Telecom Italia Finance Group

Consolidated Financial Statements 2018

Audited Consolidated Annual Accounts as at December 31, 2018, which have been authorized by the Board of Directors held on March 28, 2019

Table of Contents

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.

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, 2018:

- The amount of notes (issued by Telecom Italia Finance and listed on Bourse of Luxembourg) is 1.015 million euros.
- The amount of net financial debt is equal to -3.104 million euros.

- TELECOM ITALIA FINANCE

Key operating Financial Data

Consolidated Operating and Financial Data

(million euros)	Year 2018	Year 2017
Revenues	**3.943**	**4.502**
EBITDA	**1.455**	**1.627**
EBIT	**552**	**528**
Profit (loss) before tax from continuing operations	418	368
Profit (loss) for the year	**551**	**307**
Profit (loss) for the year attributable to Owners of the Parent	351	198
Capital expenditures	**890**	**1.150**

Consolidated Financial Position Data

(million euros)	31/12/2018	31/12/2017
Total assets	**13.354**	**13.932**
Total equity	**8.206**	**8.370**
Attributable to Owners of the Parent	6.688	6.813
Attributable to non-controlling interests	1.518	1.557
Total liabilities	**5.148**	**5.562**
Total equity and liabilities	**13.354**	**13.932**
Share capital	**1.819**	**1.819**
Net financial debt carrying amount	**-2.872**	**-2.479**

Headcount

	31/12/2018	31/12/2017
Number in the Group at year end	9.669	9.518
Average number in the Group	9.138	9.075

Highlights

In 2018 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 2018, Brazil Business Unit showed the highest growth of Revenue and EBITDA among the large telcos in the region. The focus on executing the strategic plan made it possible to face the challenges created by a slower than expected economic recovery and a much tougher competitive environment. This ability allowed the BU to exceed in some indicators historic levels, such as EBITDA and Margin.

ADOPTION OF NEW ACCOUNTING PRINCIPLES

Starting from January 1, 2018, the Group is required to adopt the IFRS 9 and IFRS 15 principles.
For further details please refer to the specific section of the Note "Accounting policies".
To enable the year-on-year comparison of the economic and financial performance for the year 2018, this Directors' Report shows "comparable" financial position figures and "comparable" income statement figures, prepared in accordance with the previous accounting standards applied (IAS 39, IAS 18, IAS 11, and relative Interpretations).

THE MARKET

Global growth is expected to slow down compared to 2018, but still expected close to 3%; however, the steady pace of expansion in the global economy masks a confluence of risks, which could severely disrupt economic activity.
At a Global level, among these risks we consider a possible escalation of the trade war between U.S. and China, started earlier in 2018 with mutual taxation on imports, and an abrupt tightening of global financial conditions. Another important source of risks is the "Brexit", whose negotiation on tariffs, trade, regulations and other matters are still underway.
At a European level, the environment has become less supportive for growth. Indeed, external demand has dropped, and higher oil prices have diminished incomes. Pressures come from production capacity constraints and labor shortages, increasing risks to economic activity. Growth forecast has been revised downward in about half of the countries in Europe, scenario that is complicated by the fact that deficits in the area are still relatively high. From this point of view, Italy is one of the most vulnerable countries. Moreover, policies chosen by actual government lead to an even larger deficit, that could jeopardize the outlook for the country.
At a Brazilian level, despite the generally positive result and the resumption, at the end of 2018, of the market's confidence with the definition of the election scenario, there is still strong uncertainty as to the approval of the reforms necessary for growth recovery, especially fiscal and social security reforms, throughout 2019, as well as regarding the depth of the proposals to be presented by the new presidential administration.

NON-RECURRING EVENTS

In the years 2018, the Group recognized non-recurring net operating expenses connected to events and transactions that by their nature do not occur continuously in the normal course of operations and have been shown because their amount is significant. In detail:

Net non-recurring expenses

(millions of euro)	Year 2018
Other Income – Tax receivable due to changes in base calculation	37
Employee benefits expenses - Labor Contingency	-9
Other operating expenses - Labor Contingency -third part employees	-25
Other operating expenses - Tax Contingency	-2
Impact on EBIT	**1**
Finance income - Monetary restatement on tax receivable	45
Finance expenses - Monetary restatement on labor contingency	-24
Finance expenses - Monetary restatement on tax contingency	-6
Impact on Profit (loss) before tax from continuing operations	**16**
Fiscal impact on above transactions	-5
Impact on Profit (loss) from continuing operations	**11**

FINANCIAL HIGHLIGHTS

In terms of economic and financial performance of 2018 and considering comparable accounting principles:

- **Consolidated revenues** amounted to 4,0 billion euros, down by 12,1% on the 2017.
- **EBITDA** amounted to 1,5 billion euros, down by 7,8% on 2017.
- **Operating profit (EBIT)** was 0,6 billion euros, up by 6,2% compared to 2017.
- The **Profit for the year attributable to Owners of the Parent** amounted to 346 million euros (198 million euros for the year 2017).
- **Capital expenditures** in 2018 amounted to 924 million euros (1.150 million euros in 2017).
- **Net financial debt** amounts to -2.872 million euros at December 31, 2018, down of 393 million euros compared to the end of 2017 (-2.479 million euros).

Consolidated operating performance

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

	Other operations (millions of euros)			Brazil Business Unit (millions of euros)			(millions of reais)				
	2018	2018 comparable	2017	2018	2018 comparable	2017	2018	2018 comparable (a)	2017 (b)	Change Amount (a-b)	% (a-b)/b
Revenues	-	-	-	**3.943**	**3.959**	**4.502**	**16.981**	**17.050**	**16.234**	**816**	**5,0**
EBITDA	**-11**	**-11**	**-8**	**1.467**	**1.511**	**1.635**	**6.316**	**6.508**	**5.894**	**614**	**10,4**
EBITDA Margin				37,2	38,2	36,3	37,2	38,2	36,3		1,9 pp
EBIT	**-11**	**-11**	**-8**	**564**	**569**	**536**	**2.428**	**2.449**	**1.931**	**518**	**26,8**
EBIT Margin				14,3	14,4	11,9	14,3	14,4	11,9		2,5 pp
Headcount at year end (number)	**11**	**11**	**10**				**9.658**	**9.658**	**9.508**	**150**	**1,6**

	Year 2018	Year 2017
Lines at period end (thousands)	55.923	58.634
ARPU (reais)	22,4	20,2

REVENUES

All the revenues are related to Brazil Business Unit.

Revenues for 2018 amounted to 16.981 million reais (3.943 million euros). Comparable revenues for 2018 amounted to 17.050 million reais (3.959 million euros), up by 816 million reais (-543 million euros) and +5,0% on the same period of the previous year.
Revenues from services, on the same accounting basis, amounted to 16.205 million reais (3.763 million euros), rising by 731 million reais (-528 million euros) on the 15.474 million reais (4.291 million euros) posted for 2017 (+4,7%).
Revenues from product sales, on the same accounting basis, came to 845 million reais, or 196 million euros (760 million reais or 211 million euros for 2017, +11,2%). The increase reflected a change in the sales policy, which is now focused more on value than on increasing sales volumes. The main goals of the new strategy are to increase purchases of new connected devices giving TIM customers access to BroadBand services on 3G/4G networks and to support new loyalty offerings for higher-value postpaid customers.
Mobile Average Revenue Per User (ARPU) for 2018, on the same accounting basis, amounted to 22,4 reais (5,2 euros), showing growth of +10,9% compared to the figure for 2017 (20,2 reais or 5,6 euros). The higher figure was driven by the general repositioning towards the post-paid segment and new commercial initiatives aimed at boosting the use of data and the average customer spend.
Total lines in place at December 31, 2018 amounted to 55,9 million, a decline of 2,7 million compared to December 31, 2017 (58,6 million). The lower figure was driven entirely by the prepaid segment (-5,1 million), only partially

offset by growth in the post-paid segment (+2,4 million), in part due to the consolidation underway in the market for second SIM cards. Post-paid customers accounted for 36,2% of the customer base at December 31, 2018, an increase of 5,8 percentage points on December 2017 (30,4%).

EBITDA

EBITDA totaled 1.455 million euros, of which 1.467 million euros attributable to the Brazil BU.

Comparable Brazilian EBITDA for 2018 amounted to 6.508 million reais (1.511 million euros), up by 614 million reais (-123 million euros) on the same period of the previous year (+10,4%). Growth in EBITDA was attributable to both the positive performance of revenues and the benefits delivered by projects to enhance the efficiency of the operating expenses structure.
The EBITDA margin, on the same accounting basis, rose by 1,9 percentage points on 2017 to reach 38,2%.

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

	(millions of euros)		(millions of reais)		
	2018 comparable (a)	2017 (b)	2018 comparable (c)	2017 (d)	Change (c-d)
Acquisition of goods and services	1.821	2.168	7.842	7.816	26
Employee benefits expenses	317	353	1.364	1.274	90
Other operating expenses	488	500	2.102	1.805	297
Change in inventories	-14	6	-59	20	- 79

EBIT

EBIT totaled 552 million euros (528 million euros in 2017), an increase of 24 million euros.

Considering Brazil BU, EBIT for 2018 amounted to 2.428 million reais (564 million euros). Comparable EBIT for 2018 rose to 2.449 million reais (569 million euros), up by 553 million reais or 41 million euros (+28,6%) on the same period of the previous year (1.931 million reais or 536 million euros). Growth was mainly driven by higher EBITDA (+614 million reais or 143 million euros) and slightly higher depreciation and amortization (62 million reais or 14 million euros).

PROFIT (LOSS) FOR THE YEAR

The details are as follows:

(million euros)	Year 2018	Year 2017
Profit (loss) for the year	**551**	**307**
Attributable to		
Owners of the Parent	351	198
Non-controlling interests	200	109

CAPITAL EXPENDITURE

All the capital expenditure is referred to the Brazil Business Unit. The BU posted capital expenditures in 2018 of 890 million euros (924 million euros considering comparable amounts, down by 226 million euros on 2017). Excluding the impact of changes in exchange rates (-187 million euros), capital expenditure rose by 39 million euros, targeted mainly at the expansion of mobile ultra-broadband infrastructure and the development of the fixed broadband business of TIM Live.
With the introduction of IFRS 15, Mobile customer acquisition costs, relating to contracts with minimum-duration contract clauses, are no longer capitalized and depreciated. Instead, they are classified as “contract costs” and deferred, then subsequently recognized in the income statement over the term of the contract.

Consolidated financial position and cash flows performance

Non-current assets

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

- **Goodwill** decreased by 103 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 405 million euros representing the balance of the following items:
  - Capex (+261 million euros)
  - Amortization charge for the year (-394 million euros)
  - Disposals, exchange differences, reclassifications and other changes (for a net negative balance of 272 million euros).
- **Tangible assets** decreased by 227 million euros representing the balance of the following items:
  - Capex (+629 million euros)
  - Change in financial lease contracts (+10 million euros)
  - Depreciation charge for the year (-521 million euros)
  - Disposals, exchange differences, reclassifications and other changes (for a net negative balance of 345 million euros).

Consolidated equity

Consolidated equity amounted to 8.206 million euros (8.370 million euros at December 31, 2017), of which 6.688 million euros attributable to Owners of the Parent (6.813 million euros at December 31, 2017) and 1.518 million euros attributable to non-controlling interests (1.557 million euros at December 31, 2017).

Cash flows

The details of Group cash flows are as follow:

(million euros)	Year 2018	Year 2017
Cash flows from (used in) operating activities	1.284	1.360
Cash flows from (used in) investing activities	-2.422	-553
Cash flows from (used in) financing activities	-220	-966
Aggregate cash flows	**-1.358**	**-159**
Net foreign exchange differences on net cash and cash equivalents	-67	-146
Net cash and cash equivalents at beginning of the year	**2.717**	**2.876**
Net cash and cash equivalents at end of the year	**1.359**	**2.717**

Net financial debt

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

(million euros)	**Other operations**		**Brazil Business Unit**	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Non-current financial liabilities	1.695	1.690	510	1.246
Current financial liabilities	850	311	200	376
Total gross financial debt	**2.545**	**2.001**	**710**	**1.622**
Non-current financial assets	-1	-1	-36	-42
Current financial assets	-3.363	-2.694	-435	-963
Net financial debt as per ESMA	**- 819**	**-694**	**239**	**617**
Non-current financial assets	-2.285	-2.395	-7	-7
Net financial debt	**-3.104**	**-3.089**	**232**	**610**

Main commercial developments of the business units of the Group

Brazil

In 2018, TIM Brazil fully renewed its range of offers to reposition the brand with high-value customers, leveraging its leadership in the 4G network.
The change in approach had a major impact on the mix of the customer base, mainly in the prepaid segment, resulting in the progressive and marked migration of customers from single service daily plans (voice and/or data) to recurring weekly/monthly plans that bundle voice and data packages with other value-added 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 TOP) for the Prepaid segment, which offer comprehensive and differentiated solutions for voice and data services, and packages of unlimited social networks for specific period (two weeks);
- New TIM Controle: Launched in the third quarter TIM Controle with social networks. The offer now includes unlimited social networks for three months, a 5 GB data package and unlimited calls to any carrier, costing 49,99 reais per month. The offer was launched through a major media campaign, featuring top artists with great appeal to the target audience.
- Fixed: The focus on investing in FTTH (Fiber To The Home) expansion continues, with higher speed offers and optimal connection stability. TIM began to invest in this type of technology in 4Q17 and closed 4Q18 with the number of households with FTTH available representing 24% of the total coverage.
- TIM Casa Internet, which uses WTTX technology to offer residential broadband through the mobile network, is available for sale in 123cities.

Main changes in the regulatory framework

Brazil

Revision of the model for the provision of telecommunications services
In April 2016, the working group composed of the Ministry of Science, Technology, Innovation and Communications (MCTIC) and Anatel published its final report with a "diagnosis" on the telecommunications industry and proposed guidelines for the revision of the Brazilian regulatory model. A bill (PLC 79/2016) was then presented to the National Congress of Brazil to propose amendments to the General Telecommunications Law. Although the bill was passed by both chambers of Congress, the opposition challenged the legislative procedure followed in the Supreme Court, where the bill remained blocked for months. At the beginning of October 2017, the bill PLC 79/2016 was referred back to the Senate and remain there awaiting to be voted. Its approval is expected to be held over the course of 2019.
In October and November 2017, the Ministry of Science, Technology, Innovation and Communications (MCTIC) held a public consultation to review the general telecommunications policy proposing the setting of guidelines and objectives for the provision of telecommunications services, for the technological development of digital services and broadband infrastructure, and for the spread of "smart cities". The Public Consultation was memorialized in Decree 9,612/2018 ("Connectivity Plan") and established a series of guidelines for execution of terms of conduct adjustment, onerous granting of spectrum authorization and regulatory acts in general which includes: (i) expansion of high capacity telecommunications transport networks; (ii) increased coverage of mobile broadband access networks; and (iii) broadening the coverage of fixed broadband access network in areas with no internet access offer through this type of infrastructure. It also establishes that the network implemented from the commitments will be subject to sharing from its entry into operation, except when there is appropriate competition in the respective relevant market.
In relation to the deadlines for the upgrading of pipelines not compliant with current regulations, authorizations for user licenses to radio frequencies, and the introduction of other statutory provisions generally, planned investments (as identified by Anatel and approved by the MCTIC) will focus primarily on the expansion of mobile and fixed-line broadband networks and on specific areas of the country. TLC networks built under the investment plan will have shared access.

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

payment (370 million reais 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, while the final installment (142 million reais corresponding to 39 million euros) was duly paid in January 2018.
Since 2016, the spectrum has been freed up for mobile operations in 4.467 municipalities and all Brazilian capitals already have the mobile service in 4G technology, operating in the range. These municipalities cover approximately 85% of the Brazilian population (170 million). Currently about 2.620 cities are in operation and 1.379 cities were shut down. By 2019, the schedule for completion of the remnant is 1.103 cities.

"Marco Civil da Internet" and Network Neutrality
The "Marco Civil da Internet" (MCI), approved in April 2014 by Brazilian Law No. 12965/2014, 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. 8771/2016 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.

Revision of Competition Rules
In November 2012, the Brazilian regulator Anatel introduced instruments for the market analysis, the identification of operators with significant market power (SMP) and the consequent imposition of ex-ante obligations (Plano Geral de Metas de Competição – PGMC). Anatel has established a number of asymmetrical obligations on all markets for operators with a Significant Market Power (SMP). In July 2018, Anatel published the new PGMC revising some points and defining two new markets: (i) interconnection for mobile services; and (ii) high capacity data transmission. TIM Brasil has been identified as the SMP operator on the: (i) mobile network terminations; (ii) national roaming; and (iii) high capacity data transport (in five municipalities).
The measures adopted for the SMP operator on these markets include:
- a reduction in mobile termination rates based on a price cap system and partially maintaining a Bill & Keep mechanism, until the next review of the PGMC;
- the obligation for non-SMP operators to offer national roaming services.

The obligation for vertically integrated landline operators with an SMP to access the copper network (e.g.: leased lines, bitstream and full unbundling) was maintained.
With the new PGMC, alternative operators may not apply asymmetrical interconnection rates above 20% the rate applied by incumbent operators. Since 2016, fixed interconnection rates have been based on a cost-oriented approach.

Strategic Digital Transformation and the Internet of Things
Between December 15, 2016 and February 5, 2017, the MCTIC conducted a public consultation process to discuss the public procedure for solutions enabling Machine to Machine (M2M) and Internet of Things (IoT) services for the Brazilian market. The final consultation report was published in November, with the objective of addressing regulatory and tax matters, as well as aspects of public procedure, investment, and education issues. A decree outlining a national IoT plan is expected to be published in 2019.
In August and September 2017, the MCTIC conducted a public consultation process on Digital Transformation Strategy (E-Digital), with the aim of widening discussion and creating strategies for the digitization of the Brazilian economy. An E-Digital Decree (9319/2018) has now been published, identifying around 100 strategic actions aimed at boosting competition and on-line productivity levels in the country, while raising connectivity and digital inclusion levels. The actions seek to address the main strategic issues for the digital economy, including connectivity infrastructure, the use and protection of data, IoT, and cyber-security.
In July 2018, Anatel also requested funding for a Public Consultation on future IoT regulation and a reduction in entry barriers to expand IoT. The main issues addressed by Anatel were: (i) the need for a license; (ii) use of the spectrum; (iii) quality and consumer protection; (iv) taxes. The Public Consultation is expected to be held in 2019.

