Telecom Italia Finance Group

Consolidated Financial Statements 2017

Audited Consolidated 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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Directors' report

The Business Units

BRAZIL

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

- TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A.
  - TIM PARTICIPAÇÕES S.A.
    - TIM S.A. (formerly Intelig Telecom. Ltda)
    - TIM CELULAR S.A.

OTHER OPERATIONS

This Business Unit provides financial assistance to TIM Group companies and the management of liquidity buffer through money market instruments.
As of December 31, 2017:

- The amount of notes (issued by Telecom Italia Finance and listed on Bourse of Luxembourg) worth 1.015 million euros.
- The amount of net financial debt is equal to -3.089 million euros.

- TELECOM ITALIA FINANCE

Key operating Financial Data

Consolidated Operating and Financial Data

(million euros)	Year 2017	Year 2016
Revenues	**4.502**	**4.047**
EBITDA	**1.627**	**1.319**
EBIT	**528**	**361**
Profit (loss) before tax from continuing operations	368	325
Profit (loss) for the year	**307**	**243**
Profit (loss) for the year attributable to Owners of the Parent	198	179
Capital expenditures	**1.150**	**1.166**

Consolidated Financial Position Data

(million euros)	31/12/2017	31/12/2016
Total assets	**13.932**	**16.493**
Total equity	**8.370**	**9.054**
Attributable to Owners of the Parent	6.813	7.350
Attributable to non-controlling interests	1.557	1.704
Total liabilities	**5.562**	**7.439**
Total equity and liabilities	**13.932**	**16.493**
Share capital	**1.819**	**1.819**
Net financial debt carrying amount	**-2.479**	**-2.440**

Headcount

	31/12/2017	31/12/2016
Number in the Group at year end	9.518	9.859
Average number in the Group	9.075	10.439

Highlights

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

During 2017 Brazil Business Unit consolidated the recovery trajectory of its results, started in the second half of 2016. Despite a very gradual macroeconomic recovery, the focus on the execution of the designed plan allowed the BU not only to grow again solidly, but also to present some indicators that surpassed historical levels, such as EBITDA and EBITDA Margin in the fourth quarter, thanks to the focus on efficiency and the best customer experience.

THE MARKET

In the international scenario, the continuous military instability, especially between the United States and North Korea, brought volatility to the markets, generating strong oscillations. In the United States, some government proposals and the Fed's monetary policy set a tone of uncertainty about the sustainability of the global economic growth in the years to come.

In Europe, the level of economic activity is improving in the euro zone, even as discussions regarding Brexit continue.

Considering the Brazilian economy, the year 2017 marked an inflection with the recovery of the Gross Domestic Product (GDP), which grew by 1,00% after two consecutive years of decline, mainly driven by domestic consumption and trade balance surplus.
Despite the overall positive result, instability continued to mark the political environment, leading to uncertainties regarding the approval of fiscal and political reforms. The presidential elections 2018 also contribute towards a decreased predictability regarding the direction of the country's economy.

PROJECT AND NON-RECURRING EVENTS

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 (about 1 billion euros at the average exchange rate for the period). 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 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 the second quarter of 2017, the 6th and last partial sale of telecommunications towers was finalized: 54 towers were transferred to American Tower do Brasil, in accordance with the agreements entered into between the parties. Risks and benefits of the assets were transferred to the purchaser on the dates of each transfer, and a net expense involving the disposal of these assets in the amount of 1,8 million reais (0,5 million euros) in the period was recognized as non-recurring other operating expenses.

FINANCIAL HIGHLIGHTS

In terms of economic and financial performance of 2017:

- **Consolidated revenues** amounted to 4,5 billion euros, up by 4,0% on the 2016.
- **EBITDA** amounted to 1,6 billion euros, up by 15,3% on 2016.
- **Operating profit (EBIT)** was 0,5 billion euros, up by 36,2% compared to 2016.
- The **Profit for the year attributable to Owners of the Parent** amounted to 198 million euros (179 million euros for the year 2016).
- **Capital expenditures** in 2017 amounted to 1.150 million euros (1.166 million euros in 2016).
- **Net financial debt** amounts to -2.479 million euros at December 31, 2017, down of 39 million euros compared to the end of 2016 (-2.440 million euros).

Consolidated operating performance

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

	Other operations (million euros)		**Brazil Business Unit** (million euros)		(millions of reais)		Change	
	2017	2016	2017	2016	2017	2016	Amount	%
					(a)	(b)	(a-b)	(a-b)/b
Revenues	**-**	**-**	**4.502**	**4.047**	**16.234**	**15.617**	**617**	**4,0**
EBITDA	**-8**	**-7**	**1.635**	**1.326**	**5.894**	**5.114**	**780**	**15,3**
EBITDA Margin	-	-	36,3	32,7	36,3	32,7		3,6 pp
EBIT	**-8**	**-7**	**536**	**368**	**1.931**	**1.418**	**513**	**36,2**
EBIT Margin	-	-	11,9	9,1	11,9	9,1		2,8 pp
Headcount at year end (number)	**10**	**10**			**9.508**	**9.849**	**-341**	**-3,5**

	Year 2017	Year 2016
Lines at period end (thousands)	58.634	63.418
MOU (minutes/month)	109,7	116,6
ARPU (reais)	20,2	18,0

REVENUES

All the revenues are related to Brazil Business Unit.
Revenues for 2017, amounting to 16.234 million reais (4.502 million euros), were up by 617 million reais (+4,0%) and 456 million euros on the previous year.
Revenues from services totaled 15.474 million reais (4.291 million euros), with an increase of 754 million reais (+5,1%) and 477 million euros compared to the 14.720 million reais (about 3.814 million euros) of the 2016 financial year.
Revenues from product sales totaled 760 million reais corresponding to around 211 million euros, (897 million reais in 2016 corresponding to around 232 million euros, down of -15,3%). The fall reflects the change in commercial policy, more focused on value than on increasing the volumes sold, and aimed at developing the acquisition of new handsets that can use broadband services on the 3G/4G networks by TIM's customers, and to support the new offers to retain the highest value post-paid customers.
Mobile Average Revenue Per User (ARPU) amounted to 20,2 reais (5 euros) for 2017 compared with 18,0 reais (4 euros) for the previous year (+12,2%).
The total number of lines at 31 December 2017 was 58.634 thousand, a decrease of 4.784 thousand from the figure at 31 December 2016 (63.418 thousand). This reduction is entirely attributable to the prepaid segment (-7.701 thousand), and is only partially offset by the growth in the post-paid segment (+2.918 thousand), also as an effect of the ongoing consolidation in the second SIM card market.

EBITDA

EBITDA totaled 1.627 million euros, of which 1.635 million euros attributable to the Brazil BU.

The Brazil’s EBITDA totaled 5.894 million reais corresponding to around 1.635 million euros (780 million reais higher than in 2016 corresponding to around 202 million euros (+15,3%). The growth in EBITDA may be attributed to both the positive trend in revenues and to the benefits deriving from the efficiency projects on the operational costs structure that started in the second half of the previous year.
The EBITDA margin was 36,3%, 3,6 percentage points higher than in 2016.
It should also be noted that personnel costs for 2016 also included non-recurring charges for redundancy costs totaling 56 million reais (around 15 million euros). Here too, excluding the impact of the non-recurring charges, 2017 EBITDA was higher (+14,0%) than in 2016.
EBITDA totaled 1.758 million reais (about 488 million euros) in Q4 2017, with performance that showed a progressive improvement, compared to the figures posted in the preceding quarters.
The EBITDA margin was 41,3%, 3,0 percentage points higher than in the same period of the previous year.

The changes in the main costs for the BU are shown below:

	(million euros)		(million of reais)		
	2017 (a)	2016 (b)	2017 (c)	2016 (d)	Change (c-d)
Acquisition of goods and services	2.168	2.028	7.816	7.826	-10
Employee benefits expenses	353	336	1.274	1.296	-22
Other operating expenses	500	505	1.805	1.948	-143
Change in inventories	6	-1	20	-2	22

EBIT

EBIT totaled 528 million euros (361 million euros in 2016), an increase of 167 million euros.

Considering Brazil BU, EBIT totaled 1.931 million reais (536 million euros), an improvement of 513 million reais (+36,2%) and 168 million euros compared to 2016 (1.418 million reais corresponding to around 367 million euros). This result benefits from the greater contribution of the EBITDA (+780 million reais) offset by higher depreciation (+228 million reais) due to the development of the industrial infrastructure and the lower impact of net capital gains on asset sales (-39 million reais), principally related to the operation of telecommunications towers. On this point, it should be noted that the last partial sale of telecommunications towers, to American Tower do Brasil was finalised in the second quarter of 2017; this operation produced a small injection of cash with little economic impact.

EBIT in the fourth quarter of 2017 was 729 million euros (588 million euros in Q4 2016), 24,4% higher than in the same period of 2016, with a margin of 17,1% (14,5% in Q4 2016).

PROFIT (LOSS) FOR THE YEAR

The details are as follows:

(million euros)	Year 2017	Year 2016
Profit (loss) for the year	**307**	**243**
Attributable to		
Owners of the Parent	198	179
Non-controlling interests	109	64

CAPITAL EXPENDITURE

All the capital expenditure is referred to the Brazil Business Unit. The BU posted capital expenditures in 2017 of 1.150 million euros, down by 16 million euros on 2016. Without the impact of fluctuations in exchange rates, which amounted to 82 million euros, the change was a negative 98 million euros and mainly reflected lower expenditure for renewals of TLC licenses (-52 million euros) and for developments in Information Technology projects (-46 million euros), following the strong growth recorded in 2016 due to the launch of new commercial offers and the introduction of the new billing system. Capital expenditure in network infrastructure in 2017 amounted to 806 million euros (-3 million euros at constant exchange rates compared to 2016), and was mainly aimed at developing the 4G mobile broadband network, reaching 3.003 towns (+1.748 compared to 2017), with a urban population coverage rate of 91,2%.

Consolidated financial position and cash flows performance

Non-current assets

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

- **Goodwill** decreased by 151 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** decreased by 187 million euros representing the balance of the following items:
  - Capex (+529 million euros)
  - Amortization charge for the year (-507 million euros)
  - Disposals, exchange differences, reclassifications and other changes (for a net negative balance of 209 million euros).
- **Tangible assets** decreased by 553 million euros representing the balance of the following items:
  - Capex (+621 million euros)
  - Change in financial lease contracts (+14 million euros)
  - Depreciation charge for the year (-607 million euros)
  - Disposals, exchange differences, reclassifications and other changes (for a net negative balance of 581 million euros).

Consolidated equity

Consolidated equity amounted to 8.370 million euros (9.054million euros at December 31, 2016), of which 6.813 million euros attributable to Owners of the Parent (7.350 million euros at December 31, 2016) and 1.557 million euros attributable to non-controlling interests (1.704 million euros at December 31, 2016).

Cash flows

The details of Group cash flows are as follow:

(million euros)	Year 2017	Year 2016
Cash flows from (used in) operating activities	1.360	1.190
Cash flows from (used in) investing activities	-553	1.787
Cash flows from (used in) financing activities	-966	-2.792
Aggregate cash flows	**-159**	**185**
Net foreign exchange differences on net cash and cash equivalents	-146	311
Net cash and cash equivalents at beginning of the year	**2.876**	**2.691**
Net cash and cash equivalents at end of the year	**2.717**	**2.876**

Net financial debt

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

(million euros)	**Other operations**		**Brazil Business Unit**	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Non-current financial liabilities	1.690	1.984	1.246	2.175
Current financial liabilities	311	396	376	372
Total gross financial debt	**2.001**	**2.380**	**1.622**	**2.547**
Non-current financial assets	-1	-2	-42	-59
Current financial assets	-2.694	-3.554	-963	-1.663
Net financial debt as per ESMA	**-694**	**-1.176**	**617**	**825**
Non-current financial assets	-2.395	-2.050	-7	-39
Net financial debt	**-3.089**	**-3.226**	**610**	**786**

Main commercial developments of the business units of the Group

Brazil

In 2017, TIM Brazil fully renewed its range of offers to reposition the brand with high-value customers, leveraging its leadership in the 4G network.
The change in approach had a major impact on the mix of the customer base, mainly in the prepaid segment, resulting in the progressive and marked migration of customers from single service daily plans (voice and/or data) to recurring weekly/monthly plans that bundle voice and data packages with other value-added services (music, e-reading and video streaming), all with a view to stabilizing future revenue flows and proactively managing the consolidation underway of the market for second SIMs. The main sales initiatives included:

- the launch of a **new range of recurring bundle offers (TIM Pre)** for the Prepaid segment, which offer comprehensive and differentiated solutions for voice and data services;
- the introduction of TIM's **innovative "More for More" approach** for the Controle segment, which gives customers more value in terms of calls, data and unlimited content. The approach has underpinned constant growth in the customer base as increasing numbers of prepaid customers migrate to higher value recurring offers, which has positively impacted growth in ARPU generated;
- the launch of new offers for the Postpaid Consumer segment including the **TIM Black brand**, consisting of differentiated data offers bundled with add-on packages to access specific content (Netflix, Cartoon Network, Esporte Interativo, etc.) and a dedicated plan for households ("TIM Black Família");
- the overhaul of the customer acquisition strategy for the Postpaid Corporate SMB segment, where TIM is the market leader. The new strategy does away with trade-ins as a sales practice, to ensure the growth and retention of the high-value customer base and avoid arbitrage by sales channels;
- greater commercial development of the brand **TIM Live** in the Residential Fixed-line Broadband segment, which posted strong growth in the customer base thanks to service levels that are among the highest on the market. **The launch of FTTH offers is planned for the first half of 2018**.
- In addition, in a select number of smaller cities without fixed-line UBB networks, WTTX was launched to provide mobile access to limited broadband services, building on the potential of the 700 Mhz 4G network.

