Telecom Italia
FINANCE

2018 Annual Report

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

Audited Annual Accounts as at December 31, 2018, which have been authorized by the Board of Directors, held on February 21, 2019.

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Management's report

Dear Shareholder,

The year 2018 of Telecom Italia Finance (the "Company" or "TI Finance") ends with a profit of EUR 79.790.635,13 vs a positive result of EUR 56.327.824,41 in the year 2017.

In 2018 the Company's activities continue to be segmented into two business: holding of participations and financial assistance to Telecom Italia Group ("TIM Group") companies.

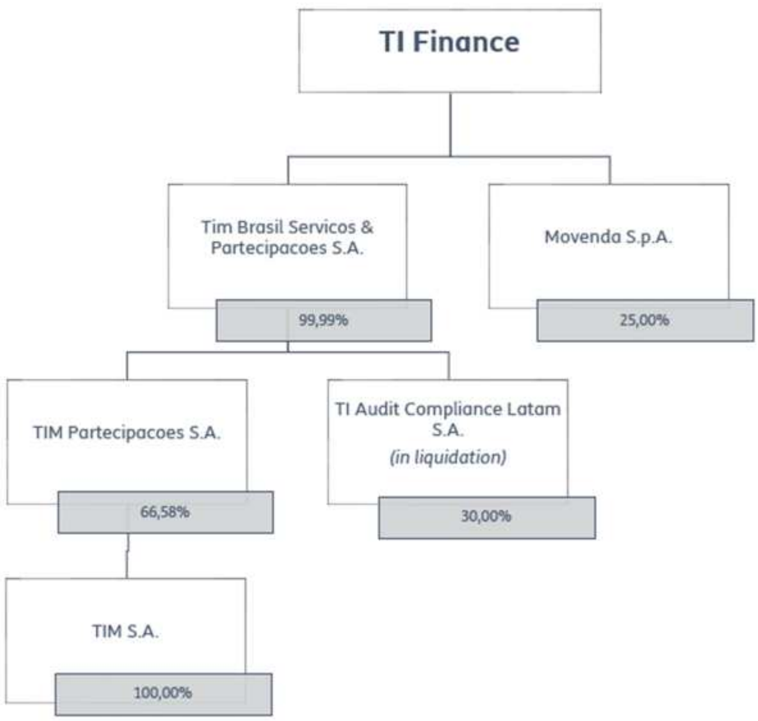
a) Participations

The main operations during year 2018 are the following:

- Dividends: during the year 2018 TI Finance registered a dividend from TIM Brasil of EUR 131,4 million (EUR 55,6 million in the year 2017).
- Value adjustments: the book value of TIM S.p.A. shares has been reduced by EUR 14,9 million (EUR -3,9 million in 2017) based on the weighted average price of last twelve months.
- Italtel Group S.p.A. has been liquidated.

As of December 31, 2018, the overall net book value of the Company's equity investments is worth EUR 3.269 million, compared to EUR 3.283 million as of December 31, 2017.

The table here below shows the main shareholdings as at December 31, 2018:



b) Financial activity

The net decrease in Cash and Cash Equivalent as of December 31, 2018, and considering the previous 12 months, has been equal to EUR 1.360 million, vs a net increase for the same period as of December 31, 2017 equal to EUR 582 million.
The net financial position as of December 31, 2018 is positive for EUR 3.047 million (EUR 3.029 million as of December 31, 2017).

Million EUR	December 31, 2018
Formation Expenses	3
Loans to affiliated undertakings	1.707
Amounts owed by affiliated undertakings	
becoming due and payable within one year [*]	2.135
becoming due and payable after more than one year	21
Other debtors	
becoming due and payable within one year	11
becoming due and payable after more than one year	124
Other investments	682
Cash at bank and in hand	534
Non convertible loans	
becoming due and payable within one year	-74
becoming due and payable after more than one year	-1.016
Amounts owed to credit institutions	
becoming due and payable within one year	-714
becoming due and payable after more than one year	-159
Amounts owed to affiliated undertakings	
becoming due and payable within one year	-56
becoming due and payable after more than one year [**]	-124
Other creditors	
becoming due and payable within one year	-6
becoming due and payable after more than one year	-21
Net Financial Position	**3.047**

[*] Note 9 – Amounts owed to affiliated undertakings – a) – excluding Dividends receivable.
[**] Note 10 – Other debtors – b) – excluding Receivables from Lehman Brothers, Special Financing Inc. in liquidation ("LBSF").

As of December 31, 2018, the total outstanding nominal amount of notes issued by TI Finance amounts to EUR 1.015 million (same amount as of December 31, 2017). The Parent Company TIM S.p.A. unconditionally and irrevocably guarantees the notes.

Share Capital

As of December 31, 2018 and December 31, 2017, the authorized, issued and fully paid-up capital is worth EUR 1.818.691.978,50 represented by no. 185.960.325 ordinary shares with a nominal value EUR 9,78 per share.

Risks

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

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

The above-described financial risks are managed through:

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

Corporate governance statement

The Company, in order to ensure its strategic guidance, the effective monitoring of management by the Board and the Board's accountability to the Company and the Shareholders, has implemented the following corporate framework:

- The Board, whose members are characterized by a high professional profile, is entrusted with:
    - reviewing and guiding corporate strategy;
    - overseeing major capital expenditures, acquisitions and divestitures;
    - ensuring the integrity of accounting and financial reporting systems, including the independent audit.
- Two third of Board seats are assigned to non-executive members;
- One third of Board members is independent;
- The Board establishes an Audit Committee ("AC") to support its function in respect to all audit matters. The AC is composed of three members, out of which two are independent, including the chairperson and has direct access and contact with the external auditors ("réviseur d'entreprises agréé");
- The Board delegates the day to day management of the Company to one of its members.

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

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

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

Alternative Performance Measures

In this Management's report, in addition to the conventional financial performance measures established by Luxembourg laws, certain alternative performance measures are presented for a better understanding of the trend of operations and financial condition.

The alternative performance measures used are described below:

- Net Increase/Decrease in Cash and Cash Equivalents: indicates the capability of the Company to provide financial assistance to the Group, and its ability to face the liquidity risk as described above. Greater details on calculation are provided in the Cash Flow Statement, that the Board of Directors of the Company has decided to include within present Financials Statement;
- Net Financial Position: indicates the Company's ability to pay off its debts. It is calculated as shown below:

+	Formation expenses
+	Loans and investments included in Financial Fixed assets
+/-	Financial amounts owed by/to affiliated undertakings
+	Other financial positions included in other debtors
+	Investments included in current assets and Cash at bank and in hand
+	Financial Prepayments
-	Debenture loans
-	Amounts owed to credit institutions
-	Other financial positions included in other creditors
-	Financial deferred income
Net Financial Position	

Events subsequent to December 31, 2018 - Evolution of the year 2019

During the year 2019 it is foreseen to continue the activity of financial assistance to TIM Group companies and continue to manage the market risks above mentioned. The Board remarks that the current financial environment continues to be characterized by either negative or very low level of short-term interest rates which will influence the return on liquid assets and will adversely impact the earnings of the year.
The Company does not perform research and development activities.
The Company did not acquire and does not hold its own shares.