Data protection
On August 14, 2018, the Brazilian President promulgated the General Data Protection Law (Law 13709/2018). The new law, as promulgated by the President, is closer to the GDPR, including significant extra-territorial application and considerable fines of up to 2% of the Company's global turnover of the previous financial year.
In December, 2018, Provisional Measure 869/2018 passed by the former Brazilian president amended Law 13.709 to create the National Data Protection Authority, within the structure of the Presidency of the Republic, which

implies in a larger control by the State and to, among other topics, extend to 24 months the entry into force of the Law, by which date all legal entities will be required to adapt their data processing activities to these new rules.

Competition

Brazil

Macroeconomic trends witnessed in the last quarter of 2018 confirm a recovery scenario expected for 2019, although forecasts for 2018 have been progressively decreased throughout the year, especially due to political uncertainty regarding the election process. Thus, main scenario is still a slow economic recovery scenario, after a severe recession notably during 2015-16 period. Unemployment has been falling slowly, while inflation returned to a more contained level (below 4% for 2018).
Although some political uncertainty still exists, especially regarding the ability of the new government to fulfill the economic liberal agenda promised during the election process, the market has acknowledged such liberal guidelines presented so far as a pro-business agenda, in the form of a recent hike in Brazilian stock market (Ibovespa +18% from September 30, 2018 until January 15, 2019) and currency appreciation (BRL +8,4% over the same period).
Despite improving financial indicators (such as stock market and currency ratio), economic conditions are still challenging, as budget deficit and growing debts (for central government, Federal States and municipalities) present a risk that can only be addressed by structural reforms that need the congress approval. Present government acknowledges that need and put reforms as a top priority for the first months of the government to put the economy growing consistently for the coming years.
Mobile telecommunications sector has seen some rationality prevailing in the market and in competition, with service providers remaining focused on the development of the characteristics and service range of their commercial offers, rather than pursuing aggressive pricing policies, especially for the first half of 2018.
In the Prepaid segment, the main objective of market players has been to raise recurrence rates on the use of services by leveraging the ongoing SIM card consolidation process in the market, by encouraging migration to weekly (and monthly) plans or hybrid plans (Controle postpaid) by offering a range of bundled service packages to meet different needs of customers (unlimited voice calls or data packages). The aim of the strategy is to improve the mix of the customer base and ensure greater stability (together with churn reduction) and ARPU growth. Prepaid base has decreased -12,3% YoY (up to nov-18, last data available).
In the Postpaid mobile segment, growth in the customer base was driven primarily by the growth of the hybrid Controle segment (especially from the migration of former Prepaid customers), although "pure" Postpaid lines has also presented some growth. 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, Twitter, Netflix, etc.), as part of a "More for More" policy that is designed to provide greater price stability and effectively repositioning the customer base towards higher value deals (voice + data + content). Postpaid base has grown +13,2% YoY (up to nov-18, last data available).
Service quality is still an element of differentiation. Telecommunication providers that have invested more in the development of 4G networks (coverage and capacity) and in the improvement of processes shaping customers' experience will have a greater ability to apply premium prices, as customers raise their expectations and place growing importance on the quality of data services and higher value content.
Fixed-line broadband market posted growth of approximately 8,5% in 2018 (up to nov-18, last data available), driven mainly by smaller market players, which tend to offer cheaper services mainly in areas in which incumbents have limited infrastructure. Penetration rates across the population are still quite low (approximately 43% of households) when compared to several countries, which means there are good opportunities for medium-term growth, underpinned by the improving macroeconomic situation.
In this context, since 2017, TIM adopted a business strategy for TIM Live to leverage its fiber network infrastructure, offering ultra-broadband internet services, through FTTC and notably FTTH, not only in some of the largest cities of Brazil, but also in cities where opportunities arise for such high-quality service. Therefore, TIM Live has been increasing its footprint reaching 12 cities by the end of 2018, which is expected to grow even more in the following years. TIM Live service not only offers very fast internet connections, but it is also acknowledged as the best fixed internet service in Brazil by Netflix, and customer satisfaction rates rank among the best for the service in the country. For smaller cities, TIM has launched its WTTx service, which delivers broadband services through the LTE mobile network, leveraging TIM's leading 4G coverage to address increasing demand for residential broadband, especially in areas with poor fixed infrastructure by local incumbent.

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 areas of focus include: identifying technological innovation for the network and the evolutionary needs for new technologies and devices, setting architectural guidelines, and the development of strategic partnerships, so as to exploit new business models and guarantee the evolution of the network infrastructure in line with the business strategy. The organizational structure of Innovation & Technology is currently made up of 25 people in the Networks area, including telecommunications engineers, electrics and electronics engineers, IT experts and other technicians of various origins, competences and experiences, who cover all innovative needs and provide support to R&D.
In terms of infrastructure, one important result was the establishment of TIM Lab, a multi-purpose test environment focusing on innovation, which is able to guarantee the assessment of innovative services, products and technologies, certifying their functional efficiency and performance and the development of new models and configurations, consolidating the innovation flow. TIM Lab plays a strategic role in providing support for the conduct of Credibility Test, Trials and Proof of Concept (POC), for the validation of the services in collaboration with the main suppliers of technology and partners, through the sharing of knowledge and the technological infrastructures for interoperability tests, the assessment of capacity and the definition of technical requirements; in synergy with the R&D department, it facilitates innovation and promotes collaborations with universities and research institutes.
In January 2017, a new TIM Lab Innovation Center was opened at the Corporate Executive Offices complex in Barra da Tijuca, in the state of Rio de Janeiro: a building with a surface area of 650 square meters, able to accommodate more than 60 people. This new office hosts technicians and researchers and can be seen as a space of innovation open to new opportunities and the development of innovation for the Brazilian telecommunications market, also operating as a national reference point for R&D activities.
In 2018, more than 180 validation and innovation projects were concluded. Moreover, new technological areas, such as transport and fixed access solutions, were included in the range of initiatives relating to innovation and R&D. In this regard, more than 22 million reais were invested in the 2016/17 period, also for new lab premises, in addition to the 4 million reais in 2018; based on the 2019-2021 plan, further investments of 12 million reais have been allocated.

Human resources

Brazil

The Group understands that in order to conquer better results, it needs an engaged team. Therefore, it establishes a transparent relationship with all the levels of the Group.
Group's culture is strengthened in the pillars Accountability (sense of ownership) and Customer Experience, which are essential to differentiate ourselves in our segment. In an environment of dynamic and challenging work, the Group offers space and opportunities so that its team broadens its horizons, develops and expands corporate and personal achievements.
The Brazil BU ended 2018 with 9.658 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 72,5% of employees have completed higher education or attend university and 10,3% 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 180 trainees and 235 young apprentices.

<u>Development and Training</u>
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 9 million reais (2 million euros) in training and development of its employees in 2018.
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 shares or options for the purchase of shares of TIM Participações to employees of the Company and its subsidiaries, thereby seeking to promote the expansion, achievement and success of the corporate objectives, as well as the interests of shareholders and management.
In August 5, 2011, April 10, 2014 and April 19, 2018, the Annual Shareholders Meeting of TIM Participações approved the long-term incentive plans; “Plan 2011-2013”, “Plan 2014-2016” and “Plan 2018-2020”, respectively, grant to the high management and to those who occupy key positions in the Company and its subsidiaries.

Social Responsibility

Brazil

The Brazil BU has social responsibility and environmental policies that guide the actions and initiatives, and are based on the UN Global Compact's principles. This is a voluntary agreement that TIM has belonged to since 2008. The 10 principles of the Global Compact organized by human rights, working conditions, the environment and the fight against corruption are utilized as guidelines for business at the Company.
In November 2018, TIM was confirmed for the 11th consecutive year in B3's Business Sustainability Index (ISE), a list with shares of companies that are highly committed to sustainability and corporate governance, continuing as the telecommunications company on the list for the most consecutive years.
The Company has a Climate Change Policy that establishes guidelines for the management of its emissions of greenhouse gases and also publishes an inventory of its greenhouse gases pursuant to GHG Protocol methodology. In 2018 for the sixth year the inventory was qualified with the gold seal.

TIM Institute
Founded in July 2013, the mission of TIM Institute (www.institutotim.org.br) is to develop resources and strategies for the democratization of science, technology and innovation. It does so through mathematics and science education projects for children and young people and the development of free technologies that contribute to the implementation of public policies.
The actions of the TIM Institute have already reached approximately 500 municipalities in all 26 states and the Federal District, benefiting more than 700.000 people including 500.000 students and 15.000 teachers.
In 2018, 200 students were selected to receive the TIM-OBMEP Institute Scholarships, offered to medalists of the Brazilian Public Mathematics Olympiad (OBMEP) who entered public universities and come from low-income families. The student aid comes from the partnership between TIM Institute and the National Pure Mathematics Institute (IMPA).
Academic Working Capital – AWC, an entrepreneurial education program that provides mentoring and financial support for college students who want to turn their Course Conclusion Work (TCC) into technology-based businesses, continued in 2018. At the end of the year, the students supported by the program presented their businesses at an Investment Fair, attended by investors and market experts.
Another action in the education field, the Busca Ativa Escolar (http://buscaativaescolar.org.br/) is a platform developed by TIM Institute in partnership with Unicef (United Nations Children's Fund), which has led over 2,000 Brazilian municipalities to solve school exclusion issued in their areas. It uses free technology to expedite the search and reintegration of children and teens currently not in school.
Scientific education also comprises one of TIM Institute's lines of action. In 2018, for the first time the TIM Institute established a partnership with Garatea-ISS, a scientific education and aerospace program for children. The aim of the project is to awaken student interest and their taste for science in a practical and amusing manner. At the end of the project, the best scientific experiments were selected and the winning entry is being readied for launch to the International Space Station (ISS).
Another unprecedented project supported by the TIM Institute in 2018 was Robolab, which offered robotics training and classes for teachers and students of public schools in the State of São Paulo. The TIM Institute offered connectivity to the schools so that the teacher training workshops and the robotics classes could take place.

Events subsequent to December 31, 2018

For details of subsequent events, see the specific Note "Events Subsequent to December 31, 2018".

Business outlook for the year 2019

The global economy looks poised to slow moderately in 2019, nevertheless, it is expected to be close to 3%. If market tightening will continue as a consequence, and central bank will record a rise in core inflation, we can expect a tightening in monetary condition.

Like at Global level, growth in Europe has decelerated in last part of 2018 but is still above trend, this should push downward unemployment rate and put more pressure on wage growth. However, with core inflation still far below the target, the Italian budget crisis unresolved, and Brexit outcome still unknown, we think there is small room for rate normalization process to start.

In Brazil, the year 2019 will be of hard work and the BU continue to evolve in its approach to materialize the strategic objectives of being the operator most admired by customers, with the most engaged employees and the with highest profitability in the industry.

Main risks and uncertainties

The majority of risks and uncertainty that impact financial markets and industrial arena are beyond the Group's control, therefore risk governance is considered a strategic tool for value creation.
In addition, there have been several major shifts, including, but not limited to, the change in the market environment, the entry of potential new competitors, the start of proceedings by Authorities, and the implementation of new business strategies in the multimedia segment. These risk factors may have unforeseeable repercussions in terms of the strategic choices adopted by the Group and could have an impact on the evolution model adopted in the multimedia market.
The main risks affecting the business activities of the TIF Group are presented below.

Strategic risks

<u>Risks related to macro-economic factors</u>
The Group's economic and financial situation is subject to the influence of numerous macroeconomic factors such as economic growth, political stability, consumer confidence, and changes in interest rates and exchange rates in the markets in which it operates.
On the Brazilian market, the expected results may be significantly affected by the macroeconomic and political situation.
The high macroeconomic volatility seen in 2018, triggered by uncertainties surrounding the elections scenario coupled with less favorable external conditions towards emerging markets, impacted directly the Brazilian Gross Domestic Product (GDP), which should end the year with a modest growth of 1,3% according to the latest FOCUS report1, much lower than the 2,7% rate expected by the majority of analysts at the beginning of 2018.
Inflation measured by the Ample Consumer Price Index (IPCA), began 2018 under control, but saw oscillations throughout the year, impacted by the truckers' strike and higher administered prices, such as those for fuels and electricity, peaking at 4,5% while closing the year at 3,75%, slightly higher than in the previous year, however still below the Central Bank target. With inflation below the target and with anchored expectations, monetary policy has been defined by the stability of interest rates at 6,5% per year and by the expectation of this level maintained for the coming year.
On the foreign exchange front, the Real devalued 18,50% versus the U.S. dollar in 2018. It showed strong oscillations throughout the year amid factors such as uncertainty surrounding Brazil's political and economic environment, in addition to international factors, especially the trade war involving the U.S. and China with mutual taxation on imports, which may impact global growth. The trade balance ended the year with a 58 billion U.S. dollars surplus, representing a 13,0% decline compared to 2017, impacted by the advance of imports by 19,7%, which outpaced exports growth at 9,6%.
Despite the generally positive result and the resumption, at the end of 2018, of the market's confidence as a whole with the definition of the election scenario, there is still strong uncertainty as to the approval of the reforms necessary for growth recovery, especially fiscal and social security reforms, throughout 2019, as well as regarding the depth of the proposals to be presented by the new presidential administration.

<u>Risks related to competition</u>
The Brazilian telecommunications market, where TIF Group is engaged through its subsidiary TIM Servicos y Participacoes (TIM BR) is characterized by strong competition that may reduce market share as well as erode prices and margins. Moreover, the telecommunications sector in Brazil is marked by the effective regulation of the National Telecommunications Agency, ANATEL.

The economic recovery at a more moderate pace than that expected initially by the market in general influenced the Brazilian telecommunications sector in 2018, which continued the path identified in the previous years of reduction of the mobile base. The mobile market maintained the dynamics of migrating prepaid subscribers to hybrid plans (control plans) and postpaid plans which, in general, seek to make the clients loyal with offers that present consumption recurrence and, as a result, revenue recurrence, in line with the strategy of offering more for more.
However, fierce competition in the arena, seen through the presence of more aggressive offers both in terms of contents and level of prices, limited the Group's capacity to pass on the cost increases or to propose adhesion to higher-value offers.
The sector continued the trend of strong growth in data consumption, demanding from the operators the capacity to adapt their networks, facing the challenge of delivering an increasingly robust infrastructure in an environment of more rational investments in projects such as the densification of sites, frequency reframing and the carrier aggregation in two or three frequencies. Last, the growing demand for Fixed Broadband consolidated the view of internet access as an essential resource for the population.

Operational risks

Operational risks inherent in our business relate, on one hand, to possible inadequacies in internal processes, external factors, frauds, employee errors, errors in properly documenting transactions, loss of critical or commercially sensitive data and failures in systems and/or network platforms; and on the other hand, to the possibility of implementing strategies for value creation through the optimization of costs and capital expenditure, which in part could depend on factors beyond the control of the Group, such as the cooperation of external counterparties (suppliers, trade unions, industry associations) and laws and regulations.

Risks related to business continuity
The TIF Group's success depends heavily on the ability to ensure continuous and uninterrupted delivery of the products and services we provide through the availability of processes and the relating supporting assets. In particular, the Network Infrastructure and the Information Systems are sensitive to various internal and external threats: power outage, floods, storms, human errors, system failures, hardware and software failures, software bugs, cyber-attacks, earthquakes, facility failures, strikes, fraud, vandalism, terrorism, etc.
TIF, as part of the TIM Group, has adopted a "Business Continuity Model System" framework in line with international standards, to analyze and prevent these risks.

Risks related to the development of fixed and mobile networks
To maintain and expand our customer portfolio in Brazilian market it is necessary to maintain, update and improve existing networks in a timely manner. A reliable and high-quality network is necessary to maintain the customer base and minimize terminations to protect the Group's revenues from erosion. The maintenance and improvement of existing installations depend on our ability to:

- deliver network development plans within the time-frames contemplated by business development plans and with the necessary level of effectiveness/efficiency;
- upgrade the capabilities of the networks to provide customers with services that are closer to their needs.

Risks of internal/external fraud
TIF Group, as part of the TIM Group, has an organizational model in place to prevent fraud. The organization is designed to ensure higher risk mitigation levels against illegal acts committed by people inside and outside the organization, which could adversely affect the Group's operating performance, financial position and image.

Risks related to disputes and litigation
TIF Group has to deal with disputes and litigation with tax authorities and government agencies, regulators, competition authorities, other telecommunications operators and other entities. The possible impacts of such proceedings are generally uncertain. In the event of unfavorable settlement for the Group, these issues may, individually or as whole, have an adverse effect, which may even be significant, on its operating results, financial position and cash flows.

Financial risks

TIF Group may be exposed to financial risks, such as risks arising from fluctuations in interest rates and exchange rates, credit risk, liquidity risk and risks related to the performance of the equity markets in general, and – more specifically – risks related to the performance of the share price of participations held by the Group. These risks may adversely impact the earnings and the financial structure of the Group. Accordingly, to manage those risks, the TIF Group has embedded guidelines defined at central level by TIM Group, which must be followed for operational management, identification of the most suitable financial instruments to meet set goals, and

monitoring the results achieved. In particular, in order to mitigate the liquidity risk, the TIM Group aims to maintain an "adequate level of financial flexibility", in terms of cash and syndicated committed credit lines, enabling it to cover refinancing requirements at least for the next 12-18 months.
"Brexit" and the possible changes during the exit negotiations could create further instability in the global financial markets and uncertainty about the laws and regulations of the European Union that the United Kingdom may decide to replace with national laws and regulations. The potential effects of Brexit could adversely affect our financial conditions, our business and the related earnings and cash flows.

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

Regulatory and compliance risks

Regulatory risks
The telecommunications industry is highly regulated. In this context, new decisions by the Communications ANATEL may lead to changes in the regulatory framework that may affect the expected results of the Group.

Compliance risks
The TIF Group may be exposed to risks of non-compliance due to non-observance/breach of internal (self-regulation, such as, for example, bylaws, code of ethics) and external rules (laws, regulations, new accounting standards and Authority orders), with consequent judicial or administrative penalties, financial losses or reputational damage.
The TIF Group aims to ensure that processes, and, therefore, the procedures and systems governing them, and corporate conduct comply with legal requirements. The risk is associated with potential time lags in making the processes compliant with regulatory changes or whenever non-conformities are identified.