Main changes in the regulatory framework

Brazil

<u>Revision of the model for the provision of telecommunications services</u>
In April 2016, the working group composed of the Ministry of Science, Technology, Innovation and Communications (MCTIC) and Anatel published its final report with a "diagnosis" on the telecommunications industry and proposed guidelines for the revision of the Brazilian regulatory model. A bill (PLC 79/2016) was then presented to the National Congress of Brazil to propose amendments to the General Telecommunications Law. Although the bill was passed by both chambers of Congress, the opposition challenged the legislative procedure followed in the Supreme Court, where the bill remained blocked for months. At the beginning of October, the bill PLC 79/2016 was referred back to the Senate, where it is expected to be debated again over the course of 2018.
In October and November 2017, the Ministry of Science, Technology, Innovation and Communications (MCTIC) held a public consultation to review the general telecommunications policy, which is expected to lead to the issue and publication of a new Presidential Decree in 2018. The public consultation process proposed the setting of guidelines and objectives for the provision of telecommunications services, for the technological development of digital services and broadband infrastructure, and for the spread of "smart cities".
In relation to the deadlines for the upgrading of pipelines not compliant with current regulations, authorizations for user licenses to radio frequencies, and the introduction of other statutory provisions generally, planned investments (as identified by Anatel and approved by the MCTIC) will focus primarily on the expansion of mobile and fixed-line broadband networks and on specific areas of the country. TLC networks built under the investment plan will have shared access.

<u>700 MHz and Analog TV switch off</u>
In September 2014, TIM won the tender for the award of the 700 MHz (4G/LTE) band frequencies, for a price of 1,7 billion reais (0,5 billion euros at the average exchange rate for the period), and with additional commitments (in four annual installments, adjusted for inflation) of 1,2 billion reais (0,4 billion euros at the average exchange rate for the period) as a contribution to the consortium established by the tender ("EAD") for all the operators (TIM, Algar, Claro and Vivo) awarded the contract for managing the freeing up of the 700 MHz band through the switch off of analog TV, the redistribution of channels and the clean-up of interference. To that end, the first payment (370 million reais corresponding to 114 million euros at the average exchange rate for the period) was

made in April 2015 and another two payments (for a total of 860 million reais corresponding to around 265 million euros at the average exchange rate for the period) were both made in January 2017, whereas the final installment (142 million reais corresponding to 39 million euros) is due in January 2018.
Since the switch-off process was launched, 3.592 municipalities have released the 700 Mhz spectrum, including major cities such as Rio de Janeiro and São Paulo. The municipalities represent 51,7% of the Brazilian population (105,6 million people) and 89% of national territory.

Revision of Competition Rules
In November 2012, the Brazilian regulator Anatel introduced instruments for the market analysis, the identification of operators with significant market power (SMP) and the consequent imposition of ex-ante obligations (Plano Geral de Metas de Competição – PGMC).
Currently, TIM has SMP in (i) passive infrastructure (towers); (ii) mobile network termination, and (iii) national roaming. A public consultation on reforms to the PGMC was begun on December 7, 2016 and concluded on March 22, 2017. Alongside the re-identification of relevant markets, work is underway for the classification of towns on the basis of specific competition levels (1: competitive, 2: moderately competitive, 3: not very competitive, 4: uncompetitive) before any asymmetric regulatory measures are applied. Under the regulatory agenda, the new regulation is expected to be introduced in 2018.

"Marco Civil da Internet" and Network Neutrality
The "Marco Civil da Internet" (MCI), approved in April 2014 by Brazilian Law No. 12,965/2014, defined network neutrality as the "duty to treat different data packages in the same way, without distinction based on content, origin and destination, service, terminal or application". On May 11, 2016, Brazilian Presidential Decree No. 8.771/2016 was published, which regulates exceptions to the principle of net neutrality, set out in article 9 of the mentioned law.
In August 2017, the oversight board ("GS") of the Administrative Council for Economic Defense (CADE) handed down a decision in favor of Brazil's mobile TLC providers, which excluded the imposition of fines in relation to a preliminary investigation into alleged unfair competition in "zero rating" offers and promotions on Internet data consumption. The oversight board heard the depositions of various parties, including the Ministry of Science, Technology, Innovation and Communications (MCTIC) and Anatel, and concluded that Internet business models should not be banned ex-ante, but instead should be monitored comprehensively to prevent any unfair competition outcomes.

Competition

Brazil

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

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

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

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

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

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

The residential fixed-line broadband market posted growth of approximately 7% in 2017 compared to 2016, driven mainly by smaller market players, which tend to offer faster download speeds and/or service in areas in which the incumbents have limited infrastructure. Penetration rates across the population are still quite low when compared to the United States or Europe, which means there are good opportunities for medium-term growth, underpinned by the improving macroeconomic situation.
In this context, in 2017, TIM adopted a new business strategy based on a differentiated approach between the big cities, where it has the fiber network infrastructure to offer FTTC/FTTH through TIM Live, and small cities, where it has leveraged the availability of the 700 MHz 4G network to launch a new WTTX service offering limited access to broadband. At end of 2017, TIM Live had a customer base of 392 thousand users, up by 28% on the end of 2016. Its download speeds and customer satisfaction rates rank it among the top broadband providers in the country.

Research and development

Brazil

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

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

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

In 2017, more than 180 validation and innovation projects were concluded. Moreover, new technological areas, such as transport and fixed access solutions, were included in the range of initiatives relating to innovation and R&D. In this regard, over 22 million reais (around 6,4 million euros in 2016) were invested in this project in the 2016/17 period, including the new lab premises, and, according to the 2018-2020 Budget, additional investments worth 17 million reais (about 4,71 million euros) are planned.

Human resources

Brazil

The Brazil BU ended 2017 with 9.519 employees throughout Brazil. These employees, with their stories and knowledge, represent the intellectual capital of the Group and act as engines for the development of the business. Approximately 70,0% of employees have completed higher education or attend university and 8,3% have postgraduate degrees. The numbers and results show that the Group has a diverse and highly qualified framework to meet the Group's challenges. The workforce is complemented by 300 trainees and 274 young apprentices.
Development and Training

The Group employees have access to innovative tools and well-structured ways to evolve and to build a successful career. In line with the organizational values, they trace their careers from their own professional experiences and knowledge acquired from the Group's investment. In this regard, the Group invested more than 7 million reais (1,94 million euros) in training and development of its employees in 2017.
To guide the careers of its employees, The Brazil BU maps and monitors individual performance to guide the activities more assertively. In addition to encouraging and providing real growth opportunities, the Group recognizes the dedication and differentiated performance of its professionals by using Performance Management.

Long Term Incentive Plan
The Long-Term Incentive Plan is intended to grant options for the purchase or subscription of shares of TIM Participações to employees of the Brazil BU, thereby seeking to promote the expansion, achievement and success of the corporate objectives, as well as the interests of shareholders and management.
The plan consists in granting the right to purchase the shares for a predetermined price during a specified period. The options are subject to a vesting period (during which the options cannot be exercised) and execution conditions (which can adjust the option price positively or negatively). As employees are able to add value to stock prices, they are able to benefit from the appreciation in the exercise of their options.
The granting of stock options or shares subscription has been made annually for 3 years and the exercise of the option of stock purchase or shares subscription will be completed gradually, up to 33% in the first year, up to 66% in the second year and 100% in the third year, counted from each of the three concessions. The term of the options is 6 years.
As approved by the Company's General Meeting, the management of the Plan is the responsibility of the Board of directors, subject to the Company's bylaws. Currently, there are two Long-term incentive plans in force in the Company, referring to the 2011-2013 and 2014-2016 cycles.

Social Responsibility

Brazil

The Brazil BU has social responsibility and environmental policies that guide the actions and initiatives of the companies and are based on the principles of the UN Global Compact, a voluntary agreement which has been signed since 2008. Through this agreement, companies from all over the world are committed to ensure compliance with the ten principles relating to human rights, working conditions, environment and the fight against corruption.
In line with the principles of its environmental and climate change management policies, the Group considers energy consumption efficiency as one of its challenges. Despite the expected increase in energy consumption, due to the expansion of the network infrastructure, the Brazil BU invests in energy efficiency actions, like the RAN Sharing agreements, a model for network infrastructure sharing with other operators.
In addition, the Brazil BU uses Biosites in its network expansion, structures with significant reduction in visual impact that contribute to harmonization with the environment and with urban infrastructure. The multifunctionality of the structure can contribute beyond the transmission of telecommunications, including lighting and surveillance cameras. By the end of 2017, the Group reached a total of 528 active Biosites.
The Group also seeks constant improvement in its environmental management system. In 2017, the Brazil BU maintained important certifications of "management and operations on the TIM Celular network", demonstrating its commitment to efficiency and to performance objectives, which go beyond the level required by current legislation, through international excellence quality models based on ISO 9001 (national certification) and ISO 14001 (regional certification in the States of Rio de Janeiro, Espírito Santo and São Paulo).
Since 2000, The Brazil BU holds a certificate for its quality management system and since 2010 certified its environmental management system, being the first mobile operator in Brazil to receive this certification6. In 2018, the BU plans to expand its environmental certification to other areas and maintain the preparatory activities to obtain the certification for its occupational safety and health management system, based on the OHSAS 18001, and for information security, based on the ISO 27001.
The Group also recognizes that companies have an important role to play when it comes to public education and collective well-being in Brazil. Therefore, in 2013, the Instituto TIM (www.institutotim.org.br) was founded with the mission to develop resources and strategies for the democratization of science, technology and innovation, through mathematical and scientific education projects for children and youth, and through the development of free technologies that contribute to the implementation of public policies.
The Brazil BU also has a private social investment policy, which defines the strategic guidelines, criteria and responsibilities of the functions involved in TIM and the Instituto TIM, ensuring that there is planning, solidity and transparency in the transfer of resources to social projects.
Social investment initiatives include donations, projects developed by the Instituto TIM and sponsorships. In 2017 more than 5 million reais (about 1,4 million euros) were invested in social benefits.

Events subsequent to December 31, 2017

For details of subsequent events, see the specific Note "Events Subsequent to December 31, 2017".

Business outlook for the year 2018

2018 is likely to be the year where the shift towards less accommodative monetary policy starts to be implemented. In the US the Federal Reserve (FED) will continue to tighten policy while in Europe the European Central Bank (ECB) is also on the path towards the exit of the quantitative easing (QE). The QE program, which provide ongoing support for the economy, is likely to be terminated within the year, however for the 2018 there is no expectation of a significant change of the short term interest rate curve still characterized by negative levels.

In Brazil despite the overall Group positive results, instability continue to mark the political environment, leading to uncertainties regarding the approval of fiscal and political reforms. The presidential elections scheduled on October 2018 also contribute towards a decreased predictability regarding the direction of the country's economy.

Tim Brasil reorganization
The corporate reorganization project, disclosed to the market on July 2017, is expected to be completed in 2018 after due corporate approval and will see the incorporation of TIM Celular SA by TIM SA (formerly Intelig Telecomunicações Ltda.). The reorganization aims to capture operational and financial synergies through the implementation of a more efficient process structure, as well as accounting and internal control systems.

Main risks and uncertainties

Risk related to competition

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

Risks related to business continuity

The Group 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.

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 provisions 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.

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Consolidated Statements of Financial Position

Assets

(million euros)	Note	31/12/2017	31/12/2016
Non-current assets			
Intangible assets		**3.428**	**3.766**
Goodwill	[4]	972	1.123
Intangible assets with a finite useful life	[5]	2.456	2.643
Tangible assets	[6]	**2.681**	**3.234**
Property, plant and equipment owned		2.422	2.862
Assets held under finance leases		259	372
Other non-current assets		**3.199**	**2.982**
Investments in associates accounted for using the equity method	[7]	-	-
Other investments	[7]	91	106
Non-current financial assets	[8]	2.445	2.150
Miscellaneous receivables and other non-current assets	[9]	663	714
Deferred tax assets	[10]	-	12
Total Non-current assets		**9.308**	**9.982**
Current assets			
Inventories	[11]	31	41
Trade and miscellaneous receivables and other current assets	[12]	867	1.168
Current income tax receivables	[10]	69	85
Current financial assets	[8]	**3.657**	**5.217**
Securities other than investments, financial receivables and other current financial assets		933	2.329
Cash and cash equivalents		2.724	2.888
Total Current assets		**4.624**	**6.511**
TOTAL ASSETS		**13.932**	**16.493**

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

Equity and Liabilities

(million euros)	Note	31/12/2017	31/12/2016
Equity	[13]		
Share capital issued		1.819	1.819
Other reserves and retained earnings (accumulated losses), including profit (loss) for the year		4.994	5.531
Equity attributable to owners of the Parent		**6.813**	**7.350**
Non-controlling interests		**1.557**	**1.704**
TOTAL EQUITY		**8.370**	**9.054**
Non-current liabilities			
Non-current financial liabilities	[14]	2.936	4.159
Employee benefits		1	-
Deferred tax liabilities	[10]	25	32
Provisions	[19]	122	126
Miscellaneous payables and other non-current liabilities	[20]	310	393
Total Non-current liabilities		**3.394**	**4.710**
Current liabilities			
Current financial liabilities	[14]	687	768
Trade and miscellaneous payables and other current liabilities	[19][21]	1.428	1.880
Current income tax payables	[10]	53	81
Total Current Liabilities		**2.168**	**2.729**
TOTAL LIABILITIES		**5.562**	**7.439**
TOTAL EQUITY AND LIABILITIES		**13.932**	**16.493**