Financials as of December 31, 2018 herein reported comprise the balance sheet, the profit and loss account, the cash flow statement and the explanatory notes.

Allocation of the result

The Board reminds that out of the result of EUR 79.790.635,13, at least EUR 3.989.531,76 must be allocated to the legal reserve, the difference of EUR 75.801.103,37 remains at disposal of the shareholder. Therefore, the Board proposes the following allocation:

- EUR 3.989.531,76 to the legal reserve;
- EUR 53.100.000,00 to be distributed to the sole shareholder;
- EUR 22.701.103,37 to be allocated to profit or loss brought forward.

For the Board of Directors
The Managing Director
Biagio Murciano

Annual Accounts

Balance Sheet – Assets

TELECOM ITALIA FINANCE S.A.
BALANCE SHEET AS AT DECEMBER 31, 2018

ASSETS - [EUR]		31.DECEMBER.2018	31.DECEMBER.2017
A. Subscribed capital unpaid		**0,00**	**0,00**
I. Subscribed capital not called		0,00	0,00
II. Subscribed capital called but unpaid		0,00	0,00
B. Formation expenses	[n.3]	**2.814.615,20**	**3.014.602,44**
C. Fixed assets		**4.975.648.009,02**	**5.094.634.691,70**
I. Intangible assets			
1. Costs of development		0,00	0,00
2. Concessions, patents, licenses, trade marks and similar rights and assets , if they were			
a) acquired for valuable consideration and need not be shown under C.I.3.	[n.4]	5.134,43	23.213,02
b) created by the undertaking itself		0,00	0,00
3. Goodwill, to the extent that it was acquired for valuable consideration		0,00	0,00
4. Payments on account and intangible assets under development		0,00	0,00
II. Tangible assets			
1. Land and buildings		0,00	0,00
2. Plant and machinery		0,00	0,00
3. Other fixtures and fittings, tools and equipment	[n.5]	38.164,31	57.395,03
4. Payments on account and tangible assets in the course of construction		0,00	0,00
III. Financial assets			
1. Shares in affiliated undertakings	[n.6]	3.268.439.201,35	3.283.338.066,40
2. Loans to affiliated undertakings	[n.7]	1.707.044.272,84	1.811.012.624,54
3. Participating interests	[n.6]	121.236,09	48.896,01
4. Loans to undertakings with which the undertaking is linked by virtue of participating interests		0,00	0,00
5. Investments held as fixed assets	[n.8]	0,00	154.496,70
6. Other loans		0,00	0,00
D. Current assets		**3.551.150.564,42**	**2.822.826.186,25**
I. Stocks			
1. Raw materials and consumables		0,00	0,00
2. Work in progress		0,00	0,00
3. Finished goods and goods for resale		0,00	0,00
4. Payments on account		0,00	0,00
II. Debtors			
1. Trade debtors		0,00	0,00
a) becoming due and payable within one year		0,00	0,00
b) becoming due and payable after more than one year		0,00	0,00
2. Amounts owed by affiliated undertakings	[n.9]		
a) becoming due and payable within one year		2.178.462.016,65	155.131.912,32
b) becoming due and payable after more than one year		21.057.210,95	35.705.808,29
3. Amounts owed by undertakings with which the undertaking is linked by virtue of participating interests		0,00	0,00
a) becoming due and payable within one year		0,00	0,00
b) becoming due and payable after more than one year		0,00	0,00
4. Other debtors	[n.10]		
a) becoming due and payable within one year		11.189.883,51	103.959.907,91
b) becoming due and payable after more than one year		124.550.169,12	92.126.808,07
III. Investments			
1. Shares in affiliated undertakings		0,00	0,00
2. Own shares		0,00	0,00
3. Other investments	[n.11]	682.256.482,87	540.333.311,50
IV. Cash at bank and in hand	[n.12]	533.634.801,32	1.895.568.438,16
E. Prepayments		**234.187,77**	**366.407,91**
TOTAL ASSETS		**8.529.847.376,41**	**7.920.841.888,30**

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

Balance Sheet – Capital, Reserves and Liabilities

TELECOM ITALIA FINANCE S.A.
BALANCE SHEET AS AT DECEMBER 31, 2018

CAPITAL, RESERVES AND LIABILITIES - [EUR]		31.DECEMBER.2018	31.DECEMBER.2017
A. Capital and reserves		**6.350.469.802,60**	**6.308.179.167,47**
I. Subscribed capital	[n.13]	1.818.691.978,50	1.818.691.978,50
II. Share premium account	[n.14]	3.147.555.262,50	3.147.555.262,50
III. Revaluation reserve		0,00	0,00
IV. Reserves	[n.15]		
1. Legal reserve		34.914.421,62	32.098.030,40
2. Reserve for own shares		0,00	0,00
3. Reserves provided for by the articles of association		0,00	0,00
4. Other reserves, including the fair value reserve			
a) other available reserves		663.753.481,50	468.947.819,09
b) other non available reserves		200.000.000,00	394.805.662,41
V. Profit or loss brought forward		405.764.023,35	389.752.590,16
VI. Profit or loss for the financial year		79.790.635,13	56.327.824,41
VII. Interim dividends		0,00	0,00
VIII. Capital investment subsidies		0,00	0,00
B. Provisions		**5.097.964,47**	**4.601.154,50**
1. Provisions for pensions and similar obligations		0,00	0,00
2. Provisions for taxation	[n.16]	3.737.640,62	3.212.393,19
3. Other provisions	[n.17]	1.360.323,85	1.388.761,31
C. Creditors		**2.174.247.520,42**	**1.608.029.477,41**
1. Debenture loans			
a) Convertible loans			
i) becoming due and payable within one year		0,00	0,00
ii) becoming due and payable after more than one year		0,00	0,00
b) Non convertible loans	[n.18]		
i) becoming due and payable within one year		73.756.481,69	73.756.481,69
ii) becoming due and payable after more than one year		1.015.664.115,49	1.015.714.912,25
2. Amounts owed to credit institutions	[n.19]		
a) becoming due and payable within one year		714.020.679,23	123.353.263,96
b) becoming due and payable after more than one year		158.919.348,43	148.137.175,02
3. Payments received on account of orders in so far as they are not shown separately as deductions from stocks			
a) becoming due and payable within one year		0,00	0,00
b) becoming due and payable after more than one year		0,00	0,00
4. Trade creditors			
a) becoming due and payable within one year		4.301.549,83	648.552,76
b) becoming due and payable after more than one year		0,00	0,00
5. Bills of exchange payable			
a) becoming due and payable within one year		0,00	0,00
b) becoming due and payable after more than one year		0,00	0,00
6. Amounts owed to affiliated undertakings	[n.20]		
a) becoming due and payable within one year		56.600.590,61	111.646.632,66
b) becoming due and payable after more than one year		124.077.858,58	90.807.266,60
7. Amounts owed to undertakings with which the undertaking is linked by virtue of participating interests			
a) becoming due and payable within one year		0,00	0,00
b) becoming due and payable after more than one year		0,00	0,00
8. Other creditors			
a) Tax authorities		0,00	0,00
b) Social security autorithies		59.870,68	45.494,29
c) Other creditors	[n.21]		
i) becoming due and payable within one year		5.789.814,93	8.213.889,89
ii) becoming due and payable after more than one year		21.057.210,95	35.705.808,29
D. Deferred income		**32.088,92**	**32.088,92**
TOTAL CAPITAL, RESERVES AND LIABILITIES		**8.529.847.376,41**	**7.920.841.888,30**

