

TIM S.p.A.  
Form 20-F  
April 12, 2017  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 20-F**

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended: December 31, 2016**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from N/A to N/A**

**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Date of event requiring this shell company report**

**Commission file number 1-13882**

**TIM S.p.A.**

**(Exact name of Registrant as specified in its charter)**

**Italy**

**(Jurisdiction of incorporation or organization)**

**Via Gaetano Negri 1, 20123 Milan, Italy**

**(Address of principal executive offices)**

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**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
American Depositary Shares, each representing 10 Ordinary Shares (the <b>Ordinary Share ADSs</b> )	The New York Stock Exchange
Ordinary Shares (the <b>Ordinary Shares</b> )	The New York Stock Exchange*
	The New York Stock Exchange

American Depositary Shares, each representing 10 Savings  
Shares (the **Savings Share ADSs** )  
Savings Shares (the **Savings Shares** ) The New York Stock Exchange\*

**Securities registered or to be registered pursuant to Section 12(g) of the Act:**

**None**

**(Title of Class)**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

**None**

**(Title of Class)**

**Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock  
as of the close of the period covered by the annual report.**

Ordinary Shares 15,203,122,583

Savings Shares 6,027,791,699

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statement included in this filing:

U.S. GAAP Standards Board International Financial Reporting Standards as issued by the International Accounting Other

If Other has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

\* Not for trading, but only in connection with the registration of American Depositary Shares representing such Ordinary Shares or Savings Shares, as the case may be, pursuant to the requirements of the Securities and Exchange Commission.

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**Introduction**

**INTRODUCTION**

Telecom Italia S.p.A., named also TIM S.p.A. , is incorporated as a joint stock company under the laws of Italy. As used in this Annual Report, unless the context otherwise requires, the term Company means TIM S.p.A. the operating company for fixed and mobile telecommunications services in Italy and the holding company of the Tim Group that is engaged principally in the communications sector and, particularly, the fixed and mobile national and international telecommunications sector.

The terms we , us and our refers to the Company, and, as applicable, the Company and its consolidated subsidiaries.

Unless otherwise indicated, the financial information contained in this Annual Report has been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (designated as **IFRS** ).

Unless otherwise indicated, any reference in this Annual Report to Consolidated Financial Statements is to the Consolidated Financial Statements for the year ended December 31, 2016 of the TIM Group (including the notes thereto) included elsewhere herein.

**Cautionary Statement for Purposes of the Safe Harbor Provisions of the United States Private Securities Litigation Reform Act of 1995.**

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. This Annual Report contains certain forward-looking statements.

Forward-looking statements are statements that are not historical facts and can be identified by the use of forward-looking terminology such as believes, may, is expected to, will, will continue, should, seeks or similar expressions or the negative thereof or other comparable terminology, or by the forward-looking nature of discussions of strategy, plans or intentions.

The forward-looking statements in this Annual Report include, but are not limited to, the discussion of the changing dynamics of the telecommunications marketplace, including the continuing developments in competition in all aspects of our businesses from new competitors and from new and enhanced technologies, our outlook for growth in the telecommunications industry both within and outside of Italy, including our outlook regarding developments in the telecommunications industry, and certain trends we have identified in our core markets, including regulatory developments.

Such statements include, but are not limited to, statements under the following headings: (i) Item 3. Key Information 3.1 Risk Factors , (ii) Item 4. Information on the Telecom Italia Group 4.1 Business 4.1.7 Updated Strategy (iii) Item 4. Information on the Telecom Italia Group 4.3 Regulation , (iv) Item 5. Operating and Financial Review and Prospects , (v) Item 8. Financial Information 8.2 Legal Proceedings and (vi) Item 11. Quantitative and Qualitative Disclosures About Market Risks , including statements regarding the likely effect of matters discussed therein.

Actual results may differ materially from those projected or implied in the forward-looking statements. Such forward-looking information is based on certain key assumptions which we believe to be reasonable but forward-looking information by its nature involves risks and uncertainties, which are outside our control, that could

significantly affect expected results.

The following important factors could cause actual results to differ materially from those projected or implied in any forward-looking statements:

- our ability to successfully implement our strategy in the future;
- a deterioration of the economic environment in the principal markets in which we operate, including, in particular, our core Italian market;
- the impact of regulatory decisions and changes in the regulatory environment in Italy, Brazil and other countries in which we operate;

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**Introduction**

- the impact of political developments in Italy, Brazil and other countries in which we operate;
- our ability to successfully compete on both price and innovation capabilities with respect to new products and services;
- our ability to develop and introduce new technologies that are attractive in our principal markets, to manage innovation, to supply value added services and to increase the use of our fixed and mobile networks;
- our ability to successfully implement our internet and broadband strategy;
- our ability to successfully achieve our financial targets (including debt reduction);
- the impact of fluctuations in currency exchange and interest rates and the performance of the equity markets in general;
- the outcome of litigation, disputes and investigations in which we are involved or may become involved;
- our ability to build up our business in adjacent markets and in international markets (particularly in Brazil), due to our specialist and technical resources;
- our ability to achieve the expected return on the investments and capital expenditures we have made and continue to make in Italy, Brazil and other countries in which we operate;
- the amount and timing of any future impairment charges for our authorizations, goodwill or other assets;
- our ability to manage any business or operating model transformation plans;
- disruptions or uncertainties resulting from the United Kingdom's Potential exit from the European Union;
- any difficulties which we may encounter in our supply and procurement processes, including as a result of the insolvency or financial weaknesses of our suppliers; and

- the costs we may incur due to unexpected events, in particular where our insurance is not sufficient to cover such costs.

The foregoing factors should not be construed as exhaustive. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. TIM undertakes no obligation to release publicly the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof, including, without limitation, changes in our business or acquisition strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

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**Key Definitions**

**KEY DEFINITIONS**

The following terms appearing in this Annual Report have the meanings set forth below.

<b>EU</b>	means the European Union.
<b>IASB</b>	means the International Accounting Standards Board.
<b>IFRS</b>	means International Financial Reporting Standards issued by the IASB. IFRS also include all effective International Accounting Standards ( <b>IAS</b> ) and all Interpretations issued by the IFRS Interpretations committee (formerly called International Financial Reporting Interpretations Committee <b>IFRIC</b> ), comprising those previously issued by the Standing Interpretations Committee ( <b>SIC</b> ).
<b>Ordinary Shares</b>	means the Ordinary Shares, of TIM.
<b>Parent, Telecom Italia, TIM and Company</b>	means Telecom Italia S.p.A., also named TIM S.p.A.
<b>Savings Shares</b>	means the Savings Shares, of TIM.

**TIM Group and Group** means the Company and its consolidated subsidiaries.  
 In addition to the foregoing terms, certain technical telecommunication terms relating to our businesses are defined in the glossary of this Annual Report (see Item 4. Information on the TIM Group 4.5 Glossary of Selected Telecommunications Terms ).

In addition, we use the measure **Accesses** when considering certain statistical and other data for our domestic Italian business. **Access** refers to a connection to any of the telecommunications services offered by the Group in Italy. The following are the main categories of accesses:

- **Physical Accesses:** in the domestic fixed telephony business, includes retail accesses, as well as wholesale accesses directly managed by TIM, excluding OLOs, for which infrastructure is fully developed, and FWA-Fixed Wireless Accesses;

- **Broadband Accesses:** in the domestic fixed telephony business, includes broadband retail accesses and broadband wholesale accesses directly managed by TIM and excludes OLO LLU and NAKED, satellite, full-infrastructure and FWA - Fixed Wireless Accesses. Broadband retail accesses are included as part of physical accesses;
- **Mobile accesses:** number of lines.

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**Item 1. Identity of Directors, Senior Management and Advisers /**

**Item 2. Offer Statistics and Expected Timetable**

**PART I**

**Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not Applicable

**Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not Applicable

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**Item 3. Key Information**

**Risk Factors**

**Item 3. KEY INFORMATION**

**3.1 RISK FACTORS**

In addition to the other information contained in this Annual Report, investors should carefully consider the risks described below before making any investment decision. The risks described below are not the only ones we face. Additional risks not known to us or that we currently deem immaterial may also impact our business and results of operations. Our business, financial condition, results of operations and cash flows could be materially adversely affected by any of these risks, and investors could lose all or part of their investment.

We present below:

- 1) our main objectives as set out in our 2017-2019 three-year strategic plan (the **2017-2019 Plan** or the **Plan** ); and
- 2) factors that may prevent us from achieving our objectives. For purposes of presenting our risk factors we have identified our risks based on the main risk categories, set out in the Committee of Sponsoring Organization of the Treadway Commission<sup>1</sup>:

strategic risks;

operational risks;

financial risks; and

compliance risks.

***Our business will be adversely affected if we are unable to successfully implement our strategic objectives. Factors beyond our control may prevent us from successfully implementing our strategy.***

On February 6, 2017, TIM presented its 2017-2019 three-year strategic plan.

The main strategic priorities and objectives of TIM in the domestic (Italian) market are as follows:

- excellent network infrastructure, the roll out of which will be further accelerated over the Plan period;
- a commercial approach focused on convergent offers and content;



- in the Domestic Mobile segment, TIM will focus on speeding up the penetration of mobile ultrabroadband, strengthened by the extensive reach of its 4G network and the dissemination of quality content;
- in the Fixed Domestic segment, TIM plans to accelerate the spread and adoption of optic fiber;
- the implementation of efficiency recovery actions, aimed at increasing cash-flow generation; and
- the relaunch of the main subsidiaries of the Group.

In Brazil the strategic plan envisages continuing the relaunch of TIM Brasil, repositioning the subsidiary company by leveraging the quality of the offer and the networks as well as convergence. In particular, a further boost will be given to the creation of the UBB mobile infrastructure and development of convergent offers.

Our ability to implement and achieve our strategic objectives and priorities may be influenced by certain factors, including factors outside of our control. Such factors include:

- a deterioration of the economic environment in the principal markets in which we operate, including, in particular, our core Italian market;
- the impact of regulatory decisions and changes in the regulatory environment in Italy, Brazil and other countries in which we operate;
- the impact of political developments in Italy, Brazil and other countries in which we operate;
- our ability to successfully compete on both price and innovation capabilities with respect to new products and services;
- our ability to develop and introduce new technologies that are attractive in our principal markets, to manage innovation, to supply value added services and to increase the use of our fixed and mobile networks;

<sup>1</sup> CoSO Report-ERM Integrated Framework 2004.