Group internal control and risk management

TIF Group adheres to the principles and criteria of the TIM Group Corporate Governance Code. Its Internal Control and Risk Management System consists of the set of rules, procedures and organizational structures applied to the entire TIM Group, which TIF Group is part of. This set allows the sound, fair and consistent operation of the Group in line with the pre-established objectives.
At TIM Group level, the Internal Control and Risk Management System involves several components acting in a coordinated way accordingly to their respective responsibilities –the Board of Directors, with the responsibility to direct and provide strategic supervision; the Executive Directors and Management with the responsibility to control and manage; the Control and Risk Committee and the Head of the Group Audit Department, with the responsibility to monitor, control and provide support to the Board of Directors.

Information for investors

Brazil – shares

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

Waiver of the obligation to present activities in one report only

The Board of Directors waived the 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.

Alternative Performance Measures

In this Directors' Report and in the Consolidated Financial Statements of the Group for the year ended December 31, 2018, in addition to the conventional financial performance measures established by IFRS, certain alternative performance measures are presented for a better understanding of the trend of operations and financial condition. Such measures, which are also presented in interim financial reports, should, however, not be considered as a substitute for those required by IFRS.

- **EBITDA/EBIT**: these financial measures represent a useful unit of measurement for assessing the operating performance of the Group (considering in particular Brazil BU level). In order to get a more complete and effective understanding, they are also presented in terms of organic changes (amount and/or percentage), excluding, where applicable, the effects of the change in the scope of consolidation and exchange differences. EBITDA/EBIT are calculated as follows:

Profit (loss) before tax from continuing operations	
+	Finance expenses
-	Finance income
+/-	Other expenses (income) from investments
+/-	Share of profits (losses) of associates accounted for using the equity method
EBIT – operating profit (loss)	
+/-	Impairment losses (reversals) on non-current assets
+/-	Losses (gains)on disposals of non-current assets
+	Depreciation and amortization
EBITDA – Operating profit(loss) before depreciation and amortization, Capital gains (losses) and impairment reversal (losses) on non-current assets	

- **EBITDA margin and EBIT margin**: Telecom Italia Finance believes that these margins represent useful indicators of the ability of the Group (considering in particular Brazil BU level) to generate profits from its revenues. In fact, EBITDA margin and EBIT margin measure the operating performance of an entity by analysing the percentage of revenues that are converted, respectively, into EBITDA and EBIT.

- **Capital Expenditures ("Capex")**: Telecom Italia Finance considers CAPEX as relevant measures to understand the Group investments in intangible and tangible nun-current assets. The amount presented corresponds to the sum of columns "addition" in Note 5 - Intangible assets with a finite useful life and Note 6 - Tangible assets.

- **Net financial debt**: Telecom Italia Finance believes that Net Financial Debt represents an accurate indicator of its ability to meet its financial obligations. It is represented by Gross Financial Debt less Cash and Cash Equivalents and other Financial Assets. The Directors' Report includes a table showing the amounts taken from the statements of financial position and used to calculate the Net Financial Debt of the Group, divided by operating segment. In addition, Note 15 - Net Financial Debt details the calculation for the Group.

- **ARPU**: The Group uses Average Revenue Per User (ARPU) as measure to understand the revenue generation capability and growth at the per-customer level. It is equivalent to the total revenue divided by average users number during a period.

Corporate Governance Statement

A description of the Parent Corporate Governance is provided within the statutory accounts of Telecom Italia Finance, available at www.tifinance.lu.

Consolidated Statements of Financial Position

Assets

(million euros)	Note	31/12/2018	31/12/2017
Non-current assets			
Intangible assets		**2.920**	**3.428**
Goodwill	[4]	869	972
Intangible assets with a finite useful life	[5]	2.051	2.456
Tangible assets	[6]	**2.454**	**2.681**
Property, plant and equipment owned		2.259	2.422
Assets held under finance leases		195	259
Other non-current assets		**3.231**	**3.199**
Other investments	[7]	61	91
Non-current financial assets	[8]	2.329	2.445
Miscellaneous receivables and other non-current assets	[9]	664	663
Deferred tax assets	[10]	177	-
Total Non-current assets		**8.605**	**9.308**
Current assets			
Inventories	[11]	41	31
Trade and miscellaneous receivables and other current assets	[12]	833	867
Current income tax receivables	[10]	78	69
Current financial assets	[8]	**3.797**	**3.657**
Securities other than investments, financial receivables and other current financial assets		2.401	933
Cash and cash equivalents		1.396	2.724
Total Current assets		**4.749**	**4.624**
TOTAL ASSETS		**13.354**	**13.932**

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

Equity and Liabilities

(million euros)	Note	31/12/2018	31/12/2017
Equity	[13]		
Share capital issued		1.819	1.819
Other reserves and retained earnings (accumulated losses), including profit (loss) for the year		4.869	4.994
Equity attributable to owners of the Parent		**6.688**	**6.813**
Non-controlling interests		**1.518**	**1.557**
TOTAL EQUITY		**8.206**	**8.370**
Non-current liabilities			
Non-current financial liabilities	[14]	2.205	2.936
Employee benefits		1	1
Deferred tax liabilities	[10]	-	25
Provisions	[19]	189	122
Miscellaneous payables and other non-current liabilities	[20]	259	310
Total Non-current liabilities		**2.654**	**3.394**
Current liabilities			
Current financial liabilities	[14]	1.050	687
Trade and miscellaneous payables and other current liabilities	[19][21]	1.402	1.428
Current income tax payables	[10]	42	53
Total Current Liabilities		**2.494**	**2.168**
TOTAL LIABILITIES		**5.148**	**5.562**
TOTAL EQUITY AND LIABILITIES		**13.354**	**13.932**

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

Separate Consolidated Income Statements

(million euros)	Note	Year 2018	Year 2017
Revenues	[23]	3.943	4.502
Other income	[24]	69	52
Total operating revenues and other income		**4.012**	**4.554**
Acquisition of goods and services	[25]	-1.852	-2.170
Employee benefits expenses	[26]	-318	-355
Other operating expenses	[27]	-496	-504
Change in inventories		14	-6
Internally generated assets	[28]	95	108
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)		**1.455**	**1.627**
Depreciation and amortization	[29]	-915	-1.113
Gains/(losses) on disposals of non-current assets	[30]	12	14
Operating profit (loss) (EBIT)		**552**	**528**
Other income (expenses) from investments		-	-23
Finance income	[31]	492	800
Finance expenses	[31]	-626	-937
Profit (loss) before tax from continuing operations		**418**	**368**
Income tax income (expenses)	[10]	133	-61
Profit (loss) from continuing operations		**551**	**307**
PROFIT (LOSS) FOR THE YEAR		**551**	**307**
Attributable to			
Owners of the Parent		351	198
Non-controlling interests		200	109

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

Consolidated Statements of Comprehensive Income

(million euros)		Year 2018	Year 2017
Profit (loss) for the year	**(a)**	**551**	**307**
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)**	**- 598**	**-780**
Financial assets measured at fair value through other comprehensive income[*]:	**(e)**	**-38**	**-5**
Profit (loss) from fair value adjustments		-18	-8
Loss (profit) transferred to the Separate Consolidated Income Statements		-20	3
Hedging instruments:	**(f)**	**0**	**-2**
Profit (loss) from fair value adjustments		-	-1
Loss (profit) transferred to the Separate Consolidated Income Statements		-	-1
Exchange differences on translating foreign operations:	**(g)**	**-560**	**-773**
Profit (loss) on translating foreign operations		-560	-754
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)**	**-598**	**-780**
Total comprehensive income (loss) for the year	**(i=a+h)**	**-47**	**-473**
Attributable to			
Owners of the Parent		-78	-351
Non-controlling interests		31	-122

[*]For year 2017 also including "Available- for-Sale financial assets".

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

Consolidated Statements of Changes in Equity

Changes from January 1, 2018 to December 31, 2018

Equity attributable to owners of the Parent

(millions of euros)	Share capital	Additional paid in capital	Reserve for financial assets measured at fair value through other comprehensive income	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 period	**Total Equity attributable to owners of the Parent**	**Non-controlling interests**	**Total equity**
Balance at January 1, 2018	**1.819**	**3.148**	**-7**	**1**	**-968**	**-**	**-**	**2.820**	**6.813**	**1.557**	**8.370**
Adoption of IFRS 15 and IFRS 9	-	-	-419	-	-	-	-	408	-11	-5	-16
Adjusted Balance at January 1, 2018	**1.819**	**3.148**	**-426**	**1**	**-968**	**-**	**-**	**3.228**	**6.802**	**1.552**	**8.354**
Changes in equity during the period:											
Dividends approved	-	-	-	-	-	-	-	-38	**- 38**	-65	**-103**
Total comprehensive income (loss) for the period	-	-	-37	-	-392	-	-	351	**- 78**	31	**- 47**
Other changes	-	-	-	-	-	-	-	2	**2**	-	**2**
Balance at December 31, 2018	**1.819**	**3.148**	**- 463**	**1**	**-1.360**	**-**	**-**	**3.543**	**6.688**	**1.518**	**8.206**

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**

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

Consolidated Statements of Cash Flows

(million euros)	Note	Year 2018	Year 2017
Cash flows from operating activities:			
Profit (loss) from continuing operations		551	307
Adjustments for:			
Depreciation and amortization	[5],[6]	915	1.113
Impairment losses (reversals) on non-current assets (including investments)		-	4
Net change in deferred tax assets and liabilities		-194	6
Losses (gains) realized on disposals of non-current assets (including investments)		-12	-14
Change in inventories		-10	11
Change in trade receivables and net amounts due from customers on construction contracts		-55	210
Change in trade payables		16	-10
Net change in current income tax receivables/payables		-20	-12
Net change in miscellaneous receivables/payables and other assets/liabilities and other changes		93	-255
Cash flows from (used in) operating activities		**1.284**	**1.360**
Cash flows from investing activities:			
Total purchase of intangible and tangible assets on a cash basis		-964	-1.401
Change in financial receivables and other financial assets		-1.458	844
Proceeds from sale/repayment of intangible, tangible and other non-current assets		-	4
Cash flows from (used in) investing activities		**-2.422**	**-553**
Cash flows from financing activities:			
Change in current financial liabilities and other		599	-124
Proceeds from non-current financial liabilities (including current portion)		39	184
Repayments of non-current financial liabilities (including current portion)		-780	-803
Changes in hedging and non-hedging derivatives		-3	-
Dividends paid		-75	-223
Cash flows from (used in) financing activities		**-220**	**-966**
Aggregate cash flows		**-1.358**	**-159**
Net foreign exchange differences on net cash and cash equivalents		**-67**	**-146**
Net cash and cash equivalents at beginning of the year	**[8]**	**2.717**	**2.876**
Net cash and cash equivalents at end of the year	**[8]**	**1.359**	**2.717**

Additional Cash Flow Information

(million euros)	Year 2018	Year 2017
Income taxes (paid) received	-52	-40
Interest expense paid	-337	-509
Interest income received	269	393
Dividends received	-	-

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

Notes to the Consolidated Financial Statements

Note 1 - Form, content and other general information

FORM AND CONTENT

Telecom Italia Finance S.A. (the “Parent” or “TIF”) is established in Luxembourg as Société Anonyme under the laws of the Grand Duchy of Luxembourg. The registered office is located at 12, rue Eugène Ruppert, Luxembourg. Parent and its subsidiaries are collectively referred to as the “Group” or “TIF 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, 2018 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 28, 2019.

Furthermore, during 2018, the Group applied accounting policies consistent with those applied for the previous year, except for the new accounting standards adopted as of January 1, 2018, the impact of which is illustrated in the section “Adoption of the new IFRS 9 and IFRS 15 standards” of Note 2, to which readers should refer for more details.

The Consolidated Financial Statements for the year ended December 31, 2018 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 financial assets measured at fair value through other comprehensive income, financial assets measured at fair value through profit or loss and derivative financial instruments which have been measured at fair value.

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 stemming from company reorganization and streamlining processes and projects, also in connection with corporate transactions (mergers, spin-offs, etc.); expenses resulting from litigation and regulatory fines and related liabilities; other provisions and related reversals; costs for the settlement of disputes; 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 and fixed 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, 2018 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 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 expressed 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 expressed 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. These costs are capitalized only when all the following conditions are satisfied: i) the cost attributable to the development phase of the asset can be measured reliably, ii) there is the intention, the availability of financial resources and the technical ability to complete the asset and make it available for use or sale and iii) it can be demonstrated that the asset will be able to generate future economic benefits. Capitalized development costs comprise only expenditures that can be attributed directly to the development process for new products and services.
Capitalized development costs are amortized systematically over the estimated product or service life so that the amortization method reflects the way which the asset's future economic benefits are expected to be consumed by the entity.

Other intangible assets with a finite useful life

Other purchased or internally-generated intangible assets with a finite useful life are recognized as assets, in accordance with IAS 38 (Intangible Assets), where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be measured reliably.
Such assets are recorded at purchase or production cost and amortized on a straight-line basis over their estimated useful lives; the amortization rates are reviewed annually and revised if the current estimated useful life is different from that estimated previously. The effect of such changes is prospectively recognized in the Separate Consolidated Income Statement.

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 prospectively recognized in the Separate Consolidated Income Statement.
Land, including land pertaining to buildings, is not depreciated.

Assets held under finance leases

Assets held under finance leases, in which substantially all the risks and rewards of ownership are transferred to the Group, are initially recognized as assets of the Group at fair value or, if lower, at the present value of the minimum lease payments, including bargain purchase options. The corresponding liability due to the lessor is included in the statement of financial position under financial liabilities.
Lease payments are apportioned between interest (recognized in the Separate Consolidated Income Statement) and principal (recognized as a deduction from liabilities). This split is determined so as to produce a constant periodic rate of interest on the remaining balance of the liability.
Furthermore, gains realized on sale and leaseback transactions that are recorded under finance lease contracts are deferred over the lease term.
The depreciation policy for depreciable assets held under finance leases is consistent with that for depreciable assets that are owned. If there is no reasonable certainty over the acquisition of the ownership of the asset at the end of the lease period, assets held under finance leases are depreciated over the shorter of the lease term and their useful lives.
Leases where the lessor retains substantially all the risks and rewards of ownership of the assets are accounted for as operating leases. Operating lease rentals are charged to the Separate Consolidated Income Statement on a straight-line basis over the lease term.
When a lease includes both land and buildings, an entity assesses the classification of each element as a finance or an operating lease separately.

CAPITALIZED BORROWING COSTS

Under IAS 23 (Borrowing Costs), the Group capitalizes borrowing costs only if they are directly attributable to the acquisition, construction or production of a qualifying asset that 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

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

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

- Hold to Collect and Sell: monetary or debt instruments used to absorb short/medium-term cash surpluses; such instruments are low risk, generally held to maturity, or otherwise sold to cover specific cash requirements and measured at fair value through other consolidated comprehensive income;
- Hold to Sell: monetary, debt and equity trading instruments used to dynamically manage cash surpluses not managed under the business models identified above; such instruments are higher risk, traded repeatedly over time and measured at fair value through consolidated income statements.

<u>Other investments</u>
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:

- "financial assets measured at fair value through other consolidated comprehensive income" (FVTOCI) as non-current or current assets.
- “financial assets measured at fair value through consolidated profit or loss” (FVTPL) as current assets if held for trading.

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

<u>Securities other than investments</u>
Securities other than investments included among non-current or current assets, depending on the business model adopted and the contractual flows envisaged, fall among financial assets measured at amortized cost, or measured at fair value through other comprehensive income or at fair value though profit or loss.
Securities other than investments classified as current assets are those that, by decision of the directors, are intended to be kept in the Group's portfolio for a period of not more than 12 months, and are classified:

- as "financial assets measured at amortized cost" (AC) when held to maturity (originally more than 3 months but less than 12 months, or, with an original maturity of more than 12 months but the remaining maturity at the date of purchase is more than 3 months but less than 12 months);
- as "financial assets measured at fair value through other consolidated comprehensive income" (FVTOCI) when held in the scope of a business model whose objective is to sell the financial asset and/or collect the contractual flows. The "Reserve for financial assets measured at fair value through other consolidated comprehensive income" is reversed to the separate consolidated income statements when the financial asset is disposed of or impaired;
- as “financial assets measured at fair value through consolidated profit or loss" (FVTPL) in all other cases.

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

<u>Cash and cash equivalents</u>
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.

<u>Impairment of financial assets</u>
At every closing date, assessments are made as to whether there is any objective evidence that a financial asset or a group of financial assets may be impaired.
The impairment of financial assets is based on the expected credit loss model.
In particular:

- impairment on trade receivables assets is carried out using the simplified approach that involves estimating the loss expected over the life of the receivable at the time of initial recognition and on subsequent measurements. It is recognized as a reduction in accounts receivable based on the profile of the subscriber portfolio, the aging of overdue accounts receivable, the economic situation, the risks involved in each case and the collection curve, at an amount deemed sufficient by Management, as adjusted to reflect current and prospective information on macroeconomic factors that affect the customers' ability to settle the receivables;

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

Financial liabilities

Financial liabilities comprise financial debt, including advances received on the assignment of accounts receivable, and other financial liabilities such as derivatives and finance lease obligations.
In accordance with IFRS 9, they also include trade and other payables.
Financial liabilities other than derivatives are initially recognized at fair value and subsequently measured at amortized cost.
Financial liabilities hedged by derivative instruments designed to manage exposure to changes in fair value of the liabilities (fair value hedge derivatives) are measured at fair value in accordance with the hedge accounting principles of IAS 39. Gains and losses arising from re-measurement at fair value, to the extent of the hedged component, are recognized in the Separate Consolidated Income 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.

Derivatives

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

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 deducted from "Other equity instruments" with a contra-entry to "Employee benefits expenses".
For the portion of the plans that provide for the payment of compensation in cash, the amount is recognized in liabilities as a contra-entry to "Employee benefits expenses"; at the end of each year such liability is measured at fair value.

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

- identification of the contract: takes place when the parties approve the contract (with commercial substance), identify the respective rights and obligations, this means that: the contract must be legally enforceable, the rights to receive goods and/or services and the terms of payment can be clearly identified and the Group deems receipt of payment as probable;
- identification of the performance obligations: the main identified performance obligations, namely the promises to transfer goods and services that are distinct, consist of services rendered (including voice and data traffic and ITC solutions) to retail customers, services rendered to wholesale customers and sale of products;
- determination of the transaction price: is the total amount that has been contracted with the other party regarding the entire contractual term; the Group established that the contractual term is the one arising from the contractual constraints among the parties or, in the absence of such constraints, by convention, equal to one month;
- allocation of the transaction price to the performance obligations: the allocation is made proportionately to the respective stand-alone selling prices calculated based on the list prices (if present) or estimated by applying an appropriate margin to the cost of purchase/production of the good/service, with resulting recognition of a contract asset or contract liability, if necessary.
  Revenues from activating the connectivity service are not a performance obligation; they are therefore allocated to the contractual performance obligations (typically to services).