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

Profit & Loss account

TELECOM ITALIA FINANCE S.A. PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2018			
[EUR]		**31.DECEMBER.2018**	**31.DECEMBER.2017**
1. Net turnover		**135.163,68**	**128.355,68**
2. Variation in stocks of finished goods and in work in progress		**0,00**	**0,00**
3. Work performed by the undertaking for its own purposes and capitalised		**0,00**	**0,00**
4. Other operating income		**45.440,84**	**146.338,03**
5. Raw materials and consumables and other external expenses		**-5.399.252,88**	**-2.997.587,63**
a) Raw materials and consumables		-7.509,71	-12.985,10
b) Other external expenses		-5.391.743,17	-2.984.602,53
6. Staff costs		**-1.121.980,68**	**-1.138.064,92**
a) Wages and salaries		-963.649,55	-967.757,15
b) Social security costs		-158.331,13	-170.307,77
i) relating to pensions		-48.418,41	-58.428,81
ii) other social security costs		-109.912,72	-111.878,96
c) Other staff costs		0,00	0,00
7. Value adjustments		**-597.410,01**	**526.278,06**
a) in respect of formation expenses and of tangible and intangible fixed assets		-262.897,46	-271.525,95
b) in respect of current assets	[n.22]	-334.512,55	797.804,01
8. Other operating expenses		**-807.294,48**	**-260.987,63**
9. Income from participating interests	[n.23]	**131.388.906,92**	**55.649.232,43**
a) derived from affiliated undertakings		131.388.906,92	55.649.232,43
b) other income from participating interests		0,00	0,00
10. Income from other investments and loans forming part of the fixed assets	[n.24]	**88.686.588,11**	**104.616.509,68**
a) derived from affiliated undertakings		86.160.793,28	95.624.778,04
b) other income not included under a)		2.525.794,83	8.991.731,64
11. Other interest receivable and similar income	[n.25]	**230.475.827,04**	**400.146.137,76**
a) derived from affiliated undertakings		73.157.921,74	98.992.877,39
b) other interest and similar income		157.317.905,30	301.153.260,37
12. Share of profit or loss of undertakings accounted for under the equity method		**0,00**	**0,00**
13. Value adjustments in respect of financial assets and of investments held as current assets	[n.26]	**-27.341.523,96**	**-5.376.920,48**
14. Interest payable and similar expenses	[n.27]	**-314.343.771,23**	**-487.031.836,87**
a) concerning affiliated undertakings		-78.872.542,94	-95.131.784,38
b) other interest and similar expenses		-235.471.228,29	-391.900.052,49
15. Tax on profit or loss	[n.28]	**-17.569.145,22**	**-4.900.923,70**
16. Profit or loss after taxation		**83.551.548,13**	**59.506.530,41**
17. Other taxes not shown under items 1 to 16	[n.29]	**-3.760.913,00**	**-3.178.706,00**
18. Profit or loss for the financial year		**79.790.635,13**	**56.327.824,41**

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

Cash Flow Statement

TELECOM ITALIA FINANCE S.A.
CASH FLOW STATEMENT AS AT DECEMBER 31, 2018

[EUR]		31.DICEMBRE.2018	31.DICEMBRE.2017
Operating Activities			
Net profit		79.790.635,13	56.327.824,41
Adjustments for			
Amortization of formation expenses and on tangible and intangible fixed assets		262.897,46	271.525,95
Value adjustments in respect of financial assets	[n.26]	14.879.205,35	3.875.808,64
Value adjustments in respect of investments held as current assets	[n.26]	12.462.318,61	1.501.111,84
Capital gains/losses realised on disposal of non-current assets	[n.24]	-2.525.794,83	-8.991.731,64
Finance Income		-430.459.595,79	-546.519.224,53
Finance Expenses		313.991.595,43	486.682.895,72
Changes in trade and other receivables		919.009,08	932.420,64
Changes in trade and other payables		4.141.935,12	1.509.209,68
Income Taxes Paid		0,00	0,00
Net cash flows from operating activities		**-6.537.794,44**	**-4.410.159,29**
Cash flows from Investing activities			
Changes in Property, plant and equipment	[n.5]	-25.501,89	-1.990,58
Changes in Intangible assets	[n.4]	-99,00	0,00
Changes in Participations, funds and other securities		-152.687.063,11	579.539.624,30
Investments and re-payments in Financial Receivables		-1.867.130.917,35	282.028.887,70
Interest, commissions and other financial income received		245.567.267,87	306.659.812,60
Dividends received		71.018.961,33	49.663.744,17
Income received from participations and funds		0,00	0,10
Net cash flows from investing activities		**-1.703.257.352,15**	**1.217.890.078,29**
Cash flows from Financing activities			
Net change in short-term Financial Payables		628.114.257,46	-160.460.573,63
Proceeds from borrowings		0,00	0,00
Repayments of borrowings		0,00	0,00
Interest, commissions and other financial expenses paid		-240.880.046,74	-280.743.078,37
Dividends paid	[n.15]	-37.500.000,00	-190.000.000,00
Net cash flows from financing activities		**349.734.210,72**	**-631.203.652,00**
Net Increase / Decrease in Cash and Cash Equivalents ("C&CE")		-1.360.060.935,87	582.276.267,00
Net foreign exchange differences in C&CE		-1.945.587,24	-13.815,75
Cash and cash equivalents at 01 January		1.895.567.702,19	1.313.305.250,95
Cash and cash equivalents at the end of the year	[n.12]	**533.561.179,08**	**1.895.567.702,19**

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

Notes to the Annual Accounts

as at December 31, 2018, which have been authorized by the Board of Directors held on February 21, 2019.

Note 1 – General information

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

Note 2 – Summary of significant accounting policies

Basis of preparation
The accounts in hand are prepared in accordance with the accounting principles and regulations generally accepted in the Grand Duchy of Luxembourg (“Luxembourg GAAP”) under the historical cost convention.
As allowed by the amended law of December 19, 2002, the Board of Directors of the Company has decided to include the cash flow statement based on the indirect method.
Euro (EUR) is the book accounting currency.

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

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

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

Local currency against 1 EUR	December 31, 2018	December 31, 2017
BRL (Brazilian real)	4,43664	3,96728
CHF (Swiss franc)	1,12690	1,17020
GBP (Pound sterling)	0,89453	0,88723
JPY (Japan Yen)	125,85000	135,01000
USD (U.S. dollar)	1,14500	1,19930

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

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

Financial assets
Shares in affiliated undertakings and participating interests are valued at purchase price, including the expense incidental thereto. Loans to affiliated undertakings are valued at nominal value including the expense incidental thereto. The contingent write-downs are recorded in case of a permanent impairment loss of the investments estimated by the Board of Directors while comparing the net book value with the market value or with the net equity of the company. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

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

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

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

Accrued interests
Accrued interests are shown with their principal amount.