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**Item 3. Key Information**

**Risk Factors**

- our ability to successfully implement our internet and broadband strategy;
- our ability to successfully achieve our financial targets (including debt reduction);
- the impact of fluctuations in currency exchange and interest rates and the performance of the equity markets in general;
- the outcome of litigation, disputes and investigations in which we are involved or may become involved;
- our ability to build up our business in adjacent markets and in international markets (particularly in Brazil), due to our specialist and technical resources;
- our ability to achieve the expected return on the investments and capital expenditures we have made and continue to make in Italy, Brazil and other countries in which we operate;
- the amount and timing of any future impairment charges for our authorizations, goodwill or other assets;
- our ability to manage any business or operating model transformation plans;
- disruptions or uncertainties resulting from the United Kingdom's potential exit from the European Union;
- any difficulties which we may encounter in our supply and procurement processes, including as a result of the insolvency or financial weaknesses of our suppliers; and
- the costs we incur due to unexpected events, in particular where our insurance is not sufficient to cover such costs.

*As a result of these uncertainties there can be no assurance that the business and strategic objectives identified by our management can effectively be attained in the manner and within the time-frames described. Furthermore, if we are unable to attain our strategic priorities, our goodwill may be further impaired, which could result in further significant write-offs.*

*The following sets out more specific factors that may prevent us from achieving our objectives.*

**STRATEGIC RISKS**

**Continuing weak global economic conditions, including the continuing weakness of the Italian economy and deteriorating economic conditions in Brazil, have adversely affected our business and continuing global and European economic weakness could further adversely affect our business and therefore have a negative impact on our operating results and financial condition.**

Our business is dependent to a large degree on general economic conditions in Italy and in our other principal market, Brazil, including levels of interest rates, inflation, taxes and general business conditions. A significant deterioration in economic conditions could adversely affect our business and results of operations. The weak economic conditions of the last several years have had an adverse impact on our business.

The economic recession that Italy has experienced in recent years has weighed on the development prospects of our core Italian market. Even if Italy officially emerges from recession, over the 2017-2019 period, Italian GDP is expected to grow by an average of 0.8 percent: the expected overall growth for Italy is lower than for the broader EU zone, which is expected to grow at approximately 1.4 percent over the same period, and will likely not be sufficient to return to pre-crisis levels. Private consumption growth, which had gradually sustained the recovery at the end of 2013, has weakened, due to declining consumer confidence and rising propensity to save. In Brazil, the market is affected by a macroeconomic environment that continues to deteriorate, resulting in shrinking domestic demand, rising inflation, and a sharp depreciation of the Brazilian Real. From the second quarter of 2017, moderate growth is expected for the Brazilian market, due improvements in consumer confidence, recovery of investments and a slight reduction in political uncertainty. The unemployment rate, which at the of 2016 was approximately 12%, is projected to rise further until mid-2017.

Telecommunications operators have generally faced challenging market conditions in recent years, principally as a result of the decline in voice traffic and significant pricing pressures resulting from increased competition among the operators. With respect to the mobile market, by the end of 2017, Iliad SA will launch a new mobile operator in Italy, which, according to Iliad's statements, is aimed at capturing 10 to 15 percent of the Italian mobile-phone

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market by relying on the same budget tactics that Iliad uses in the French market. TIM expects to launch a new no frills operator, completely independent from TIM, with its own fully-dedicated systems as a way of competing with the new comer.

Continuing uncertainty about global economic conditions poses a significant risk as consumer and business customers postpone spending in response to tighter credit, negative financial news (including high levels of unemployment) or declines in income or asset values, which could have a material negative effect on the demand for our products and services. Economic difficulties in the credit markets and other economic conditions may reduce the demand for or the timing of purchases of our products and services. A loss of customers or a reduction in purchases by our current customers could have a material adverse effect on our financial condition, results of operations and cash flow and may negatively affect our ability to meet our targets. Other factors that could influence customer demand include access to credit, consumer confidence and other macroeconomic factors.

**Risks associated with TIM's ownership chain**

As of the date hereof, the largest single shareholder in the Company is Vivendi S.A. ( **Vivendi** ), which holds, directly, a stake of approximately 23.94% of ordinary share capital. With a holding of this size, Vivendi can exercise significant influence over matters subject to a vote of the ordinary shareholders of the Company, such as nominations to the Board of Directors (the **Board** ).

**Competition Risks*****Alternative infrastructure operators in Italy could pose a threat to us, particularly in the medium-long term.***

The network development by Alt Net ( Alternative network operators ) (e.g.: Open Fiber and Infratel have disclosed plans to develop in Italy ultrabroadband telecommunications networks alternative to the one of TIM, respectively in the main Italian cities and in the Italian market failure areas) on a standalone basis or through partnerships with the OLOs could adversely impact our businesses, assets and goodwill and, as a consequence, our economic and financial performance. In particular, we face risks:

- with respect to increasing competition in the National Wholesale Market, which could result in losses with respect to our customer base and revenues;
- in geographical areas already affected by competition, which could result in losses of market share and revenues; and
- loss of retail market share in areas where competitors have not historically focused.

***Strong competition in Italy or other countries where we operate may further reduce our core market share for telecommunications services and may cause reductions in prices and margins thereby having a material adverse effect on our results of operations and financial condition.***

Strong competition exists in all of the principal telecommunications business areas in Italy in which we operate.

Competition may become even more acute in the coming years, with the entry of additional international operators into the Italian market.

The Italian telecommunications market is experiencing a phase of transformation with respect to competition. Since December 31, 2016, Wind Tre has become operative. Wind Tre resulted from the merger between Wind and H3G, which was authorized by regulatory bodies subject to certain structural corrective measures, including sale of frequencies and roaming contract signature, that will allow Iliad to enter the Italian market, becoming the fourth mobile infrastructured player after TIM, Vodafone and Wind Tre.

Moreover, convergence has enabled lateral competition from Information Technology (or IT), over-the-top ( OTT ), Media and Devices/Consumer Electronic players. This competition may further increase due to the consolidation and globalization of the telecommunications industry in Europe, including Italy, and elsewhere.

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**Item 3. Key Information**

**Risk Factors**

The emergence of alternative infrastructure operators could also pose a threat to us, particularly in the long term.

Competition in our principal lines of business has led, and could lead, to:

- price and margin erosion for our traditional products and services;
- loss of market share in our core markets; and
- loss of existing or prospective customers and greater difficulty in retaining existing customers.

In addition, competition on innovative products and services in our Italian domestic fixed-line, mobile telephony and broadband businesses, has led, and could lead to:

- obsolescence of existing technologies and more rapid deployment of new technologies;
- an increase in costs and payback period related to investments in new technologies that are necessary to retain customers and market share; and/or
- difficulties in reducing debt and funding strategic and technological investments if we cannot generate sufficient profits and cash flows.

Although we continue to take steps to realize additional efficiencies and to rebalance our revenue mix through the continuing introduction of innovative and value added services, if any or all of the events described above should occur, the impact of such factors could have a material adverse effect on our results of operations and financial condition.

***Continuing rapid changes in technologies could increase competition, reduce usage of traditional services and require us to make substantial additional investments.***

We, like other operators, face increasing competition from non-traditional data services on new voice and messaging over-the-internet technologies, in particular OTT applications such as Skype, FaceTime and WhatsApp. These applications are often free of charge, other than charges for data usage and are accessible via smartphones, tablets and computers. These applications provide users with potentially unlimited access to messaging and voice services over the internet, bypassing more expensive traditional voice and messaging services such as SMS which have historically been a source of significant revenues for fixed and mobile network operators such as TIM. With the growing share of smartphones, tablets and computers in Italy and Brazil, an increasing number of customers are using OTT applications services instead of traditional voice and SMS communications.

Historically, we have generated a substantial portion of our revenues from voice and SMS services, particularly in our mobile business in Italy, and the substitution of data services for these traditional voice and SMS volumes has had and could continue to have a negative impact on our revenues and profitability.

In the long term, if non-traditional voice and messaging data services continue to increase in popularity, as they are expected to do, and if we and other mobile network operators are not able to address this competition, this could contribute to declines in average revenue per user ( **ARPU** ) and lower margins across many of our products and services, thereby having a material adverse effect on our business, results of operations, financial condition and prospects.

***We may be adversely affected if we fail to successfully implement our Internet and broadband/fiber strategy.***

The continuing development of Internet and broadband/fiber services constitutes a strategic objective for us. We aim to increase the use of our networks in Italy and abroad to offset the continuing decline of traditional voice services. Our ability to successfully implement this strategy may be negatively affected if:

- broadband/fiber coverage does not grow as we expect;
  
- competition grows to include players from adjacent markets or technological developments introducing new platforms for Internet access and/or Internet distribution;

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- we are unable to provide broadband/fiber connections superior to those of our competitors; we experience any network interruptions or related problems with network infrastructure; and
  - we are unable to obtain adequate returns from the investments related to our network development.
- Any of the above factors may adversely affect the successful implementation of our strategy, our business and results of operations.

***Our business may be adversely affected if we fail to successfully implement our Information and Communications Technology (ICT) strategy.***

We intend to continue focusing on Information Technology-Telecommunication ( **IT-TLC** ) convergence by addressing the ICT market, offering network and infrastructure management, as well as application management. In particular, as the market for cloud service continues to grow, the ICT market expected to become a key element of our strategy.

We expect to experience increasing competition in this market as additional competitors (mainly from telecommunications operators through acquisition and partnership with IT operators) also enter this market. If we fail to develop our market share or compete effectively, our revenues could be negatively affected.

***Our business may be adversely affected if we fail to successfully implement our strategy with respect to next generation networks strategy.***

One of our goals is to accelerate the roll-out of a new telecommunications network capable of providing customers with ultrabroadband connections, generally referred to as a next generation network ( **NGN** ).

However, implementation of ultrabroadband technologies is dependent on a number of factors including the following:

- relevant delays in granting the necessary permissions and authorizations, for installation of NGN lines;
- resistance of road administrators to allow using innovative techniques in excavating for and laying fiber optic cables;
- delay in the operation of SINFI (Sistema Informativo Nazionale Federato delle Infrastrutture).