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

- recognition of revenues: revenues are stated net of discounts, allowances, and returns in connection with the characteristics of the type of revenue:
  - Revenues from services rendered
    The principal service revenue derives from monthly subscription, the provision of separate voice, SMS and data services, and user packages combining these services, roaming charges and interconnection revenue. The revenue is recognized as the services are used, net of sales taxes and discounts granted on services. This revenue is recognized only when the amount of services rendered can be estimated reliably.
    The revenue is recognized monthly based on invoicing, and billable revenue 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 revenue from the previous month are reversed out and unbilled amounts are calculated at each month-end, considering the revenue billed in the previous month.
    Interconnection traffic and roaming revenue are recorded separately, without offsetting the amounts owed to other telecom operators (the latter are accounted for as operating costs).
    The minutes not used by customers and/or reload credits in the possession of commercial partners regarding the prepaid service system are recorded as deferred revenue and allocated to income when these services are actually used by customers.
  - Revenues from sales
    Revenue from product sales (telephones, mini-modems, tablets and other equipment) are recognized when the significant risks and benefits of the ownership of such products are transferred to the buyer.
  - Agreements closed with customers combining services and products
    The Group offers loyal customers commercial packages combining cell phone devices and fixed or mobile telephony services, giving discounts on the devices and/or on services. In these cases, individual agreements are identified, performance obligations and transaction prices, allocating the total transaction price according to the individual selling price of each obligation. Revenue from services and products is recognized when each of the performance obligations provided for in the agreement with the customer is met, that is, when the customer holds control over the asset.

Contract costs (incremental costs of obtaining a contract and costs to fulfil a contract; for example, the activation costs and the costs for sales network commissions) are extended and recognized in the consolidated income statements based on the expected term of the contractual relationship with the customers (on average, 3 years for the mobile business and 7 years for the fixed business).

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 TAX EXPENSES (CURRENT AND DEFERRED)

Income tax expense 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 assumptions considered reasonable and realistic in relation to the information known at the time of the estimate. Such estimates have an effect on the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the amount of revenues and costs during the year. Actual results could differ, even significantly, from those estimates owing to possible changes in the factors considered in the determination of such estimates. Estimates are reviewed periodically.
The most important accounting estimates which require a high degree of subjective assumptions and judgments are detailed below.

Financial statement 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 volatility, 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 intangible and tangible assets with a finite useful life	At every closing date, the Group assesses whether there are any indications of impairment of intangible and tangible assets with a finite useful life. Both internal and external sources of information are used for this purpose. Identifying the impairment indicators, estimating the future cash flows and calculating the fair value of each asset requires Management to make significant estimates and assumptions in calculating the discount rate to be used, and the useful life and residual value of the assets. These estimates can have a significant impact on the fair value of the assets and on the amount of any impairment write-downs.
Provision for legal and administrative proceedings	Legal and administrative proceedings are analyzed by the Group Management and internal and external legal advisors. The Company's review takes into account factors such as the hierarchy of laws, case law available, recent court decisions, their relevance to the legal order, as well as payment history. Such reviews involve Management's judgment.
Unbilled revenues	Considering that some billing cut-off dates occur on intermediate dates within the months, at the end of each month there will be revenue already earned by the Group but not effectively billed to the customers. This unbilled revenue is recorded based on estimates which take into account data on usage, the number of days since the last billing date, among other factors.

Income tax and social contribution (current and deferred)	Income tax and social contribution (current and deferred) are calculated in accordance with interpretations of the legislation currently in force. This process normally includes complex estimates to define the taxable income and temporary differences. In particular, deferred tax assets on income tax and social contribution losses and temporary differences are recognized to the extent that it is probable that future taxable income will be available and can be offset. The measurement of the recoverability of deferred income tax and social contribution losses carry-forward and of temporary differences takes into account the history of taxable income, as well as estimates of future taxable income.
Derivative instruments and equity instruments	The fair value of derivative instruments and equity instruments is determined both using valuation models which also take into account subjective measurements such as, for example, cash flow estimates, expected volatility of prices, etc., or on the basis of either prices in regulated markets or quoted prices provided by financial counterparts. For further details, please also see the Note "Supplementary disclosures on financial instruments".

As required by IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) par. 10, in the absence of a Standard or an Interpretation that specifically applies to a particular transaction, management carefully considers subjective valuation techniques and uses its judgment as to the accounting methods to adopt with a view to providing financial statements which faithfully represent the financial position, the results of operations and the cash flows of the Group, which reflect the economic substance of the transactions, are neutral, prepared on a prudent basis and complete in all material respects..

NEW STANDARDS AND INTERPRETATIONS ENDORSED BY THE EU AND IN FORCE FROM JANUARY 1, 2018

As required by IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), the following is a brief description of the IFRS in force as from January 1, 2018. The impacts of the application, as of January 1, 2018, of IFRS 15 (Revenue from Contracts with Customers) and IFRS 9 (Financial Instruments) are instead reported in the section "Adoption of the New IFRS 9 and IFRS 15 Standards".

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

Amendments to IFRS 2 – Share based Payment
The amendments concern:

- the fair value measurement of cash-settled share-based payment transactions at the valuation date (i.e., at the grant date, at the reporting date of each accounting period, and at the settlement date), the calculation of which must take into account market conditions (such as the target price of shares) and any other conditions different to the vesting conditions;
- the accounting for equity-settled share-based payment transactions in which the entity acts as a withholding agent for the tax liabilities of the employee (withholding tax);
- the accounting for changes in terms and conditions that entail the reclassification of "cash-settled" share-based payments as "equity-settled" share-based payments.

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

Improvements to IFRSs 2014–2016 Cycle
The amendments clarify that if an investment entity (such as a mutual investment fund or similar entity) elects to measure its investments in associates and joint ventures at fair value through profit or loss (rather than applying the equity method), the election must be applied to each and every investment upon initial recognition. A similar clarification applies to entities that are not investment entities, but which hold investments in associates or joint ventures that qualify as investment entities. In that case, when applying the equity method, the entities may maintain the fair value measurement through profit or loss made by their investees in associates and joint ventures.
The adoption of said improvements had no impact on these consolidated financial statements at December 31, 2018.

Amendments to IAS 40 - Transfers of Investment Property
Amendments to IAS 40 clarifies that an entity may transfer a property to, or from, investment property only when there is evidence of a change in use.
The adoption of said amendments had no impact on these consolidated financial statements at December 31, 2018.

ADOPTION OF THE NEW IFRS 9 and IFRS 15 STANDARDS

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

IFRS 9 (Financial instruments)
IFRS 9 (Financial Instruments), relates to the classification, measurement, derecognition and impairment of financial assets and liabilities, and hedge accounting.
As permitted by IFRS 9, the Group has opted for:

- the continued application of the hedge accounting requirements of IAS 39;
- the non-restatement of comparative information provided in the year of first application.

Commencing as of January 1, 2018, the Group has amended the impairment model applied to financial assets (including trade receivables due from customers), by adopting an expected credit loss model as per IFRS 9, which replaces the incurred loss model required by IAS 39. In application of IFRS 9, the classification (and hence measurement) of financial assets has also been modified and is now based on the entity's business model for managing the financial assets and on the contractual cash flow characteristics of the financial asset. Under IAS 39, financial assets were classified (and hence measured) on the basis of their destination.
The Management has identified its business models for Group financial assets (other than trade receivables due from customers) on the basis of how the financial instruments are managed and their cash flows used. The purpose of the models is to ensure an adequate level of financial flexibility and to best manage, in terms of risks and returns, the financial resources immediately available to the Group through the treasuries of Group companies and in accordance with the strategies set forth by the Parent.
The business models adopted by the Group are:

- Hold to Collect: financial instruments used to absorb temporary cash surpluses; such instruments are low risk and mostly held to maturity; and are measured at amortized cost;
- Hold to Collect and Sell: monetary or debt instruments used to absorb short/medium-term cash surpluses; such instruments are low risk and generally held to maturity, or otherwise sold to cover specific cash requirements; and are measured at fair value through other comprehensive income;
- Hold to Sell: monetary, debt and equity trading instruments used to dynamically manage cash surpluses not managed under the business models identified above; such instruments are higher risk and traded repeatedly over time; and are measured at fair value through profit or loss.

Financial assets other than trade receivables are written down for impairment on the basis of a general model which estimates expected credit losses over the following 12 months, or over the residual life of the asset in the event of a substantial increase in its credit risk.
The expected credit loss ("ECL") is given by: (i) the present value at the reporting date of the financial asset, (ii) the probability that the counterparty does not meet its payment obligation (probability of default, "PD"), (iii) the estimate, in percentage terms, of the amount of credit that it will not be able to recover in the event of a default (loss given default, "LGD").
To determine the PD and LGD, reference is made to the Bloomberg credit risk model.
For the management of trade receivables, the Management has identified the business model based on the specific nature of the receivables, the type of counterparty and collection times, in order to optimize the management of working capital through the constant monitoring of the payment performance of customers, the steering of credit collection policies, and the management of programs for the disposal and factoring of receivables, in line with financial planning needs. The business model adopted by the Group for managing trade receivables is Hold to Collect; these instruments fall within IFRS 9 category "Assets measured at amortized cost".
Impairment of trade receivables and contract assets is carried out through the simplified approach allowed by the standard. This approach involves estimating the expected loss over the life of the receivable at the time of initial recognition and on subsequent measurements. For each customer segment, the estimate is principally made by calculating the average expected uncollectibility, based on historical and statistical indicators, possibly adjusted using forward-looking elements. For some categories of receivables characterized by specific risk elements, specific measurements are made on individual credit positions.
In general, the methodology to recognize the expected loss differs based on the offering content, the customer cluster and payment terms.
At the transition date (January 1, 2018), the Group has chosen to continue to report gains and losses from "other investments (other than those in subsidiaries, associates and joint ventures)", classified under IAS 39 as "available-for-sale financial assets" and measured at fair value, through other comprehensive income, also under IFRS 9. As of January 1, 2018, the aforementioned "other investments" are therefore measured at fair value

through other comprehensive income (FVTOCI). Only dividends from "other investments" are recognized in the income statement, while all other gains and losses are recognized through other comprehensive income without reclassification to the separate income statement when the financial asset is disposed of or impaired as provided by IAS 39.
The changes in the classification of financial assets had no material impact on the measurement of such assets for the Group.
The comprehensive net impact (including tax effects) of the adoption of IFRS 9 on consolidated equity at the transition date of January 1, 2018 was mainly due to the recognition of higher write-downs for expected losses on trade receivables, connected with the introduction of an expected credit loss model, replacing the incurred loss model required by IAS 39.

IFRS 15 (Revenues from contracts with customers)
The Group adopted IFRS15 retrospectively, with the cumulative effects of the initial application being recognized on the date of the initial application, on January 1, 2018. Accordingly, as provided for in this standard, the Group recorded the cumulative effect as at the date of the initial application of the standard as an adjustment to the initial balance in the revenue reserve. In accordance with this transition method, the entity applied this pronouncement retrospectively only for contracts that are still in force as at the date of the initial application. Currently, the Group offers commercial packages that basically bundle equipment or mobile devices with fixed or mobile telephony services, while the revenue from services is recognized separately, in accordance with their nature and based on their relevant fair values.

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

Identification of performance obligations
Upon the adoption and initial application of the contract, the Group assessed the goods or services that were contractually promised to the customer and identified the performance obligations based on the commitments made to customers regarding the transfer of the following items:

(i) Distinct goods or services (or group of goods or services), or
(ii) Distinct goods or services that are substantially the same, and that can be transferred to customers using the same transfer patterns.

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

(a) Customers are able to benefit from the item or service, whether separately, or jointly with other resources that are readily available to them (that is, the good or service is able to be "distinct"); and

(b) The Group's promise to transfer the item or service to customers can be separated from other commitments undertaken within the contract (that is, the commitment to transfer the item or service is "distinct" within the context of the contract).

Upon reviewing its contracts, the Group verified the existence of two main performance obligations: (i) sale and/or rental of equipment or mobile devices; and (ii) provision of fixed and/or mobile telephony 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 as "transferred" when, or to the extent that, the customer obtains control of the asset, which is at the moment of the delivery.

Determination and allocation of price to performance obligation
The standalone selling price was defined by the Group based on the individual selling prices used by the Group or the market; or the contract price, which would be similar to that provided for in contracts with similar characteristics. Thus, the adoption of the new revenue standard in some cases resulted in the early recognition of revenue from the sale of equipment and/or mobile devices, which are usually recognized upon the transfer of control to the customer, basically due to the allocation of discounts between the performance obligations arising from the sale of plans that include services as well as equipment/devices. The difference between the carrying value of sales of equipment and/or mobile devices, and the amount received from the customer is 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 in monthly basis. Revenue from sales of devices to business partners is accounted for upon physical delivery to the partner, net of taxes, rather than upon sale to end customers, as the Company does not hold any control over the products sold.

Costs of obtaining the contract
In accordance with the standard, the entity must recognize in assets the incremental costs of obtaining the contract if the entity expects to recover such costs. Upon adoption of the new standard, the Group recognized, under "prepaid expenses", these amounts in assets and, subsequently, in income, in accordance with the transfer, to the customer, of the goods or services to which the asset refers. It should be highlighted that the Group already capitalized costs of obtaining new agreements, in the corporate segment only, which were measured and registered net of any impairment adjustments, as required in IAS 38, and that, following the adoption of IFRS 15, the Management decided to reclassify the accumulated balances from the "intangible assets" account to the "prepaid expenses" account.

Impact of the adoption of IFRS 9 and IFRS 15
The principal adjustments arising from the new standard are as follows:

a. Costs from obtainment of contracts with customers, which are deferred over the period of the contract (from 12 to 24 months), net of any impairment adjustment.
b. Contractual assets recognized when the Group has complied with the performance obligation through the sale of equipment/devices or provision of services to the client before the client pays the consideration, or before the payment is due.
c. Reclassification to the "prepaid expenses" account of costs from obtainment of contracts that were formerly capitalized as intangible assets.
d. Contractual liabilities recognized when the client has paid the consideration or when the Group has the right to a consideration amount that is unconditional, before the Group has complied with the performance obligation, whether through the sale of equipment/devices or the provision of services to the client.
e. Increase in the provision for losses from doubtful debts and financial assets arising from the use of the new standard provided for by IFRS 9, in which the Group should recognize a provision for expected credit losses.
f. Tax impact on first-time adjustments for the new accounting standards.
g. For other investments classified as "financial assets measured at fair value through other comprehensive income" IFRS9 require no reclassification to the separate income statement when the financial asset is disposed of or impaired.

The impacts of the transition date of January 01, 2018 on the main line items of the statements of financial position are shown below.

(millions of euros)	31/12/2017 historical	Reference	Impacts of IFRS 9	Impacts of IFRS 15	01/01/2018 Restated
Assets					
Non-current assets					
Intangible assets					
Intangible assets with a finite useful life	2.456	c)	-	-33	2.423
Other non-current assets					
Miscellaneous receivables and other non-current assets	663	a) c)	-	8	671
Current assets					
Trade and miscellaneous receivables and other current assets	867	a) b) c) e)	-32	42	877
TOTAL ASSETS	**13.932**		**-32**	**17**	**13.917**

(millions of euros)	31/12/2017 historical	Reference	Impacts of IFRS 9	Impacts of IFRS 15	01/01/2018 Restated
Equity and Liabilities					
Total Equity	**8.370**		**-32**	**16**	**8.354**
Non-current liabilities					
Miscellaneous payables and other non-current liabilities	310	d)	-	1	311
Deferred tax liabilities	25	f)	-	-8	17
Current liabilities					
Trade and miscellaneous payables and other current liabilities	1.428	d)	-	8	1.436
TOTAL EQUITY AND LIABILITIES	**13.932**		**-32**	**17**	**13.917**

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

(millions of euros)	Reference	2018	2018 comparable	Impacts of IFRS 9	Impacts of IFRS 15
Revenues	b) d)	**3.943**	**3.959**	**-**	**-16**
Acquisition of goods and services	a)	-1.852	-1.827	-	-25
Other operating expenses	e)	-496	-493	-3	-
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)		**1.455**	**1.500**	**-3**	**-42**
Depreciation and amortization	c)	-915	-955	-	40
Operating profit (loss) (EBIT)		**552**	**558**	**-3**	**-2**
Other income (expenses) from investments	g)	-	-15	15	
Finance income/(expenses)	e)	-134	-126	-8	-
Profit (loss) before tax from continuing operations		**418**	**416**	**4**	**-2**
Income tax income (expense)	f)	133	131	1	1
Profit (loss) for the period		**551**	**547**	**5**	**-1**
Attributable to:					
Owners of the Parent		351	346	6	-1
Non-controlling interests		200	201	-1	-

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

(millions of euros)	2018	2018 comparable	Impacts of IFRS 9	Impacts of IFRS 15
Assets				
Non-current assets				
Intangible assets				
Intangible assets with a finite useful life	2.051	2.075	-	-24
Other non-current assets				
Miscellaneous receivables and other non-current assets	664	658	-	6
Deferred tax assets	177	168	11	-2
Current assets				
Trade and miscellaneous receivables and other current assets	833	832	-32	33
TOTAL ASSETS	**13.354**	**13.363**	**-21**	**13**

(millions of euros)	2018	2018 comparable	Impacts of IFRS 9	Impacts of IFRS 15
Equity and Liabilities				
Total Equity	**8.206**	**8.223**	**-21**	**4**
Non-current liabilities				
Miscellaneous payables and other non-current liabilities	259	258	-	1
Current liabilities				
Trade and miscellaneous payables and other current liabilities	1.402	1.394	-	8
TOTAL EQUITY AND LIABILITIES	**13.354**	**13.363**	**-21**	**13**

Contracts with customers

At December 31, 2018, the balance of contractual assets and liabilities is as follows:

Contract assets	29
Contract liabilities	-4.717
Balance as at December 31, 2018	-4.688

Contracts with customers give rise to the allocation of discounts under combined loyalty offers, where discounts may be given on equipment and/or services, generating a contractual asset or liability, respectively, depending on the nature of the offer in question.