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

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

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

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

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

Note 3 – Formation expenses

All the formation expenses of EUR 2.814.615,20 (EUR 3.014.602,44 as per December 31, 2017) consist of issuance expenses related to long-term debts. Movements for the period are only due to depreciation.

Note 4 – Concessions, patents, licenses, trademarks and similar rights and assets

EUR	December 31, 2018	December 31, 2017
Acquisitions at the beginning of the year	54.495,00	54.495,00
Acquisitions during the year	99,00	0,00
Acquisition cost at the end of the year	**54.594,00**	**54.495,00**
Value adjustments at the beginning of the year	31.281,98	13.116,98
Value adjustments during the year	18.177,59	18.165,00
Value adjustments at the end of the year	**49.459,57**	**31.281,98**
	5.134,43	**23.213,02**

Note 5 – Other fixtures and fittings, tools and equipment

EUR	December 31, 2018	December 31, 2017
Acquisitions at the beginning of the year	413.367,33	412.656,51
Acquisitions during the year	25.501,89	1.990,58
Disposal or reductions during the year	-33.424,56	-1.279,76
Acquisition cost at the end of the year	**405.444,66**	**413.367,33**
Value adjustments at the beginning of the year	355.972,30	303.878,37
Value adjustments during the year	44.732,61	53.373,69
Disposal or reduction during the year	-33.424,56	-1.279,76
Value adjustments at the end of the year	**367.280,35**	**355.972,30**
	38.164,31	**57.395,03**

Note 6 – Shares in affiliated undertakings and Participating interests

			Ownership (%)	Number of shares	**Net Book value at the beginning of the year**	Gross book value			Value Adjustments			**Net Book value at the end of the year**	Fair Value at the end of the year
						at the beginning of the year	other changes during the year	at the end of the year	at the beginning of the year	other changes during the year	at the end of the year		
1. Shares in affiliated undertakings													
TIM S.p.A.	[1]	Via Negri 1, Milan (Italy)	0,59	126.082.374	**100.295.848,41**	518.876.962,83	.	518.876.962,83	418.581.114,42	14.898.865,05	433.479.979,47	**85.396.983,36**	80.593.778,00
Italtel Group S.p.A. (liquidated and cancelled)	[2]	Via Reiss Romoli, Località Castelletto Settimo Milanese (Italy)	34,68	6.160.999	**.**	145.993.930,23	-145.993.930,23	.	145.993.930,23	-145.993.930,23	.	**.**	
Movenda S.p.A.	[3]	Via Pian Di Sco 82, Rome (Italy)	25,00	33.333	**44.510,23**	44.510,23	.	44.510,23	.	.	.	**44.510,23**	44.510,23
TIM Brasil Serviços e Participações S.A.	[3] [4]	Avenida das Américas 3434, Rio de Janeiro (Brazil)	99,99	15.865.086.849	**3.182.997.707,76**	6.203.645.986,87	.	6.203.645.986,87	3.020.648.279,11	.	3.020.648.279,11	**3.182.997.707,76**	4.069.000.000,00
Total EUR					**3.283.338.066,40**	6.868.561.390,16	-145.993.930,23	6.722.567.459,93	3.585.223.323,76	-131.095.065,18	3.454.128.258,58	**3.268.439.201,35**	
3. Participating interests													
Venture Investors Property Recovery LLC (ex Consolidated IP Holdings Inc.)		c/o Sherwood Partners 101 University Avenue, Suite 100 Palo Alto (California - United States)	0,50	99.164	**0,01**	0,01	.	0,01	.	.	.	**0,01**	
Infomaster S.p.A.		Via V maggio 81 Genova (Italy)	2,93	19.412	**48.895,99**	413.304,84	.	413.304,84	364.408,85	-5.259,70	359.149,15	**54.155,69**	
Docunet Inc.		400 Oyster Pt Blvd Ste 111 South San Francisco (California - United States)	0,18	124.528	**0,01**	0,01	.	0,01	.	.	.	**0,01**	
Lauro Dodici S.p.A.	[5]	Piazza degli Affari 2, Milan (Italy)	3,05	5.000	**.**	.	67.080,38	67.080,38	.		.	**67.080,38**	
Total EUR					**48.896,01**	413.304,86	67.080,38	480.385,24	364.408,85	-5.259,70	359.149,15	**121.236,09**	

[1] The Net Book value of TIM S.p.A. corresponds to the VWAP (Volume Weighted Average Price). This method takes in consideration prices and volumes exchanged during the last twelve months. The Board of Directors has assessed that the difference between the fair value of TIM S.p.A. (determined through the calculation of the enterprise value) and 'Net Book Value at the end of the year' is not permanent, therefore no additional value adjustments are recorded on this financial asset in the accounts of the Company.

[2] During 2018 Italtel Group S.p.A. started the liquidation process, which has been closed on September 19. The company has been cancelled on December 21,2018

[3] The amount of capital and reserves, as well as the result for the latest financial year available of the entities held for more than 20% are not disclosed as considered as having negligible importance for the purposes of art. 26 paragraph 3 of the law December 19, 2002 except for the following: TIM Brasil Serviços e Participações S.A. - Capital : 7.169 BRL (1.616 EUR) ; Reserves : 3.402 BRL (767 EUR) ; Result of the year : 512 BRL (155 EUR) in millions as of December 31, 2018.

[4] The fair value is determined through the calculation of the enterprise value of the operational company TIM Participacoes. This amount appears to be higher than the current net book value, however the Board of Directors considers that the volatility of the macroeconomic and financial environment in Brazil is such that it is prudent not to increase, for the time being, such net book value.

[5] On January 25, 2018 The Company received the pro rata distribution of Clessidra Capital Partners Fund's in kind of the shares representing 100% of the share capital of Lauro Dodici S.p.A., the vehicle previously participated by the Fund, for an amount of EUR 121.930,38. For further details please refer to the specific section of the Note "Investments held as fixed assets". In addition, on June 26, 2018, Lauro Dodici S.p.A. approved the distribution of EUR 54.850,00 and the book value has been accordingly reduced.