In areas not provided for under our development plan or where implementation of the ultrabroadband plan is conditioned upon the grant of public funds, in addition to those listed above, the following factors should be considered:



- allocation of public funds at a local level;
- fulfilment of technical and economic conditions related to the EuroSUD (a European funding telematic counter) tenders awarded to us; and
- the awarding of the tenders for the grant of public funds which unduly penalize TIM by setting wholesale prices considerably lower than the regulated prices for TIM's similar services set in its Reference Offer approved by AGCom.

If we fail to achieve our objectives for the implementation of ultrabroadband coverage in a timely manner or at all, we may lose market share to our competitors in this strategically important segment, which may adversely impact the Group's business, financial condition and results of operations.

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***We are subject to risks associated with political developments in countries where we operate.***

Changes in political conditions in Italy and in other countries where we have made significant investments (particularly in countries where the political situation is less predictable than in Western Europe) may have an adverse effect upon our business, financial condition, results of operations and cash flows.

***The Italian State is in a position to exert certain powers with respect to us.***

In 2012, regulations relating to the special powers regarding strategic assets in the energy, transport and communications sectors were published and became effective (Law Decree n. 21 of March 15, 2012, adopted with modifications by Law n. 56 of May 11, 2012).

Following enactment of such regulation, art. 3 of Presidential Decree n. 85 of March 25, 2014 identified the following as strategic assets in the communications sector:

- (1) dedicated networks and access to a public network for final customers in connection with metropolitan networks, service routers and long-distance networks;
- (2) assets used for the provision of access for final customers to services that fall within the obligations of universal service and broadband and ultrabroadband services;
- (3) dedicated elements, even if not in exclusive use, for connectivity (phone, data, video), security, control and management concerning fixed telecommunication access networks.

Presidential Decree n. 86 of March 25, 2014 sets out the procedures for handling of special powers in the communications sector.

As a result, the rules presently in force provide for:

- the power of the Italian Government to impose conditions and possibly to oppose the purchase, under certain conditions, by non-EU entities, of controlling stakes in companies that hold the aforementioned types of assets. Until the end of the 15-day period from the notice of the purchase, within which conditions may be imposed, or the power to oppose the initiative exercised, the voting rights (and any rights other than the property rights) connected to shares whose sale entails the transfer of control, will be suspended. The same rights will be suspended in the case of any non-compliance with or breach of the conditions imposed on the purchaser, for the whole of the period in which the non-compliance or breach persists. Any resolutions adopted with the determining vote of said shares or holdings, as well as the resolutions or acts adopted that breach or do not comply with the conditions imposed, will be null and void;

a power of veto by the Italian Government (including in the form of imposition of prescriptions or conditions) over any resolution, act or transaction that has the effect of modifying the ownership, control or availability of said strategic assets or changing their destination, including resolutions of merger, demerger, transfer of registered office abroad, transfer of the company or business units which contain the strategic assets, or their assignment by way of guarantee. Resolutions or acts adopted breaching said prescriptions shall be null and void. The Government may also order the company and any other party to restore the antecedent situation at their own expense.

The exercise of such powers, or the right or ability to exercise such powers, could make a change of control transaction with respect to TIM (whether by merger or otherwise) more difficult to achieve, if at all, or discourage certain bidders from making an offer relating to a change of control that could otherwise be beneficial to shareholders.

## **OPERATIONAL RISKS**

We face numerous risks with respect to the efficiency and effectiveness of resource allocation. Operational risks related to our business, include those resulting from inadequate internal and external processes, fraud, employee errors, failure to document transactions properly, loss or disclosure of critical or commercial sensitive data or personal identification information and systems failures. These events could result in direct or indirect losses and adverse legal and regulatory proceedings, and could harm our reputation and operational effectiveness.

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We have in place risk management procedures designed to detect, manage and monitor at a senior level the evolution of these operational risks. However, there is no guarantee that these measures will be successful in effectively controlling the operational risks that we face and such failures could have a material adverse effect on our results of operations and could harm our reputation.

***System and network failures could result in reduced user traffic and reduced revenue and could harm our reputation. In addition, our operations and reputation could be materially negatively affected by cyber-security threats or our failure to comply with data protection legislation.***

Our success largely depends on the continued and uninterrupted performance of our IT, network systems and of certain hardware and datacenters that we manage for our clients. Our technical infrastructure (including our network infrastructure for fixed-line and mobile telecommunications services) is vulnerable to damage or interruption from technology failures, power loss, floods, windstorms, fires, terrorism, intentional wrongdoing, human error and similar events. Unanticipated problems at our facilities, system failures, hardware and software failures, computer viruses and hacker attacks, as well as terrorist attacks against our infrastructure, which remains a target, could affect the quality of our services and cause service interruptions. Any of these occurrences could result in reduced user traffic and reduced revenue and could negatively affect our levels of customer satisfaction, reduce our customer base and harm our reputation.

In addition, our operations involve daily processing and storage of large amounts of customer data and require uninterrupted, accurate, permanently available, real-time and safe transmission and storage of customer and other data in compliance with applicable laws and regulations. The proper functioning of, including prevention of unauthorized access to, our networks, systems, computers, applications and data, such as customer accounting, network control, data hosting, cloud computing and other information technology systems is critical to our operations. We may be held liable for the loss, release, disclosure or inappropriate modification of the customer data stored on our equipment or carried by our networks. IT system failure, interruption of service availability, industrial espionage, cyber-attack or data leakage, in particular relating to customer data, could seriously limit our ability to service our clients, result in significant compensation costs for which indemnification or insurance coverage may be only partially available, result in a breach of laws and regulations under which we operate or lead to fines and could cause long-term damage to our business and reputation.

***Our business depends on the upgrading of our existing networks.***

We must continue to maintain, improve and upgrade our existing networks in a timely and satisfactory manner in order to retain and expand our customer base in each of our markets. A reliable and high quality network is necessary to manage turnover by sustaining our customer base, to maintain strong customer brands and reputation and to satisfy regulatory requirements, including minimum service requirements. The maintenance and improvement of our existing networks depends on our ability to:

- upgrade the functionality of our networks to offer increasingly customized services to our customers;
- increase coverage in some of our markets;

- expand and maintain customer service, network management and administrative systems;
- expand the capacity of our existing fixed copper and mobile networks to cope with increased bandwidth usage; and
- upgrade older systems and networks to adapt them to new technologies.

In addition, due to rapid changes in the telecommunications industry, our network investments may prove to be inadequate or may be superseded by new technological changes. Our network investments may also be limited by market uptake and customer acceptance. If we fail to make adequate capital expenditures or investments, or to properly and efficiently allocate such expenditures or investments, the performance of our networks, both in real terms and relative to our competitors, could suffer, resulting in lower customer satisfaction, diminution of brand strength and increased turnover.

Many of these tasks are not entirely under our control and may be affected by applicable regulation. If we fail to maintain, improve or upgrade our networks, our services and products may be less attractive to new customers and we may lose existing customers to competitors, which could have a material adverse effect on our business, financial condition and results of operations.

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*We are continuously involved in disputes and litigation with regulators, competition authorities, competitors and other parties and are the subject of a number of investigations by judicial authorities. The ultimate outcome of such proceedings is generally uncertain. If any of these matters are resolved against us, they could, individually or in the aggregate, have a material adverse effect on our results of operations, financial condition and cash flows in any particular period.*

We are subject to numerous risks relating to legal, tax, competition and regulatory proceedings in which we are currently a party or which could develop in the future. We are also the subject of a number of investigations by judicial authorities. Such proceedings and investigations are inherently unpredictable. Legal, tax, competition and regulatory proceedings and investigations in which we are, or may become, involved (or settlements thereof) may, individually or in the aggregate, have a material adverse effect on our results of operations and/or financial condition and cash flows in any particular period. Furthermore, our involvement in such proceedings and investigations may adversely affect our reputation.

If we, or another Group company, lose any of the legal proceedings to which we are a party, and are ordered to pay amounts greater than what we have recognized to cover potential liabilities, we may face adverse effects with respect to our and/or our Group's operations, financial position, income statement and cash flows.

The final outcomes of those proceedings are generally uncertain. As of December 31, 2016, we had, on a consolidated basis, recognized potential liabilities of 386 million euros. In recognizing these liabilities, we took into consideration the risks connected with each dispute and the relevant accounting standards, which require reserves to be recognized where liabilities are probable and can be estimated reliably. The provisions represent an estimate of the financial risk connected with the particular proceedings, in line with the relevant accounting standards. Nonetheless, we may be obligated to meet liabilities linked to unsuccessful outcomes for proceedings that were not taken into consideration when calculating those reserves and the provisions made may not be sufficient to fully meet such obligations through use of our reserves. Such a development could have adverse effects on our business, financial position, results of operations and cash flows.

*Risks associated with the internet usage by our customers could cause us losses and adversely affect our reputation.*

Pursuant to applicable Italian regulation, we, as a host and provider of data transmission services, are required to inform competent authorities without delay of any alleged illegal or illicit activity by our customers of which we are aware. We must also provide the authorities with any information we have identifying such customers. Any failure to comply with this obligation could cause us to become involved in civil proceedings or could harm public perception of our brand and services. Any such event could result in direct or indirect losses or legal and/or regulatory proceedings directed against us and could materially harm our reputation.

*We are exposed to the risk of labor disputes, in particular as a result of our plan to restructure our labor costs.*

We are currently undertaking a restructuring of portions of our workforce in an effort to better align increased standards of service and expanded expertise with greater efficiency in our personnel costs. To that end, on September 7, 2015, we entered into a union agreement that provides for a number of different measures to enable us to manage our workforce in line with our business plan. These measures include employment support schemes (e.g., the introduction of reduced hours and wages), known as *contratti di solidarietà*, voluntary relocation, early retirement

measures and re-training.

In addition, on September 21, 2015 and October 27, 2015, we entered into agreements that provide for voluntary relocation and employment support schemes.

These agreements have continued to apply during the year 2016. Efforts continued to be made to improve staff productivity and service quality. To this end, negotiations started with the trade unions resulted in a number of company agreements being cancelled on October 6, 2016, effective February 2017.

Relations between us and our workers/trade unions are not usually adversarial and strikes or protests involving a majority of workers are not common, but such occurrences carry a moderate risk of disruptions in work and/or reduced service. Generally, such occurrences would negatively impact customers.