Summary of the main changes during the period are as follows:

Balance as at January 01, 2018	**-3.102**
Additions	-5.468
Write-off	3.495
Exchange differences	387
Balance as at December 31, 2018	**-4.688**

The estimated realization of the balances of contractual assets is described below:

	2019	2020
Contractual assets (liabilities)	-3.861	-827

NEW STANDARDS AND INTERPRETATIONS ISSUED BY IASB BUT NOT YET IN FORCE

At the date of preparation of these financial statements, the following new standards and interpretations, which have not yet entered into force, had been issued by the IASB:

	Mandatory application starting from
IASB/IFRIC documents	
IFRS 16 (*Leases*)	January 1, 2019
Amendments to IFRS 9: Prepayment Features with Negative Compensation	January 1, 2019
IFRIC 23 – Uncertainty over income tax treatments	January 1, 2019
Amendments to IAS 28: Long-term interests in Investments in associates and joint ventures	January 1, 2019
Improvements to the IFRS (2015–2017 cycle)	January 1, 2019
Amendments to IAS 19: plan amendment, curtailment or settlement	January 1, 2019
Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020
IFRS 17: Insurance contracts	January 1, 2021
Amendments to IFRS 3 Business combinations	January 1, 2020
Amendments to IAS 1 and IAS 8: definition of materiality	January 1, 2020

The potential impacts on the consolidated financial statements from application of these standards and interpretations are currently being assessed.
IFRS 16 (Leases)
In July 2014, the IASB issued IFRS 16, which replaced IAS 17 and refers to annual periods beginning on or after January 1, 2019.
The new standard establishes the principles for 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, with a term of 12 months or less, or contracts in which the value of the underlying assets is low. In accordance with this standard, lessees must apply this pronouncement to lease agreements in two ways:

(i) Retrospectively for each previous period presented in accordance with IAS 8/CPC 23 (Accounting Policies, Changes in Estimates and Correction of Errors); or
(ii) Retrospectively, with the cumulative effect of the initial application of this pronouncement, recognized as at the date of initial application.

The Group decided to adopt IFRS16 retrospectively, while the cumulative effect of the initial application is recognized on the date of initial application, that is, January 1, 2019. Additionally, the Group decided to take practical steps in its initial adoption of the standard, such as: (i) non-revaluation of financial lease agreements previously recognized according to IAS 17 and IFRIC 4; (ii) exclusion of lease agreements expiring in the next 12 months and unlikely to be renewed by the Company; and (iii) non-application of this new standard to agreements not previously identified as leases, using IAS 17 and IFRIC 4.
The Group has a significant number of lease agreements under which it is the lessee. Currently, a portion of these contracts are recognized as operating leases, and their payments are recorded on a straight line basis throughout the period of the contract. The Group has concluded the study of impacts of this new standard on its financial statements, which included: (i) an estimation of the lease term, considering a non-cancellable period and the periods covered by options to extend the lease term, where such exercise depends only on the Group and is reasonably certain; (ii) a detailed review of the nature of the various lease agreements inherent in the telecommunications industry; (iii) use of assumptions to calculate the discount rate, which was based on the incremental interest rate for the period of the agreement, among other things. Furthermore, given the relevance of the infrastructure lease agreements, specifically for transmission towers, the Group decided to separately recognize the lease and non-lease components for this class of assets.
The initial adoption will lead to an increase of around 5.100 million reais (1.150 million euros) in total assets and liabilities due to the recognition of the rights to use the total leased and the liabilities arising from these leases, respectively.
The increase in lease liabilities due to the recognition of the right of use the assets results an increase in the Group's net debt, being the depreciation and interest charges recognized in the statement of income as a replacement of the operating lease expenses ("rental"), in the amount approximate of 1.200 million reais (279 million euros), also resulting in a positive impact on EBITDA - Earnings Before Interest, Tax, Depreciation and

Amortization (“unaudited”). Therefore, resulting in a relevant impact on certain financial indicators the Group, as well as a corresponding increase in net cash provided by operating activities reported in the cash flows.
In qualitative terms, the main transactions to be impacted by the new standard include: lease of vehicles, lease of stores and kiosks in shopping malls, lease of sites, land and sharing of infrastructure.
Based on the studies conducted thus far, the Group does not expect the adoption of the other standards above, changes and interpretations above to have any significant impact on the Group’s financial statements for 2019.

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, 2018 compared to December 31, 2017 are listed below. These changes did not have any significant impacts on the Consolidated Financial Statements of the TIF Group at December 31, 2018.

Company	Event	Business Unit	Month
TIM Celular S.A.	Merged in TIM S.A.	Brazil	October 2018

SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

At December 31, 2018, 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, 2018 amounted to 33,4% of the share capital of TIM Participações, which in turn holds 100% of the share capital of the operating company TIM S.A., equivalent to the corresponding share of voting rights.

Financial Position Data TIM Brasil Group

(million euros)	31/12/2018	31/12/2017
Non-current assets	6.257	6.819
Current assets	1.387	1.929
Total Assets	**7.644**	**8.748**
Non-current liabilities	958	1.703
Current liabilities	1.678	1.852
Total Liabilities	**2.636**	**3.555**
Equity	**5.008**	**5.193**
of which Non-controlling interests	*1.518*	*1.556*

Income statement Data TIM Brasil Group

(million euros)	Year 2018	Year 2017
Revenues	3.943	4.502
Profit (loss) for the year	**586**	**340**
of which Non-controlling interests	*200*	*114*

Financial Data TIM Brasil Group
In 2018, aggregate cash flows generated a negative amount of 512 million euros, partially due to a negative exchange rate effect of 67 million euros, without which cash flow would have generated a negative amount of 445 million euros. 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.

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 2018 and 2017:

(million euros)	**31/12/2017**	Increase	Decrease	Impairments	Exchange differences	**31/12/2018**
Brazil	**972**	-	-	-	-103	**869**

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

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

(million euros)	31/12/2018			31/12/2017		
	Gross carrying amount	Accumulated impairment losses	**Net carrying amount**	Gross carrying amount	Accumulated impairment losses	**Net carrying amount**
Brazil	**1.076**	207	**869**	**1.203**	231	**972**

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, 2018 was higher than the net carrying amount for the Brazil CGU (+1.246 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 -25%.

Note 5 - Intangible assets with a finite useful life

All intangible assets with a finite useful life in 2018 are referred to Brazil Business Unit.

(millions of euros)	31/12/2017	Adjustment for accounting principles	Additions	Depreciation and amortization	Disposals	Exchange differences	Capitalized borrowing costs	Other changes	31/12/2018
Industrial patents and intellectual property rights	**945**	-	181	-305	-	-98	-	71	**794**
Concessions, licenses, trademarks and similar rights	**556**	-	73	-87	-	-66	-	260	**736**
Other intangible assets with a finite useful life	**35**	-30	2	-2	-	-3	-	-	**2**
Work in progress and advance payments	**920**	-	5	-	-	-88	37	-355	**519**
Total	**2.456**	**- 30**	**261**	**- 394**	**-**	**- 255**	**37**	**- 24**	**2.051**

(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**

Industrial patents and intellectual property rights at December 31, 2018 consisted mainly of application software purchased outright and user licenses acquired, amortized over a period between 2 and 5 years.

Concessions, licenses, trademarks and similar rights at December 31, 2018 mainly related to the remaining cost of telephone licenses and similar rights (615 million of euros) and Indefeasible Rights of Use - IRU (32 million euros).
The net carrying amount of telephone licenses and similar rights and their useful lives are detailed below:

Type	Net carrying amount at 31/12/2018 (million euros)	Useful life in years	Amortization charge for 2018 (million euros)
GSM and 3G (UMTS)	129	15	41
4G (LTE)	486	15	36

Other intangible assets with a finite useful life at December 31, 2018 essentially decreased due to the adoption of IFRS 15. According to the new standard, the costs from obtainment of contracts, formerly capitalized as intangible assets, must be reclassified to the prepaid expenses account.

Work in progress and advance payments included the user rights for the 700 MHz frequencies (461 million euros), acquired in 2014 by the TIM Brasil Group for a total of 2,9 billion Brazilian reais (around 1 billion euros). Since the assets require a period of more than 12 months to be ready for use, again in 2018, borrowing costs of 37 million euros have been capitalized, as they are directly attributable to the acquisition. The yearly rate used for the capitalization of borrowing costs in Brazilian reais is 8,37%. Capitalized borrowing costs in Brazilian reais have been recorded as a direct reduction of the income statement item “Finance expenses - Interest expenses to banks”. During the second quarter 2018, an amount of 261 million euros was reclassified to the voice “Concessions, licenses, trademarks and similar rights”.

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, 2018 and 2017 can be summarized as follows:

	31/12/2018			
(million euros)	Gross carrying amount	Accumulated impairment losses	Accumulated amortization	Net carrying amount
Industrial patents and intellectual property rights	3.874	-	-3.080	794
Concessions, licenses, trademarks and similar rights	1.857	-	-1.121	736
Other intangible assets with a finite useful life	130	-	-128	2
Work in progress and advance payments	519	-	-	519
Total intangible assets with a finite useful life	**6.380**	**-**	**-4.329**	**2.051**

	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**

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

All tangible assets (owned and under finance leases) in 2018 and 2017 are referred to Brazil Business Unit.

PROPERTY, PLANT AND EQUIPMENT OWNED

(million euros)	31/12/2017	Additions	Depreciation and amortization	Impairment (losses) / reversals	Disposals	Exchange differences	Other changes	31/12/2018
Land	**10**	-	-	-	-	-1	-	**9**
Buildings (civil and industrial)	**21**	-	-1	-	-	-3	-	**17**
Plant and equipment	**2.059**	580	-449	-	-	-221	-22	**1.947**
Other	**119**	37	-55	-	-2	-13	22	**108**
Construction in progress and advance payments	**213**	12	-	-	-	-22	-25	**178**
Total	**2.422**	**629**	**-505**	**-**	**-2**	**-260**	**-25**	**2.259**

(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**

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 2018 and 2017 was calculated on a straight-line basis over the estimated useful lives of the assets according to the following minimum and maximum rates:

Buildings (civil and industrial)	4%
Plant and equipment	4% - 33%
Other	6,67% - 50%

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2018 and 2017 can be summarized as follows:

	31/12/2018			
(million euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	9	-	-	9
Buildings (civil and industrial)	30	-	-13	17
Plant and equipment	6.060	-	-4.113	1.947
Other	1.028	-	-920	108
Construction in progress and advance payments	178	-	-	178
Total	**7.305**	**-**	**-5.046**	**2.259**

	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**

ASSETS HELD UNDER FINANCE LEASES

(million euros)	31/12/2017	Additions	Change in financial leasing contracts	Depreciation and amortization	Exchange differences	Other changes	31/12/2018
Plant and equipment leased	254	-	6	-14	-26	-31	189
Other	5	-	4	-2	-1	-	6
Total	**259**	**-**	**10**	**-16**	**-27**	**-31**	**195**

(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**	**-**	**259**

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, 2018 and 2017 can be summarized as follows:

	31/12/2018			
(million euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Plant and equipment leased	240	-	-51	189
Other	10	-	-4	6
Total	**250**	**-**	**-55**	**195**

	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**

At December 31, 2018 and 2017 finance lease payments due in future years and their present value are as follows:

	31/12/2018		31/12/2017	
(million euros)	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within 1 year	47	44	50	21
From 2 to 5 years	188	118	189	2
Beyond 5 years	500	134	572	339
Total	**735**	**296**	**811**	**362**

(million euros)	31/12/2018	31/12/2017
Future net minimum lease payments	735	811
Interest portion	-439	-449
Present value of lease payments	**296**	**362**

Note 7 - Investments

INVESTMENTS IN ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

Investments in associates accounted for using the equity method include 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. Italtel Group S.p.A., that was an associate to the Group, has been liquidated on September 2018.

INVESTMENTS IN STRUCTURED ENTITIES

The Group does not hold investments in structured entities.

OTHER INVESTMENTS

(million euros)	31/12/2018	31/12/2017
TIM S.p.A.	61	91
Total	**61**	**91**

The Group, as allowed by IFRS 9, measures other investments at fair value through other comprehensive income (FVTOCI).

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

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

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

(million euros)	31/12/2018	31/12/2017
Non-current financial assets	**2.329**	**2.445**
Securities, financial receivables and other non-current financial assets	**2.329**	**2.445**
Financial receivables for lease contracts	37	42
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	1	1
Non-hedging derivatives	584	591
Loans and receivables	1.707	1.811
Current financial assets	**3.797**	**3.657**
Securities other than investments	**863**	**738**
Fair value through profit or loss (FVTPL)	180	-
Fair value through other comprehensive income (FVTOCI) [*]	683	738
Financial receivables and other current financial assets	**1.538**	**195**
Non-hedging derivatives	30	123
Loans and receivables	1.508	72
Cash and cash equivalents	**1.396**	**2.724**
Total non-current and current financial assets	**6.126**	**6.102**

[*]For year 2017 also including "Available- for-Sale financial assets".

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 614 million euros (714 million euros at December 31, 2017). These include, for a small portion, the measurement of derivatives which, although put into place for hedging purposes, do not qualify 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 3.215 million euros (1.883 million euros at December 31, 2017) and refers to loans granted by the Parent to the ultimate Parent and other TIM Group companies. 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 measured at fair value through other comprehensive income. They consist of 296 million euros of Italian treasury bonds and 387 million euros of other 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 measured at fair value through profit or loss. They are mainly related to the investment in monetary funds made by the Brazil Business Unit for an equivalent value of 180 million euros.

Cash and cash equivalents:

(million euros)	31/12/2018	31/12/2017
Liquid assets with banks, financial institutions and post offices	1.175	1.980
Securities other than investments (due within 3 months)	221	744
Total	**1.396**	**2.724**

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

(million euros)	31/12/2018	31/12/2017
Liquid assets with banks, financial institutions and post offices	1.175	1.980
Securities other than investments (due within 3 months)	221	744
	1.396	**2.724**
Deposits from other TIM Group companies (due within 3 months)	-37	-7
Total	**1.359**	**2.717**

The different technical forms of investing available cash at December 31, 2018 had the following characteristics:

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

Securities other than investments (due within 3 months) included 221 million euros (744 million euros at December 31, 2017) of Brazilian bank certificates of deposit (Certificado de Depósito Bancário) held by the Brazil Business Unit with premier local banking and financial institutions.

Note 9 - Miscellaneous receivables and other non-current assets

(million euros)	31/12/2018	Of which Financial Instruments	31/12/2017	Of which Financial Instruments
Miscellaneous receivables	**647**	**315**	**653**	**359**
Other non current assets	**17**	**-**	**10**	**-**
Prepaid expenses from customer contracts (contract assets) [*]	6	-	*n/a*	*n/a*
Other prepaid expenses	11	-	10	-
Total	**664**	**315**	**663**	**359**

[*]This account derives from the application of IFRS 15.

As at December 31, 2018 **Miscellaneous receivables** mainly relate to the Brazil Business Unit for an amount of 646 million euros (651 million euros at December 31, 2017) including receivables for court deposits of 307 million euros (349 million euros at December 31, 2017) and Income tax receivables of 46 million euros (55 million euros at December 31, 2017).

Other non current assets include prepaid expenses related to the Brazil BU for 17 million euros (10 million euros at December 31, 2017). The account "Prepaid expenses from customer contracts" represents the non-current portion of incremental costs related to sales commissions paid to sales agent in order to obtain customer contracts arising from the adoption of IFRS 15, which are amortized to income according to the contract term, which is usually two years. In accordance with the standard, the entity must recognize in assets the incremental costs of obtaining the contract if the entity expects to recover such costs. Upon adoption of the new standard, the Group recognized, under "prepaid expenses", these amounts in assets and, subsequently, in income, in accordance with the transfer, to the customer, of the goods or services to which the asset refers. It should be highlighted that the Group already capitalized costs of obtaining new agreements, in the corporate segment only, which were measured and registered net of any impairment adjustments, as required in IAS 38, and that, following the adoption of IFRS 15, the Group decided to reclassify the accumulated balances from the intangible assets account to the prepaid expenses account.

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, 2018 amounted to 124 million euros (124 million euros at December 31, 2017) and related to the Brazil Business Unit.
Specifically, they consisted of:

- non-current receivables of 46 million euros (55 million at December 31, 2017);
- current income tax receivables of 78 million euros (69 million euros at December 31, 2017).

DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The net balance of 177 million euros at December 31, 2018 (-25 million euros at December 31, 2017) was broken down as follows:

(million euros)	31/12/2018	31/12/2017
Deferred tax assets	177	-
Deferred tax liabilities	-	-25
Total	**177**	**-25**

Deferred taxes are all attributable to Brazil BU.
In 2018 the BU recorded around 215 million euros of deferred tax assets essentially arising from previously unrecognized tax losses from prior years, now considered recoverable as a consequence of the merger of TIM Celular S.A. in TIM S.A.