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

Separate Consolidated Income Statements

(million euros)	Note	Year 2017	Year 2016
Revenues	[23]	4.502	4.047
Other income	[24]	52	51
Total operating revenues and other income		**4.554**	**4.098**
Acquisition of goods and services	[25]	-2.170	-2.032
Employee benefits expenses	[26]	-355	-338
Other operating expenses	[27]	-504	-505
Change in inventories		-6	1
Internally generated assets	[28]	108	95
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)		**1.627**	**1.319**
Depreciation and amortization	[29]	-1.113	-981
Gains/(losses) on disposals of non-current assets	[30]	14	23
Operating profit (loss) (EBIT)		**528**	**361**
Other income (expenses) from investments		-23	46
Finance income	[31]	800	1.725
Finance expenses	[31]	-937	-1.807
Profit (loss) before tax from continuing operations		**368**	**325**
Income tax expenses	[10]	-61	-82
Profit (loss) from continuing operations		**307**	**243**
PROFIT (LOSS) FOR THE YEAR		**307**	**243**
Attributable to			
Owners of the Parent		198	179
Non-controlling interests		109	64

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

Consolidated Statements of Comprehensive Income

(million euros)		Year 2017	Year 2016
Profit (loss) for the year	**(a)**	**307**	**243**
Other components that subsequently will not be reclassified in the Separate Consolidated Income Statements	**(b=c)**	**-**	**-**
Remeasurements of employee defined benefit plans (IAS 19)	**(c)**	**-**	**-**
Actuarial gains (losses)		-	-
Other components that subsequently will be reclassified in the Separate Consolidated Income Statements	**(d=e+f+g)**	**-780**	**1.084**
Available-for-sale financial assets	**(e)**	**-5**	**-3**
Profit (loss) from fair value adjustments		-8	-10
Loss (profit) transferred to the Separate Consolidated Income Statements		3	7
Hedging instruments:	**(f)**	**-2**	**-2**
Profit (loss) from fair value adjustments		-1	1
Loss (profit) transferred to the Separate Consolidated Income Statements		-1	-3
Exchange differences on translating foreign operations:	**(g)**	**-773**	**1.089**
Profit (loss) on translating foreign operations		-754	1.089
Loss (profit) on translating foreign operations transferred to the Separate Consolidated Income Statements		-19	
Total other components of the Consolidated Statements of Comprehensive Income	**(h=b+d)**	**-780**	**1.084**
Total comprehensive income (loss) for the year	**(i=a+h)**	**-473**	**1.327**
Attributable to			
Owners of the Parent		-351	940
Non-controlling interests		-122	387

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

Consolidated Statements of Changes in Equity

Changes from January 1, 2017 to December 31, 2017
Equity attributable to owners of the Parent

(million 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, 2017	**1.819**	**3.148**	**-1**	**3**	**-427**	**-**	**-**	**2.808**	**7.350**	**1.704**	**9.054**
Changes in equity during the year:											
Dividends approved								-190	**-190**	-25	**-215**
Total comprehensive income (loss) for the year			-6	-2	-541	-	-	198	**-351**	-122	**-473**
Other changes								4	**4**		**4**
Balance at December 31, 2017	**1.819**	**3.148**	**-7**	**1**	**-968**	**-**	**-**	**2.820**	**6.813**	**1.557**	**8.370**

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

(million 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 the Consolidated Financial Statements 2016, Note 1.

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

Consolidated Statements of Cash Flows

(million euros)	Note	Year 2017	Year 2016
Cash flows from operating activities:			
Profit (loss) from continuing operations		307	243
Adjustments for:			
Depreciation and amortization	[5],[6]	1.113	981
Impairment losses (reversals) on non-current assets (including investments)		4	36
Net change in deferred tax assets and liabilities		6	-6
Losses (gains) realized on disposals of non-current assets (including investments)		-14	-106
Change in inventories		11	-9
Change in trade receivables and net amounts due from customers on construction contracts		210	-179
Change in trade payables		-10	64
Net change in current income tax receivables/payables		-12	-5
Net change in miscellaneous receivables/payables and other assets/liabilities and other changes		-255	171
Cash flows from (used in) operating activities		**1.360**	**1.190**
Cash flows from investing activities:			
Total purchase of intangible and tangible assets on a cash basis		-1.401	-996
Change in financial receivables and other financial assets		844	2.545
Proceeds from sale/repayment of intangible, tangible and other non-current assets		4	238
Cash flows from (used in) investing activities		**-553**	**1.787**
Cash flows from financing activities:			
Change in current financial liabilities and other		-124	-670
Proceeds from non-current financial liabilities (including current portion)		184	365
Repayments of non-current financial liabilities (including current portion)		-803	-2.457
Dividends paid		-223	-30
Cash flows from (used in) financing activities		**-966**	**-2.792**
Aggregate cash flows		**-159**	**185**
Net foreign exchange differences on net cash and cash equivalents		**-146**	**311**
Net cash and cash equivalents at beginning of the year	**[8]**	**2.876**	**2.691**
Net cash and cash equivalents at end of the year	**[8]**	**2.717**	**2.876**

Additional Cash Flow Information

(million euros)	Year 2017	Year 2016
Income taxes (paid) received	-40	-95
Interest expense paid	-509	-562
Interest income received	393	468
Dividends received	-	2

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, 2017 have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board as endorsed by EU ("IFRS") and were authorized for issue with a resolution of the Board of Directors on March 05, 2018.

The Consolidated Financial Statements for the year ended December 31, 2017 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.

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

The 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 the "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 TIM S.A.) telecommunications operations in Brazil;
- Other Operations: includes TI Finance, that provides financial assistance to TIM Group companies.

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, 2017 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 over a period of at least twelve months).
In particular, the following factors have been taken into consideration:

- the main risks and uncertainties (that are for the most part of an external nature) to which the Group and the various activities of the 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 also related to competition;
  - changes to laws and regulations (price and rate variations);
  - outcomes of legal disputes and proceedings with regulatory authorities, competitors and other parties;
  - financial risks (interest rate and/or exchange rate trends, changes in the Group's credit rating by rating agencies);
- the optimal mix between risk capital and debt capital;
- the policy for financial risk management (market risk, credit risk and liquidity risk) as described in the Note "Financial risk management".

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

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the financial statements of all subsidiaries from the date control over such subsidiaries commences until the date that control ceases.
The statement of financial position date of all the subsidiaries’ financial statements coincides with that of the Parent.
Control exists when the Parent has all the following:

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

The Parent assesses whether it controls an investee if facts and circumstances indicate that there are changes in one or more of the three control elements.
In the preparation of the consolidated financial statements, assets, liabilities, revenues and expenses of the consolidated companies are consolidated on a line-by-line basis and non-controlling interests in equity and in the profit (loss) for the year are disclosed separately under appropriate captions, respectively, in the consolidated statement of financial position, in the separate consolidated income statement and in the consolidated statement of comprehensive income.
Under IFRS 10 (Consolidated financial statements), the total comprehensive loss (including the profit or loss for the year) is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intragroup balances and transactions and any gains or losses arising from intragroup transactions are eliminated upon consolidation.
The carrying amount of the investment in each subsidiary is eliminated against the corresponding share of equity in each subsidiary, after adjustment, if any, to fair value at the acquisition date of control. At that date, goodwill is recorded as an intangible asset, as described below, whereas any gain from a bargain purchase or negative goodwill is recognized in the separate consolidated income statement.
Assets and liabilities of foreign consolidated subsidiaries which are denominated in currencies other than euro are converted at the exchange rates prevailing at the statement of financial position date (the current method); income and expenses are converted at the average exchange rates for the year. Exchange differences resulting from the application of this method are classified as equity until the entire disposal of the investment or upon loss of control of the foreign subsidiary. Upon partial disposal, without losing control, the proportionate share of the cumulative amount of exchange differences related to the disposed interest is recognized in non-controlling interests.
The cash flows of foreign consolidated subsidiaries denominated in currencies other than Euro included in the consolidated statement of cash flows are converted into Euro at the average exchange rates for the year.
Goodwill and fair value adjustments arising from the allocation of the purchase price of a foreign entity are recorded in the relevant foreign currency and are converted using the year-end exchange rate.
Under IFRS 10, changes in a parent's ownership interest in a subsidiary that do not result in a loss or acquisition of control are accounted for as equity transactions. In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the Parent.
Under IFRS 10, the parent company in case of loss of control of a subsidiary:

- derecognizes:
  - the assets (including any goodwill) and the liabilities;
  - the carrying amount of any non-controlling interests;
- recognizes:
  - the fair value of the consideration received, if any, from the transaction;
  - any investment retained in the former subsidiary at its fair value at the date when control is lost;
  - any gain or loss, resulting from the transaction, in the separate consolidated income statement;
  - the reclassification to the separate consolidated income statement, of the amounts previously recognized in other comprehensive income in relation to the subsidiary.

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.

INTANGIBLE ASSETS

Goodwill

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

b) the fair value of the identifiable assets acquired net of the identifiable liabilities assumed measured at the 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. Such 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 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 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 directly from the "finance expense" line item to which they relate.

IMPAIRMENT OF INTANGIBLE AND TANGIBLE ASSETS

Goodwill

Goodwill is tested for impairment at least annually or more frequently whenever events or changes in circumstances indicate that goodwill may be impaired, as set forth in IAS 36 (Impairment of Assets); however, when the conditions that gave rise to an impairment loss no longer exist, the original amount of goodwill is not reinstated.
The test is generally conducted at the end of every year so the date of testing is the year-end closing date of the financial statements. Goodwill acquired and allocated during the year is tested for impairment at the end of the year in which the acquisition and allocation took place.
To test for impairment, goodwill is allocated at the date of acquisition to each cash-generating unit or group of cash-generating units which is expected to benefit from the acquisition.
If the carrying amount of the cash-generating unit (or group of cash-generating units) exceeds the recoverable amount, an impairment loss is recognized in the Separate Consolidated Income 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 payables, including advances received on the assignment of accounts receivable, and other financial liabilities such as derivatives and finance lease obligations.
In accordance with IAS 39, they also include trade and other payables.
Financial liabilities other than derivatives are initially recognized at fair value and subsequently measured at amortized cost.
Financial liabilities hedged by derivative instruments designed to manage exposure to changes in fair value of the liabilities (fair value hedge derivatives) are measured at fair value in accordance with the hedge accounting principles of IAS 39. Gains and losses arising from re-measurement at fair value, to the extent of the hedged component, are recognized in the Separate Consolidated Income 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 required to 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 forecasted transaction, the effective portion of any gain or loss on the derivative financial instrument is recognized directly in a specific equity reserve (Reserve for cash flow hedges). The cumulative gain or loss is removed from equity and recognized in the Separate Consolidated Income 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 at fair value of derivative financial instruments are directly recognized in the Separate Consolidated Income Statement.

AMOUNTS DUE FROM CUSTOMERS ON CONSTRUCTION CONTRACTS

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

INVENTORIES

Inventories are measured at the lower of purchase and production cost and estimated realizable value; cost is determined on a weighted average basis. Provision is made for obsolete and slow-moving inventories based on their expected future use and estimated realizable value.

EMPLOYEE BENEFITS

Equity compensation plans

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 recorded as an adjustment 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.

PROVISIONS

The Group records provisions for risks and charges when it has a present obligation, legal or constructive, to a third party, as a result of a past event, when it is probable that an outflow of Group resources will be required to satisfy the obligation and when the amount of the obligation can be estimated reliably.
If the effect of the time value is material, and the payment date of the obligations can be reasonably estimated, provisions to be accrued are the present value of the expected cash flows, taking into account the risks associated with the obligation. The increase in the provision due to the passage of time is recognized in the separate consolidated income statements as "Finance expenses".

FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are recorded at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are 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 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 traffic used. Deferred revenues for prepaid traffic not yet consumed 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 the latter is delivered to the final customer whereas traffic revenues are recorded on the basis of the effective consumption; the related subscriber acquisition costs, including sales commissions, are expensed as incurred. The revenues allocated to the handset sale are limited to the contract amount that is not contingent upon the rendering of

telecommunication services, i.e. the residual of the amount paid by the customer exceeding the services value.
A small portion of the offerings of product and service packages in the mobile business consists of contracts with a minimum contractual period between 12 and 36 months which include an enforced termination penalty. For these contracts, the subscriber acquisition costs are capitalized under "Intangible assets with a finite useful life" if the conditions for capitalization as described in the related accounting policy are met.

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

RESEARCH COSTS AND ADVERTISING EXPENSES

Research costs and advertising expenses are charged directly to the Separate Consolidated Income 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 undistributed earnings is only recognized where there is the actual intention to remit such earnings.
Deferred tax liabilities / assets are recognized using the "Balance sheet liability method". They are calculated on all temporary differences that arise between the tax base of an asset or liability and the carrying amounts in the Consolidated Financial Statements, except for non tax-deductible goodwill and for those differences related to investments in subsidiaries which will not reverse in the foreseeable future. Deferred tax assets relating to unused tax loss 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 detailed below.

Financial statement line item/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. If the market capitalization, taking in account the volativity, is sufficiently high, it is considered as the recoverable value. Otherwise, the valuation process entails the use of methods such as the discounted cash flow method, which uses assumptions to estimate cash flows. In this case, 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 intangible and tangible assets with a finite useful life. Both internal and external sources of information are used for this purpose. Identifying the impairment indicators, estimating the future cash flows and calculating the fair value of each asset requires Management to make significant estimates and assumptions in calculating the discount rate to be used, and the useful life and residual value of the assets. These estimates can have a significant impact on the fair value of the assets and on the amount of any impairment write-downs
Provision for bad debts	The recoverability of receivables is measured by considering the uncollectibility of receivables, their age and losses on receivables recognized in the past by type of similar receivables.
Depreciation and amortization 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 thus on the 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.
Unbilled Revenues	Revenue recognition is influenced by: • the estimated expected duration of the relationship with the customer for revenues from telephone service activations (and associated costs); • the estimated amount of discounts, reductions and refunds to be set off directly against revenues. Considering that some billing cut-off dates occur at intermediate dates within the months, at the end of each month there are revenues already earned by the Company but not effectively billed to the customers. These unbilled revenues are recorded based on estimates which take into account data of usage and number of days since the last billing date, among other factors.
Income tax expense (current and deferred)	Income taxes (current and deferred) are calculated in each country in which the Group operates according to a prudent interpretation of the tax laws in effect. This process sometimes involves complex estimates to determine taxable income and deductible and taxable temporary differences between the carrying amounts and the taxable amounts. In particular, deferred tax assets are recognized to the extent that future taxable income will be available against which they can be utilized. The measurement of the recoverability of deferred tax assets, recognized based on both unused tax loss carry-forwards to future years and deductible differences, takes into account the estimate of future taxable income and is based on conservative tax planning.
Derivative instruments and equity instruments	The fair value of derivative instruments and equity instruments is determined both using valuation models which also take into account subjective measurements such as, for example, cash flow estimates, expected volatility of prices, etc., or on the basis of either prices in regulated markets or quoted prices provided by financial counterparts. For further details, please also see the Note "Supplementary disclosures on financial instruments".