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*Our leverage is such that deterioration in cash flow can change the expectations of our ability to repay our debt and the inability to reduce our debt could have a material adverse effect on our business. Continuing volatility in international credit markets may limit our ability to refinance our financial debt.*

As of December 31, 2016, our consolidated gross financial debt was 34,525 million euros, compared to 37,090 million euros on December 31, 2015. Our consolidated net financial debt was 25,955 million euros as of December 31, 2016, compared to 28,475 million euros on December 31, 2015. Our high leverage continues to be a factor in our strategic decisions as it has been for a number of years and the reduction of our leverage remains a key strategic objective. As a result, however, we are reliant on cost-cutting and free cash flow to finance critical technology improvements and upgrades to our network, although we are taking steps to raise additional capital to support critical investment.

Due to the competitive environment and continuing weak economic conditions, there could be deterioration in our income statement and statement of financial position measures used by investors and rating agencies in determining our credit quality. Ratios derived from these same separate income statement and statement of financial position measures are used by the rating agencies, such as Moody's, Standard & Poor's (S&P), and Fitch, which base their ratings on our ability to repay our debt.

Although rating downgrades do not have an immediate impact on outstanding debt, except for outstanding debt instruments that specifically contemplate taking ratings into account for determining interest expense, or on its relative cost to us, downgrades could adversely impact our ability to refinance existing debt and could increase costs related to refinancing existing debt and managing our derivatives portfolio.

Factors that are beyond our control such as deterioration in performance of the telecommunications sector, unfavorable fluctuations in interest rates and/or exchange rates, further disruptions in the capital markets, particularly debt capital markets, and, in a broader sense, continuing weakness in general economic conditions at the national level could have a significant effect on our ability to reduce our debt and refinance existing debt through further access to the financial markets. Because debt reduction is one of our strategic objectives, failure to reduce debt could be viewed negatively and could adversely affect our credit ratings.

The management and development of our business will require us to make significant further capital and other investments. If we are unable to finance our capital investment as described above, we may need to incur additional debt in order to finance such investment. Our future results of operations may be influenced by our ability to enter into such transactions, which in turn will be determined by market conditions and factors that are outside our control. In addition, if such transactions increase our leverage, it could adversely affect our credit ratings.

*Fluctuations in currency exchange and interest rates and the performance of the equity markets in general may adversely affect our results.*

In the past, we have made substantial international investments, significantly expanding our operations outside of the Euro zone, particularly in Latin America.

Our non-current operating assets are located as follows:



- Italy: as of December 31, 2016 and December 31, 2015, respectively, 46,948 million euros (85.1 percent of total non-current operating assets) and 46,144 million euros (87.8 percent of total non-current operating assets); and
- Outside of Italy: as of December 31, 2016 and December 31, 2015, respectively, 8,197 million euros (14.9 percent of total non-current operating assets) and 6,390 million euros (12.2 percent of total non-current operating assets). Non-current operating assets outside of Italy are primarily denominated in Brazilian Real. We generally hedge our foreign exchange exposure but do not cover conversion risk relating to our foreign subsidiaries. According to our policies, the hedging of the foreign exchange exposure related to the financial

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liabilities is mandatory. Movements in exchange rates of the euro relative to other currencies (particularly the Brazilian Real) may adversely affect our consolidated results. A rise in the value of the euro relative to other currencies in certain countries in which we operate or have made investments will reduce the relative value of the revenues or assets of our operations in those countries and, therefore, may adversely affect our operating results or financial position.

In addition, we have raised, and may raise in an increasing proportion in the future, financing in currencies other than the euro, principally U.S. dollars and British sterling. In accordance with our risk management policies, we generally hedge the foreign currency risk exposure related to non-euro denominated liabilities, through cross-currency and interest rate swaps.

Furthermore, as of December 31, 2016 and December 31, 2015, 29 and 30 percent, respectively, of our consolidated gross debt was subject to the accrual of interest at floating rates, net of derivative instruments hedging such risks. As of December 31, 2016, and December 31, 2015, we had derivative contracts in place for the sole management of our interest rate risk, including interest rate swaps, for notional amounts of 4,919 million euros and 3,689 million euros, respectively. Any changes in interest rates that have not been adequately hedged by derivative contracts may result in increased financial liabilities in connection with our floating rate debt, which may have adverse effects on the results of our operations and cash flows.

An increase of sovereign spreads, and of the default risk they reflects, in the countries where we operate, may affect the value of our assets in such countries.

We may also be exposed to financial risks such as those related to the performance of the equity markets in general, and, more specifically, risks related to the performance of the share price of Group companies.

On June 23, 2016, the United Kingdom (the U.K. ) held a referendum in which voters approved an exit from the European Union, commonly referred to as Brexit . The potential impact of Brexit will depend, in part, on the outcome of tariff, trade, regulatory and other negotiations. As a result of the referendum, global markets and currencies have been adversely impacted, including a sharp decline in the value of the British pound as compared to the U.S. dollar and the euro. Brexit, and even uncertainty over potential changes during any period of negotiation, could result in further instability in global financial markets and uncertainty with respect to national laws and regulations as the U.K. determines which E.U. laws to replace or replicate. Any of these effects of Brexit, among other factors, could adversely affect our business, financial condition, operating results and cash flows.

**COMPLIANCE RISKS**

*Because we operate in a heavily regulated industry, regulatory decisions and changes in the regulatory environment could adversely affect our business.*

Our fixed and mobile telecommunications operations, in Italy and abroad, are subject to regulatory requirements. As a member of the EU, Italy has adapted its regulatory legislation and rules for electronic communications services to the framework established by the EU Parliament and Council.

Pursuant to the EU regulatory framework, the Italian regulator (Autorità per le Garanzie nelle Comunicazioni **AGCom** ) is required to identify operators with Significant Market Power ( **SMP** ) in the relevant

markets subject to regulation. On the basis of market analyses proceedings ( **Market Analyses** ), AGCom imposes on TIM requirements necessary to address identified competition problems. Current requirements are mainly focused on the regulation of TIM's wholesale business, while the regulation of retail markets has been largely withdrawn, with the exception of price tests on retail access offers (for telephone, broadband and ultrabroadband services).

Within this regulatory framework, the main risks we face include:

- lack of predictability concerning both the timing of the regulatory proceedings and their final outcome;
- possible AGCom decisions with retroactive effects (e.g., review of prices of past years following the decisions of Administrative Courts).

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In principle, a new round of Market Analyses should be conducted by AGCom every three years, in order to deal with the evolution of market conditions and technology developments and set the rules for the subsequent three-year period.

However, the regulatory review process does not always follow the expected schedule.

Regulation is a key factor in evaluating the likelihood of return on investments and therefore in deciding where to invest. Regulatory uncertainty and regulatory changes imposed on us can impact our revenues and can make it more difficult to make important investment decisions.

Moreover, a high level of disputes arising from operators challenging AGCom decisions before Administrative Courts result in an even greater degree of uncertainty with respect to rules and economic requirements.

The Italian Antitrust Authority (Autorità Garante per la Concorrenza ed il Mercato **AGCM**) may also intervene in our business, setting fines and/or imposing changes in our service provision operating processes and in our offers.

In December 2015, we began implementation of a new model that includes a number of structural changes in the provision of our bottleneck access services (on both copper and fiber networks), aimed at meeting the requirements and recommendations issued by AGCom, AGCM, the Supervisory Board (Organo di Vigilanza per la Parità di Accesso) and the Supreme Administrative Court (Consiglio di Stato) (the **New Equivalence Model**). The New Equivalence Model, which is ongoing and is expected to be completed by May 2017, will improve the current equality of access guarantees by means of a greater symmetry in organization, processes, information systems and databases for the provision of bottleneck access services in order to decrease future regulatory, competition and litigation risks.

Our Brazilian Business Unit also is subject to extensive regulation. Our international operations, therefore, face similar regulatory issues as we face in Italy, including the possibility for regulators to impose obligations and conditions on how we operate our businesses in Brazil as well as taking decisions that can have an adverse effect on our results, including setting, and in particular, reducing the mobile termination rates we can charge. As a result, the decisions of regulators or the implementation of new regulations in Brazil and the costs of our compliance with any such decisions or new regulations, may limit our flexibility in responding to market conditions, competition and changes in our cost base which could individually or in the aggregate, have a material adverse effect on our business and results of operations.

Due to the continuous evolution of the regulatory regime affecting various parts of our business in Italy and in our international operations, we are unable to clearly predict the impact of any proposed or potential changes in the regulatory environment in which we operate in Italy, Brazil and our other international markets. Regulations in the telecommunications industry are constantly changing to adapt to new competition and technology. Changes in laws, regulation or government policy could adversely affect our business and competitiveness. In particular, our ability to compete effectively in our existing or new markets could be adversely affected if regulators decide to expand the restrictions and obligations to which we are subject or extend them to new services and markets. Finally, decisions by regulators regarding the granting, amendment or renewal of our authorizations, or those of third parties, could adversely affect our future operations in Italy and in other countries where we operate.

For further information regarding the matters discussed above and other aspects of the regulatory environments in which our businesses operate, see Item 4. Information on the TIM Group Item 4.3. Regulation .

***We operate under authorizations granted by government authorities.***

Many of our activities require authorizations from governmental authorities both in Italy and abroad. These authorizations specify the types of services the operating company holding such authorization may provide. The continued existence and terms of our authorizations are subject to review by regulatory authorities and to interpretation, modification or termination by these authorities. Although authorization renewal is not usually guaranteed, most authorizations do address the renewal process and terms that may be affected by political and regulatory factors.

Many of these authorizations are revocable for public interest reasons. In addition, our current authorizations to provide networks and services require that we satisfy certain obligations, including minimum specified quality

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levels, service and coverage conditions. Failure to comply with these obligations could result in the imposition of fines or even in the revocation or forfeiture of the authorization. In addition, the need to meet scheduled deadlines may require us to expend more resources than otherwise budgeted for a particular network build-out.

Additional authorizations may also be required if we expand our services into new product areas, and such authorizations may be related to auctions (e.g. in the assignment of spectrum right of use) or otherwise prove expensive or require significant cash outlays, or have certain terms and conditions, such as requirements related to coverage and pricing, with which we may not have previously had to comply. If we are unable to obtain such authorizations within the expected timeframe, at a commercially acceptable cost, or if the authorizations include onerous conditions, it could have a material adverse effect on our business, financial condition and results of operations.

