,00
	8.991.731,64	**5.591.814,15**

Note 25 – Other interest receivable and similar income

a) derived from affiliated undertakings

EUR	December 31, 2017	December 31, 2016
Interest and commissions on receivables from Parent Company	1.144.531,10	1.833.014,39
Interest and commissions on receivables from TIM Group companies	1.134.764,01	2.956.258,60
Income on derivatives with Parent Company	54.561.268,86	46.043.326,31
Income on derivatives with TIM Group companies	42.152.313,42	41.209.919,32
MEB Option premium amortization	0,00	27.692.292,31
	98.992.877,39	**119.734.810,93**

b) other interest and similar income

EUR	December 31, 2017	December 31, 2016
Interest on other securities	7.261.151,93	9.605.852,67
Interest on banks	435.583,83	1.871.832,38
Other interest, income and commissions	157.554,68	207.331,35
Accrued interest on tax receivables	0,00	-106.291,68
Income on derivatives with banks	91.056.886,27	101.814.103,49
Gain on exchange rates	202.242.083,66	135.719.455,80
	301.153.260,37	**249.112.284,01**

Note 26 – Value adjustments in respect of financial assets and of investments held as current assets

EUR	December 31, 2017	December 31, 2016
Value adjustments on shares in undertakings:		
Infomaster S.p.A.	0,00	8.658,86
Movenda S.p.A	0,00	44.510,23
Purple Tulip N.V.	0,00	8.652,82
TIM S.p.A.	3.930.305,86	35.831.449,79
Tierra Argentea S.A.	0,00	978.437,30
Telecom Italia Finance Ireland Ltd	74.164,74	0,00
TT-2 Telecomunicacoes Ltda	0,00	171.392,79
Value adjustments on Clessidra Capital Partners fund	0,00	1.942.210,55
Reversal of adjustments on Clessidra Capital Partners fund	-23.632,09	0,00
Reversal of adjustments on securities	-45.450,00	-221.065,00
Reversal of adjustments on shares in affiliated undertakings	-44.510,23	0,00
Reversal of adjustments on shares in other equity investments	-15.069,64	0,00
Value adjustments on notes from other issuers	1.501.111,84	5.543.651,11
	5.376.920,48	**44.307.898,45**

Note 27 – Interest payable and similar expenses

a) concerning affiliated undertakings

EUR	December 31, 2017	December 31, 2016
Guarantee fee due to Parent Company	348.941,15	431.454,15
Charges on derivatives with Parent Company	32.498.867,68	33.921.794,95
Charges on derivatives with TIM Group companies	62.101.903,98	64.771.984,75
Interest due to TIM Group companies	182.071,57	68.900,13
	95.131.784,38	**99.194.133,98**

b) other interest and similar expenses

EUR	December 31, 2017	December 31, 2016
Interest and charges to banks	17.583.284,51	20.609.385,97
Interest and charges on debentures	78.599.417,76	148.007.950,98
Interest on other loans and debts	0,00	4.616.010,53
Charges on derivatives	87.508.100,00	84.530.469,88
Losses on exchange rates	202.163.419,33	136.417.116,25
Other financial charges and commissions	151.012,62	144.360,52
Losses on securities disposal	5.894.818,27	4.700.966,81
	391.900.052,49	**399.026.260,94**

Note 28 – Tax on profit or loss

EUR	December 31, 2017	December 31, 2016
Withholding tax on interest received	45.596,41	265.884,10
Withholding tax on dividends and income received from equity investments	4.855.327,29	13.648.308,72
	4.900.923,70	**13.914.192,82**

Note 29 – Other taxes not shown under items 1 to 16

The amount of EUR 3.178.706,00 (EUR 442.583,06 – 2016) includes payments and provisions for the Net Wealth Tax.

Note 30 – Guarantees

All issued notes, derivative instruments and debts towards other financial institutions are guaranteed by the Parent Company.

Note 31 – Off balance sheet commitments

The table here below reports the sum of the notional amount for derivative agreements entered by the Company.