Note 7 – Loans to affiliated undertakings

This item is composed by EUR 1.707.044.272,84 being the total amount of medium-long term loans granted to the Parent Company and other TIM Group companies (2017 – EUR 1.811.012.624,54). The detail by final payment date is as follows:

EUR	December 31, 2018	December 31, 2017
Nominal value: EUR 1.000.000.000,00 Expiring July 29, 2033 Fixed rate: 8,00000%	1.000.000.000,00	1.000.000.000,00
Nominal value: JPY 20.000.000.000 [*] Expiring October 29, 2029 Floater rate: JPYLibor 6m + 0,94630%	158.919.348,43	148.137.175,02
Nominal value: EUR 650.000.000,00 [**] Expiring November 09, 2020 Floater rate: Euribor 6m + 0,26000%	450.000.000,00	650.000.000,00
Total to Parent Company	**1.608.919.348,43**	**1.798.137.175,02**
TI Sparkle Turkey Telekomünikasyon Anonim Şirketi Nominal value: USD 7.500.000,00 Expiring July 01, 2024 Fixed rate: 6,61747%	6.550.218,34	0,00
Infrastrutture Wireless Italiane S.p.A. Nominal value: EUR 50.000.000,00 Expiring December 15, 2022 Fixed rate: 0,85000%	50.000.000,00	0,00
Infrastrutture Wireless Italiane S.p.A. Nominal value: EUR 20.000.000,00 Expiring December 15, 2022 Fixed rate: 0,85000%	20.000.000,00	0,00
TI Sparkle Turkey Telekomünikasyon Anonim Şirketi Nominal value: USD 1.500.000,00 Expiring April 05, 2022 Fixed rate: 3,78989%	1.310.043,67	0,00
TI Sparkle Turkey Telekomünikasyon Anonim Şirketi Nominal value: USD 1.000.000,00 [*] Expiring December 03, 2021 Fixed rate: 3,65333%	873.362,45	833.819,73
Telecom Italia Latam Participações e Gestão Administrativa Ltda Nominal value: BRL 31.254.304,46 Expiring October 29, 2021 Fixed rate: 16,17650%	7.044.588,80	0,00
Accrued interest	193.570,43	0,00
TI Sparkle Panama S.A. Nominal value: USD 1.375.582,03 Expiring July 30, 2021 Fixed rate: 4,92411%	1.201.381,69	0,00
TI Sparkle Brasil Telecomunicacoes Ltda Nominal value: USD 3.000.000,00 [*] Expiring December 18, 2020 Fixed rate: 3,52609%	2.620.087,34	2.501.459,18
TI Sparkle St Croix Nominal value: USD 1.400.000,00 [*] Expiring December 14, 2020 Fixed rate: 3,71581%	1.222.707,42	1.167.347,62
TI Sparkle St Croix Llc Nominal value: USD 563.918,25 [*] Expiring December 14, 2020 Fixed rate: 3,67224%	492.505,02	470.206,16
TI Sparkle Puerto Rico Llc Nominal value: USD 5.258.600,93 [*] Expiring November 06, 2020 Fixed rate: 3,05430%	4.592.664,57	4.384.725,20
TI Sparkle Panama S.A. Nominal value: USD 1.317.244,90 [*] Expiring November 06, 2020 Fixed rate: 3,28223%	1.150.432,23	1.098.344,78
TI Sparkle Panama S.A. Nominal value: USD 1.000.000,00 [*] Expiring November 06, 2020 Fixed rate: 3,38216%	873.362,45	833.819,73
TI Sparkle Panama S.A. Nominal value: USD 1.901.762,53	*Classified in short term portion*	1.585.727,12

Expiring December 16, 2019 Fixed rate: 3,61332%		
Total to TIM Group companies	**98.124.924,41**	**12.875.449,52**
	1.707.044.272,84	**1.811.012.624,54**

[*] Differences between December 31, 2018 and December 31, 2017 are due to exchange rate impact.
[**] Differences between December 31, 2018 and December 31, 2017 are due to early repayment of EUR 200.000.000,00 on September 28, 2018.

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

Note 8 – Investments held as fixed assets

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

EUR	
Balance as at 31.12.2017	154.496,70
Cash Distribution	-32.566,32
Distribution in kind of Lauro Dodici S.p.A. shares	-121.930,38
Balance as at 31.12.2018	**0,00**

On December 2017, Clessidra Capital Partners fund has completed the liquidation procedures and on January 25, 2018 the Company received the cash pro rata distribution of the Fund's liquidity and the pro rata distribution in kind of the shares representing 100% of the share capital of Lauro Dodici S.p.A., a vehicle previously participated by the Fund.
For further details please refer to the Note "Shares in affiliated undertakings and Participating interests" - [5].

Note 9 – Amounts owed by affiliated undertakings

a) becoming due and payable within one year

EUR	December 31, 2018	December 31, 2017
Loans - Principal and accrued interest and commissions		
Infrastrutture Wireless Italiane S.p.A.	133.638,89	0,00
Noverca S.r.l.	4.791,67	4.791,67
Olivetti S.p.A.	88.501.277,65	73.539.761,85
Telecom Italia Austria GmbH	800.962,14	1.100.528,80
Telecom Italia Capital S.A.	647.001.528,51	0,00
Telecom Italia Latam Participações e Gestão Administrativa Ltda	0,00	7.292.981,51
Ti Sparkle Brasil Telecomunicacoes Ltda	83.866,39	2.998,03
TI Sparkle Bulgaria Eood	1.711.090,17	1.708.448,48
TI Sparkle Colombia Ltda	1.468.886,27	0,00
TI Sparkle Greece S.A.	15.196.863,67	14.996.661,17
TI Sparkle Panama S.A.	1.848.564,20	37.520,86
TI Sparkle Puerto Rico Llc	165.950,40	19.757,10
TI Sparkle Singapore Pte Ltd	5.367.787,81	5.092.923,59
Ti Sparkle Slovakia S.r.o.	302.160,25	300.566,60
Ti Sparkle St. Croix Llc	60.158,64	1.026,89
TI Sparkle Turkey Telekomünikasyon Anonim Şirketi	201.009,80	6.258.654,49
TIM S.p.A.	1.365.025.815,34	35.073.139,24
Dividends receivable		
TIM Brasil Serviços e Partecipações S.A.	43.209.136,19	0,00
Derivatives		
Accruals on derivatives with Parent Company	5.879.938,75	6.546.226,28
Accruals on derivatives with TIM Group companies	1.491.781,91	3.153.205,76
Other receivables from Parent Company	6.808,00	2.720,00
	2.178.462.016,65	**155.131.912,32**

b) becoming due and payable after more than one year

EUR	December 31, 2018	December 31, 2017
Currency swaps with Parent Company	21.057.210,95	35.705.808,29
	21.057.210,95	**35.705.808,29**

Note 10 – Other debtors

a) becoming due and payable within one year

EUR	December 31, 2018	December 31, 2017
Accruals on derivatives	10.478.573,63	11.613.065,50
Currency swaps	656.420,94	92.346.768,15
Other receivables	54.888,94	74,26
	11.189.883,51	**103.959.907,91**

b) becoming due and payable after more than one year

EUR	December 31, 2018	December 31, 2017
Receivables from Lehman Brothers Special Financing Inc. in liquidation ("LBSF")	472.310,54	1.319.541,47
Currency swaps	124.077.858,58	90.807.266,60
	124.550.169,12	**92.126.808,07**

The receivable from LBSF was originally booked for EUR 25.016.035,74. Based on the documentation filed with the US Courts, the position has been converted during 2009 from EUR into USD for an amount of USD 35.552.789,99 and then in 2012 updated to USD 35.590.272,35.