As per IAS 8 (Accounting policies, changes in accounting estimates and errors) paragraph 10, in the absence of a Standard or Interpretation that specifically applies to a transaction, management shall use its judgement in developing and applying an accounting policy that results in consolidated financial statements that represent faithfully the financial position, financial performance and cash flows of the Group, reflect the economic substance of transactions, and are neutral, prudential and complete in all material aspects.

NEW STANDARDS AND INTERPRETATIONS ISSUED BY IASB AND ENDORSED BY THE EU AND IN FORCE FROM THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2017

As required by IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), the following is a brief description of the IFRS in force as of the financial statements at December 31, 2017

Amendments to IAS 12 (Income Taxes) - Recognition of deferred tax assets for unrealized losses
On November 6, 2017, Regulation EU 2017/1989 was issued, applying some amendments to IAS 12 in order to clarify the recognition of deferred tax assets on unrealized losses related to the measurement of debt instruments at fair value.
The adoption of these amendments had no impact on the consolidated financial statements at December 31, 2017.

Amendments to IAS 7 (Statement of cash flows) - Disclosure initiative
On November 6, 2017, Regulation EU 2017/1990 was issued, applying some amendments to IAS 7 (Statement of cash flows). Such amendments are intended to supply additional disclosures in order to enable the financial statement users to evaluate changes (cash and non-cash flows) of liabilities arising from financing activities, showing the reconciliation between opening and closing balance of such liabilities:

- changes from financing cash flows;
- changes arising from obtaining or losing control of subsidiaries or other businesses;
- the effect of changes in foreign exchange rates;
- changes in fair values; and
- other changes.

The adoption of these amendments had no material impact on the consolidated financial statements at December 31, 2017.

NEW STANDARDS AND INTERPRETATIONS ISSUED BY IASB NOT YET IN FORCE

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
New Standards and Interpretations endorsed by the EU	
IFRS 15 (Revenue from Contracts with Customers)	January 1, 2018
Clarifications to IFRS 15 (Revenue from Contracts with Customers)	January 1, 2018
IFRS 9 (Financial Instruments)	January 1, 2018
IFRS 16 (Leases)	January 1, 2019
Improvements to IFRSs (2014–2016 Cycle) – Amendments to IAS 28	January 1, 2018
Amendments to IFRS 2 (Share based Payment)	January 1, 2018
New Standards and Interpretations not yet endorsed by the EU	
IFRIC 22 (Foreign Currency Transactions and Advance Consideration)	January 1, 2018
Amendments to IAS 40 (Investment Property)	January 1, 2018
IFRIC 23 (Uncertainty over income tax treatments)	January 1, 2019
Amendments to IFRS 9: Prepayment features with negative compensation	January 1, 2019
Amendments to IAS 28: Long-term interests in Investments in associates and joint ventures	January 1, 2019
Improvements to IFRSs (2015–2017 Cycle)	January 1, 2019
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	January 1, 2019
IFRS 17: Insurance contracts	January 1, 2021

IFRS 9 (Financial Instruments)
This standard is applicable to financial assets and liabilities, and covers issues relating to the classification, measurement, impairment and derecognition of financial assets and liabilities, as well as a new and less restrictive accounting model for hedging, requiring an economic relationship between the hedged item and the hedging instrument being the same as determined by the Group at inception date. Likewise, the new standard modifies the criteria for documentation of hedging relationships. This standard requires entities to classify their

financial assets as measured at amortized cost, at fair value through other comprehensive income, or at fair value through profit or loss, based on the following assumptions:

- business model of the entity relating to the management of financial assets; and
- characteristics of the contractual cash flow of the financial asset.

Regarding impairment, the new standard establishes the recognition of the expected credit loss.
IFRS 9 is applied starting from January 1, 2018 and the Group has decided as follows:

- to defer the application of the hedge accounting model under IFRS 9 and to continue the adoption of the IAS 39 model;
- not to restate the comparative periods in the year of initial application of the new standard.

The principal impacts of the adoption of the new standards relate to:

- the documentation of the business model for financial assets, which may give rise to changes to the measurement and classification of financial assets; and
- the new model for the calculation of impairment of financial assets, particularly regarding
    - for the Brazil BU, trade receivables which, in some cases, will result in the early recognition of losses at the initial measurement;
    - for the Parent, other financial assets.

At the transition date, the Group estimates that the impact from the adoption of the new impairment model will increase by approximately 130 million reais (about 33 million euros) the allowances for doubtful accounts previously recognized under IAS 39 by the Brazil BU. No material impact is expected considering the situation of the Parent's financial assets as at December 31, 2017. Nonetheless, these estimates are not indicative of future developments, as the business models and the instruments used could change with consequent impacts on the financial statements.

<u>IFRS 15 (Revenues from Contracts with Customers)</u>
IFRS 15 will replace the standards that currently govern revenue recognition, namely IAS 18 (Revenue), IAS 11 (Construction contracts) and the related interpretations on revenue recognition (IFRIC 13 Customer loyalty programmes, IFRIC 15 Agreements for the construction of real estate, IFRIC 18 Transfers of assets from customers and SIC 31 Revenue – Barter transactions involving advertising services).
IFRS 15 provides for the principles to be used by entities regarding the disclosure of useful information to users of the financial statements regarding the nature, amount, period and uncertainty of revenue and cash flow originated from contracts with customers. The basic principle of this pronouncement is that the entity must recognize revenue from the transfer of goods or services promised to customers at an amount that reflects the consideration that the Group expects to receive in exchange for these goods or services. By applying this pronouncement, the entity must take into account the terms of the contracts, and all material facts and circumstances.
IFRS 15 is applied retrospectively starting from January 1, 2018 and have an impact only for the Brazil BU.
The Group decided to adopt the standard according to the "modified retrospective approach", therefore, the Group will record the cumulative effect as at the date of the initial application of the standard as an adjustment to the initial balance of retained earnings (or another component of shareholders' equity, as appropriate). In accordance with this transition method, the entity will use this pronouncement retrospectively only for contracts that are still in force as at the date of the initial application. Currently, the Brazil BU offers commercial packages that basically combine equipment or mobile handsets with fixed or mobile telecom services, being that the revenue from services is recognized separately, in accordance with their nature and based on their relevant fair values.

Identification of contracts
The Brazil BU performed a comprehensive review of the commercial offers in force, in order to identify the relevant contractual clauses and other contractual elements that may be significant in terms of the adoption of the new accounting standard.

Identification of performance obligations
Upon the adoption and effectiveness of the contract, the entity must assess the goods or services that were contractually promised to the customer, identifying as a "performance obligation" each commitment made to customers regarding the transfer of the following items:

- Distinct goods or services (or a bundle of goods or services); or
- Distinct goods or services that are substantially the same, and that have the same pattern of transfer to the customers.

Goods or services promised to customers are deemed to be "distinct" when the following criteria are fulfilled:

- Customers are able to benefit from the goods or services, whether separately or jointly with other resources that are readily available to them (that is, the good or service is deemed to be "distinct"); and
- The entity's promise to transfer the good or service to customers can be separated from other commitments undertaken under the contract (that is, the commitment to transfer the good or service is "distinct" within the context of the contract).

Upon reviewing its contracts, the Brazil BU concluded that its currently commercial package has only two performance obligations being provided on a "bundle offering": (i) sale and/or rental of equipment or mobile handsets; and (ii) fixed or mobile telecom services and broadband (internet) services. Accordingly, the Group will recognize revenue when, or to the extent that, it satisfies the performance obligations by transferring the goods or services that were promised to the customer. An asset will be deemed to be "transferred" when, or to the extent that, the customer obtains the control of the asset.

Allocation of price to performance obligation
The entity must take into account the contractual terms, as well as its usual business practices, to determine the price of a transaction. The "transaction price" is the consideration that the entity is entitled to receive in exchange for the goods or services promised to the customer, which may include both fixed and variable amounts.
The Group must allocate the transaction price to each performance obligation (each distinct good or service) at an amount that reflects the consideration that the Group expects to receive in exchange for the transfer of the distinct goods or services promised to the customer, while the transaction price will be proportionally allocated to each performance obligation identified in the contract, based on the individual sales price of each good or service.
The standalone selling price has been defined by the Brazil BU, based on a price list that considers costs plus margin, and the individual sales price of the Group or the market, or the contract price, which would be similar to that provided for in contracts with similar conditions.
Therefore, the adoption of the new revenue standard will result in the early recognition of revenue from sales of equipment or mobile handsets, which are usually recognized upon the transfer of control to the customer, basically due to the allocation of discounts to the two performance obligations related to the sale of packages that include telecom services, plus equipment/handsets. The difference between the carrying value of the sales of the equipment and/or mobile handsets, and the amount received from the customer will be recorded as a contractual asset and/or liability at the beginning of the contract. Revenue from telecom services, in turn, will be recognized in the income statements based on the allocation of the transaction price, and to the extent that services are being provided to customers.

Costs of obtaining the contract
The entity must recognize in assets the incremental costs of obtaining the contract if the entity expects to recover such costs. "Incremental costs" are those incurred by the entity to obtain a contract, but which would not have been incurred if the entity had not obtained the contract.
Therefore, these amounts will be recognized in assets, and subsequently amortized affecting the income statement, in accordance with the transfer to the customer of the goods or services to which the asset refers. Also, the Group will recognize impairment losses in the income statement, to the extent that the carry value of the recognized asset exceeds the remaining amount of the consideration that the BU expects to receive in exchange for the goods or services relating to the asset.

Financial impact
Based on the analysis performed, the Group expects an acceleration of the revenue recognition on equipment or mobile handsets, due to the allocation of discounts to the two performance obligations (equipment and services), in detriment of ongoing telecom revenue services, as well as higher amount of deferred costs related to incremental costs to obtain customer's contract.
As a result, the Group estimates that the impact from the adoption of the new standard will increase retained earnings ranging from 40 million reais to 70 million reais (about 10-18 million euros), excluding impact of taxes.

<u>IFRS 16 (Leases)</u>
On October 31, 2017, Regulation EU 2017/1986 was issued, which endorsed IFRS 16 (Leases). IFRS 16 will replace IAS 17 (Leases) and the related Interpretations (IFRIC 4 Determining whether an arrangement contains a lease; SIC 15 Operating Leases-Incentives; SIC 27 Evaluating the substance of transactions in the legal form of a lease). The new standard establishes the principles regarding the recognition, measurement, reporting and disclosure of leases, and requires the recognition by lessees of assets and liabilities arising from lease agreements, except for short term contracts, that is, contracts with a term of 12 months or less, or contracts where the value of

underlying assets is low. In accordance with this standard, lessees must apply this pronouncement to lease agreements in two ways:

- Retrospectively to each prior reporting period presented in accordance with IAS 8 - Accounting Policies, Changes in Estimates and Correction of Errors; or
- Retrospectively, with the cumulative effect of the initial application of this pronouncement, recognized as at the date of the initial application.

The Group decided to adopt IFRS16 retrospectively, while the cumulative effect of the initial application is recognized as at the date of initial application, that is, January 1, 2019.
The Brazil BU has a significant number of lease agreements under which it is the lessee. Currently, a part of these contracts is recognized as operating leases, and their payments are recorded on a straight line basis throughout the period of the contract.
The Brazil BU is currently analyzing its lease agreements, as well as their financial impacts, and it expects a significant increase in total assets and liabilities upon the initial adoption of the standard, due to the recognition of the rights to use "leased" assets and the liabilities under leases, respectively.
Additions of liabilities arising from leases (that were previously classified as operating leases) due to the recognition of rights to use assets result in the corresponding increase in net debt, while depreciation and interest expenses are recognized in the statement of income, replacing operating lease expenses ("rent"). This accounting treatment will result in a positive impact on Earnings Before Interest, Tax, Depreciation and Amortization ("EBITDA"), with a corresponding increase in net cash from operations reported in cash flow.
The accounting effects will be examined as part of the implementation of IFRS 16. However, as a result of the volume of contracts and information required to determine the quantitative impact, the Group believes that the current estimate is not reasonably precise to be disclosed. Regarding the qualitative aspects, the main categories of transactions impacted by the new standard include: rental of vehicles, rental of stores and kiosks, rental of the towers and sharing of infrastructure.

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".

SCOPE OF CONSOLIDATION

The changes in the scope of consolidation at December 31, 2017 compared to December 31, 2016 are listed below. These changes did not have any significant impacts on the Consolidated Financial Statements of the TIF Group at December 31, 2017.

Company	Event	Business Unit	Month
Exit:			
Telecom Italia Finance Ireland Ltd	Liquidated	Other operations	October 2017
Tierra Argentea S.A.	Liquidated	Other operations	May 2017

SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

At December 31, 2017, the Group held equity investments in subsidiaries with significant non-controlling interests in 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, 2017 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 TIM S.A. (Former Intelig Telecomunicações Ltda)), equivalent to the corresponding share of voting rights.