In Brazil we also operate under an authorizations regime. As a result, we are obliged to maintain minimum quality and service standards. Our failure to comply with the requirements imposed by ANATEL and by the Brazilian Government may result in the imposition of fines or other government actions, including the suspension of the service commercialization for a given period.

***Actual or perceived health risks or other problems relating to mobile handsets or transmission masts could lead to litigation or decreased mobile communications usage.***

The effects of, and any damage caused by, exposure to an electromagnetic field were and are the subject of careful evaluations by the international scientific community, but until now there is no scientific evidence of harmful effects on health. We cannot rule out that exposure to electromagnetic fields or other emissions originating from wireless handsets will not be identified as a health risk in the future.

Our mobile communications business may be harmed as a result of these alleged health risks. For example, the perception of these health risks could result in a lower number of customers, reduced usage per customer or potential consumer liability. In addition, although Italian law already imposes strict limits in relation to transmission equipment, these concerns may cause regulators to impose greater restrictions on the construction of radio base station towers or other infrastructure, which may hinder the completion of network build-outs and the commercial availability of new services and may require additional investments.

***We face the risk that our organizational policies and procedures embodied in the organizational model prepared pursuant to Legislative Decree 231/2001 may fail to prevent certain officers and employees from engaging in unlawful conduct, for which we would be jointly liable.***

We have put in place an organizational model pursuant to Legislative Decree 231/2001, in order to create a system of rules capable of preventing certain forms of unlawful conduct by senior management, executives and employees generally that might result in liabilities for us. The organizational model has been adopted by us and by our Italian subsidiaries. A specific version of the organizational model has been adopted by TIM Participacoes pursuant to the anti-corruption Brazilian law (Lei 12.846/13).

The organizational model is continuously reviewed and must be kept up to date to reflect changes in operations and in the regulatory environment. We have established a 231 steering committee to prepare and consider proposals for changes to the model, for submission to the Board for approval.

Notwithstanding the existence of this model or any updates that we may make to it, there can be no assurances that the model will function as designed, or that it will be considered adequate by any relevant legal authority. If the model is inadequate or deemed to be so, and we were held liable for acts committed by our senior management, executives and employees or are found otherwise non-compliant with the requirements of the legislation, we may be ordered to pay a fine, our authorizations, licenses or concessions may be suspended or revoked, and we may be prohibited from conducting business, contracting with the Italian public administration, or advertising goods and services. Such developments would have adverse effects on our business, results of operations, financial condition and cash flows.

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We publish our consolidated financial statements in euros. References to **euro**, **euro** and **Euro** are to the euro, the single unified currency that was introduced in Italy and 10 other member states of the EU on January 1, 1999. References to **U.S. dollars**, **dollars**, **U.S.\$** or **\$** are to U.S. dollars, the currency of the United States of America.

For convenience only (except where noted otherwise), certain euro figures have been translated into dollars at the rate (the **Euro/Dollar Exchange Rate**) of 1.00= U.S.\$ 1.0552, using the last noon buying rate in The City of New York for cable transfers in foreign currencies as announced by the Federal Reserve Bank of New York for customs purposes (the **Noon Buying Rate**) on December 30, 2016.

These translations should not be construed as a representation that the euro amounts actually represent such dollar amounts or have been or could be converted into dollars at the rate indicated.

For the purpose of this Annual Report, **billion** means a thousand million.

The following table sets forth for the years 2012 to 2016 and for the beginning of 2017 certain information regarding the Noon Buying Rate for Dollars expressed in U.S.\$ per 1.00.

<b>Calendar Period</b>	<b>High</b>	<b>Low</b>	<b>Average(1)</b>	<b>At Period end</b>
2012	1.3816	1.2774	1.3281	1.3779
2013	1.3927	1.2101	1.3297	1.2101
2014	1.2015	1.0524	1.1096	1.0859
2015	1.2015	1.0524	1.1096	1.0859
2016	1.1516	1.0375	1.1072	1.0552
2017 (through March 31, 2017)	1.0882	1.0416	1.0661	1.0698

<b>Monthly Rates</b>	<b>High</b>	<b>Low</b>	<b>Average(1)</b>	<b>At Period end</b>
October 2016	1.1212	1.0866	1.1014	1.0962
November 2016	1.1121	1.0560	1.0792	1.0578
December 2016	1.0758	1.0375	1.0545	1.0552
January 2017	1.0794	1.0416	1.0635	1.0794
February 2017	1.0802	1.0551	1.0650	1.0618
March 2017	1.0882	1.0514	1.0691	1.0698

(1) Average of the rates for each period.

The Ordinary Shares (the **Ordinary Shares**) and Savings Shares (the **Savings Shares**) of TIM trade on *Mercato Telematico Azionario* (**Telematico**), managed by Borsa Italiana S.p.A. (**Borsa Italiana**) in euro. Fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar equivalent of the euro price of the



Ordinary Shares and the Savings Shares and the price of the Ordinary Share American Depositary Shares ( **Ordinary Share ADSs** ) and the Savings Share American Depositary Shares ( **Savings Share ADSs** ), on the New York Stock Exchange ( **NYSE** ). Cash dividends are paid in euro. Exchange rate fluctuations will affect the U.S. dollar amounts received by owners of Ordinary Share ADSs and Savings Share ADSs upon conversion by the Depositary of cash dividends paid in euro on the underlying Ordinary Shares and Savings Shares. See Item 10. Additional Information 10.5 Description of American Depositary Receipts .

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**Selected Financial And Statistical Information**

**3.3 SELECTED FINANCIAL AND STATISTICAL INFORMATION**

The selected financial data set forth below are consolidated financial data of the TIM Group as of and for each of the years ended December 31, 2016, 2015, 2014, 2013 and 2012, which have been extracted or derived, with the exception of amounts presented in U.S. dollars, financial ratios and statistical data, from the Consolidated Financial Statements of the TIM Group prepared in accordance with IFRS as issued by IASB and which have been audited by the independent auditor PricewaterhouseCoopers S.p.A.

Following certain corrections of errors made in 2016 with respect to the Brazil Business Unit, the financial data for the years 2015, 2014, 2013 and 2012 have been appropriately adjusted and referred to as *revised* (for further details please see the Note *Form, Content and other general information The correction of errors* of the Notes to the 2016 Consolidated Financial Statements included elsewhere in this Annual Report ).

In 2016, the Group applied the accounting policies on a basis consistent with those of the previous years, except for the new standards and interpretations adopted by the Group since January 1, 2016, described in the Note *Accounting Polices* of the Notes to the Consolidated Financial Statements included elsewhere herein.

The selected financial data below should be read in conjunction with the Consolidated Financial Statements and notes thereto included elsewhere in this Annual Report.

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	2016 (millions of U.S. dollars, except percentages, ratios, employees and per share amounts)(1)	Year ended December 31,				
		2016(*) (millions of euros, except percentages, ratios, employees and per share amounts)	2015(*) (Revised)	2014(*) (Revised)	2013(*) (Revised)	2012(*) (Revised)
<b>Separate Consolidated Income Statement Data:</b>						
<b>Revenues</b>	<b>20,075</b>	<b>19,025</b>	<b>19,719</b>	<b>21,574</b>	<b>23,443</b>	<b>25,736</b>
<b>Operating profit (loss)</b>	<b>3,927</b>	<b>3,722</b>	<b>2,963</b>	<b>4,529</b>	<b>2,752</b>	<b>1,684</b>
<b>Profit (loss) before tax from continuing operations</b>	<b>2,954</b>	<b>2,799</b>	<b>453</b>	<b>2,350</b>	<b>570</b>	<b>(312)</b>
<b>Profit (loss) from continuing operations</b>	<b>2,025</b>	<b>1,919</b>	<b>50</b>	<b>1,420</b>	<b>(556)</b>	<b>(1,392)</b>
Profit (loss) from Discontinued operations/Non-current assets held for sale	50	47	611	541	341	102
<b>Profit (loss) for the year</b>	<b>2,075</b>	<b>1,966</b>	<b>661</b>	<b>1,961</b>	<b>(215)</b>	<b>(1,290)</b>
<i>Profit (loss) for the year attributable to Owners of the Parent(2)</i>	<i>1,908</i>	<i>1,808</i>	<i>(70)</i>	<i>1,351</i>	<i>(659)</i>	<i>(1,635)</i>
<b>Capital Expenditures</b>	<b>5,145</b>	<b>4,876</b>	<b>5,197</b>	<b>4,984</b>	<b>4,400</b>	<b>4,639</b>
<b>Financial Ratios:</b>						
Operating profit (loss)/Revenues (ROS)(%)	19.6%	19.6%	15.0%	21.0%	11.7%	6.5%
Ratio of earnings to fixed charges(3)	2.65	2.65	1.18	2.18	1.29	0.83
<b>Employees, average salaried workforce in the Group, including personnel with temporary work contracts:</b>						
	57,855	57,855	61,553	59,285	59,527	62,758

Employees (excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale) (average number)

Employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale (average number)

2,581	2,581	15,465	15,652	15,815	15,806
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**Basic and Diluted earnings per Share (EPS)(4):**

<b>Ordinary Share</b>	<b>0.08</b>	<b>0.08</b>	<b>0.06</b>	<b>(0.03)</b>	<b>(0.08)</b>
<b>Savings Share</b>	<b>0.09</b>	<b>0.09</b>	<b>0.07</b>	<b>(0.03)</b>	<b>(0.08)</b>

**Dividends:**

per Ordinary Share(5)					0.020
per Saving Share(5)	0.029	0.0275	0.0275	0.0275	0.031