EUR	December 31, 2017	December 31, 2016
Foreign exchange agreements	67.240.118,86	8.480.628,20
Cross Currency Interest Rate Swaps (“CCIRS”) [*]	286.688.018,68	438.938.731,78
Options	2.386.634,84	2.386.634,84
	356.314.772,38	**449.805.994,82**

The table here below reports the net sum of the mark to market value (“MTM”) of the above reported derivative agreements.

EUR	December 31, 2017	December 31, 2016
Foreign exchange agreements	503.264,28	110.210,02
Cross Currency Interest Rate Swaps (“CCIRS”) [*]	54.631.342,84	66.719.303,68
Options	130.965,90	237.864,52
	55.265.573,02	**67.067.378,22**

[*] In these instruments contracts no exchange of notional amounts has been agreed with the counterparties.

In addition, the Company entered into some derivatives on other TIM Group companies’ request. Since TI Finance 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 table here below reports the sum of the notional amount for such derivatives.

EUR	December 31, 2017	December 31, 2016
Cross Currency Interest Rate Swaps (“CCIRS”)	2.407.104.880,20	2.595.680.880,20
Interest Rate Swaps (“IRS”)	1.180.491.087,77	1.289.605.112,34
	3.587.595.967,97	**3.885.285.992,54**

Note 32 – Tax situation

The Company is subject to the fiscal law in force in Luxembourg applicable to all commercial companies.

Note 33 – Consolidation

The accounts of the Company are included in the consolidated accounts of TIM S.p.A., which are available at its registered office located in Milano, Via Negri 1 and on the website http://www.telecomitalia.com.
TIM S.p.A. accounts are not consolidated in the accounts of any other company.
Starting from 2016 the Company produces a set of consolidated accounts according to IFRS as adopted by the European Union.

Note 34 – Directors remuneration

Only the independent Directors are remunerated in their capacity as Directors. The remuneration of independent members' amounts to EUR 30.000,00 per annum (VAT excluded). No Director has an interest in the share capital of the Company.

Note 35 – Staff

As of December, 2017 the Company had on its payroll 10 employees (December 31, 2016 – 10). The average of employees during the fiscal period has been of 10 persons (December 31, 2016 – 10).

Note 36 – Litigation

The litigation in which the Company is involved as per December 31, 2017 are described here below. The Company has not recognised provisions in connection with the litigations.

- **Brazil - Opportunity Arbitration**

In May 2012, TIM and Telecom Italia International N.V (now merged in Telecom Italia Finance) were served with a notice of arbitration proceedings brought by the Opportunity group, claiming compensation for damages allegedly suffered for presumed breach of a settlement agreement signed in 2005. Based on the claimant's allegations, the damages relate to circumstances that emerged in the criminal proceedings pending before the Milan Court regarding, inter alia, unlawful activities engaged in by former employees of TIM.
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.
In April 2017, the Opportunity group filed an appeal against the arbitration award before the Paris Court of Appeal.
In November 2017, TIM and Telecom Italia Finance received from the Secretariat of the ICC's International Court of Arbitration notice of a Request for Revision of the arbitration finding, filed by the Opportunity group, asking for a ruling coherent with the requests made in the Opportunity Arbitration.

- **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 TIM, Telecom Italia International (today merged into Telecom Italia Finance), 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 stated the evidence they intend to submit in court. Subsequently the Board of Arbitration fixed the dates for the hearings. The hearings took place in Rio De Janeiro in June 2017, and were followed by further filings of documentation and pleadings.

Note 37 – Auditor’s fees

During the 2017 a total of EUR 273.281,86 (VAT excluded) has been paid to PricewaterhouseCoopers Société Cooperative for the audit activity (December 31, 2016 – EUR 54.104,27).

EUR	Year 2017
Audit services	255.734,67
Audit related services	17.547,19
Total	**273.281,86**

No other amount has been paid to the Auditor.

Declaration of the manager responsible for financial reporting

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 Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and that the management report includes a fair review of the development and performance of the business and the position of the issuer as at and for the period ended December 31, 2017, together with a description of the principal risks and uncertainties that the issuer faces.