Financial Position Data TIM Brasil Group

(million euros)	31/12/2017	31/12/2016
Non-current assets	6.819	7.822
Current assets	1.929	2.956
Total Assets	**8.748**	**10.778**
Non-current liabilities	1.703	2.726
Current liabilities	1.852	2.331
Total Liabilities	**3.555**	**5.057**
Equity	**5.193**	**5.721**
of which Non-controlling interests	1.556	1.704

Income statement Data TIM Brasil Group

(million euros)	Year 2017	Year 2016
Revenues	4.502	4.047
Profit (loss) for the year	**340**	**194**
of which Non-controlling interests	114	65

Financial Data TIM Brasil Group

In 2017, aggregate cash flows generated a negative amount of 744 million euros, partially due to a negative exchange rate effect of 146 million euros, without which cash flow would have generated a negative amount of 598 million euros, and to 257 million euros paid for the clean up by the appointed consortium of the 700 Mhz spectrum that the Business Unit acquired use rights to in 2014. 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.
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 2017 and 2016:

(million euros)	**31/12/2016**	Increase	Decrease	Impairments	Exchange differences	**31/12/2017**
Brazil	**1.123**	-	-	-	-151	**972**

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

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

(million euros)	31/12/2017			31/12/2016		
	Gross carrying amount	Accumulated impairment losses	**Net carrying amount**	Gross carrying amount	Accumulated impairment losses	**Net carrying amount**
Brazil	**1.203**	231	**972**	**1.389**	266	**1.123**

The figures for the Brazil CGU are stated in euros, converted at the spot exchange rate at the closing date of the financial statements; the carrying amount of goodwill for the CGU corresponds to 3.854 million reais.
Goodwill is not subject to amortization, but it is tested for impairment at least annually. Accordingly, the Group conducted impairment tests on the recoverability of the goodwill. The results showed that the recoverable amount of the assets at December 31, 2017 was higher than the net carrying amount for the Brazil CGU (+2.552 million of euros).

The value used to measure the recoverable amount of the Cash Generating Unit to which goodwill has been allocated is the fair value, based on market capitalisation as of the end of the reporting period.

In estimating the recoverable amounts, simulations were conducted on the results with respect to changes in the relevant parameters. To make the recoverable amount of the Brazil CGU equal to their net carrying amount the market capitalization should vary of -32%.

Note 5 - Intangible assets with a finite useful life

All intangible assets with a finite useful life in 2017 are referred to Brazil Business Unit.

(million euros)	31/12/2016	Additions	Depreciation and amortization	Disposals	Exchange differences	Capitalized borrowing costs	Other changes	31/12/2017
Industrial patents and intellectual property rights	**1.109**	307	-380	-	-147	-	56	**945**
Concessions, licenses, trademarks and similar rights	**427**	37	-79	-	-76	-	247	**556**
Other intangible assets with a finite useful life	**32**	51	-48	-	-5	-	5	**35**
Work in progress and advance payments	**1.075**	134	-	-	-144	-	-145	**920**
Total	**2.643**	**529**	**- 507**	**-**	**- 372**	**-**	**163**	**2.456**

(million euros)	31/12/2015	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**

Industrial patents and intellectual property rights at December 31, 2017 consisted mainly of application software purchased outright and user licenses acquired, amortized over a period between 2 and 5 years.

Concessions, licenses, trademarks and similar rights at December 31, 2017 mainly related to the remaining cost of telephone licenses and similar rights (464 million of euros).

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

Type	Net carrying amount at 31/12/2017 (million euros)	Useful life in years	Amortization charge for 2017 (million euros)
GSM and 3G (UMTS)	165	15	53
4G (LTE)	299	15	15

Other intangible assets with a finite useful life at December 31, 2017 essentially consisted of capitalized mobile subscriber acquisition costs (SAC) of 32 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 included the user rights for the 700 MHz frequencies, acquired in 2014 by the TIM Brasil Group for a total of 2,9 billion reais (about 1 billion of euros). At December 31, 2017 part of the user rights for the 700 Mhz frequencies (251 million euros) became operational and were consequently reclassified to the item “Concessions, licenses, trademarks and similar rights”. Since more than 12 months are needed before the user rights can be used, the finance expenses directly attributable to rights have been capitalized since 2014. In 2017, the capitalized finance expenses totaled 73 million euros, at an annual interest rate of 9,48%. Expenses capitalized were deducted directly in the income statement from “Finance expenses - Interest expenses to banks”.
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, 2017 and 2016 can be summarized as follows:

	31/12/2017			
(million euros)	Gross carrying amount	Accumulated impairment losses	Accumulated amortization	Net carrying amount
Industrial patents and intellectual property rights	4.034	-	-3.089	945
Concessions, licenses, trademarks and similar rights	1.716	-	-1.160	556
Other intangible assets with a finite useful life	240	-	-205	35
Work in progress and advance payments	920	-	-	920
Total intangible assets with a finite useful life	**6.910**	**-**	**-4.454**	**2.456**

	31/12/2016			
(million 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**

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

All tangible assets (owned and under finance leases) in 2017 and 2016 are referred to Brazil Business Unit.

PROPERTY, PLANT AND EQUIPMENT OWNED

(million euros)	31/12/2016	Additions	Depreciation and amortization	Impairment (losses) / reversals	Disposals	Exchange differences	Other changes	31/12/2017
Land	**12**	-	-	-	-	-2	-	**10**
Buildings (civil and industrial)	**25**	-	-2	-	-	-3	1	**21**
Plant and equipment	**2.335**	586	-521	-	-1	-317	-23	**2.059**
Other	**139**	21	-63	-	-2	-18	42	**119**
Construction in progress and advance payments	**351**	14	-	-	-	-38	-114	**213**
Total	**2.862**	**621**	**- 586**	**-**	**- 3**	**- 378**	**- 94**	**2.422**

(million 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**

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 2017 and 2016 was calculated on a straight-line basis over the estimated useful lives of the assets according to the following minimum and maximum rates:

Buildings (civil and industrial)	4%
Plant and equipment	4% - 33%
Other	5% - 50%

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2017 and 2016 can be summarized as follows:

	31/12/2017			
(million euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	10	-	-	10
Buildings (civil and industrial)	33	-	-13	20
Plant and equipment	6.154	-	-4.095	2.059
Other	1.092	-	-973	119
Construction in progress and advance payments	214	-	-	214
Total	**7.503**	**-**	**-5.081**	**2.422**

	31/12/2016			
(million 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**

ASSETS HELD UNDER FINANCE LEASES

(million euros)	31/12/2016	Additions	Change in financial leasing contracts	Depreciation and amortization	Exchange differences	Other changes	31/12/2017
Plant and equipment leased	364	-	14	-19	-43	-62	254
Other	8	-	-	-2	-1	-	5
Total	**372**	**-**	**14**	**-21**	**-44**	**-62**	**259**

(million 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**

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 under finance leasing. Other changes include changes to the carrying amount deriving from revisions of estimates to take into account significant changes between estimated costs at the start of the contracts and the costs effectively incurred.

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, 2017 and 2016 can be summarized as follows:

	31/12/2017			
(million euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Plant and equipment leased	296	-	-42	254
Other	7	-	-2	5
Total	**303**	**-**	**-44**	**259**

	31/12/2016			
(million 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**

At December 31, 2017 and 2016 finance lease payments due in future years and their present value are as follows:

	31/12/2017		31/12/2016	
(million euros)	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within 1 year	50	21	79	27
From 2 to 5 years	189	2	207	3
Beyond 5 years	572	339	684	435
Total	**811**	**362**	**970**	**465**

(million euros)	31/12/2017	31/12/2016
Future net minimum lease payments	811	970
Interest portion	-449	-505
Present value of lease payments	**362**	**465**

Note 7 - Investments

INVESTMENTS IN ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

Investments in associates accounted for using the equity method include Itatel Group S.p.A., TI Audit Compliance Latam S.A. and Movenda S.p.A. that 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.

INVESTMENTS IN STRUCTURED ENTITIES

The Group does not hold investments in structured entities.

OTHER INVESTMENTS

(million euros)	31/12/2017	31/12/2016
TIM S.p.A.	91	106
Total	**91**	**106**

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

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

(million euros)	31/12/2017	31/12/2016
Non-current financial assets	**2.445**	**2.150**
Securities, financial receivables and other non-current financial assets	**2.445**	**2.150**
Securities other than investments	-	1
Financial receivables for lease contracts	42	59
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	1	2
Non-hedging derivatives	591	914
Loans and receivables	1.811	1.174
Current financial assets	**3.657**	**5.217**
Securities other than investments	**738**	**1.261**
Held for trading	-	140
Available-for-sale	738	1.121
Financial receivables and other current financial assets	**195**	**1.068**
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	-	1
Non-hedging derivatives	123	51
Loans and receivables	72	1.016
Cash and cash equivalents	**2.724**	**2.888**
Total non-current and current financial assets	**6.102**	**7.367**

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.

Non-hedging derivatives relating to items classified as current and non-current financial assets totaled 714 million euros (965 million euros at December 31, 2016). These include, for a small portion, 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. The main part is related to derivatives put in place in the framework of the activity of centralizing all the banking exposures of the TIM Group and to the mark-to-market component of the non-hedging derivatives of the Brazil Business Unit (further details are provided in the Note “Derivatives”).

Loans and receivables both in current and non-current financial assets amounts to 1.883 million euros (2.190 million euros at December 31, 2016) and refers to loans granted by the Parent to the ultimate Parent and other TIM Group companies. The decrease of 307 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 20 million euros of treasury bonds and 525 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 193 million euros in two monetary funds.

Cash and cash equivalents:

(million euros)	31/12/2017	31/12/2016
Liquid assets with banks, financial institutions and post offices	1.980	1.417
Securities other than investments (due within 3 months)	744	1.471
Total	**2.724**	**2.888**

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

(million euros)	31/12/2017	31/12/2016
Liquid assets with banks, financial institutions and post offices	1.980	1.417
Securities other than investments (due within 3 months)	744	1.471
	2.724	**2.888**
Financial payables (due within 3 months)	-7	-12
Total	**2.717**	**2.876**

The different technical forms of investing available cash at December 31, 2017 had the following characteristics:

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

Securities other than investments (due within 3 months) included 744 million euros (1.471 million euros at December 31, 2016) of Brazilian bank certificates of deposit (Certificado de Depósito Bancário) held by the Brazil Business Unit with premier local banking and financial institutions.

Note 9 - Miscellaneous receivables and other non-current assets

(million euros)	31/12/2017	Of which IAS 39 Financial Instruments	31/12/2016	Of which IAS 39 Financial Instruments
Miscellaneous receivables	653	359	698	386
Medium/long-term prepaid expenses	10	-	16	-
Total	**663**	**359**	**714**	**386**

As at December 31, 2017 **Miscellaneous receivables** mainly relate to the Brazil Business Unit for an amount of 651 million euros (696 million euros at December 31, 2016) including receivables for court deposits of 349 million euros (382 million euros at December 31, 2016) and Income tax receivables of 55 million euros (60 million euros at December 31, 2016).

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, 2017 amounted to 124 million euros (145 million euros at December 31, 2016).
Specifically, they consisted of:

- non-current receivables of 55 million euros (60 million at December 31, 2016);
- current income tax receivables of 69 million euros (85 million euros at December 31, 2016) related to the Brazil Business Unit.

DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The net balance of 25 million euros at December 31, 2017 (20 million euros at December 31, 2016) was broken down as follows.

(million euros)	31/12/2017	31/12/2016
Deferred tax assets	-	12
Deferred tax liabilities	-25	-32
Total	**-25**	**-20**

The deferred tax liabilities are related to Brazil Business Unit for 25 million euros (32 million euros at December 31, 2016).

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:

(million euros)	31/12/2017	31/12/2016
Deferred tax assets	162	171
Deferred tax liabilities	-187	-191
Total	**-25**	**-20**

The temporary differences that made up this line item at December 31, 2017 and 2016, as well as the movements during 2017 were as follows:

(million euros)	31/12/2016	Recognized in profit or loss	Recognized in equity	Change in scope of consolidation and other changes	31/12/2017
Deferred tax assets	**171**	**4**	**-**	**-13**	**162**
Tax loss carryforwards	66	-31	-	-6	29
Provision for bad debts	35	11	-	-6	40
Provisions	50	25	-	-9	66
Other deferred tax assets	20	-1	-	8	27
Deferred tax liabilities	**-191**	**-12**	**-**	**16**	**-187**
Derivatives	-13	8	-	1	-4
Business combinations - for step-up of net assets in excess of tax basis	-127	4	-	6	-117
Other deferred tax liabilities	-51	-24	-	9	-66
Total Net deferred tax assets (liabilities)	**-20**	**-8**	**-**	**3**	**-25**

At December 31, 2017, the Group had unused tax loss carry-forwards of 1.881 million euros with no expiration dates:

Year of expiration	(million euros)
2018	-
2019	-
2020	-
2021	-
2022	-
Expiration after 2023	-
Without expiration	1.881
Total unused tax loss carryforwards	**1.881**

Unused tax loss carryforwards considered in the calculation of deferred tax assets amounted to 76 million euros at December 31, 2017 (175 million euros at December 31, 2016) 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 256 million euros (294 million euros at December 31, 2016) have not been recognized on 944 million euros (1.006 million euros at December 31, 2016) of tax loss carryforwards since, at this time, their recoverability is not considered probable.
At December 31, 2017, deferred tax liabilities have not been recognized on approximately 0,4 billion euros (0,6 billion euros at December 31, 2016) 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 98 million euros (148 million euros at December 31, 2016) and are mainly related to Brazil Business Unit. They were broken down as follows:

(million euros)	31/12/2017	31/12/2016
Non-current	45	67
Current	53	81
Total	**98**	**148**

INCOME TAX EXPENSE

Details are as follows:

(million euros)	Year 2017	Year 2016
Current taxes for the year	52	92
Total current taxes	**52**	**92**
Deferred taxes	9	-10
Total income tax for the year	**61**	**82**

The reconciliation between the theoretical tax expense, and the effective tax expense for the years ended December 31, 2017 and 2016 is the following:

(million euros)	Year 2017	Year 2016
Profit (loss) before tax	**368**	**325**
Theoretical income tax	**100**	**95**
Income tax effect on increases (decreases) in variations		
Tax losses of the year not considered recoverable	1	16
Tax losses from prior years not recoverable (recoverable) in future years	-2	-
Different rate compared to theoretical rate in force in Luxembourg and other changes	-7	2
Brazil: incentive on investments in the north-east of the country	-31	-31
Total effective income tax recognized in income statement	**61**	**82**

The tax rate in force in Luxembourg as at December 31, 2017 is 27,08%.