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	2016		As of December 31,			
	(millions of U.S. dollars, except employees)(1)	2016	2015 (Revised)	2014 (Revised)	2013 (Revised)	2012 (Revised)
			(millions of euros, except employees)			
<b>Consolidated Statement of Financial Position Data:</b>						
<b>Total Assets</b>	<b>74,335</b>	<b>70,446</b>	<b>71,268</b>	<b>71,596</b>	<b>70,264</b>	<b>77,621</b>
<b>Equity:</b>						
Equity attributable to owners of the Parent	22,378	21,207	17,554	18,068	16,985	19,269
Non-controlling interests	2,475	2,346	3,695	3,516	3,086	3,580
<b>Total Equity</b>	<b>24,853</b>	<b>23,553</b>	<b>21,249</b>	<b>21,584</b>	<b>20,071</b>	<b>22,849</b>
<b>Total Liabilities</b>	<b>49,481</b>	<b>46,893</b>	<b>50,019</b>	<b>50,012</b>	<b>50,193</b>	<b>54,772</b>
<b>Total Equity and liabilities</b>	<b>74,335</b>	<b>70,446</b>	<b>71,268</b>	<b>71,596</b>	<b>70,264</b>	<b>77,621</b>
<b>Share capital(6)</b>	<b>12,227</b>	<b>11,587</b>	<b>10,650</b>	<b>10,634</b>	<b>10,604</b>	<b>10,604</b>
<b>Net financial debt(7)</b>	<b>27,388</b>	<b>25,955</b>	<b>28,475</b>	<b>28,021</b>	<b>27,942</b>	<b>29,053</b>

**Employees, number in the Group at year-end, including personnel with temporary work contracts:**

	2016		As of December 31,			
	(number at year-end)	(number at year-end)	2015	2014	2013	2012
			(thousands)			
Employees (excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale) (number at year-end)	61,229	61,229	65,867	66,025	65,623	83,184
Employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale (number at year-end)	0	0	16,228	16,420	16,575	

**Statistical Data:****Domestic (Italy) Business Unit**

Physical accesses(8)	18,963	19,209	19,704	20,378	21,153
<i>Of which physical accesses (retail)</i>	<i>11,285</i>	<i>11,742</i>	<i>12,480</i>	<i>13,210</i>	<i>13,978</i>
Broadband accesses	9,206	8,890	8,750	8,740	8,967
<i>Of which retail broadband accesses</i>	<i>7,191</i>	<i>7,023</i>	<i>6,921</i>	<i>6,915</i>	<i>7,020</i>
Mobile lines	29,617	30,007	30,350	31,221	32,159

**Brazil Business Unit**

Mobile lines(9)	63,418	66,234	75,721	73,431	70,376
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(\*) On November 13, 2013, TIM accepted the offer of Fintech Group to acquire the entire controlling interest of TIM Group in the Sofora Telecom Argentina group. The agreements made in connection with this transaction were subsequently modified in October 2014. As a result, and in accordance with IFRS 5 (*Non-current Assets Held for Sale and Discontinued Operations*), starting with the fourth quarter of 2013, the Sofora Telecom Argentina group has been treated as Discontinued operations/Non-current assets held for sale. On March 8, 2016, the TIM Group completed the sale of Sofora Telecom Argentina group. The 2012 comparative data have been appropriately restated.

(1) For the convenience of the reader, Euro amounts for 2016 have been converted into U.S. dollars using the Euro/Dollar Exchange Rate in effect on December 30, 2016, of 1.00 = 1.0552 U.S.\$.

(2) For the purposes of IFRS, Parent, as used in this Annual Report, means TIM S.p.A.

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(3) Due to the loss in 2012, the ratio coverage was less than 1:1. The company would have needed to generate additional earnings of 358 million euros in 2012 to achieve a coverage of 1:1. For purposes of calculating the ratio of earnings to fixed charges :

· Earnings is calculated by adding:

profit (loss) before tax from continuing operations;

fixed charges (as defined below);

amortization of capitalized interest and debt issue discounts or premiums;

dividends from associates and joint ventures accounted for using the equity method;

share of losses of associates and joint ventures accounted for using the equity method and then subtracting:

capitalized interest for the applicable period; and

share of earnings of associates and joint ventures accounted for using the equity method.

· Fixed charges is calculated by adding:

interest expenses (both expensed and capitalized);

issue costs and any original debt issue discounts or premiums; and

an estimate of the interest within rental expense for operating leases. This component is estimated to equal 1/3 of rental expense, which is considered a reasonable approximation of the interest factor.

(4) In accordance with IAS 33 (*Earnings per share*), basic earnings per Ordinary Share is calculated by dividing the Group's profit (loss) available to shareholders by the weighted average number of shares outstanding during the year, excluding treasury shares. Since TIM has both Ordinary and Savings Shares outstanding, the calculations also take into account the requirement that holders of Savings Shares are entitled to an additional dividend equal to 2% of 0.55 euros per share above dividends paid on the Ordinary Shares.

For the purpose of these calculations, the weighted average number of:

Ordinary Shares was:

- 15,039,128,128 for the year ended December 31, 2016;
- 14,889,773,009 for the year ended December 31, 2015;
- 14,851,386,060 for the year ended December 31, 2014;
- 13,571,392,501 for the year ended December 31, 2013; and
- 13,277,621,082 for the year ended December 31, 2012.

Savings Shares was:

- 6,027,791,699 for the year ended December 31, 2016;
- 6,026,677,674 for the year ended December 31, 2015;
- 6,026,120,661 for the years ended December 31, 2014, 2013 and 2012.

For diluted earnings per share the weighted average number of shares outstanding is adjusted assuming conversion of all dilutive potential shares. Potential shares are those securities that, if converted into shares, would increase the total number of shares outstanding and reduce the earnings attributable to each share. Potential shares include options, warrants and convertible securities. The Group's profit (loss) is also adjusted to reflect the impact of the conversion of potential shares net of the related tax effects.

(5) Subject to approval by the Annual Shareholders Meeting to be held on May 4, 2017. Dividend coupons for the Savings Shares for the year ended December 31, 2016, will be clipped on June 19, 2017 and will be payable from June 21, 2017.



- (6) Share capital represents share capital issued net of the accounting par value of treasury shares; accounting par value is the ratio of total share capital and the number of issued shares.
  
- (7) Net Financial Debt is a Non-GAAP Financial Measure as defined in Item 10(e) of Regulation S-K under the 1934 Act. For further details please see Item 5. Operating and Financial Review and Prospects 5.2 Results of Operations for the Three Years Ended December 31, 2016 5.2.3 Non-GAAP Financial Measures .
  
- (8) Excludes full-infrastructured OLOs and FWA-Fixed Wireless Access.
  
- (9) Starting from 2014, data also includes company lines (active SIM cards used by the TIM Brasil group and its employees). The comparative data for the prior years have been appropriately restated.

**Table of Contents****Item 3. Key Information****Dividends****3.4 DIVIDENDS**

The determination of our future dividend policy, and the amounts thereof, will depend upon a number of factors, including but not limited to our earnings, financial condition and cash requirements, prospects and such other factors as may be deemed relevant at the time.

The following table sets forth the dividends per Ordinary Share and per Savings Share declared by TIM with respect to each of the last five fiscal years and the aggregate dividends paid in such years. Actual dividends paid are rounded to the nearest whole cent. No ordinary share dividend is being paid for the year ended December 31, 2016.

Year ended December 31,	Dividends on Ordinary Shares			Dividends on Savings Shares		
	Euros per Share	U.S. Dollars per Share(1)	(millions of euros)	Euros per Share	U.S. Dollars per Share(1)	(millions of euros)
2012	0.0200	0.0260	267.59	0.0310	0.0403	186.81
2013				0.0275	0.0377	165.72
2014				0.0275	0.0299	165.72
2015				0.0275	0.0314	165.76
2016(2)				0.0275	0.0294	165.76

(1) Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on the respective payment dates. For the year ended December 31, 2016, Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on March 31, 2017.

(2) Subject to approval at the Annual Shareholders Meeting to be held on May 4, 2017. TIM's dividend coupons for its Savings Shares for the year ended December 31, 2016, will be clipped on June 19, 2017 and will be payable from June 21, 2017.

Payment of annual dividends is subject to approval by the holders of Ordinary Shares at the annual general shareholders meeting, which must be held within 180 days after the end of the financial year to which it relates (pursuant to article 18, second paragraph, of the Company's Bylaws). In addition, Article 21 of the Company's Bylaws gives the Board of Directors the power to approve the distribution of interim dividends. Pursuant to Italian law, the distribution may be approved after the final approval of the preceding year's financial statements, and the interim dividends may not exceed the lower of (i) the difference between profits from the preceding fiscal year and amounts required to be attributed to legal and statutory reserves and (ii) available reserves. Once paid in compliance with applicable laws, shareholders cannot be required to repay interim dividends to the Company if the shareholders collected such dividends in good faith. Dividends not collected within five years from the date they become payable will be forfeited in favor of the Company. If profits are not fully distributed, additional reserves are created.

According to the Italian Civil Code, before dividends may be paid with respect to any year, an amount equal to 5% of the profit of the Company for such year must be set aside to the legal reserve until the legal reserve, including amounts set aside during prior years, is at least equal to one-fifth of the par value of the Company's issued share

capital. This legal reserve is not available for payment of dividends. Such restriction on the payment of dividends applies, on a non-consolidated basis, to each Italian subsidiary of the TIM Group. The Company may also pay dividends out of available retained earnings from prior years or other reserves.

Dividends in respect of Ordinary Shares and Savings Shares held with Monte Titoli S.p.A. ( **Monte Titoli** ) are automatically credited to the accounts of the beneficial owners with the relevant participant of Monte Titoli, without the need for presentation by such beneficial owners of any documentation. See Item 10. Additional Information 10.4 Description of Capital Stock .

Arrangements between Euroclear or Clearstream and Monte Titoli permit the shareholders to collect the dividends through Euroclear or Clearstream. Holders of American Depositary Receipts ( **ADRs** ) are entitled to receive payments in respect of dividends on the underlying Ordinary Shares and Savings Shares, as the case may be, in accordance with the relevant Deposit Agreement.

Dividends payable on the Company's Ordinary Shares and Savings Shares may be subject to deduction of Italian withholding tax. See Item 10. Additional Information 10.6 Taxation . Italian regulations do not contain any specific restrictions on the payment of dividends to non-residents of Italy. See Item 10. Additional Information 10.2 Exchange Controls and Other Limitations Affecting Security Holders .