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)	31/12/2018	31/12/2017
Deferred tax assets	352	162
Deferred tax liabilities	-175	-187
Total	**177**	**-25**

The temporary differences that made up this line item at December 31, 2018 and 2017, as well as the movements during 2018 were as follows:

(million euros)	31/12/2017	Recognized in profit or loss	Recognized in equity	Change in scope of consolidation and other changes	31/12/2018
Deferred tax assets	**162**	**199**	**-**	**-9**	**352**
Tax loss carryforwards	29	181		-8	202
Provision for bad debts	40	9		5	54
Provisions	66	28		-8	86
Other deferred tax assets	27	-19		2	10
Deferred tax liabilities	**-187**	**-8**	**-**	**20**	**-175**
Derivatives	-4	-1			-5
Business combinations - for step-up of net assets in excess of tax basis	-117	3		12	-102
Other deferred tax liabilities	-66	-10		8	-68
Total Net deferred tax assets (liabilities)	**-25**	**191**	**-**	**11**	**177**

At December 31, 2018, the Group had unused tax loss carryforwards of 1.736 million euros with the following expiration dates:

Year of expiration	(million euros)
2019	-
2020	-
2021	-
2022	-
2023	-
Expiration after 2023	28
Without expiration	1.708
Total unused tax loss carryforwards	**1.736**

Unused tax loss carryforwards considered in the calculation of deferred tax assets amounted to 596 million euros at December 31, 2018 (76 million euros at December 31, 2017) 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 259 million euros (256 million euros at December 31, 2017) have not been recognized on 1.023 million euros (944 million euros at December 31, 2017) of tax loss carryforwards since, at this time, their recoverability is not considered probable.
At December 31, 2018, deferred tax liabilities have not been recognized on approximately 0,5 billion euros (0,4 billion euros at December 31, 2017) 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 84 million euros (98 million euros at December 31, 2017) and are mainly related to Brazil Business Unit. They were broken down as follows:

(million euros)	31/12/2018	31/12/2017
Non-current	42	45
Current	42	53
Total	**84**	**98**

INCOME TAX INCOME (EXPENSE)

Details are as follows:

(million euros)	Year 2018	Year 2017
Current taxes for the year	65	52
Total current taxes	**65**	**52**
Deferred taxes	-198	9
Total income tax for the year	**-133**	**61**

The reconciliation between the theoretical tax expense, and the effective tax expense for the years ended December 31, 2018 and 2017 is the following:

(million euros)	Year 2018	Year 2017
Profit (loss) before tax	**418**	**368**
Theoretical income tax	**109**	**100**
Income tax effect on increases (decreases) in variations		
Tax losses of the year not considered recoverable	8	1
Tax losses from prior years not recoverable (recoverable) in future years	-226	-2
Different rate compared to theoretical rate in force in Luxembourg and other changes	10	-7
Brazil: incentive on investments in the north-east of the country	-34	-31
Total effective income tax recognized in income statement	**-133**	**61**

The tax rate in force in Luxembourg as at December 31, 2018 is 26,01% (27,08% as at December 31, 2017).

Note 11 - Inventories

(million euros)	31/12/2018	31/12/2017
Finished goods	41	31
Total	**41**	**31**

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)	31/12/2018	Of which Financial Instruments	31/12/2017	Of which Financial Instruments
Trade receivables	**670**	**670**	**648**	**647**
Receivables from customers	602	602	569	568
Receivables from other telecommunications operators	68	68	79	79
Miscellaneous receivables	**101**	**2**	**176**	**2**
Other current assets	**62**	-	**43**	-
Prepaid expenses from customer contracts (contract assets)[*]	33	-	*n/a*	*n/a*
Other prepaid expenses	29	-	43	-
Total	**833**	**672**	**867**	**649**

[*]This account derives from the application of IFRS 15.

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, 2018 and 2017 was as follows:

				overdue:			
(million euros)	**31/12/2018**	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	672	536	136	102	19	15	-

				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	-

The increase in the current portion (25 million euros) includes a negative exchange adjustment of around 54 million euros.

Overdue receivables decreased of 2 million of euros compared to December 31, 2017, including a negative exchange difference of around 15 million euros.

As at December 31, 2018 **Trade receivables** related to the Brazil Business Unit amount to 670 million euros (648 million euros at December 31, 2017).

Movements in the provision for bad debts were as follows:

(million euros)	2018	2017
At January 01	**117**	**108**
Impact from adoption of IFRS 9	32	*n/a*
Provision charges to the income statement	127	88
Utilization and decreases	-105	-62
Exchange differences and other changes	-16	-17
At December 31	**155**	**117**

The adoption of IFRS 9 principle (Financial Instruments) impacted the amount of provision for bad debts on trade receivables for 32 million euros, as a consequence of the implementation of an expected credit loss model instead of the incurred loss model required by IAS 39.

As at December 31, 2018 **Miscellaneous receivables** amounted to 101 million euros (176 million euros at December 31, 2017) and did not include provisions for bad debts (same as at December 31, 2017).
Details are as follows:

(million euros)	31/12/2018	31/12/2017
Advances to suppliers	10	36
Receivables from employees	1	2
Tax receivables	70	111
Sundry receivables	20	27
Total	**101**	**176**

As at December 31, 2018 **Tax receivables** included 70 million euros (111 million euros at December 31, 2017) relating to the Brazil Business Unit, largely with reference to local indirect taxes.

Other current assets include prepaid expenses related to the Brazil BU for 62 million euros (43 million euros at December 31, 2017). The account “Prepaid expenses from customer contracts” represents the current portion of incremental costs related to sales commissions paid to sales agent in order to obtain customer contracts arising from the adoption of IFRS 15, which are amortized to income according to the contract term, which is usually two years. In accordance with the standard, the entity must recognize in assets the incremental costs of obtaining the contract if the entity expects to recover such costs. Upon adoption of the new standard, the Group recognized, under “prepaid expenses”, these amounts in assets and, subsequently, in income, in accordance with the transfer, to the customer, of the goods or services to which the asset refers. It should be highlighted that the Group already capitalized costs of obtaining new agreements, in the corporate segment only, which were measured and registered net of any impairment adjustments, as required in IAS 38, and that, following the adoption of IFRS 15, the Group decided to reclassify the accumulated balances from the intangible assets account to the prepaid expenses account.

Note 13 - Equity

As at December 31, 2018 the authorized, issued and fully paid capital of 1.818.691.978,50 euros (1.818.691.978,50 euros at December 31, 2017) is represented by 185.960.325 ordinary shares (185.960.325 at December 31, 2017) with a nominal value of EUR 9,78 per share.
As at December 31, 2018 and 2017 the Parent is 100% held by TIM S.p.A.
There has not been any movement in Share Capital in 2018.

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

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

(million euros)	31/12/2018	31/12/2017
Non-current financial liabilities	**2.205**	**2.936**
Financial payables (medium/long-term):	**1.388**	**2.018**
Bonds	1.012	1.012
Amounts due to banks	217	842
Other financial payables	159	164
Finance lease liabilities (medium/long-term)	**290**	**383**
Other financial liabilities (medium/long-term):	**527**	**535**
Non-hedging derivatives	527	535
Current financial liabilities	**1.050**	**687**
Financial payables (short-term):	**991**	**553**
Bonds	74	74
Amounts due to banks	870	462
Other financial payables	47	17
Finance lease liabilities (short-term)	**42**	**23**
Other financial liabilities (short-term):	**17**	**111**
Non-hedging derivatives	17	111
Total financial liabilities (gross financial debt)	**3.255**	**3.623**

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)	31/12/2018	31/12/2017
Up to 2,5%	616	164
From 2,5% to 5%	277	682
From 5% to 7,5%	162	148
From 7,5% to 10%	1.194	1.490
Over 10%	385	388
Accruals/deferrals, MTM and derivatives	621	751
Total	**3.255**	**3.623**

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

(million euros)	31/12/2018	31/12/2017
Up to 2,5%	748	170
From 2,5% to 5%	182	190
From 5% to 7,5%	125	36
From 7,5% to 10%	1.194	1.475
Over 10%	385	1.001
Accruals/deferrals, MTM and derivatives	621	751
Total	**3.255**	**3.623**

Details of the maturities of financial liabilities – at nominal repayment amount as at December 2018:

	maturing by 31/12 of the year						
(million euros)	2019	2020	2021	2022	2023	After 2023	Total
Bonds	-	-	-	-	-	1.015	1.015
Loans and other financial liabilities	81	17	6	184	-	245	533
Finance lease liabilities	-	3	-	-	-	391	394
Total	**81**	**20**	**6**	**184**	**0**	**1.651**	**1.942**
Current financial liabilities	756	-	-	-	-	-	756
Total	**837**	**20**	**6**	**184**	**0**	**1.651**	**2.698**

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, 2018:

Currency	Amount (million)	Nominal repayment amount at 31/12/18 (million euros)	Coupon	Issue date	Maturity date	Issue price (%)	Market price at 31/12/18 (%)	Market value at 31/12/18 (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[*]	125,429	1.273
Total		**1.015**						**1.273**

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

No changes occurred in bonds during 2018.

Amounts due to banks (medium/long term) of 217 million euros (842 million euros at December 31, 2017) decreased by 625 million euros for the transfer to the current portion.

Short-term amounts due to banks totalled 870 million euros (462 million euros at December 31, 2017) and included 158 million euros of the current portion of medium/long-term amounts due to banks and 545 million euros of repurchase agreements ("Repo") expiring in the first quarter 2019 and entered by the Parent in order to raise short-term capital with government and corporate bonds serving as collateral.

As at December 31, 2018 **Other financial payables (medium/long-term)** amounted to 159 million euros (164 million euros at December 31, 2017) corresponding to Telecom Italia Finance loan of 20.000 million Japanese yens expiring in 2029.

Finance lease liabilities (medium/long-term) totaled 290 million euros at December 31, 2018 (383 million euros at December 31, 2017) 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 544 million euros (646 million euros at December 31, 2017). These include the measurement of derivatives which, although put into place for hedging purposes, do not qualify 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, 2018 and 2017, calculated in accordance with the criteria indicated in the "Recommendations for the Consistent Implementation of the European Commission Regulation on Prospectuses", issued on February 10, 2005 by the European Securities & Markets Authority (ESMA).

(million euros)	31/12/2018	31/12/2017
Non-current financial liabilities	**2.205**	**2.936**
Current financial liabilities	**1.050**	**687**
Total gross financial debt	**3.255**	**3.623**
Non-current financial assets	**-38**	**-43**
Non-current financial receivables for lease contract	-37	-42
Non-current hedging derivatives	-1	-1
Current financial assets	**-3.797**	**-3.657**
Securities other than investments	-863	-738
Financial receivables and other current financial assets	-1.538	-195
Cash and cash equivalents	-1.396	-2.724
Net financial debt as per ESMA	**-580**	**-77**
Non-current financial assets	**-2.292**	**-2.402**
Securities other than investments	-	-
Other financial receivables and other non-current financial assets	-2.292	-2.402
Net financial debt [*]	**-2.872**	**-2.479**

[*] 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			
	31/12/2017	Receipts and/or issues	Payments and/or reimbursements	Differences exchange rates	Fair value changes	Other changes	31/12/2018
Financial payables (medium/long-term):	**2.442**	**39**	**- 780**	**- 78**	**-**	**- 2**	**1.621**
Bonds	1.085	-	-	-	-	-	1.085
Amounts due to banks	1.182	39	-780	-87	-	21	375
Other financial payables	175	-	-	9	-	-23	161
of which short-term portion	*425*	-	*-780*	*-25*	-	*613*	*233*
Finance lease liabilities (medium/long-term):	**406**	**-**	**-**	**-41**	**-**	**-32**	**333**
of which short-term portion	*22*	-	-	*-3*	-	*22*	*41*
Other financial liabilities (medium/long-term):	**646**	**-**	**-**	**-77**	**-19**	**-5**	**545**
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	-	-	-	-	-	-	-
Non-hedging derivatives	646	-	-	-77	-19	-5	545
of which short-term portion	*111*	-	-	*-94*	*5*	*-5*	*17*
Financial payables (short-term):	**129**	**1.864**	**-1.237**	**-**	**-**	**-**	756
Amounts due to banks	122	1.793	-1.204	-	-	-	711
Other financial payables	7	71	-33	-	-	-	45
Total financial liabilities (gross financial debt)	**3.623**	**1.903**	**-2.017**	**- 196**	**- 19**	**- 39**	**3.255**
Positive hedging derivatives (current and non-current)	1	-	-	-	-	-	1
Positive non-hedging derivatives (current and non-current)	713	-	-	-76	-20	-3	614
Total	**4.337**	**1.903**	**-2.017**	**-272**	**-39**	**-42**	**3.870**

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 TIM Group level, of guidelines for directing operations;
- the work of a TIM 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.
At TIM Group level is set an optimum composition for the fixed-rate and variable-rate debt structure and it has been decided the use of 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, 2018;
- the changes in value of fixed-rate financial instruments, other than derivatives, produced by changes in the reference interest rates, generate an impact on profit only when, in accordance with IAS 39 and IFRS 9, they are accounted for at their fair value through profit and loss. All fixed-rate instruments, which are accounted for at amortized cost, are not subject to interest rate risk as defined by IFRS 7;
- in the case of fair value hedge relationships, fair value changes of the underlying hedged item and of the derivative instrument, due to changes in the reference interest rates, offset each other almost entirely in the income statement for the year. As a result, these financial instruments are not exposed to interest rate risk. The Group has not applied fair value hedge accounting for the year ended 31 December 2018;

- 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.

<u>Exchange rate risk – Sensitivity analysis</u>
At December 31, 2018 (and also at December 31, 2017), the exchange rate risk of the Group's loans denominated in currencies other than the functional currency of the Consolidated Financial Statements was hedged in full. Accordingly, a sensitivity analysis was not performed on exchange risk.

<u>Interest rate risk – Sensitivity analysis</u>
The change in interest rates on the variable component of payables and liquidity may lead to higher or lower finance income and expenses, while the changes in the level of the expected interest rate affect the fair value measurement of the Group's derivatives. In particular:

- with regard to derivatives that convert the liabilities contracted by the Group to fixed rates (cash flow hedging), in line with international accounting standards that regulate hedge accounting, the fair value (mark-to-market) measurement of such instruments is set aside in a specific unavailable Equity reserve. The combined change of the numerous market variables to which the mark-to-market calculation is subject between the transaction inception date and the measurement date renders any assumption about the trend of the variables of little significance. As the contract expiration date approaches, the accounting effects described will gradually be absorbed until they cease to exist;
- if at December 31, 2018 the interest rates in the various markets in which the 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 17 million euros (1 million euros at December 31, 2017).

<u>Credit risk</u>
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. To measure this risk over time for impairment of financial assets (trade receivables due from customers included), the introduction of IFRS 9 required switching from the incurred loss model pursuant to IAS 39 to the expected credit loss model. Such exposure mainly stems from general economic and financial factors, the potential occurrence of specific insolvency situations of some borrowers and other more strictly technical-commercial or administrative factors.
The Group's maximum theoretical exposure to credit risk is represented by the carrying amount of the financial assets and trade receivables recorded in the financial statements.
Risk related to trade receivables is managed using customer scoring and analysis systems. For specific categories of trade receivables, the Group also makes use of factoring, mainly on a "non-recourse" basis. Provision charges for bad debts are recorded for specific credit positions that have an element of individual risk. On credit positions that do not have such characteristics, provision charges are recorded by customer segment according to the average uncollectibility estimated on the basis of statistics. Further details are provided in the Note "Trade and miscellaneous receivables and other current assets".
Financial assets other than trade receivables are written down for impairment on the basis of a general model which estimates expected credit losses over the following 12 months, or over the residual life of the asset in the event of a substantial increase in its credit risk. The expected credit loss is calculated based on the default probability and the percentage of credit that cannot be recovered in the event of a default (the loss given default).
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, 2018, together with unused committed bank lines, are sufficient to fully cover the Group's financial liabilities due at least for the next 24 months.

The following tables report the contractual cash flows, not discounted to present value, relative to gross financial debt at nominal repayment amounts and the interest flows, determined using the terms and the interest and exchange rates in place at December 31, 2018. The portions of principal and interest of the hedged liabilities includes both the disbursements and the receipts of the relative hedging derivatives.

Financial liabilities – Maturities of contractually expected disbursements as at December 31, 2018:

	maturing by 31/12 of the year:						
(million euros)	2019	2020	2021	2022	2023	After 2023	Total
Bonds							
Principal	-	-	-	-	-	1.015	1.015
Interest Portion	79	79	79	79	79	787	1.182
Loans and other financial liabilities							
Principal	157	77	66	45	7	181	533
Interest Portion	57	40	27	20	12	46	202
Finance lease liabilities							
Principal	3	2	1	1	2	385	394
Interest Portion	45	44	43	42	40	275	489
Non-current financial liabilities							
Principal	**160**	**79**	**67**	**46**	**9**	**1.581**	**1.942**
Interest Portion	**181**	**163**	**149**	**141**	**131**	**1.108**	**1.873**
Current financial liabilities							
Principal	**756**	**-**	**-**	**-**	**-**	**-**	**756**
Interest Portion	**3**	**-**	**-**	**-**	**-**	**-**	**3**
Total Financial liabilities							
Principal	**916**	**79**	**67**	**46**	**9**	**1.581**	**2.698**
Interest Portion	**184**	**163**	**149**	**141**	**131**	**1.108**	**1.876**

Derivatives on financial liabilities – Contractually expected interest flows as at December 31, 2018:

	maturing by 31/12 of the year:						
(million euros)	2019	2020	2021	2022	2023	After 2023	Total
Disbursements	1	1	1	1	1	6	11
Receipts	-1	-1	-1	-1	-1	-7	- 12
Hedging derivatives – net (receipts) disbursements	**-**	**-**	**-**	**-**	**-**	**-1**	**-1**
Disbursements	160	147	137	135	127	1.075	1.781
Receipts	-139	-132	-130	-130	-126	-1.094	-1.751
Non-Hedging derivatives – net (receipts) disbursements	**21**	**15**	**7**	**5**	**1**	**-19**	**30**
Total net receipts (disbursements)	**21**	**15**	**7**	**5**	**1**	**-20**	**29**

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

The hedge accounting rules provided by IAS 39 continued to be applied for 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, 2018 are principally used to manage debt positions. They include interest rate swaps (IRSs) to reduce interest rate exposure on fixed-rate and variable-rate bank loans and bonds, as well as cross currency and interest rate swaps (CCIRSs), currency forwards and foreign exchange options to convert the loans/receivables secured in currencies different from the functional currencies of the various Group companies.
IRS transactions provide for or may entail, at specified maturity dates, the exchange of flows of interest, calculated on the notional amount, at the agreed fixed or variable rates.
The same also applies to CCIRS transactions which, in addition to the settlement of periodic interest flows, may provide for the exchange of principal, in the respective currencies of denomination, at maturity and possibly spot.

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 3.014 million euros (3.588 at December 31, 2017).
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, 2018 and 2017, by type:

Type (million euros)	Hedged risk	Notional amount at 31/12/2018	Notional amount at 31/12/2017	Spot Mark-to-Market (Clean Price) at 31/12/2018	Spot Mark-to-Market (Clean Price) at 31/12/2017
Cross Currency and Interest Rate Swap [*]	Interest rate risk and currency exchange rate risk	139	139	1	1
Total Cash Flow Hedge Derivative [**]		**139**	**139**	**1**	**1**
Total Non-Hedge Accounting Derivatives [***]		**3.397**	**3.941**	**68**	**63**
Total Telecom Italia Finance Group Derivatives		**3.536**	**4.080**	**69**	**64**

[*] For this instrument 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, 2018 led to recognition in equity of unrealized gains of 1 million euros (1 million euros as at December 31, 2017).

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-19	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 material ineffective portion has been recognized in the income statement from designated cash flow hedge derivatives during 2018.