Note 11 - Inventories

(million euros)	31/12/2017	31/12/2016
Finished goods	31	41
Total	**31**	**41**

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

(million euros)	31/12/2017	Of which IAS 39 Financial Instruments	31/12/2016	Of which IAS 39 Financial Instruments
Trade receivables	**648**	**647**	**858**	**858**
Receivables from customers	569	568	706	706
Receivables from other telecommunications operators	79	79	152	152
Miscellaneous receivables and other current assets	**219**	**2**	**310**	**1**
Other receivables	176	2	271	1
Trade and miscellaneous prepaid expenses	43	-	39	-
Total	**867**	**649**	**1.168**	**859**

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, 2017 and 2016 was as follows:

				overdue:			
(million euros)	**31/12/2017**	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	649	511	138	104	12	22	-

				overdue:			
(million 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	-

The decrease in the current portion (180 million euros) includes a negative exchange adjustment of around 83 million euros.

Overdue receivables decreased of 30 million of euros compared to December 31, 2016. Specifically, the reduction included a negative exchange difference of around 13 million euros, without which there would have been a reduction of around 17 million euros.

As at December 31, 2017 **Trade receivables** related to the Brazil Business Unit amount to 648 million euros (858 million euros at December 31, 2016).

Movements in the provision for bad debts were as follows:

(million euros)	2017	2016
At January 01	**108**	**83**
Provision charges to the income statement	88	69
Utilization and decreases	-62	-64
Exchange differences and other changes	-17	20
At December 31	**117**	**108**

As at December 31, 2017 **Other receivables** amounted to 176 million euros (271 million euros at December 31, 2016) and did not include provisions for bad debts (same as at December 31, 2016).
Details are as follows:

(million euros)	31/12/2017	31/12/2016
Advances to suppliers	36	34
Receivables from employees	2	2
Tax receivables	111	200
Sundry receivables	27	35
Total	**176**	**271**

As at December 31, 2017 **Tax receivables** included 111 million euros (200 million euros at December 31, 2016) relating to the Brazil Business Unit, largely with reference to local indirect taxes.

Note 13 - Equity

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

There has not been any movement in Share Capital in 2017.

Note 14 - Financial liabilities (non-current and current)

Non-current and current financial liabilities (gross financial debt) were broken down as follows:

(million euros)	31/12/2017	31/12/2016
Non-current financial liabilities	**2.936**	**4.159**
Financial payables (medium/long-term):	**2.018**	**2.840**
Bonds	1.012	1.012
Amounts due to banks	842	1.623
Other financial payables	164	205
Finance lease liabilities (medium/long-term)	**383**	**496**
Other financial liabilities (medium/long-term):	**535**	**823**
Non-hedging derivatives	535	823
Current financial liabilities	**687**	**768**
Financial payables (short-term):	**553**	**703**
Bonds	74	74
Amounts due to banks	462	616
Other financial payables	17	13
Finance lease liabilities (short-term)	**23**	**28**
Other financial liabilities (short-term):	**111**	**37**
Non-hedging derivatives	111	37
Total financial liabilities (gross financial debt)	**3.623**	**4.927**

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:

(million euros)	31/12/2017	31/12/2016
Up to 2,5%	164	482
From 2,5% to 5%	682	1.062
From 5% to 7,5%	148	172
From 7,5% to 10%	1.490	1.718
Over 10%	388	495
Accruals/deferrals, MTM and derivatives	751	998
Total	**3.623**	**4.927**

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

(million euros)	31/12/2017	31/12/2016
Up to 2,5%	170	197
From 2,5% to 5%	190	425
From 5% to 7,5%	36	13
From 7,5% to 10%	1.475	1.044
Over 10%	1.001	2.250
Accruals/deferrals, MTM and derivatives	751	998
Total	**3.623**	**4.927**

Details of the maturities of financial liabilities – at nominal repayment amount as at December 2017:

	maturing by 31/12 of the year						
(million euros)	2018	2019	2020	2021	2022	After 2022	Total
Bonds	-	-	-	-	-	1.015	1.015
Loans and other financial liabilities	337	301	216	194	116	163	1.327
Finance lease liabilities	7	1	1	1	1	428	439
Total	**344**	**302**	**217**	**195**	**117**	**1.606**	**2.781**
Current financial liabilities	120	-	-	-	-	-	120
Total	**464**	**302**	**217**	**195**	**117**	**1.606**	**2.901**

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, 2017:

Currency	Amount (million)	Nominal repayment amount at 31/12/17 (million euros)	Coupon	Issue date	Maturity date	Issue price (%)	Market price at 31/12/17 (%)	Market value at 31/12/17 (million 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[*]	154,113	1.564
Total		**1.015**						**1.564**

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

No changes occurred in bonds during 2017.

Amounts due to banks (medium/long term) of 842 million euros (1.623 million euros at December 31, 2016) decreased by 781 million euros. **Short-term amounts due to banks** totalled 462 million euros (616 million euros at December 31, 2016) and included 371 million euros of the current portion of medium/long-term amounts due to banks.

As at December 31, 2017 **Other financial payables (medium/long-term)** amounted to 164 million euros (205 million euros at December 31, 2016). They mainly included 142 million euros of Telecom Italia Finance loan of 20.000 million Japanese yens expiring in 2029.

Finance lease liabilities (medium/long-term) totaled 383 million euros at December 31, 2017 (496 million euros at December 31, 2016) 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 646 million euros (860 million euros at December 31, 2016). 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”).

Note 15 - Net financial debt

The following table shows the net financial debt at December 31, 2017 and 2016.

(million euros)	31/12/2017	31/12/2016
Non-current financial liabilities	**2.936**	**4.159**
Current financial liabilities	**687**	**768**
Total gross financial debt	**3.623**	**4.927**
Non-current financial assets	**-43**	**-61**
Non-current financial receivables for lease contract	-42	-59
Non-current hedging derivatives	-1	-2
Current financial assets	**-3.657**	**-5.217**
Securities other than investments	-738	-1.261
Financial receivables and other current financial assets	-195	-1.068
Cash and cash equivalents	-2.724	-2.888
Net financial debt as per ESMA	**-77**	**-351**
Non-current financial assets	**-2.402**	**-2.089**
Securities other than investments	-	-1
Other financial receivables and other non-current financial assets	-2.402	-2.088
Net financial debt [*]	**-2.479**	**-2.440**

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

The following additional disclosures are provided in accordance with IAS 7.

(million euros)		Cash movements		Non-cash movements			
	31/12/2016	Receipts and/or issues	Payments and/or reimbursements	Differences exchange rates	Fair value changes	Other changes	31/12/2017
Financial payables (medium/long-term):	**3.248**	**184**	**-803**	**-234**	**-**	**47**	**2.442**
Bonds	1.085	-	-	-	-	-	1.085
Amounts due to banks	1.956	184	-803	-216	-	61	1.182
Other financial payables	207	-	-	-18	-	-14	175
of which short-term portion	*409*	-	*-803*	*-48*	-	*867*	*425*
Finance lease liabilities (medium/long-term):	**525**	**-**	**-**	**-66**	**-**	**-53**	**406**
of which short-term portion	*28*	-	-	*-4*		*-1*	*23*
Other financial liabilities (medium/long-term):	**860**	**-**	**-**	**-143**	**-70**	**-1**	**646**
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	-	-	-	-	-	-	-
Non-hedging derivatives	860	-	-	-143	-70	-1	646
of which short-term portion	-	-	-	-	-	-	-
Financial payables (short-term):	**294**	**39**	**-203**	**-**	**-**	**-1**	129
Amounts due to banks	283	39	-199	-	-	-1	122
Other financial payables	11	-	-4	-	-	-	7
Total financial liabilities (gross financial debt)	**4.927**	**223**	**-1.006**	**- 443**	**- 70**	**-8**	**3.623**
Positive hedging derivatives (current and non-current)	3	-	-	-	-1	-1	1
Positive non-hedging derivatives (current and non-current)	965	-	-	-143	-108	-1	713
Total	**5.895**	**223**	**-1.006**	**-586**	**-179**	**-10**	**4.337**

Note 16 - Financial risk management

Financial risk management objectives and policies of the Group

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.

Identification of risks and analysis

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, and an outlook that is not negative. The exposure to the various market risks can be measured by sensitivity analyses, as set forth in IFRS 7. This analysis illustrates the effects produced by a given and assumed change in the levels of the relevant variables in the various reference markets (exchange rates, interest rates and prices) on finance income and expenses and, at times, directly on equity. The sensitivity analysis was performed based on the suppositions and assumptions indicated below:

- 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, 2017;
- 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 2017;

- 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, 2017 (and also at December 31, 2016), 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, 2017 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 1 million euros (4 million euros at December 31, 2016).

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, 2017, 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, 2017:

	maturing by 31/12 of the year:						
(million euros)	2018	2019	2020	2021	2022	After 2022	Total
Bonds							
Principal	-	-	-	-	-	1.015	1.015
Interest Portion	79	79	79	79	79	865	1.260
Loans and other financial liabilities							
Principal	337	301	216	194	116	163	1.327
Interest Portion	97	70	50	29	12	32	290
Finance lease liabilities							
Principal	7	1	1	1	1	428	439
Interest Portion	29	5	5	5	4	339	387
Non-current financial liabilities							
Principal	**344**	**302**	**217**	**195**	**117**	**1.606**	**2.781**
Interest Portion	**205**	**154**	**134**	**113**	**95**	**1.236**	**1.937**
Current financial liabilities							
Principal	**120**	**-**	**-**	**-**	**-**	**-**	**120**
Interest Portion	**2**	**-**	**-**	**-**	**-**	**-**	**2**
Total Financial liabilities							
Principal	**464**	**302**	**217**	**195**	**117**	**1.606**	**2.901**
Interest Portion	**207**	**154**	**134**	**113**	**95**	**1.236**	**1.939**

Derivatives on financial liabilities – Contractually expected interest flows as at December 31, 2017:

	maturing by 31/12 of the year:						
(million euros)	2018	2019	2020	2021	2022	After 2022	Total
Disbursements	1	1	1	1	1	7	12
Receipts	-1	-1	-1	-1	-1	-8	-13
Hedging derivatives – net (receipts) disbursements	**-**	**-**	**-**	**-**	**-**	**-1**	**-1**
Disbursements	194	154	140	128	128	1.148	1.892
Receipts	-204	-160	-141	-133	-132	-1.189	-1.959
Non-Hedging derivatives – net (receipts) disbursements	**-10**	**-6**	**-1**	**-5**	**-4**	**-41**	**-67**
Total net receipts (disbursements)	**-10**	**-6**	**-1**	**-5**	**-4**	**-42**	**-68**

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, 2017 are principally used to manage debt positions. They include interest rate swaps (IRSs) to reduce interest rate exposure on fixed-rate and variable-rate bank loans and bonds, as well as cross currency and interest rate swaps (CCIRSs), currency forwards and foreign exchange options to convert the loans/receivables secured in currencies different from the functional currencies of the various Group companies.
IRS transactions, provide for or may entail, at specified maturity dates, the exchange of flows of interest, calculated on the notional amount, at the agreed fixed or variable rates.
The same also applies to CCIRS transactions which, in addition to the settlement of periodic interest flows, may provide for the exchange of principal, in the respective currencies of denomination, at maturity and possibly spot.

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 3.588 million euros (3.885 at December 31, 2016).

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, 2017 and 2016, by type:

Type (million euros)	Hedged risk	Notional amount at 31/12/2017	Notional amount at 31/12/2016	Spot Mark-to-Market (Clean Price) at 31/12/2017	Spot Mark-to-Market (Clean Price) at 31/12/2016
Cross Currency and Interest Rate Swaps [*]	Interest rate risk and currency exchange rate risk	139	277	1	2
Total Cash Flow Hedge Derivatives [**]		**139**	**277**	**1**	**2**
Total Non-Hedge Accounting Derivatives [***]		**3.941**	**4.489**	**63**	**98**
Total Telecom Italia Finance Group Derivatives		**4.080**	**4.766**	**64**	**100**

[*] For these instruments contracts no exchange of notional amounts has been agreed with the counterparties.
[**] 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 hedging of cash flows by cash flow hedges was considered highly effective and at December 31, 2017 led to recognition in equity of unrealized gains of 1 million euros (3 million euros as at December 31, 2016).

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 (million)	Start of period	End of period	Rate applied	Interest period
USD	186	Jan-18	Oct-29	0,75%	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 2017.