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**Table of Contents****Item 3. Key Information****Dividends**

Pursuant to Italian law, in connection with the payment of dividends, participants of Monte Titoli are required to supply to the Italian tax authorities certain information concerning the identity of non-resident shareholders holding Ordinary Shares or Savings Shares. Shareholders are required to provide their Italian tax identification number, if any, or alternatively, in the case of legal entities, their name, country of establishment and address, or in the case of individuals, their name, address and place and date of birth, or in the case of partnerships, the information required for legal entities and the information required for individuals with respect to one of their representatives. In the case of Ordinary Share ADSs and Savings Share ADSs owned by non-residents in Italy, TIM understands that the provision of information concerning the Depository, in its capacity as holder of record of the Ordinary Shares and Savings Shares, as the case may be, will satisfy these requirements.

The Depository, in accordance with instructions from TIM, will provide information to beneficial owners of Ordinary Share ADSs and Savings Share ADSs, that are considered U.S. residents for purposes of applicable law. To the extent such owners wish to benefit from reduced withholding tax rates on dividends under an income tax treaty, claims for such benefits must be accompanied by the required information. See Item 10. Additional Information 10.6 Taxation .

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**Item 4. INFORMATION ON THE TIM GROUP**

**4.1 BUSINESS**

**4.1.1 BACKGROUND**

The legal name of the company is Telecom Italia S.p.A. named also TIM S.p.A. .

The Annual Shareholders Meeting held on May 25, 2016 approved an amendment to the Company s bylaws, permitting the company to be named Telecom Italia S.p.A. or TIM S.p.A. .

TIM is a joint-stock company established under Italian law on October 29, 1908, with registered offices in Milan at Via Gaetano Negri 1. The telephone number is +39 (02) 85951. The company is recorded in the Milan Companies Register at number 00488410010, R.E.A. (Repertorio Economico Amministrativo) at number 1580695 and R.A.E.E. (Rifiuti di Apparecchiature Elettriche ed Elettroniche) register at number IT08020000000799.

Our Depository in New York (JP Morgan Chase) is presently located at 4 New York Plaza, New York, New York 10004.

The duration of the company, as stated in the company s Bylaws, extends until December 31, 2100.

After the effectiveness of the demerger of Telco S.p.A. (previously the largest shareholder of TIM and whose investors were Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A., Mediobanca S.p.A. and Telefónica S.A.) on June 24, 2015, Vivendi S.A. ( **Vivendi** ), an integrated media and content group based in France, increased its ownership stake in TIM to 14.9% of Ordinary Shares, becoming our largest shareholder. In the following months, Vivendi has subsequently increased its shareholding in the Company and, as of April 7, 2017, Vivendi held 23.94% of the ordinary share capital of TIM. Vivendi does not hold Savings Shares (or Savings Share ADSs) neither it has different voting rights in meetings of ordinary shareholders of TIM.

At the Shareholders Meeting held on December 15, 2015, Vivendi s proposal to enlarge the Board of Directors of TIM from 13 to 17 members was approved, and four new Directors presented by Vivendi were appointed.

On March 22, 2016 former Chief Executive Officer, Marco Patuano, who had been appointed to that position on April 18, 2014 resigned. On March 30, 2016 the Board of Directors appointed Flavio Cattaneo, to serve as Chief Executive Officer. Mr Cattaneo was already a Company director. On April 27, 2016, the Board of Directors appointed Arnaud de Puyfontaine, also a company director, as Vice Chairman of the Company, without assigning him any delegated powers.

See Item 7. Major Shareholders and Related-Party Transactions for further details.

**4.1.2 DEVELOPMENT**

On February 6, 2017, TIM presented its 2017-2019 three-year strategic Plan. The 2017-2019 Plan sets out the primary strategic objectives of the TIM Group over the next three years as well as a number of strategic priorities to achieve these objectives.

For more details, please see 4.1.7 Updated Strategy .

#### **4.1.3 BUSINESS**

The Group operates mainly in Europe, South America and the Mediterranean Basin.

The TIM Group is engaged principally in the communications sector and, particularly, the fixed and mobile national and international telecommunications sector.

The operating segments of the TIM Group are organized according to the respective geographical location of the telecommunications business (Domestic Italy and Brazil).

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The principal changes in the scope of consolidation in 2016 are as follows:

- **TIMVISION S.r.l.** Domestic Business Unit: established on December 28, 2016;
- **Noverca S.r.l.** Domestic Business Unit: 100% of the company acquired by TIM S.p.A. on October 28, 2016;
- **Flash Fiber S.r.l.** Domestic Business Unit: established on July 28, 2016;
- **Sofora Telecom Argentina group:** classified under Discontinued operations (discontinued operations/non-current assets held for sale). The company was sold on March 8, 2016; and
- **Revi Immobili S.r.l., Gestione Due S.r.l. and Gestione Immobili S.r.l. Domestic Business Unit:** on January 11, 2016, INWIT S.p.A. acquired 100% of both companies, subsequently merged by incorporation in INWIT, which therefore entered the Group's consolidation scope.

These changes did not have a significant impact on the Consolidated Financial Statements of the TIM Group at and for the year ended December 31, 2016.

The principal changes in the scope of consolidation in 2015 are as follows:

- **INWIT S.p.A.** Domestic Business Unit: was established in January 2015 and in June 2015, the initial public offering for the ordinary shares of INWIT S.p.A. on the Electronic Stock Exchange organized and managed by Borsa Italiana S.p.A. was successfully completed;
- **Alfabook S.r.l.** Domestic Business Unit: on July 1, 2015 Telecom Italia Digital Solutions S.p.A. acquired 100% of Alfabook S.r.l., which consequently entered the Group's scope of consolidation;
- **TIM Real Estate S.r.l.** Domestic Business Unit: was established in November 2015. On February 3, 2017, as part of the programme to streamline the Company's holdings, the Board of Directors approved the start of the process to incorporate Tim Real Estate S.r.l., a TIM wholly-owned subsidiary, into TIM. The Company expects to complete the incorporation process by mid-2017.

With the exception of the INWIT initial public offering, these changes did not have a significant impact on the Consolidated Financial Statements of the TIM Group at and for the year ended December 31, 2015.

For further details please see Item 5. Operating and Financial Review and Prospects 5.2 Results of Operations for the Three Years Ended December 31, 2016 5.2.2. Business Segment and Note Scope of Consolidation of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

Following is a summary description of the TIM group's principal geographical business areas.

***Domestic Business Area***

TIM operates as the market leader in Italy in providing telephone and data services on fixed-line and mobile networks for final customers (retail) and other operators (wholesale).

The Telecom Italia Sparkle group develops fiber optic networks for wholesale in Europe, the Mediterranean and South America.

Olivetti, part of the Business segment of Core Domestic, operates in the area of office products and services for information technology ( **IT** ).

INWIT S.p.A. operates in the electronic communications infrastructure sector, specifically relating to infrastructure for housing radio transmission equipment for mobile telephone networks, for TIM and other operators.

TIM is one of four mobile operators authorized to provide services using GSM 900 technology in Italy and one of four operators authorized to provide services using GSM 1800 (formerly DCS 1800) technology in Italy. It is also one of four operators holding a UMTS authorization and providing third-generation telephony services in Italy and it is one of the three operators that acquired a 800MHz spectrum in 2011 to provide 4G Service in Italy. In addition, TIM has possesses 2600MHz and 1450MHz licences.



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At December 31, 2016, the TIM Group had approximately 11.3 million physical accesses (retail) in Italy, a decrease of 0.5 million compared to December 31, 2015. The Wholesale customer portfolio in Italy was approximately 7.7 million accesses for telephone services at December 31, 2016 (an increase of 0.2 million accesses as compared to December 31, 2015). The broadband portfolio in Italy was 9.2 million accesses at December 31, 2016 (consisting of approximately 7.2 million retail accesses and 2 million wholesale accesses), substantially stable compared to December 31, 2015 (8.9 million accesses). In addition, the TIM Group had approximately 29.6 million mobile telephone lines in Italy at December 31, 2016, a decrease of approximately 0.4 million compared to December 31, 2015.

***Brazil Business Area***

The TIM Group operates in the mobile phone, fixed telephony, in long-distance and data transmission markets in Brazil through the TIM Brasil group which offers mobile services using UMTS, GSM and LTE technologies. With the acquisitions of 700MHz and 2.5GHz radiofrequencies, the focus is on speeding up the development of 3G and 4G networks. Moreover, with the acquisitions of Intelig Telecomunicações, Tim Fiber RJ and Tim Fiber SP (now merged into Tim Celular S.A.), the portfolio of services has been expanded by offering fiber optic data transmission using full IP technology such as DWDM and MPLS and offering residential broadband services.

At December 31, 2016, the TIM Group had 63.4 million mobile telephone lines in Brazil (66.2 million at December 31, 2015).

**4.1.4 DISPOSALS AND ACQUISITIONS OF SIGNIFICANT EQUITY INVESTMENTS IN 2016**

For a description of disposals and acquisitions of significant equity investments in 2016 please see Note Scope of consolidation and Note Investments of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

**4.1.5 RECENT DEVELOPMENTS DURING 2017**

For a description of recent developments please see Item 8. Financial Information 8.2 Legal Proceedings and Note Events Subsequent to December 31, 2016 of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

**Table of Contents****Item 4. Information On The TIM Group****Business****4.1.6 OVERVIEW OF THE TIM GROUP'S MAJOR BUSINESS AREAS**

The following is a chart of the TIM Group's Business Units as of December 31, 2016:

(\* Main subsidiaries: TIM S.p.A., INWIT S.p.A., Telenergia S.p.A., Telecontact Center S.p.A., Olivetti S.p.A., HR Services S.r.l. and Noverca.

For further details about companies which are part of the Business Units, please see Note List of companies of the TIM Group of the Notes to the Consolidated Financial Statements included elsewhere herein.

For the revenues, operating profit (loss) and number of employees of the TIM Group's Business Units please see Item 5. Operating and financial review and prospects 5.2 Results of operations for the three years ended December 31, 2016 5.2.5 Business unit financial data .

**4.1.7 UPDATED STRATEGY*****Strategic Priorities and Objectives for the 2017-2019 Plan***

On February 6, 2017, TIM presented its 2017-2019 three-year strategic plan, named *A Transforming Company* (the **Plan** ). The Plan aims to significantly transform the Company and establish TIM as a market leader in terms of quality in fixed and mobile services through an approach based on content, convergence, ICT services, innovation and customer proximity. The Plan includes the following strategic priorities over the next three years.