As of December 31, 2018 the following amounts have been distributed to TI Finance and the receivable has been consequently reduced:

Distributions between 2012 and 2017	USD	23.226.214,60
Distributions of the year:		
On April 05, 2018	USD	230.835,86
On October 10, 2018	USD	429.082,02
	USD	**23.886.132,48**

In accordance with market evaluations, the receivable is registered at its recoverable value of 1,52% (USD 540.795,57) of the principal value before distributions. The credit in hands is supported by the guarantee from Lehman Brothers Holding Inc. in liquidation.

Note 11 – Other investments

This item refers to the accrued value of the securities in portfolio for an amount of EUR 682.256.482,87 (EUR 540.333.311,50 at December 31, 2017).

Note 12 – Cash at bank and in hand

EUR	December 31, 2018	December 31, 2017
Cash in hand	365,50	660,00
Bank current accounts	233.559.345,76	1.407.832.158,30
Bank term deposit accounts	300.000.000,00	487.727.738,85
Other Liquid Assets	1.467,82	7.145,04
Cash and cash equivalent as shown in Cash Flow Statement	**533.561.179,08**	**1.895.567.702,19**
Accruals	73.622,24	735,97
	533.634.801,32	**1.895.568.438,16**

Note 13 – Subscribed capital

As of December 31, 2018 and December 31, 2017 the authorized, issued and fully paid capital of 1.818.691.978,50 EUR is represented by 185.960.325 ordinary shares with a nominal value EUR 9,78 per share.
As of December 31, 2018 and December 31, 2017 the Company is 100% held by TIM S.p.A.

Note 14 – Share premium account

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

Note 15 – Reserves

Reserves are split as follows:

EUR	December 31, 2018	December 31, 2017
Legal reserve	34.914.421,62	32.098.030,40
Other reserves:		
Reserves unavailable for distribution	200.000.000,00	394.805.662,41
Other distributable reserves	663.753.481,50	468.947.819,09
Total other reserves	**863.753.481,50**	**863.753.481,50**

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

shareholders meeting from 2008 to 2017	EUR	32.098.030,40
shareholders meeting of April 19, 2018	EUR	2.816.391,22
	EUR	**34.914.421,62**

On April 19, 2018, the shareholders meeting decided to reduce the un-distributable reserve from EUR 394.805.662,41 to EUR 200.000.000,00 by allocating the difference to "Other distributable reserves".

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

EUR	Legal Reserve	Other reserves	Profit or Loss brought forward	Profit or Loss for the financial year
Balance as at 31.12.2017	32.098.030,40	863.753.481,50	389.752.590,16	56.327.824,41
Movements for the year:				
Allocation of prior year's profit	2.816.391,22	0,00	16.011.433,19	-18.827.824,41
Profit for the year	0,00	0,00	0,00	79.790.635,13
Dividend distributed [*]	0,00	0,00	0,00	-37.500.000,00
Balance as at 31.12.2018	**34.914.421,62**	**863.753.481,50**	**405.764.023,35**	**79.790.635,13**

[*] On April 27, 2018 a dividend of EUR 37.500.000,00 has been paid to the sole shareholder.

Note 16 – Provisions for taxation

EUR	December 31, 2018	December 31, 2017
Provisions for Net Wealth Tax	3.689.297,00	3.143.258,25
Provisions for Value Added Tax	33.434,12	53.340,31
Other provisions for taxes	14.909,50	15.794,63
	3.737.640,62	**3.212.393,19**

Note 17 – Other provisions

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

EUR	December 31, 2018	December 31, 2017
Provisions for expenses	1.360.323,85	1.388.761,31
	1.360.323,85	**1.388.761,31**

Note 18 – Non convertible loans

i) becoming due and payable within one year

EUR	December 31, 2018	December 31, 2017
Issue premiums on notes - Current portion	285.581,80	285.581,80
Issue discounts on notes - Current portion	-234.785,04	-234.785,04
Accrued interest on notes	73.705.684,93	73.705.684,93
	73.756.481,69	**73.756.481,69**

ii) becoming due and payable after more than one year

EUR	December 31, 2018	December 31, 2017
Nominal value: EUR 765.000.000,00 Expiring January 24, 2033 Fixed rate: 7,7500%	765.000.000,00	765.000.000,00
Nominal value: EUR 250.000.000,00 Expiring January 24, 2033 Fixed rate: 7,7500%	250.000.000,00	250.000.000,00
Issue premiums on notes - Long term portion	3.733.688,67	4.019.270,47
Issue discounts on notes - Long term portion	-3.069.573,18	-3.304.358,22
	1.015.664.115,49	**1.015.714.912,25**

Note 19 – Amounts owed to credit institutions

a) becoming due and payable within one year

EUR	December 31, 2018	December 31, 2017
Payables to banks	710.898.723,36	120.379.903,32
Accrued interest	3.121.955,87	2.973.360,64
	714.020.679,23	**123.353.263,96**

b) becoming due and payable after more than one year

EUR	December 31, 2018	December 31, 2017
Nominal value: JPY 20.000.000.000 [*] Expiring October 29, 2029 Fixed rate: 6,7500%	158.919.348,43	148.137.175,02
	158.919.348,43	**148.137.175,02**

[*] Differences between December 31, 2018 and December 31, 2017 are due to exchange rate impact.

Note 20 – Amounts owed to affiliated undertakings

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

a) becoming due and payable within one year

EUR	December 31, 2018	December 31, 2017
Borrowings and other payables – Principal and accrued interest		
Infrastrutture Wireless Italiane S.p.A.	18.001.666,67	1.500.129,17
Telecom Italia Capital	20.000.000,02	4.899,59
Telecom Italia Latam Participações e Gestão Administrativa Ltda	42,64	0,00
TI Sparkle Americas Inc.	977.914,61	566,26
TI Sparkle Israel Ltd	6.365.199,53	5.950.114,57
TIM S.p.A.	352.181,11	374.096,92
Derivatives		
Accruals on derivatives with Parent Company	3.183.170,81	2.691.226,62
Accruals on derivatives with TIM Group companies	7.720.415,22	9.317.941,69
Currency swaps with TIM Group companies	0,00	91.807.657,84
	56.600.590,61	**111.646.632,66**

b) becoming due and payable after more than one year

EUR	December 31, 2018	December 31, 2017
Currency swaps with Parent Company	47.786.825,98	30.056.521,86
Currency swaps with TIM Group companies	76.291.032,60	60.750.744,74
	124.077.858,58	**90.807.266,60**

Note 21 – Other creditors

a) becoming due and payable within one year

EUR	December 31, 2018	December 31, 2017
Accruals on derivatives	5.789.245,82	8.213.320,78
Others	569,11	569,11
	5.789.814,93	**8.213.889,89**

b) becoming due and payable after more than one year

EUR	December 31, 2018	December 31, 2017
Currency swaps	21.057.210,95	35.705.808,29
	21.057.210,95	**35.705.808,29**

Note 22 – Value adjustments in respect of current assets

The amount of EUR -334.512,55 (EUR 797.804,01 – 2017) refers entirely to value adjustments on receivables from Lehman Brothers.