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, 2017;
- 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, 2017 and 2016 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 31/12/2017

				Amounts recognized in financial statements according to IAS 39				Levels of hierarchy or of fair value			
(million euros)	IAS 39 Categories	Note	Carrying amount 31/12/2017	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 31/12/2017
Assets											
Loans and Receivables	**LaR**		**5.615**	**5.615**	**-**	**-**	**-**	**-**	**-**	**-**	**5.615**
Non-current assets											
Other financial receivables		[8]	1.811	1.811	-	-	-	-	-	-	
Miscellaneous receivables		[9]	359	359	-	-	-	-	-	-	
Current assets											
Other short-term financial receivables		[8]	72	72	-	-	-	-	-	-	
Cash and cash equivalents		[8]	2.724	2.724	-	-	-	-	-	-	
Trade receivables		[12]	647	647	-	-	-	-	-	-	
Other receivables		[12]	2	2	-	-	-	-	-	-	
Available-for-Sale financial assets	**AfS**		**829**	**-**	**-**	**829**	**-**	**829**	**-**	**-**	**829**
Non-current assets											
Other investments		[7]	91	-	-	91	-	91	-	-	
Securities other than investments		[8]	-	-	-	-	-	-	-	-	
Current assets											
Securities other than investments		[8]	738	-	-	738	-	738	-	-	
Financial assets at fair value through profit or loss held for trading	**FAHfT**		**714**	**-**	**-**	**-**	**714**	**-**	**714**	**-**	**714**
Non-current assets											
Non-hedging derivatives		[8]	591	-	-	-	591	-	591	-	
Current assets											
Non-hedging derivatives		[8]	123	-	-	-	123	-	123	-	
Securities other than investments		[8]	-	-	-	-	-	-	-	-	
Hedging Derivatives	**HD**		**1**	**-**	**-**	**1**	**-**	**-**	**1**	**-**	**1**
Non-current assets											
Hedging derivatives		[8]	1	-	-	1	-	-	1	-	
Current assets											
Hedging derivatives		[8]	-	-	-	-	-	-	-	-	
Financial receivables for lease contracts	**n.a.**		**42**	**-**	**-**	**-**	**-**	**-**	**-**	**42**	**42**
Non-current assets		[8]	42	-	-	-	-	-	-	42	
Current assets		[8]	-	-	-	-	-	-	-	-	
Total			**7.201**	**5.615**	**-**	**830**	**714**	**829**	**715**	**42**	**7.201**

				Amounts recognized in financial statements according to IAS 39				Levels of hierarchy or of fair value			
(million euros)	IAS 39 Categories	Note	Carrying amount 31/12/2017	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 31/12/2017
Liabilities											
Financial Liabilities at Amortized Cost	**FLAC/HD**		**3.786**	**3.786**	**-**	**-**	**-**	**-**	**-**	**-**	**4.339**
Non-current liabilities											
Financial payables		[14]	2.018	2.018	-	-	-	-	-	-	
Current liabilities											
Financial payables		[14]	553	553	-	-	-	-	-	-	
Trade and miscellaneous payables and other current liabilities		[21]	1.215	1.215	-	-	-	-	-	-	
Financial liabilities at fair value through profit or loss held for trading	**FLHfT**		**646**	**-**	**-**	**-**	**646**	**-**	**646**	**-**	**646**
Non-current liabilities											
Non-hedging derivatives		[14]	535	-	-	-	535	-	535	-	
Current liabilities											
Non-hedging derivatives		[14]	111	-	-	-	111	-	111	-	
Finance lease liabilities	**n.a.**		**406**	**-**	**-**	**-**	**-**	**-**	**-**	**406**	**406**
Non-current liabilities		[14]	**383**	**-**	**-**	**-**	**-**	**-**	**-**	**383**	
Current liabilities		[14]	**23**	**-**	**-**	**-**	**-**	**-**	**-**	**23**	
Total			**4.838**	**3.786**	**-**	**-**	**646**	**-**	**646**	**406**	**5.391**

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			
(million 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			
(million 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**

Gains and losses by IAS 39 category - Year 2017

(million euros)	IAS 39 Categories	Net gains/(losses) 31/12/2017	of which interest
Loans and Receivables	LaR	290	212
Available-for-Sale financial assets	AfS	4	-
Financial Assets/Liabilities Held for Trading	FAHfT/FLHfT	-27	-
Financial Liabilities at Amortized Cost	FLAC	-214	-198
Total		**53**	**14**

Gains and losses by IAS 39 category - Year 2016

(million 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**

Note 19 - Provisions

(million euros)	31/12/2016	Increase	Taken to income	Used directly	Exchange differences and other changes	31/12/2017
Provision for taxation and tax risks	**65**	14	-	-18	-12	**49**
Provision for restoration costs	**6**	-	-	-	-1	**5**
Provision for legal disputes	**77**	102	-	-79	-12	**88**
Other provisions	**2**	-	-	-	-	**2**
Total	**150**	**116**	**-**	**-97**	**-25**	**144**
of which:						
non-current portion	**126**	113	-	-95	-22	**122**
current portion	**24**	3	-	-2	-3	**22**

(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**

Provision for taxation and tax risks. The figure at December 31, 2017 mainly related to companies in the Brazil Business Unit (46 million euros *vs.* 63 million euros at December 31, 2016).

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 (5 million euros at December 31, 2017 vs. 6 million euros at December 31, 2016).

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 79 million euros and resulted from settlement agreements reached.

Note 20 - Miscellaneous payables and other non-current liabilities

(million euros)	31/12/2017	31/12/2016
Deferred income	250	309
Income tax payables [*]	45	67
Other	15	17
Total	**310**	**393**

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

Deferred income includes the non-current portion of approximately 226 million euros in 2017 (273 million euros as at December 31, 2016) 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

(million euros)	31/12/2017	Of which IAS 39 Financial Instruments	31/12/2016	Of which IAS 39 Financial Instruments
Trade payables	**1.109**	**1.109**	**1.369**	**1.369**
Payables to suppliers	1.044	1.044	1.286	1.286
Payables to other telecommunication operators	65	65	83	83
Tax payables	**87**	**87**	**153**	**153**
Miscellaneous payables and other current liabilities	**232**	**19**	**358**	**31**
Payables for employee compensation	51	-	45	-
Payables to social security agencies	12	-	15	-
Trade and miscellaneous deferred income	23	-	28	-
Advances received	1	-	1	-
Customer-related items	98	-	207	-
Payables for TLC operating fee	5	-	6	-
Dividends approved, but not yet paid to shareholders	19	19	31	31
Other current liabilities	1	-	1	-
Provisions for risks and charges for the current portion expected to be settled within 1 year	22	-	24	-
Total	**1.428**	**1.215**	**1.880**	**1.553**

Trade payables amounting to 1.109 million euros as at December 31, 2017 (1.369 million euros at December 31, 2016) are mainly referred to the Brazil Business Unit (1.094 million of euros).

Tax payables amounting to 87 million euros as at December 31, 2017 are referred to the Brazil Business Unit (153 million euros at December 31, 2016).

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, 2017, as well as those that came to an end during the financial year.

SIGNIFICANT DISPUTES AND PENDING LEGAL ACTIONS

International tax and regulatory disputes
As of 31 December 2017, the companies belonging to the Brazil Business Unit were involved in tax or regulatory disputes, the outcome of which is estimated as a possible loss totalling around 14,5 billion reais (around 3,6 billion euros). The main types of litigation are listed below, classified according to the tax to which they refer.

Federal taxes
On 22 March 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 million reais (555 million euros at the relevant average rate for the period) as of 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”);
- non-recognition of certain tax offsets;
- denial of the SUDENE regional tax benefit, due to alleged irregularities in the management and reporting of the benefit itself.

The adjustments included in the assessment notice were challenged by TIM Celular, in administrative proceedings, with the presentation of its first objections on 20 April 2011. On 20 April 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 21 May 2012.
The Company, as confirmed by fitting legal opinions, believes it is unlikely that the company could suffer any negative consequences in relation to these matters.
Still in relation to the federal level of taxation, the following additional issues are also worthy of note:

- challenges regarding offsetting against previous tax losses;
- further challenges regarding the tax deductibility of the amortization of goodwill;
- imposition of income tax on certain types of exchange rate differences;
- imposition of withholding taxes on certain types of payments to foreign entities (for example, payments for international roaming);
- further challenges regarding offsets made between taxes payable and group company credit positions.

Overall, the risk considered possible for these cases amounts to 3,7 billion reais (about 0,9 billion euros).

State taxes
Within the scope of the state levy, there are numerous challenges regarding ICMS, and in particular:

- challenges concerning the reduction of the tax base on the basis of discounts granted to customers, as well as challenges regarding the use of tax credits declared by group companies, with respect to the return of loaned telephone devices, and following the detection of contract frauds to the detriment of the companies;
- imposition of certain types of fees to ICMS, accrued in favour of group companies and classified by them as fees for services other than telecommunications;
- challenges over the use of the "PRO-DF" tax benefit originally granted by some States, and subsequently declared unconstitutional (the challenge refers to the actual credit due to ICMS, declared by the TIM Cellular on the basis of the aforementioned tax benefits);
- challenges relating to the use of credits for ICMS, claimed by Group Companies as a result of the acquisition of tangible assets, and in relation to the supply of electricity to the Companies, as well as in application of the provisions on acting as a withholding agent;
- sanctions imposed on group companies for irregularities in tax return compliance.

Overall, the risk considered possible for these cases amounts to 7,4 billion reais (about 1.,9 billion euros).

FUST and FUNTTEL
The main challenges about contributions to the regulatory body (Anatel), and in particular in terms of FUST and FUNTTEL, concern the tax liability of these withdrawals deriving from interconnection revenue.
Overall, the risk considered possible for these cases amounts to 2,7 billion reais (around 60,7 billion euros).

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. The Board of Arbitration is being set up.

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-TIF), 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 19 October 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 21 November and 19 December 2016 the parties filed further replies. On 31 January 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.
In March 2018 the final briefs were submitted by all parties to the proceedings.

COMMITMENTS AND GUARANTEES

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

(million euros)	31/12/2017	31/12/2016
Guarantee on bonds and other debts issued by the Group	1.163	1.177
Guarantee on derivatives financial instruments	204	210
Total	**1.367**	**1.387**

There are also surety bonds on the telecommunication services in Brazil for 469 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 1.064 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

(million euros)	Year 2017	Year 2016
Equipment sales	211	232
Services	4.291	3.815
Total	**4.502**	**4.047**

Revenues from telecommunications services are presented gross of amounts due to other TLC operators, equal to 265 million euros in 2017 (275 million euros in 2016, -3,6% change), included in the costs of services.
The principal “service revenues” derive from monthly subscription, the provision of separate voice, SMS and data services, and user packages combining these services, roaming charges and interconnection revenue. The revenues are recognized as the services are used, net of sales taxes and discounts granted on services. These revenues are recognized only when the amount of services rendered can be estimated reliably.
The revenues are recognized monthly via invoicing, and billable revenues between the billing date and the end of the month (unbilled) are identified, processed and recognized in the month in which the service was rendered. Calculations of unbilled revenues from the previous month are reversed out and unbilled amounts are calculated at each month end, considering the revenues billed in the previous month.

For a breakdown of revenues by operating segment, reference should be made to the Note "Segment Reporting".

Note 24 - Other income

(million euros)	Year 2017	Year 2016
Late payment fees charged for telephone services	12	10
Other income	40	41
Total	**52**	**51**

Note 25 - Acquisition of goods and services

(million euros)	Year 2017	Year 2016
Acquisition of raw materials and merchandise	**235**	**260**
Costs of services	**1.410**	**1.301**
Revenues due to other TLC operators	265	275
Commissions, sales commissions and other selling expenses	522	465
Advertising and promotion expenses	113	113
Professional and consulting services	115	121
Utilities	102	90
Maintenance	65	60
Outsourcing costs for other services	107	91
Mailing and delivery expenses for telephone bills, directories and other materials to customers	51	37
Other service expenses	70	49
Lease and rental costs	**525**	**471**
Rent and leases	314	262
TLC circuit lease rents and rents for use of satellite systems	211	209
Other lease and rental costs	-	-
Total	**2.170**	**2.032**

Note 26 - Employee benefits expenses

(million euros)	Year 2017	Year 2016
Wages and salaries	238	216
Social security expenses	64	65
Other employee benefits	53	42
Charges for termination benefit incentives	-	15
Total	**355**	**338**

The employee benefits expenses are mainly related to the Brazil Business Unit for 353 million euros (336 million euros in 2016).

Note 27 - Other operating expenses

(million euros)	Year 2017	Year 2016
Write-downs and expenses in connection with credit management	88	69
Provision charges	73	93
TLC operating fees and charges	301	319
Indirect duties and taxes	7	6
Penalties, settlement compensation and administrative fines	14	-
Association dues and fees, donations, scholarships and traineeships	2	2
Sundry expenses	19	16
Total	**504**	**505**
of which, included in the supplementary disclosure on financial instruments	*88*	*69*

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

Note 28 - Internally generated assets

(million euros)	Year 2017	Year 2016
Intangible assets with a finite useful life	29	26
Tangible assets owned	79	69
Total	**108**	**95**

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

(million euros)	Year 2017	Year 2016
Amortization of intangible assets with a finite useful life	**506**	**440**
Industrial patents and intellectual property rights	380	334
Concessions, licenses, trademarks and similar rights	121	102
Other intangible assets	5	4
Depreciation of tangible assets owned	**586**	**523**
Buildings (civil and industrial)	2	1
Plant and equipment	521	455
Other	63	67
Depreciation of tangible assets held under finance leases	**21**	**18**
Plant and equipment	21	18
Total	**1.113**	**981**

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

(million euros)	Year 2017	Year 2016
Gains on disposals of non-current assets	**14**	**23**
Gains on the retirement/disposal of intangible and tangible assets	14	23
Total	**14**	**23**

In 2017, the item posted a positive 14 million euros, connected with the ordinary asset renewal process.

In 2016, this item amounted to 23 million euros and included the non-recurring gain of 44 million reais (approximately 12 million euros at the 2016 average exchange rate) realized by the Brazil Business Unit from the sale of two further tranches of telecommunications towers to American Tower do Brasil.