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, for the bond included in non-current financial liabilities, the fair value is directly observable in the financial markets, as it is a financial instrument that, due to its size and diffusion among investors, is commonly traded on the relevant markets (see the Note "Financial Liabilities (non-current and current)"). For other types of financing, the fair value has been assumed to be equal to nominal repayment amount. 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 or loans towards Ultimate Parent Company.

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 tables below provide additional information on the financial instruments, including the hierarchy level for each class of financial asset/liability measured at fair value at December 31, 2018.
The assets and liabilities at December 31, 2018 are presented based on the categories established by IFRS 9 (adopted commencing on January 1, 2018).

Key for IFRS 9 categories

	Acronym
Financial assets measured at:	
Amortized Cost	AC
Fair Value Through Other Comprehensive Income	FVTOCI
Fair Value Through Profit or Loss	FVTPL
Financial liabilities measured at:	
Amortized Cost	AC
Fair Value Through Profit or Loss	FVTPL
Hedge Derivatives	HD
Not applicable	n/a

Classification and fair value hierarchy of financial instruments measured at fair value as at December 31, 2018:

(millions of euros)	IFRS 9 Categories	Note	Value at 31/12/2018	Levels of hierarchy Level1	Level2
ASSETS					
Non-current assets					
Other investments	FVTOCI	[7]	61	61	-
Securities, financial receivables and other non-current financial assets:					
Hedging derivatives	HD[*]	[8]	1	-	1
Non-hedging derivatives	FVTPL	[8]	584	-	584
(a)			**646**	**61**	**585**
Current assets					
Securities other than investments, measured at:					
Fair value through other comprehensive income	FVTOCI	[8]	683	683	-
Fair value through profit or loss	FVTPL	[8]	180	180	-
Financial receivables and other current financial assets:					
Non-hedging derivatives	FVTPL	[8]	30	-	30
(b)			**893**	**863**	**30**
Total (a+b)			**1.539**	**924**	**615**
LIABILITIES					
Non-current liabilities					
Non-hedging derivatives	FVTPL	[14]	527	-	527
(c)			**527**	**-**	**527**
Current liabilities					
Non-hedging derivatives	FVTPL	[14]	17	-	17
(d)			**17**	**-**	**17**
Total (c+d)			**544**	**-**	**544**

[*] Derivative measured at fair value through other comprehensive income.

Carrying amount and fair value of financial instruments not measured at fair value as at December 31, 2018:

(millions of euros)	IFRS 9 Categories	Note	Value at 31/12/2018	Fair Value at 31/12/2018
ASSETS				
Non-current assets				
Other financial receivables	AC	[8]	1.707	1.707
Miscellaneous receivables	AC	[9]	315	315
Financial receivables for lease contracts	n/a	[8]	37	37
(a)			**2.059**	**2.059**
Current assets				
Other short-term financial receivables	AC	[8]	1.508	1.508
Cash and cash equivalents	AC	[8]	1.396	1.396
Trade and miscellaneous receivables	AC	[12]	672	672
(b)			**3.576**	**3.576**
Total (a+b)			**5.635**	**5.635**
LIABILITIES				
Non-current liabilities				
Financial payables	AC	[14]	1.388	1.649
Finance lease liabilities	n/a	[14]	290	290
(c)			**1.678**	**1.939**
Current liabilities				
Financial payables	AC	[14]	991	991
Trade and miscellaneous payables and other current liabilities	AC	[21]	1.250	1.250
Finance lease liabilities	n/a	[14]	42	42
(d)			**2.283**	**2.283**
Total (c+d)			**3.961**	**4.222**

Gains and losses by IFRS 9 category - Year 2018

(million euros)	IFRS 9 Categories	Net gains/(losses) 31/12/2018	of which interest
Amortized Cost	AC	100	-18
Fair Value Through Profit or Loss	FVTPL	4	-
Fair Value Through Other Comprehensive Income	FVTOCI	16	-
Total		**120**	**- 18**

The assets and liabilities at December 31, 2017 are presented based on the categories established in IAS 39.

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	Level 1	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	Level 1	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**

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**

Note 19 - Provisions

(million euros)	31/12/2017	Increase	Taken to income	Used directly	Exchange differences and other changes	31/12/2018
Provision for taxation and tax risks	**49**	23	-	-14	7	**65**
Provision for restoration costs	**5**	-	-	-	1	**6**
Provision for legal disputes	**88**	139	-	-85	-12	**130**
Other provisions	**2**	-	-	-	-	**2**
Total	**144**	**162**	**-**	**-99**	**-4**	**203**
of which:						
non-current portion	**122**	158	-	-89	-2	**189**
current portion	**22**	4	-	-11	-1	**14**

(millions of 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**

Provision for taxation and tax risks. The figure at December 31, 2018 mainly related to companies in the Brazil Business Unit (61 million euros *vs.* 46 million euros at December 31, 2017).

Provision for restoration costs relates to the provision for the estimated cost of dismantling tangible assets – in particular: batteries, wooden poles and equipment – and for the restoration of the sites used for mobile telephony by companies belonging to the Brazil Business Unit (6 million euros at December 31, 2018 vs. 5 million euros at December 31, 2017).

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 85 million euros and resulted from settlement agreements reached.

Note 20 - Miscellaneous payables and other non-current liabilities

(million euros)	31/12/2018	31/12/2017
Deferred revenues from customer contracts (Contract liabilities) [*]	1	*n/a*
Other deferred income	203	250
Income tax payables	42	45
Other	13	15
Total	**259**	**310**

[*] This account derives from the application of IFRS 15.

Contract liabilities, totaling 1 million euros, refers to non-current portion of deferred revenues from contracts with customers and deferred revenues for activation and installation fees charged on new customer contracts. Under previous accounting policies, revenues for activation and installation were deferred over the expected duration of the customer relationship and recognized in deferred income. IFRS 15 instead requires that such revenues – given that they are not allocated to separate performance obligations – are allocated to other contract obligations and recognized throughout the period of performance of the contract.

Other deferred income includes the non-current portion of approximately 190 million euros in 2018 (226 million euros as at December 31, 2017) 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)	31/12/2018	Of which Financial Instruments	31/12/2017	Of which Financial Instruments
Trade payables	**1.072**	**1.072**	**1.109**	**1.109**
Payables to suppliers	1.036	1.036	1.044	1.044
Payables to other telecommunication operators	36	36	65	65
Tax payables	**139**	**139**	**87**	**87**
Miscellaneous payables	**99**	**35**	**109**	**19**
Payables for employee compensation	34	-	51	-
Payables to social security agencies	12	-	12	-
Payables for TLC operating fee	4	-	5	-
Dividends approved, but not yet paid to shareholders	35	35	19	19
Provisions for risks and charges for the current portion expected to be settled within 1 year	14	-	22	-
Other current liabilities	**92**	**4**	**123**	-
Deferred revenues from customer contracts (Contract liabilities) [*]	8	4	*n/a*	*n/a*
Customer-related items	64	-	98	-
Other deferred income	20	-	23	-
Advances received	-	-	1	-
Other current liabilities	-	-	1	-
Total	**1.402**	**1.250**	**1.428**	**1.215**

[*] This account derives from the application of IFRS 15.

Trade payables amounting to 1.072 million euros as at December 31, 2018 (1.109 million euros at December 31, 2017) are mainly referred to the Brazil Business Unit (1.068 million of euros).

Tax payables amounting to 139 million euros as at December 31, 2018 are referred to the Brazil Business Unit (87 million euros at December 31, 2017).

Contract liabilities, totaling 8 million euros, refers to current portion of deferred revenues from contracts with customers and deferred revenues for activation and installation fees charged on new customer contracts. Under previous accounting policies, revenues for activation and installation were deferred over the expected duration of the customer relationship and recognized in deferred income. IFRS 15 instead requires that such revenues – given that they are not allocated to separate performance obligations – are allocated to other contract obligations and recognized throughout the period of performance of the contract.

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

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, 2018, 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 2018, 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 16,5 billion reais (around 3,8 billion euros). The main types of litigation are listed below, classified according to the tax to which they refer.

Federal taxes

On March 22, 2011 TIM Celular S.A. (company incorporated into TIM S.A. starting from October 31, 2018) was served notice of a tax assessment issued by the Federal Tax Authorities of Brazil for a total sum of 1.265 million reais (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 concerning financial years 2006, 2007, 2008 and 2009 for the companies TIM Nordeste Telecomunicações S.A. and TIM Nordeste S.A (formerly Maxitel), companies which have been progressively incorporated into TIM Celular with the aim of rationalising the corporate structure in Brazil.

The assessment notice includes various adjustments; the main challenges may be summarised as follows:

- non-recognition of the tax effects of the merger of TIM Nordeste Telecomunicações S.A. and Maxitel S.A.;
- non-recognition of the tax deductibility of the write-down of goodwill relating to the purchase of Tele Nordeste Celular Participações S.A. ("TNC");
- non-recognition of certain tax offsets;
- denial of the SUDENE regional tax benefit, due to alleged irregularities in the management and reporting of the benefit itself.

The adjustments included in the assessment notice were disputed by TIM Celular, in administrative court, with the filing of its first objections on April 20, 2011. On April 20, 2012, TIM Celular received notification of the decision of the administrative court of first instance which confirmed the findings set out in the assessment notice; TIM Celular promptly filed an appeal against this decision on May 21, 2012.

The Company, as confirmed by specific legal opinions, believes it is unlikely that significant disbursements can be expected.

Still in relation to the federal level of taxation, the following additional disputed should also be noted:

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

Overall, the risk for these cases, considered to be possible, amounts to 4 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 due to discounts granted to customers, as well as challenges regarding the use of tax credits declared by group companies, with respect to the return of loaned telephone handset, and following the detection of contract frauds to the detriment of the companies;
- subjection of some fees owed to group companies and classified by them as fees for services other than telecommunications to ICM;
- challenges over the use of the "PRO-DF" tax benefit originally granted by some States, and subsequently declared unconstitutional (the challenge refers to the actual credit due to ICMS, declared by the TIM Cellular on the basis of the aforementioned tax benefits);
- challenges relating to the use of ICMS credits, claimed by Group Companies as a result of the acquisition of tangible assets, and in relation to the supply of electricity to the Companies, as well as in application of the provisions on acting as a withholding agent;
- fines imposed on group companies for irregularities in tax return compliance.

In February 2018 the State of São Paulo notified two tax assessments regarding ICMS to TIM Celular, for a total amount of 679 million reais (around 158 million euros, at the date of the assessment, including fines and interest). The first assessment (344 million reais or 80 million euros) regarded a challenge of ICMS credits in relation to acting as a withholding agent, applicable when equipment is bought and distributed in different States. The second assessment (335 million reais or 78 million euros) challenged ICMS credits deriving from the "special credit" recognized by the company to its prepaid customers, against subsequent top-ups.

In June 2018 the State of São Paulo notified two further tax assessments to TIM Celular, again relating to ICMS, for a total amount of 369 million reais (86 million euros, at the date of the assessment, including fines and interest). This assessment too relates to ICMS credits deriving from the "special credit" recognized by the company to its prepaid customers against subsequent top-ups, as well as to the fines imposed for ICMS breaches. For a minor part of the claim, the company decided to authorize payment of the amount requested, instead of starting legal proceedings, benefiting from a discount on the fine. The dispute thus continues for the remaining amount, 296 million reais (around 69 million euros).

Overall, the risk for these cases, considered to be possible, amounts to 8,9 billion reais (about 2,0 billion euros).

Municipal taxes
Among disputes classified with a "possible" degree of risk, there are some relating to municipal taxes for a total amounting to around 0,7 billion reais (about 0,2 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 whether or not interconnection revenues should be subject to these contributions.
Overall, the risk for these cases, considered to be possible, amounts to 2,9 billion reais (around 0,7 billion euros).

Exclusion of ICMS from the PIS/COFINS tax base
In March 2017, the Supreme Federal Court of Brazil recognized the inclusion of ICMS in the calculation of the PIS/COFINS contribution as unconstitutional. TIM Participações, through its subsidiary company TIM S.A. (previously named “Intelig Telecomunicações Ltda”), as the incorporating company of TIM Celular S.A., as well as other companies belonging - in the past - to the Tim Brasil Group, that submitted applications of the same nature, has been involved in legal proceedings since 2007 and 2006, respectively, requesting reimbursements related to the allowed previous five years, and therefore with effect from 2002 and 2001, respectively.
Taking into account the ruling of the aforementioned Supreme Court, in favor of taxpayers, the Company - with the approval of its legal advisors - decided not to include ICMS when calculating the PIS/COFINS contribution, beginning in April of 2017.
For some of these proceedings, the Court of Appeal has already given a favorable decision, in line with that of the Supreme Court, and the appeals presented by the tax authorities were rejected, on the basis of the same arguments. Despite the tax authorities representative's request to limit the retroactive nature of the decisions, the Company - again with the approval of its legal advisors, believes that the decisions will not affect the rights claimed through legal proceedings.
The Company has estimated that at the end of the proceedings - after the definitive rulings and completion of consequential activities - the receivables would amount to approximately 3,3 billion reais (around 0,8 billion euros), of which 1,9 billion reais from tax (about 0,4 billion euros), and 1,4 billion reais from legal revaluation (around 0,3 billion euros). Moreover, in respect of this potential tax credit, in the course of 2018, following a definitive and indisputable decision, the Company recognized a receivable of to 353 million reais (about 82 million 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 plaintiff’s allegations, the damages relate to circumstances that emerged in the criminal proceedings pending before the Milan Court regarding, inter alia, unlawful activities engaged in by former employees of TIM. The investigatory phase having been completed, the hearing for oral discussion took place in November 2014, after which the parties filed their concluding arguments in preparation for the decision on the case. In September 2015, the Board of Arbitration declared the proceedings closed, as the award was going to be filed. Subsequently, the Board of Arbitration allowed the parties to exchange short arguments and the ICC Court extended the term for the filing of the award. In September 2016 the ICC Court notified the parties of its judgment, based on which the Board of Arbitration rejected all the claims made by the Opportunity group and decided that the legal costs, administrative costs and costs for expert witnesses should be split between the parties. In April 2017 the Opportunity group filed an appeal against the arbitration award before the Paris Court of Appeal. In November 2017, TIM and Telecom Italia Finance received from the Secretariat of the ICC’s International Court of Arbitration notice of a Request for Revision of the arbitration finding, filed by the Opportunity group, asking for a new ruling. A Board of Arbitration was subsequently established. In October 2018, TIM and Telecom Italia Finance requested proceedings with the Paris Court of Appeal to be suspended, in the light of proceedings pending with the Court of Arbitration of the International Chamber of Commerce to review the same arbitration award. In November 2018, the Paris Court of Appeal suspended the proceedings until the decision is taken by the Court of Arbitration in the review proceedings.

Brazil – CAM JVCO Arbitration
In September 2015, JVCO Participações Ltda filed an application for arbitration with the Camara de Arbitragem do Mercado (CAM) in Rio de Janeiro against TIM, Telecom Italia International, (now merged with Telecom Italia Finance-TIF), Tim Brasil Serviços e Participações S.A. and Tim Participações S.A. claiming compensation for damages arising from an alleged abuse of power of control over Tim Participações. In October 2015, all the summoned companies filed petitions and Tim Participações requested a ruling against JVCO for abuse of conduct in a capacity as shareholder with non-controlling interest. Subsequently, the arbitration board was established and in May 2016 a preliminary hearing took place, when the Terms of Reference were signed. After the hearing, the Court of Arbitration issued a procedural order upholding the appeal made by the Group for a preliminary

examination of the matter of JVCO's capacity to sue and setting a temporary schedule for arbitration. In June, the parties exchanged briefs and in their defense statements, TIM, Telecom Italia International, Tim Brasil Serviços e Participações S.A. and Tim Participações S.A. appealed against the other party's capacity to sue, Tim Participações's capacity to be sued, and challenged the existence of the abuse of power. In July 2016, the parties filed their replies. On October 19, 2016 the Court of Arbitration issued a procedural order on the preliminary issue of the capacity of the parties to appear in court, affirming JVCO's capacity to sue and Tim Participações's capacity to be sued, establishing the dates for subsequent replies of the parties. On November 21 and December 19, 2016, the parties filed additional replies. On January 31, 2017 the Court of Arbitration issued a procedural order on matters concerning proceedings, recapitulating the aspects contended and arranging for the preliminary investigation. The parties indicated the types of evidence they intended to submit; the Court of Arbitration then set the dates for hearings. In June 2017, hearings were held in Rio De Janeiro and further documents were filed and briefs exchanged. In March 2018, the closing briefs of all parties in the proceedings were filed. On July 23, 2018, the Court of Arbitration issued its final award in which it rejected all requests from JVCO as well as the counterclaim made by Tim Participações, and ruled that JVCO had committed abuse of power in its capacity as shareholder with non-controlling interest. It also ordered JVCO to pay 90% of arbitration fees (with TIM, TIF, Tim Brasil Serviços e Participações S.A. and Tim Participações S.A. paying the remaining 10%), and the parties to pay other legal fees directly to the defense teams of the counterparties.

COMMITMENTS AND GUARANTEES

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

(million euros)	31/12/2018	31/12/2017
Guarantee on bonds and other debts issued by the Group	1.174	1.163
Guarantee on derivatives financial instruments	178	204
Total	**1.352**	**1.367**

There are also surety bonds on the telecommunication services in Brazil for 244 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 (now merged in TIM S.A.) for a total equivalent amount of 267 million euros are covered by specific covenants. In the event of non-compliance with the covenant obligations, BNDES will have a right to the receipts which transit on the bank accounts of the company.

Note 23 - Revenues

(million euros)	Year 2018	Year 2017
Equipment sales	180	211
Services	3.763	4.291
Total	**3.943**	**4.502**

Revenues from telecommunications services are presented gross of amounts due to other TLC operators, equal to 194 million euros in 2018 (265 million euros in 2017, -26,6% change), included in the costs of services.

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

Note 24 - Other income

(million euros)	Year 2018	Year 2017
Late payment fees charged for telephone services	10	12
Other income	59	40
Total	**69**	**52**

Other income includes 37 million euros connected to the Brazil Business Unit tax recovery following the favourable outcome of the tax dispute relative to the unconstitutional grounds of the law that entailed the inclusion of ICMS indirect tax in the base for calculating taxes on PIS and COFINS revenues.