Note 23 – Income from participating interests

a) derived from affiliated undertakings

EUR	December 31, 2018	December 31, 2017
Dividend received		
Movenda S.p.A.	22.256,05	0,00
TIM Brasil Serviços e Partecipações S.A.	131.366.650,87	55.649.232,43
	131.388.906,92	**55.649.232,43**

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

a) derived from affiliated undertakings

EUR	December 31, 2018	December 31, 2017
Interest on long term loans to Parent Company	82.607.150,90	94.405.789,26
Interest on long term loans to TIM Group companies	3.553.642,38	1.218.988,78
	86.160.793,28	**95.624.778,04**

b) other income not included under a)

EUR	December 31, 2018	December 31, 2017
Gain on securities disposal	2.525.794,83	8.991.731,54
Gain on disposal of investment held as fixed asset	0,00	0,10
	2.525.794,83	**8.991.731,64**

Note 25 – Other interest receivable and similar income

a) derived from affiliated undertakings

EUR	December 31, 2018	December 31, 2017
Interest and commissions on receivables from Parent Company	911.466,05	1.144.531,10
Interest and commissions on receivables from TIM Group companies	826.065,10	1.134.764,01
Income on derivatives with Parent Company	40.347.618,55	54.561.268,86
Income on derivatives with TIM Group companies	31.072.772,04	42.152.313,42
	73.157.921,74	**98.992.877,39**

b) other interest and similar income

EUR	December 31, 2018	December 31, 2017
Interest on other securities	4.515.216,92	7.261.151,93
Interest on banks	468.632,76	435.583,83
Other interest, income and commissions	46.801,07	157.554,68
Income on derivatives with banks	76.022.021,92	91.056.886,27
Gain on exchange rates	76.265.232,63	202.242.083,66
	157.317.905,30	**301.153.260,37**

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

EUR	December 31, 2018	December 31, 2017
Value adjustments on shares in undertakings:		
TIM S.p.A.	-14.898.865,05	-3.930.305,86
Telecom Italia Finance Ireland Ltd	0,00	-74.164,74
Reversal of adjustments on Clessidra Capital Partners fund	0,00	23.632,09
Reversal of adjustments on securities	14.400,00	45.450,00
Reversal of adjustments on shares in affiliated undertakings	0,00	44.510,23
Reversal of adjustments on shares in other equity investments	5.259,70	15.069,64
Value adjustments on notes from other issuers	-12.462.318,61	-1.501.111,84
	-27.341.523,96	**-5.376.920,48**

Note 27 – Interest payable and similar expenses

a) concerning affiliated undertakings

EUR	December 31, 2018	December 31, 2017
Guarantee fee due to Parent Company	-352.175,80	-348.941,15
Charges on derivatives with Parent Company	-27.020.164,51	-32.498.867,68
Charges on derivatives with TIM Group companies	-51.351.774,00	-62.101.903,98
Interest due to TIM Group companies	-148.428,63	-182.071,57
	-78.872.542,94	**-95.131.784,38**

b) other interest and similar expenses

EUR	December 31, 2018	December 31, 2017
Interest and charges to banks	15.107.877,07	17.583.284,51
Interest and charges on debentures	78.612.639,22	78.599.417,76
Charges on derivatives	64.680.127,75	87.508.100,00
Losses on exchange rates	75.679.344,11	202.163.419,33
Other financial charges and commissions	138.753,56	151.012,62
Losses on securities disposal	1.252.486,58	5.894.818,27
	235.471.228,29	**391.900.052,49**

Note 28 – Tax on profit or loss

EUR	December 31, 2018	December 31, 2017
Withholding tax on interest received	-334.823,16	-45.596,41
Withholding tax on dividends and income received from equity investments	-17.234.322,06	-4.855.327,29
	-17.569.145,22	**-4.900.923,70**

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

The amount of EUR -3.760.913,00 (EUR -3.178.706,00 – 2017) includes payments and provisions for the Net Wealth Tax.

Note 30 – Guarantees

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

Note 31 – Off balance sheet commitments

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

EUR	December 31, 2018	December 31, 2017
Foreign exchange agreements	72.669.629,41	67.240.118,86
Cross Currency Interest Rate Swaps (“CCIRS”) [*]	297.470.192,09	286.688.018,68
Options	0,00	2.386.634,84
	370.139.821,50	**356.314.772,38**

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

EUR	December 31, 2018	December 31, 2017
Foreign exchange agreements	728.244,90	503.264,28
Cross Currency Interest Rate Swaps (“CCIRS”) [*]	54.083.564,21	54.631.342,84
Options	0,00	130.965,90
	54.811.809,11	**55.265.573,02**

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

In addition, the Company entered into some derivatives on other TIM Group companies’ request. Since TI Finance has a contract with an external counterparty and the opposite contract with an intercompany, the MTM exposure on these positions is neutral and there is no risk connected.

The table here below reports the sum of the notional amount for such derivatives.

EUR	December 31, 2018	December 31, 2017
Cross Currency Interest Rate Swaps ("CCIRS")	1.795.849.854,86	2.407.104.880,20
Interest Rate Swaps ("IRS")	1.218.056.669,14	1.180.491.087,77
	3.013.906.524,00	**3.587.595.967,97**

As of December 2018, the company raised short-term capital (note 19) with government and corporate bonds (note 11) serving as collateral for a total value of EUR 545.000.000,00 by entering in repurchase agreements ("Repo") expiring in the first quarter 2019.

Note 32 – Tax situation

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

Note 33 – Consolidation

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

Note 34 – Directors remuneration

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

Note 35 – Staff

As of December 31, 2018 the Company had on its payroll 11 employees (December 31, 2017 – 10). The average of employees during the fiscal period has been of 10,17 resources (December 31, 2017 – 10).

Note 36 – Litigations

The litigations in which the Company is involved as per December 31, 2018 or has been involved during the year 2018 are described here below.
The Board of Directors is of the opinion that no provision should be recognised for the litigations.

- **Brazil - Opportunity Arbitration**

In May 2012, TIM and Telecom Italia International N.V (now merged in Telecom Italia Finance) were served with an arbitration brought by the Opportunity Group, claiming restoration of damages allegedly suffered as a consequence of the presumed breach of a certain settlement agreement signed in 2005. Based on claimant's allegations, such damages would be related to matters emerging in the context of the criminal proceedings pending before the Court of Milan regarding, among others, unlawful activities of former employees of TIM.
The investigatory phase has been completed and the hearing took place in November 2014, after which the parties filed their concluding arguments in preparation for the decision on the case.
In September 2015, the Board of Arbitration declared the proceedings closed as the award was going to be filed. Subsequently, the Board of Arbitration allowed the parties to exchange short arguments and the ICC Court extended the term for the filing of the award.
In September 2016, the ICC Court notified the parties of its judgment, based on which the Board of Arbitration rejected all the claims made by the Opportunity group and decided that the legal costs, administrative costs and costs for expert witnesses should be split between the parties.
In April 2017, the Opportunity group filed an appeal against the arbitration award before the Court of Appeal of Paris
In November 2017, TIM and Telecom Italia Finance received from the Secretariat of the ICC International Court of Arbitration notice of a Request for Revision of the same arbitration award filed by the Opportunity group, asking for a new ruling. A Board of Arbitration was subsequently established.
In October 2018, TIM and Telecom Italia Finance requested the proceedings pending before the Paris Court of Appeal to be suspended, in the light of proceedings pending before the ICC Board of Arbitration, to review the same arbitration award. In November 2018, the Court of Appeal of Paris granted the stay of the proceedings until the decision of the Board of Arbitration in the revision proceedings.