Adriano Trapletti
Managing Director

Audit report

To the Shareholder of
Telecom Italia Finance S.A.

Report on the audit of the annual accounts

Our opinion

In our opinion, the accompanying annual accounts give a true and fair view of the financial position of Telecom Italia Finance S.A. (the "Company") as at 31 December 2017, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts.

Our opinion is consistent with our additional report to the Audit Committee or equivalent.

What we have audited

The Company's annual accounts comprise:

- the balance sheet as at 31 December 2017;
- the profit and loss account for the year then ended;
- the cash flow for the year then ended; and
- the notes to the annual accounts, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under those Regulation, Law and standards are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the annual accounts" section of our report.

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

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the annual accounts. We have fulfilled our other ethical responsibilities under those ethical requirements.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

The non-audit services that we have provided to the Company and its controlled undertakings, for the year then ended, are disclosed in Note 37 to the annual accounts.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period, and include the most significant assessed risks of material misstatement (whether or not due to fraud). These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Carrying value of investments in subsidiaries and affiliates may not be appropriate	
The investment in affiliated undertakings amounts to 5,094 million Euro at year end and is mainly comprised of the investment in TIM SpA and Tim Brasil Serviços e Participações S.A. (TBSP). As described in note 6 to the annual accounts the net book value at year end of the investment in TIM SpA corresponds to the VWAP (Volume Weighted Average Price) which amounts to 100 million Euro. This method takes in consideration prices of TIM SpA shares and volumes exchanged on the Milan stock exchange during the twelve months before year end. The market value of TIM SpA based on the quoted price on the shares on the Milan stock exhange on 31 December 2017 amounts to 91 million Euro. The Board of Directors has concluded that the difference between the market value of TIM SpA and and the VWAP is not permanent. Therefore no additional value adjustment was recorded. As described in note 6 to the annual accounts, as of 31 December 2017, the market value of the investment in TBSP, determined trough the market capitalisation of TBSP at the Sao Paulo (Brazil) stock exchange, amounted to 5,322 million Euro and the net book value of the investment in TBSP amounted to 3,182 million Euro.	We gained an understanding of and evaluated the Board of Directors' processes to estimate the recoverable values of the investment in affiliated undertakings. For the valuation of the investment in TIM SpA, we tested the applied VWAP valuation model for consistency and arithmetical accuracy. We have validated on a sample basis the applied price for transactions over the year to the quoted market price of TIM SpA to determine if the valuation process is correctly done by Management. We compared the net book value at year end of the investment in TIM SpA to the market value calculated as number of shares at year end multiplied per the price of TIM share at year end as per Milan stock exchange. We reviewed Management assessment of the the carrying value of the investment. For the valuation of the investment in TBPS, we have recalculated the fair value calculated as number of share at year end multiplied per the price of TBPS shares at year end as per the Sao Paulo (Brazil) stock exchange and reviewed Management assessment of the the carrying value of the investment.

Key audit matter	How our audit addressed the Key audit matter
Considering economic and political uncertainties in Brazil, Management has concluded that the the carrying amount of 3,182 million Euro as at 31 December 2017 is appropriate. We focused on the valuation of investment in affiliated undertakings giving their significance over the total assets.	

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the Management report and the Corporate Governance Statement but does not include the annual accounts and our audit report thereon.

Our opinion on the annual accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the annual accounts 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 that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and those charged with governance for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of the annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the annual accounts

The objectives of our audit are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;

- conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters. We describe these matters in our audit report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

The Management report is consistent with the annual accounts and has been prepared in accordance with applicable legal requirements.

The Corporate Governance Statement is included in the Management report. The information required by Article 68ter Paragraph (1) Letters c) and d) of the Law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the annual accounts and has been prepared in accordance with applicable legal requirements.

We have been appointed as “Réviseur d’Entreprises Agréé” of the Company by the General Meeting of the Shareholders on 24 March 2010 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 8 years.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 19 April 2018

Patrick Schon