Note 31 - Finance income and expenses

FINANCE INCOME

(million euros)	Year 2017	Year 2016
Interest income and other finance income	**586**	**1.023**
Income from financial receivables, recorded in non-current assets	96	131
Income from securities other than investments, recorded in non-current assets	8	4
Income from securities other than investments, recorded in current assets	7	10
Income other than the above:		
Interest income	124	150
Exchange gains	139	507
Reversal of the Reserve for cash flow hedge derivatives to the income statement (interest rate component)	3	10
Income from non-hedging derivatives	185	191
Miscellaneous finance income	24	20
Positive fair value adjustments to non-hedging derivatives	**214**	**702**
Total	**800**	**1.725**
of which, included in the supplementary disclosure on financial instruments	*671*	*273*

FINANCE EXPENSES

(million euros)	Year 2017	Year 2016
Interest expenses and other finance expenses	**684**	**875**
Interest expenses and other costs relating to bonds	11	11
Interest expenses to banks	56	50
Interest expenses to others	173	193
Expenses other than the above:		
Commissions	23	20
Exchange losses	114	259
Reversal of the Reserve for cash flow hedge derivatives to the income statement (interest rate component)	2	7
Charges from non-hedging derivatives	191	236
Miscellaneous finance expenses	114	99
Negative fair value adjustments to	**253**	**932**
Non-hedging derivatives	253	932
Total	**937**	**1.807**
of which, included in the supplementary disclosure on financial instruments	*617*	*271*

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

(million euros)	Year 2017	Year 2016
Exchange gains	139	507
Exchange losses	-114	-259
Net exchange gains and losses	**25**	**248**
Positive effect of the reversal of the Reserve of cash flow hedge derivatives to the income statement (interest rate component)	3	10
Negative effect of the reversal of the Reserve of cash flow hedge derivatives to the income statement (interest rate component)	-2	-7
Net effect of the Reversal of the Reserve of cash flow hedge derivatives to the income statement (interest rate component)	**1**	**3**
Income from non-hedging derivatives	185	191
Charges from non-hedging derivatives	-191	-236
Net result from non-hedging derivatives	**-6**	**-45**
Net result from derivatives	**-5**	**-42**
Positive fair value to non-hedging derivatives	214	702
Negative fair value adjustments to non-hedging derivatives	-253	-932
Net fair value adjustments to non-hedging derivatives	**-39**	**-230**

Note 32 - Segment reporting

SEGMENT REPORTING

Segment reporting is based on the following operating segments:

- Telecommunications (Brazil)
- Other Operations

Separate Consolidated Income Statements by Operating Segment

(million euros)	Brazil		Other Operations		Consolidated Total	
	Year 2017	Year 2016	Year 2017	Year 2016	Year 2017	Year 2016
Third-party revenues	4.502	4.047	-	-	4.502	4.047
Revenues by operating segment	**4.502**	**4.047**	**-**	**-**	**4.502**	**4.047**
Other income	52	51	-	-	52	51
Total operating revenues and other income	**4.554**	**4.098**	**-**	**-**	**4.554**	**4.098**
Acquisition of goods and services	-2.168	-2.028	-3	-4	-2.171	-2.032
Employee benefits expenses	-353	-336	-1	-2	-354	-338
Other operating expenses	-500	-504	-4	-1	-504	-505
of which: write-downs and expenses in connection with credit management and provision charges	*-161*	*-162*	-	-	*-161*	*-162*
Change in inventories	-6	1	-	-	-6	1
Internally generated assets	108	95	-	-	108	95
EBITDA	**1.635**	**1.326**	**-8**	**-7**	**1.627**	**1.319**
Depreciation and amortization	-1.113	-981	-	-	-1.113	-981
Gains/(losses) on disposals of non-current assets	14	23	-	-	14	23
EBIT	**536**	**368**	**-8**	**-7**	**528**	**361**
Other income (expenses) from investments					-23	46
Finance income					800	1.725
Finance expenses					-937	-1.807
Profit (loss) before tax					**368**	**325**
Income tax expense					-61	-82
Profit (loss) for the year					**307**	**243**
Attributable to:						
Owners of the Parent					198	179
Non-controlling interests					108	64

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

(million euros)	Brazil		Other Operations		Consolidated Total	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Non-current operating assets	6.769	7.711	1	2	6.770	7.713
Current operating assets	898	1.208	1	2	899	1.210
Total operating assets	**7.667**	**8.919**	**2**	**4**	**7.669**	**8.923**
Unallocated assets					6.263	7.570
Total Assets					**13.932**	**16.493**
Total operating liabilities	**1.855**	**2.395**	**6**	**4**	**1.861**	**2.399**
Unallocated liabilities					3.702	5.040
Equity					8.369	9.054
Total Equity and Liabilities					**13.932**	**16.493**

INFORMATION ABOUT MAJOR CUSTOMERS

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

Note 33 - 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 2017 and 2016 are as follows:

Separate Consolidated Income Statement line items 2017

(million 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	**4.502**	-	59	-	-	59	1.3
Other income	**52**	-	-	-	-	-	0.1
Acquisition of goods and services	**2.170**	1	107	-	-	108	5.0
Employee benefits expenses	**355**	-	-	-3	3	-	0.0
Other operating expenses	**504**	-	-	-	-	-	0.0
Other income (expenses) from investments	**-23**	-	-4	-	-	-4	17.3
Finance income	**800**	-	399	-	-	399	49.9
Finance expenses	**938**	-	119	-	-	119	12.6

Separate Consolidated Income Statement line items 2016

(million 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

The effects on the individual line items of the consolidated statements of financial position at December 31, 2017 and 2016 are as follows:

Consolidated Statement of Financial Position line items at 31/12/2017

(million 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	**-2.479**	**-**	**-1.802**	**-**	**-1.802**	**-**
Non-current financial assets	**-2.445**	**-**	**-2.067**	**-**	**-2.067**	**84,5**
Current financial assets	**-3.657**	**-**	**-170**	**-**	**-170**	**4,7**
Securities other than investments (current assets)	**-738**	-	-15	-	-15	**2,1**
Financial receivables and other current financial assets	**-195**	-	-80	-	-80	41,2
Cash and cash equivalents	**-2.724**	-	-75	-	-75	2,7
Non-current financial liabilities	**2.936**	**-**	**329**	**-**	**329**	**11,2**
Current financial liabilities	**687**	**-**	**106**	**-**	**106**	**15,5**
Other statement of financial position line items						
Trade and miscellaneous receivables and other current assets	**867**	-	30	-	30	3,5
Miscellaneous payables and other non-current liabilities	**310**	-	-	-	-	-
Trade and miscellaneous payables and other current liabilities	**1.428**	-	23	-	23	1,6

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

(million 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

TRANSACTIONS WITH PENSION FUNDS

The most significant amounts are summarized as follows:

Separate Consolidated Income Statement line items

(million euros)	Year 2017	Year 2016	Type of contract
Other pension funds	-3	3	Contributions to pension funds
Total employee benefits expenses	**-3**	**3**	

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

REMUNERATION TO KEY MANAGERS

The remuneration to key managers in 2017 amounted to 3 million euros (2 million euros in 2016).

Note 34 - Equity compensation plans

The equity compensation plans in force at December 31, 2017 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, 2017.

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 2011-2013 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.
  The exercise period expired in August 2017. As such, the plan is now closed.
- 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, 2017, all pending options were vested, but were not exercisable since the minimum performance condition had not been reached. A total of 255.556 options are still pending.
- 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, 2017, all pending options were vested, but were not exercisable since the minimum performance condition had not been reached. A total of 844.914 options are still pending.

• 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, 2017, 658.720 options were exercisable.
- Year 2015
  On October 16, 2015, the grantees of the options were granted the right to purchase a total of 3.355.229 shares. In 2017, 760.358 options were exercised and 713.561 expired due to terminations. The first wave exercised was valued at 8,7341 reais (2,2015 euros- 197.132 options), up 3,33% based on the position in the ranking of benchmarked companies.
  In the second wave, 563.226 options were exercised at a price of 8,4625 reais (2,1330 euros), thanks to the improvement in the company's ranking
- Year 2016
  On November 8, 2016, the grantees of the options were granted the right to purchase a total of 3.922.204 shares. In December 2017, 788.374 options were exercised at a price of 7.6928 reais (1,9390 euros), due to the 5% readjustment of the price as a result of being ranked first in the list of benchmarked companies.

Parameters used to determine fair value – TIM Participações S.A. as of December 31, 2017:

Plans/Parameters	Exercise price (reais)	Volatility (%)	Period	Expected dividends (reais)	Risk-free interest rate
Stock option plan 2011	8,84	51,73	6 years	-	11,94% per annum
Stock option plan 2012	8,96	50,46	6 years	-	8,89% per annum
Stock option plan 2013	8,13	48,45	6 years	-	10,66% per annum
Stock option plan 2014	13,42	44,60	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 35 - Other information

EXCHANGE RATE USED TO TRANSLATE THE FINANCIAL STATEMENTS OF FOREIGN OPERATIONS

	Period-end exchange rates (statements of financial position)		Average exchange rates for the period (income statements and statements of cash flows)	
Local currency against 1 EUR	31/12/2017	31/12/2016	31/12/2017	31/12/2016
ARS (Argentine peso)	22,93100	16,74880	18,73314	16,33204
BRL (Brazilian real)	3,96728	3,43542	3,60584	3,85935
CHF (Swiss franc)	1,17020	1,07390	1,11171	1,09004
GBP (Pound sterling)	0,88723	0,85618	0,87640	0,81905
JPY (Japan Yen)	135,01000	123,40000	126,66873	120,28747
USD (U.S. dollar)	1,19930	1,05410	1,12946	1,10666

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:

(million euros)	Year 2017	Year 2016
Development costs capitalized	29	26
Total research and development costs (expensed and capitalized)	**29**	**26**

AUDITOR'S FEES

The following schedule reports the fees due to PricewaterhouseCoopers for the audit of the 2017 financial statements.

(thousands of euros)	Year 2017
Audit services	1.897
Verification services with issue of certification	17
Other assurance services[*]	47
Total fees due to PwC network for the audit and other services	**1.961**
Out of pocket	118
Total	**2.079**

[*] Other assurance services are related to revision of information in order to meet different accounting obligations defined by the regulator in Brazil.

Note 36 - Events subsequent to December 31, 2017

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

Note 37 - 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	1.818.691.979			
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.
• TIM S.A. (former Intelig Telecomunicações Ltda)	Rio de Janeiro	BRL	4.041.956.045	99,9999 0,0001		TIM Participações S.A. TIM Celular S.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. (in liquidation)	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 audit of the consolidated financial statements

Our opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Telecom Italia Finance S.A. (the "Company") and its subsidiaries (the "Group") as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the separate consolidated statement of income and comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, 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 consolidated financial statements" 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 Group 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 consolidated financial statements. 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 35 to the consolidated financial statements.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, 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 consolidated financial statements 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
Unbilled revenue (Notes 2 and 23)	
The revenue recognition process carried out at the end of each period requires certain calculations to estimate the revenue incurred but not yet billed (unbilled revenue) at the end of the period. The determination of this amout requires many information reports extracted from the IT system as well as manual inputs. This could result in incorrect processing of critical information used in the preparation of the financial statements. For these reasons, we focused this area in our audit.	Our audit procedures included, among others, understanding and testing the relevant internal controls over the telecommunication services revenue process and the assessment of the relevant information systems that support this business process. We also assessed the main assumptions as well as the calculation template that the management uses to measure the unbilled revenue at the end of the year. We also performed specific tests to guarantee the gathering of voice and data traffic by the Group's postpaid billing operating platform (billing). This included a test on the tariffs applied and on the integrity and accuracy of the reports used in the determination of the estimate.
Impairment of Goodwill based on market capitalization (Notes 2 and 4)	
Management performed an impairment test on the recoverability of the Goodwill relating to the Brazil Cash Generating unit (CGU). The results showed that the recoverable amount of the Goodwill at 31 December 2017 was higher by 2,552 million Euro than the net carrying amount for the Brazil CGU.	Our audit procedures included, amongs others, the understanding of the Goodwill impairment test process. We have assessed the recoverable amount of the CGU based on the share price of the TBSP shares on Sao Paulo stock exchange at year end.

Key audit matter	How our audit addressed the Key audit matter
The value used to measure the recoverable amount of the CGU to which goodwill has been allocated is the fair value, which has been based on the market capitalisation of Tim Brasil Serviços e Participações S.A. (TBSP) as per these shares on Sao Paulo stock exchange at year end. The impairment test outcome could be influenced by the volatility of the market capitalitazion of the CGU Brazil. For this reason, we focused this area in our audit.	
Provision for tax contingencies (Notes 2 , 19 and 22)	
The Group is party to tax proceedings at different levels, which total to 3.6 billion Euros, for which a provision for contingencies amounting to 46 million Euro was accounted for based on the opinion of the Group's legal advisors. We focused this area in our audit taking into consideration the significance of the amounts involved as well as the fact that their determination require a high degree of judgment regarding the outcome of these proceedings. In addition, any changes in assumptions and estimates that serve as basis for management's opinion and/or judgment on the matters may significantly affect the Group's financial statements.	Our audit procedures included, among others, understanding and testing the relevant internal controls over the tax contingency process and the assessment of the relevant information system that support this business process. We also required and obtained confirmation from all internal and external legal advisors that are involved in the Group's tax proceedings about the amounts claimed and their opinion about the outcome for the proceedings. Furthermore, for certain tax proceedings, we obtained the opinion of independent legal advisors in order to assess the reasonableness of the opinion of the legal advisors involved in the respective proceedings.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the consolidated Management report and the Corporate Governance Statement but does not include the consolidated 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 identified above 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 that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated financial statements.

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 consolidated financial statements, 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

The Corporate Governance Statement is included in the consolidated 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 consolidated financial statements and has been prepared in accordance with applicable legal requirements.

We have been appointed as "Réviseur d'Entreprises Agréé" of the Group 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