- **Brazil - CAM JVCO Arbitration**

In September 2015, JVCO Participações Ltda. filed an application for arbitration before the Camara de Arbitragem do Mercado (CAM), based in Rio de Janeiro, against Telecom Italia S.p.A., Telecom Italia International N.V. (today merged into Telecom Italia Finance), 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.
In October, all the companies entered appearances and filed statements of defence and TIM Participações filed a counterclaim asking for JVCO condemnation for abuse of minority rights.
Subsequently, the Arbitral Tribunal was formed and in the month of May 2016 the preliminary hearing was held, wherein the Terms of Reference were signed. After the hearing, the Arbitral Tribunal issued a procedural order, accepting the request of the TIM Group about the preliminary examination of the question of standing to sue of JVCO and setting the provisional calendar of arbitration.
In June 2016, the parties exchanged their submissions and in their defenses Telecom Italia S.p.A., Telecom Italia International N.V. (today merged into Telecom Italia Finance), Tim Brasil Serviços e Participações S.A. and Tim Participações S.A. contested the standing to sue of the counterparty, to be sued of Tim Participações and disputed the existence of the abuse of power.
In July, the parties filed their statements of defence.
On October 19, 2016 the Arbitral Tribunal issued a procedural order on the preliminary issues regarding the lack of standing to sue of the parties, founding the standing to sue of JVCO and to be sued of TIM Participações and fixing the calendar for the subsequent filings of the parties. On November 21, 2016 and on December 19, 2016 the parties filed their further replies.
On January 31, 2017, the Arbitral Tribunal issued a procedural order on procedural matter, summarizing the main controversial issues of the proceedings and setting forth the step of the evidentiary phase. The parties have then indicated the means of proof they intend to produce in the proceedings; subsequently, the Arbitral Tribunal fixed the dates for the hearings.
In April 2017, the parties indicated the witnesses and experts they intended to hear at the hearings and filed additional documentation. In the month of June 2017, the hearings were held in Rio de Janeiro and in July 2017, the parties filed further documentation and asked for documentation to be produced by the counterparty. On March 2018 have been filed all the final petition from the Parties.
On July 23, 2018 the arbitral tribunal rendered a final award rejecting each and every claim by JVCO. The Tim Participações's counterclaim, asking for JVCO condemnation for abuse of minority rights, has been rejected as well. JVCO has been awarded to pay 90% of the costs arising from the arbitral proceeding (the remaining 10% to be borne by TIM, TIF, Tim Brasil Serviços e Participações S.A. and Tim Participações S.A.) The parties have been condemned to pay certain legal costs directly to the lawyers of the respective counterparties.

Note 37 – Auditor's fees

During the 2018 a total of EUR 120.117,68 (VAT excluded) has been paid to PricewaterhouseCoopers Société Coopérative for the audit activity (December 31, 2017 – EUR 273.281,86).

EUR	Year 2018
Audit services	102.331,43
Audit related services	17.786,25
Total	**120.117,68**

No other amount has been paid to the Auditor.

Declaration of the manager responsible for financial reporting

Pursuant to paragraph 3 of Luxembourg's Transparency Law, the undersigned Biagio Murciano, Managing Director of the Company, to the best of his knowledge, hereby declares that the above financial statements prepared in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and that the management report includes a fair review of the development and performance of the business and the position of the issuer as at and for the period ended December 31, 2018, together with a description of the principal risks and uncertainties that the issuer faces.

Biagio Murciano
Managing Director

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Audit report

To the Shareholder of
Telecom Italia Finance

Report on the audit of the annual accounts

Our opinion

In our opinion, the accompanying annual accounts give a true and fair view of the financial position of Telecom Italia Finance (the "Company") as at 31 December 2018, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts.

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

What we have audited

The Company's annual accounts comprise:

- the balance sheet as at 31 December 2018;
- the profit and loss account for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the annual accounts, which include a summary of significant accounting policies.

Basis for opinion

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

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

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

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

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

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

Key audit matter	How our audit addressed the Key audit matter
Carrying value of investments in subsidiaries and affiliates may not be appropriate	
Shares in affiliated undertakings amount to 3,268 million Euro at year end and are mainly comprised of the investments in TIM SpA and TIM Brasil Serviços e Participações S.A. ("TBSP").	We gained an understanding of and evaluated the Board of Directors' processes to estimate the recoverable values of the shares in affiliated undertakings.
As described in note 6 to the annual accounts, the net book value at year end of the investment in TIM SpA corresponds to the VWAP (Volume Weighted Average Price) which amounts to 85 million Euro. This method takes in consideration prices of TIM SpA shares and volumes exchanged on the Milan stock exchange during the twelve months before year end. The fair value of TIM SpA determined by the Management on 31 December 2018, based on an entreprise value considering the market price of TIM SpA shares on the Milan stock exchange at 31 December 2018, amounts to 81 million Euro. The Board of Directors has concluded that the difference between the fair value of TIM SpA and and the net book value at year end is not permanent. Therefore no additional value adjustment was recorded.	For the valuation of the investment in TIM SpA, we tested the applied VWAP valuation model for consistency and arithmetical accuracy. We have validated on a sample basis the applied price for transactions over the year to the quoted market price of TIM SpA to determine if the valuation process is correctly done by Management. We compared the net book value at year end of the investment in TIM SpA to the fair value determined by the Management. We reviewed Management assessment of the carrying value of the investment and the related disclosures in the notes to the annual accounts.

As described in note 6 to the annual accounts, at year end, the fair value of the investment in TBSP, determined by the Management on 31 December 2018, based on an entreprise value considering the market price of TBSP shares on the Sao Paolo (Brazil) stock exchange at 31 December 2018, amounted to 4,069 million Euro and the net book value of the investment in TBSP amounted to 3,182 million Euro. Considering economic and political uncertainties in Brazil, Management has concluded that the the carrying amount of 3,182 million Euro as at 31 December 2018 is appropriate. We focused on the valuation of investments in affiliated undertakings giving their significance over the total assets.	For the valuation of the investment in TBSP, we have recalculated the fair value determined by the Management and reviewed Management assessment of the carrying value of the investment and the related disclosures in the notes to the annual accounts.

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

We have been appointed as “Réviseur d’Entreprises Agréé” of the Company by the General Meeting of the Shareholders on 24 March 2010 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 9 years.

Other matter

The Corporate Governance Statement includes, when applicable, the information required by Article 68ter Paragraph (1) Letters a), b), e), f) and g) 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.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 21 February 2019

Patrick Schon