Note 25 - Acquisition of goods and services

(million euros)	Year 2018	Year 2017
Acquisition of raw materials and merchandise	**225**	**235**
Costs of services	**1.274**	**1.410**
Revenues due to other TLC operators	194	265
Commissions, sales commissions and other selling expenses	444	522
Advertising and promotion expenses	97	113
Professional and consulting services	101	115
Utilities	77	102
Maintenance	56	65
Outsourcing costs for other services	94	107
Mailing and delivery expenses for telephone bills, directories and other materials to customers	91	51
Other service expenses	120	70
Lease and rental costs	**353**	**525**
Rent and leases	212	314
TLC circuit lease rents and rents for use of satellite systems	129	211
Other lease and rental costs	12	-
Total	**1.852**	**2.170**

Note 26 - Employee benefits expenses

(million euros)	Year 2018	Year 2017
Wages and salaries	201	238
Social security expenses	64	64
Other employee benefits	53	53
Total	**318**	**355**

The employee benefits expenses are mainly related to the Brazil Business Unit for 317 million euros (353 million euros in 2017).

Note 27 - Other operating expenses

(million euros)	Year 2018	Year 2017
Write-downs and expenses in connection with credit management	127	88
Provision charges	81	73
TLC operating fees and charges	238	301
Indirect duties and taxes	8	7
Penalties, settlement compensation and administrative fines	22	14
Association dues and fees, donations, scholarships and traineeships	2	2
Sundry expenses	18	19
Total	**496**	**504**
of which, included in the supplementary disclosure on financial instruments	*127*	*88*

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

Note 28 - Internally generated assets

(million euros)	Year 2018	Year 2017
Intangible assets with a finite useful life	25	29
Tangible assets owned	70	79
Total	**95**	**108**

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 2018	Year 2017
Amortization of intangible assets with a finite useful life	**394**	**506**
Industrial patents and intellectual property rights	305	380
Concessions, licenses, trademarks and similar rights	87	121
Other intangible assets	2	5
Depreciation of tangible assets owned	**505**	**586**
Buildings (civil and industrial)	1	2
Plant and equipment	449	521
Other	55	63
Depreciation of tangible assets held under finance leases	**16**	**21**
Plant and equipment	16	21
Total	**915**	**1.113**

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 2018	Year 2017
Gains on disposals of non-current assets	**12**	**14**
Gains on the retirement/disposal of intangible and tangible assets	12	14
Total	**12**	**14**

In 2018, the item posted a positive 12 million euros, connected with the ordinary asset renewal process.

Note 31 - Finance income and expenses

FINANCE INCOME

(million euros)	Year 2018	Year 2017
Interest income and other finance income	**378**	**586**
Income from financial receivables, recorded in non-current assets	86	96
Income from securities other than investments, recorded in non-current assets	3	8
Income from securities other than investments, recorded in current assets	5	7
Income other than the above:		
Interest income	44	124
Exchange gains	40	139
Reversal of the Reserve for cash flow hedge derivatives to the income statement (interest rate component)	1	3
Income from non-hedging derivatives	150	185
Miscellaneous finance income	49	24
Positive fair value adjustments to non-hedging derivatives	**110**	**214**
Positive adjustments and reversal for impairment on financial assets	**4**	**-**
Total	**492**	**800**

FINANCE EXPENSES

(million euros)	Year 2018	Year 2017
Interest expenses and other finance expenses	**505**	**684**
Interest expenses and other costs relating to bonds	3	11
Interest expenses to banks	22	56
Interest expenses to others	152	173
Expenses other than the above:		
Commissions	13	23
Exchange losses	41	114
Reversal of the Reserve for cash flow hedge derivatives to the income statement (interest rate component)	1	2
Charges from non-hedging derivatives	149	191
Miscellaneous finance expenses	124	114
Negative fair value adjustments to non-hedging derivatives	**109**	**253**
Negative adjustments for impairment on financial assets	**12**	**-**
Total	**626**	**937**

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

(million euros)	Year 2018	Year 2017
Exchange gains	40	139
Exchange losses	-41	-114
Net exchange gains and losses	**-1**	**25**
Positive Reversal of the Reserve for cash flow hedge derivatives	1	3
Negative Reversal of the Reserve for cash flow hedge derivatives	-1	-2
Net effect of the Reversal of the Reserve of cash flow hedge derivatives to the income statement (interest rate component)	**0**	**1**
Income from non-hedging derivatives	150	185
Charges from non-hedging derivatives	-149	-191
Net result from non-hedging derivatives	**1**	**-6**
Net result from derivatives	**1**	**-5**
Positive fair value to non-hedging derivatives	110	214
Negative fair value adjustments to non-hedging derivatives	-108	-253
Net fair value adjustments to non-hedging derivatives	**2**	**-39**

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 2018	Year 2017	Year 2018	Year 2017	Year 2018	Year 2017
Third-party revenues	3.943	4.502	-	-	3.943	4.502
Revenues by operating segment	**3.943**	**4.502**	**-**	**-**	**3.943**	**4.502**
Other income	69	52	-	-	69	52
Total operating revenues and other income	**4.012**	**4.554**	**-**	**-**	**4.012**	**4.554**
Acquisition of goods and services	-1.847	-2.168	-5	-3	-1.852	-2.171
Employee benefits expenses	-317	-353	-1	-1	-318	-354
Other operating expenses	-492	-500	-4	-4	-496	-504
of which: write-downs and expenses in connection with credit management and provision charges	*-208*	*-161*	*-*	*-*	*-208*	*-161*
Change in inventories	14	-6	-	-	14	-6
Internally generated assets	95	108	-	-	95	108
EBITDA	**1.465**	**1.635**	**-10**	**-8**	**1.455**	**1.627**
Depreciation and amortization	-915	-1.113	-	-	-915	-1.113
Gains/(losses) on disposals of non-current assets	12	14	-	-	12	14
EBIT	**562**	**536**	**-10**	**-8**	**552**	**528**
Other income (expenses) from investments					-	-23
Finance income					492	800
Finance expenses					-626	-937
Profit (loss) before tax					**418**	**368**
Income tax income (expense)					133	-61
Profit (loss) for the year					**551**	**307**
Attributable to:						
Owners of the Parent					351	198
Non-controlling interests					200	109

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	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Non-current operating assets	6.037	6.769	1	1	6.038	6.770
Current operating assets	769	898	43	1	812	899
Total operating assets	**6.806**	**7.667**	**44**	**2**	**6.850**	**7.669**
Unallocated assets					6.504	6.263
Total Assets					**13.354**	**13.932**
Total operating liabilities	**1.841**	**1.855**	**10**	**6**	**1.851**	**1.861**
Unallocated liabilities					3.297	3.702
Equity					8.206	8.369
Total Equity and Liabilities					**13.354**	**13.932**

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 2018 and 2017 are as follows:

Separate Consolidated Income Statement line items 2018

(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	**3.943**	-	2	-	-	2	0,0
Other income	**69**	-	-	-	-	-	0,0
Acquisition of goods and services	**1.852**	-	98	-	-	98	5,3
Employee benefits expenses	**318**	-	-	4	4	-	2,2
Other operating expenses	**496**	-	-	-	-	-	0,0
Finance income	**492**	-	181	-	-	181	36,9
Finance expenses	**626**	-	163	-	-	163	26,1

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

The effects on the individual line items of the consolidated statements of financial position at December 31, 2018 and 2017 are as follows:

Consolidated Statement of Financial Position line items at 31/12/2018

(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	**-2.872**	**-**	**-3.665**	**-**	**-3.665**	**0,0**
Non-current financial assets	**-2.329**	**-**	**-1.936**	**-**	**-1.936**	**83,1**
Current financial assets	**-3.798**	**-**	**-2.135**	**-**	**-2.135**	**56,2**
Securities other than investments (current assets)	**-864**	-	-	-	0	**0,0**
Financial receivables and other current financial assets	**-1.538**	-	-1.515	-	-1.515	98,5
Cash and cash equivalents	**-1.396**	-	-620	-	-620	44,4
Non-current financial liabilities	**2.205**	**-**	**350**	**-**	**350**	**15,9**
Current financial liabilities	**1.050**	**-**	**56**	**-**	**56**	**5,4**
Other statement of financial position line items						
Trade and miscellaneous receivables and other current assets	**833**	-	18	-	18	2,2
Miscellaneous payables and other non-current liabilities	**259**	-	-	-	-	0,0
Trade and miscellaneous payables and other current liabilities	**1.402**	-	39	-	39	2,8

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

TRANSACTIONS WITH PENSION FUNDS

The most significant amounts are summarized as follows:

Separate Consolidated Income Statement line items

(million euros)	Year 2018	Year 2017	Type of contract
Other pension funds	4	-3	Contributions to pension funds
Total employee benefits expenses	**4**	**-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 2018 amounted to 4 million euros (3 million euros in 2017).

Note 34 - Equity compensation plans

Equity compensation plans in place at December 31, 2018 are used for retention purposes and to offer long-term incentives to Group managers and personnel. A summary is provided below of the plans in place at December 31, 2018.

DESCRIPTION OF STOCK OPTION PLANS

TIM 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 (33% the first year, 66% the second year and the balance in the third year), the options are valid for 6 years, and the company does not have the legal obligation to repurchase or liquidate the options in cash, or in any other form.

- 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. The exercise period expired in September 2018; the 194.756 pending options were canceled and so the plan was closed.
- Year 2013
  On July 30, 2013, the grantees of the options were granted the right to purchase a total of 3.072.418 shares. As at December 31, 2018 all pending options were vested, and 543.583 options were still valid.

• 2014-2016 Plan

On April 10, 2014, the General Meeting of Shareholders of Tim Participações S.A. approved the long-term incentive plan for managers in key positions in the company and its subsidiaries. Exercise of the options is not subject to the achievement of specific performance targets, but the exercise price is adjusted upwards or downwards according to the performance of the Tim Participações S.A. shares in a ranking of Total Shareholder Return, in which companies in the Telecommunications, Information Technology and Media industry are compared during each year of validity of the plan. If the performance of the Tim Participações S.A. shares, in the 30 days prior to September 29 of each year, is in last place in that ranking, the participant loses the right to 25% of the options vesting at that time. The vesting period is 3 years (a third per year), the options are valid for 6 years, and the company does not have the legal obligation to repurchase or liquidate the options in cash, or in any other form.

- Year 2014
  On September 29, 2014, the grantees of the options were granted the right to purchase a total of 1.687.686 shares. At the end of December 2018, 531.972 options were still valid.
- Year 2015
  On October 16, 2015, the grantees of the options were granted the right to purchase a total of 3.355.229 shares. In 2018, 656.268 options were exercised and 291.949 expired due to terminations. The first wave exercised was valued at 8,7341 reais, up 3,33% based on the position in the ranking of benchmarked companies. In the second wave, options were exercised at a price of 8,4625 reais, thanks to the improvement in the above ranking. In the last wave, options were exercised at a price of 7,6074 reais, with a 10% discount based on the position in the ranking of benchmarked Companies. At the end of December 2018, 292.523 options were still valid.
- 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 2018, 510.884 options were exercised at a price of 7,6928 reais, due to the 5% readjustment of the price as a result of being ranked first in the list of benchmarked companies. At the same time, 1.277.878 options expired due to terminations. The first wave exercised was valued at 7,6928 reais, discounted 5% based on the position in the ranking of benchmarked companies. In the second wave, options were exercised at a price of 7.2879 reais, with a 10% discount based on the position in the ranking of benchmarked Companies. At the end of December 2018, 895.522 options were still valid.

• 2018-2020 Plan

On April 19, 2018, the General Meeting of Shareholders of Tim Participações S.A. approved the long-term incentive plan for managers in key positions in the company and its subsidiaries. The plan aims to remunerate participants with shares issued by the company, subject to specific temporal and/or performance conditions (upon reaching specific targets). The 2018-2020 Plan does not cover criteria for setting the purchase or exercise price because the shares are granted at market value. The vesting period is 3 years (a third per year) and the company does not have the legal obligation to repurchase or liquidate the shares in cash or in any other form. The portion of shares linked to performance (70%) is granted 1/3 each year, if the performance target is achieved; the remaining portion of shares (30%) is granted 3 years after allocation. The plan allows for the shares to be transferred and also allows for payment to be made in the equivalent cash value.

- Year 2018
  On April 20, 2018, the grantees were granted the right to obtain a total of 849.932 shares. As at December 31, 2018, the first vesting period has not yet finished. However, 383.418 shares were canceled due to the participants leaving the company. At the end of December 2018, 466.514 shares were still valid.

Parameters used for the assignments of TIM Participações S.A. as of December 31, 2018:

Plans/Parameters	Exercise price (reais)	Nominal value (reais)	Volatility (%)	Period	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
Stock option plan 2018-2020	-	14,41	-	3 years	n/a

Note 35 - Other information

EXCHANGE RATE USED TO TRANSLATE 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	31/12/2018	31/12/2017	31/12/2018	31/12/2017
ARS (Argentine peso)	43,15930	22,93100	32,85850	18,73314
BRL (Brazilian real)	4,43664	3,96728	4,30628	3,60584
CHF (Swiss franc)	1,12690	1,17020	1,15517	1,11171
GBP (Pound sterling)	0,89453	0,88723	0,88474	0,87640
JPY (Japan Yen)	125,85000	135,01000	130,39586	126,66873
USD (U.S. dollar)	1,14500	1,19930	1,18121	1,12946

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 2018	Year 2017
Development costs capitalized	25	29
Total research and development costs (expensed and capitalized)	**25**	**29**

AUDITOR'S FEES

The following schedule reports the fees due to PricewaterhouseCoopers for the audit of the 2018 financial statements.

(thousands of euros)	Year 2018
Audit services	1.456
Verification services with issue of certification	18
Other assurance services[*]	50
Total fees due to PwC network for the audit and other services	**1.524**
Out of pocket	118
Total	**1.642**

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

PwC did not perform any advisory or tax services in 2018 and previous years.

Note 36 - Events subsequent to December 31, 2018

In January 2019, through its subsidiary TIM S.A., the Group issued 1 billion reais (around 0,2 billion euros) unsecured non-convertible Debentures, with additional personal guarantee from TIM Participações S.A., for public distribution with restricted efforts. The proceeds will be used to strengthen working capital and will pay interest at 104,10% of the "Certificado de Deposito Interbancário" ("CDI") for a period of 18 months.

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 0,0324	66,6035	TIM Brasil Serviços & Partecipações S.A. TIM Participações S.A.
• TIM S.A.	Rio de Janeiro	BRL	13.476.171.765	100,0000		TIM Participações S.A.
ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD						
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 pursuant to Luxembourg Transparency Law

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 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.

Biagio Murciano
Managing Director

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 2018, 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 statements of financial position as at 31 December 2018;
- the separate consolidated income statements and the consolidated statements of comprehensive income for the year then ended;
- the consolidated statements of changes in equity for the year then ended;
- the consolidated statements 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 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 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.

PricewaterhouseCoopers, Société coopérative, 2 rue Gerhard Mercator, B.P. 1443, L-1014 Luxembourg
T : +352 494848 1, F : +352 494848 2900, www.pwc.lu

Cabinet de révision agréé. Expert-comptable (autorisation gouvernementale n°10028256)
R.C.S. Luxembourg B 65 477 - TVA LU25482518

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, if applicable, for the year then ended, are disclosed in Note 35 to the consolidated financial statements.

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 amount 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 this reason, 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 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. Further we have performed a cut-off testing on revenue.
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 2018 was higher by 1,246 million Euro than the net carrying amount for the Brazil CGU.	Our audit procedures included, among 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. Furthermore, we evaluated the adequacy and completeness of the disclosures of the goodwill impairment testing by the Group in the notes.

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 capitalization of Tim Brasil Servicos e Participacoes 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 capitalization 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 around 3.7 billion Euro, for which a provision for contingencies amounting to 65 million Euro was recorded based on the opinion of the Group's legal advisors and management's assumptions. 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. Finally, we evaluated the adequacy and completeness of the disclosures of the provision for tax contingencies by the Group in the notes.

Key audit matter	How our audit addressed the Key audit matter
Adoption of the new IFRS accounting standards (Note 2)	
The new accounting standard IFRS 15 “Revenue from contracts with customers” and IFRS 9 “Financial instruments” became effective as from 1 January 2018, and the Group’s management decided to adopt these new standards through the recognition of the transition impact on shareholders’ equity, in the opening balance at 1 January 2018. The application of those standards comprised significant involvement of the Group’s management in many activities, such as: (i) review of the commercial agreements portfolio; (ii) identification of the performance obligations; (iii) definition of certain assumptions and model for the price allocation amongst the performance obligations; (iv) development of manual and automated controls for the adequate data gathering, measurement, record and disclosure of the transactions and balances in the consolidated financial statements; (v) determination of the calculation model for the measurement of the expected loss on financial assets, among others. As a result, the Group recognized, in the opening balance at 1 January 2018, a decrease in its shareholders’ equity of 24 million Euro, before income tax effects. Therefore, due to the aspects aforementioned, this matter was considered as an area of focus in our audit.	Our audit procedures included, among others, the understanding and testing of the significant internal controls established by the Group’s management, with the objective of evaluating the quantitative and qualitative impacts on the consolidated financial statements resulting from the adoption of these accounting standards. We have also reviewed the technical accounting memoranda prepared by the Group’s management and obtained an understanding and evaluated the design and effectiveness of the main specific internal controls, including significant information technology systems implemented in the business processes directly affected by these accounting standards, which objective is to support the data gathering, measurement, recognition and disclosure of the transactions and balances in the Group’s consolidated financial statements. Additionally, we designed specific tests that included: (i) validation of reports and/or tools implemented by the Group’s management to ensure the completeness and integrity of the customer commercial agreements, as well as the appropriate data gathering and measurement of the balances and transactions recorded and disclosed in the consolidated financial statements; and (ii) testing, on a non-statistical sampling basis, the contracts with customers; (iii) understanding of the main assumptions used by the Group’s management to determine the impacts of the adoption of these accounting standards, as well as exceptions adopted as permitted by these standards; among other procedures ; (iv) reviewing the calculation model for measurement of the expected loss on financial assets, among others. Finally, we evaluated the adequacy and completeness of the disclosures of the new IFRS accounting standards by the Group in the notes.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the Directors' 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 Directors' 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 Directors' report. The information required by Article 68ter Paragraph (1) Letter 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 Board of Directors on 24 March 2010 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 9 years.

Other matters

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 underlying, as amended.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 28 March 2019

Patrick Schon