***Domestic (Italian) market***

The main strategic priorities in the Domestic (Italian) Market are:

- Excellent network infrastructure, the roll out of which will be further accelerated over the Plan period. By the end of 2019, TIM's business plan aims to reach over 99% of the population with the LTE mobile network (4G) and 95% of the population (household passed) with optic fiber. Moreover, on March 23, 2017 TIM's Board of Directors approved a project to create a company dedicated exclusively to the selective development of new fiber infrastructure in the areas included in the cluster classifications C and D (the rural or so-called "white areas") based on EU regulations. The Project is in line with the 2017-2019 Strategic Plan and does not envisage an increase in the level of investment that the TIM Group has already planned. In fact, the project is expected to be carried out through the creation of a company in collaboration with a financial partner that will act as majority shareholder in

such company. Through this partnership TIM will aim to achieve its targets to cover the country with ultrabroadband almost 2 years ahead of the schedule set out in the three year plan.

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Thanks to this acceleration in Clusters C and D, the target of 95% coverage of the Italian population with UBB connections could be reached in mid-2018, increasing to 99% by the end of the current plan in 2019, due also to the contribution of wireless technologies.

- A commercial approach focused on convergent offers and content, also thanks to the launch of national and international co-productions through TIMVision. Such commercial approach is expected to strengthen the business model, further exploiting best infrastructure and excellent customer services with an increased focus on the dissemination of premium digital services and content, including on an exclusive basis.
- In the Domestic Mobile segment, in a context characterized by data consumption that is expected to continue to grow, TIM will focus on speeding up the penetration of mobile ultrabroadband, strengthened by the extensive reach of its 4G network and the dissemination of quality content.
- In the Fixed Domestic segment, TIM plans to accelerate the spread and adoption of optic fiber. The commercial strategy is expected to play a key role, aimed at retaining current customers through, for example, the supply of technologically evolved home devices connected to the domestic network Internet of Things which can be paid for directly in the bill.
- The implementation of efficiency recovery actions, aimed at increasing cash-flow generation through three levers: cost optimization, streamlined organization and processes transformation.
- Relaunch of the main subsidiaries of the Group: synergies with INWIT will be targeted for maximization; Olivetti is expected to be able to leverage the value of its brand to offer products with a cutting-edge design and ICT services; Telecom Italia Sparkle is expected to continue its growth phase by identifying synergies with the Business department of TIM for the management of international customers and through other growth options.

**Brazil**

In Brazil the Plan envisages continuing the relaunch of TIM Brasil, repositioning, if any, the company through leveraging the quality of the offer and of the networks and through convergence, to compete successfully in the post-paid segment at the same time returning to solid profitability. In particular, a further boost will be given to the creation of the UBB mobile infrastructure it is expected that by the end of the Plan 95% of the population will have access to 4G with coverage in approximately 3,600 cities and to the development of convergent offers also thanks to agreements with the main producers of premium content.

*There can be no assurance that these objectives will actually be achieved. See Introduction Cautionary Statement for Purposes of the Safe Harbor Provisions of the United States Private Securities Litigation Reform Act of 1995 .*



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**Business**

**4.1.8 THE ORGANIZATIONAL STRUCTURE**

The following diagram highlights the organizational structure of the TIM Group as of April 7, 2017:

**Table of Contents****Item 4. Information On The TIM Group****Business Units****4.2 BUSINESS UNITS****4.2.1 Domestic**

The Domestic Business Unit operates as the market leader in providing voice and data services on fixed and mobile networks for final retail customers and other wholesale operators. In the international field, the Business Unit develops fiber optic networks for wholesale customers (in Europe, in the Mediterranean and in South America).

The company operates in the electronic communications infrastructure business, specifically relating to infrastructure for housing radio transmission equipment for mobile telephone networks for TIM and other operators.

Olivetti operates in the area of products and services for Information Technology.

The Domestic Business Unit is organized as follows as of December 31, 2016:

(\*) Main subsidiaries: TIM S.p.A., INWIT S.p.A., Telenergia S.p.A., Telecontact Center S.p.A., HR Services S.r.l. and Noverca.

The principal operating and financial data of the Domestic Business Unit are reported according to the following three Cash-generating units ( **CGU** ):

- **Core Domestic:** includes all telecommunications activities within the Italian market. The sales market segments established on the basis of the customer centric organizational model are as follows:
  - **Consumer:** the segment consists of all Fixed and Mobile voice and Internet services and products managed and developed for individuals and families and of public telephony; customer care, operating credit support, loyalty and retention activities, sales within its remit, and administrative management of customers; the segment includes the companies 4G and Persidera;
  - **Business:** the segment consists of voice, data, and Internet services and products, and ICT solutions managed and developed for small and medium-size enterprises (SMEs), Small Offices/Home Offices (SOHOs), Top customers, the Public Sector, Large Accounts, and Enterprises in the Fixed and Mobile telecommunications markets; following the merger of TIM Digital Solutions in Olivetti, the latter was

incorporated into the Business segment as of January 1, 2016;

- **Wholesale:** the segment consists of the management and development of the portfolio of regulated and unregulated wholesale services for Fixed and Mobile telecommunications operators in the domestic market and Open Access operations connected with delivery and assurance processes for customer services;
  
- **Other INWIT S.p.A. and support structures:** includes:
  - **INWIT S.p.A.:** since April 2015 the company has been operating within the Operations area in the electronic communications infrastructure sector, specifically relating to infrastructure for housing radio transmission equipment for mobile telephone networks, both for TIM and other operators;



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- **Other Operations units:** covering technological innovation and the processes of development, engineering, building and operating network infrastructures, real estate properties and plant engineering; development of the information technology strategy, guidelines and plan;
- **Staff & Other:** services carried out by Staff functions and other support activities performed by minor companies of the Group, also offered to the market and other Business Units.
- **International Wholesale Telecom Italia Sparkle group:** includes the activities of the Telecom Italia Sparkle group, which operates in the market for international voice, data and Internet services for fixed and mobile telecommunications operators, ISPs/ASPs (Wholesale market) and multinational companies through its own networks in the European, Mediterranean and South American markets.

**v MARKETING CHANNELS AND DISTRIBUTION**

At December 31, 2016, as a result of the customer-centric approach, TIM utilized the following sales structure for each of its customer segments:

***Distribution***

The sales structure is organized according to a vertical, multi-channel approach, in which different types of distribution channels are specialized for different customer segments of the market, based on clusters of customers and services. This approach enhances the focus and customization of our products.

· ***Consumer***

Consumer customers are managed by several channels focused on volume and value acquisitions, including:

- the **Push** channel consisting of an outbound telephone channel called **Telesales** with a network of 27 partners having a total of approximately 4,000 operators and the **Agent** channel with 100 Direct Agents and a network of 71 partners with approximately 1,400 sales agents;
- the **Pull** channel: consisting of the retail network of shops, dealers and large retailers, amounting to a total of approximately 5,000 retail points of sale (at December 31, 2016). Points of sale are geographically widespread and they are of different types: direct (flagship stores and 4G mall stores); franchisee; monobrand; multibrand; organized and specialized large-scale distribution.

In addition to these partners, distribution is also carried out through the **Public Telephone** channel, consisting of 17 technical partners that provide maintenance and other related services.

· ***Business***

Business customers are managed by a single Sales Unit that covers both direct and indirect sales. The Sales Channel is organized into five different segments. One of these segments is dedicated to Top Customers, which includes the most important Private and Public Sector companies and is managed only through the direct sales channel. The remaining four manage Strategic, Large, Medium and Small customers at the regional level and include both the indirect and direct sales channels.

· ***Indirect Sales Channel***

The business distribution channels are comprised of:

- *BP Business Partner* channel (approximately 90): a network focused on standard offers (Small market) with about 1,550 agents;
- *ISP Ict sales partner* channel (approximately 70): a network organized geographically focused on VAS and ICT products with 200 agents;
- *Outbound Call Center*: 8 partners focused on specific canvass and customer loyalty activities;
- *Senior Agent*: 120 Agents focused on medium enterprise customers;
- *Shops*: some specific shops (approximately 2,400) offering business products and assistance.

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At the end of 2016 approximately 900 sales staff had a dedicated portfolio to manage and develop, supported by pre sales and post sales teams. The main activities include:

- offering the whole range of services (fixed and mobile voice and data, ICT services and products);
- promoting and managing a 360 degree relationship with the customer, providing support and assistance.

· ***National Wholesale Services***

The National Wholesale Services ( **NWS** ) department manages relationships with approximately 395 other telecommunications operators (Wholesale Market), who can be both customers and competitors of TIM. These customers purchase TIM network and professional services to build services for their own customers.

In order to ensure complete management of the relationship with customers, the NWS department is organized to cover all stages of the process:

- analysis of technological innovation, for New Products and Service Innovation Marketing;
- analysis of business evolution in the wholesale market, for Marketing development;
- definition of the offer for wholesale regulated services, such as Interconnection, Data Services, Access Services; the offer is developed by the marketing group according to conditions and rules set by National and European Authorities;
- sales through direct vendors, which are supported by presales and project managers; they are organized into two Commercial Local Areas for the North, Centre and South of Italy;
- contracts definition and disputes solution through specialized personnel;
- billing, credit and administrative activities, revenue integrity control; and

- caring and business process re-engineering.

The NWS department is set up as an independent department, which allows TIM, along with other conditions (accounting separation, compliance with the resolutions of the Authorities) to manage transparency and fairness in its relationship with other operators, as well as compliance with all regulatory requirements.

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The table below sets forth, for the periods indicated, certain statistical data of the Domestic Business Unit:

	<b>As of and for the years ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>DOMESTIC FIXED</b>			
Physical accesses (thousand)(1)	18,963	19,209	19,704
<i>Of which retail physical accesses (thousand)</i>	<i>11,285</i>	<i>11,742</i>	<i>12,480</i>
Broadband accesses in Italy at year-end (thousand)(2)	9,206	8,890	8,750
<i>Of which retail broadband accesses (thousand)</i>	<i>7,191</i>	<i>7,023</i>	<i>6,921</i>
<b>Network infrastructure in Italy:</b>			
access network in copper (millions of km pair, distribution and connection)(3)	114.4	114.3	114.0
access and carrier network in optical fiber (millions of km fiber)	12.6	10.4	8.3
<b>Total traffic:</b>			
Minutes of traffic on fixed-line network (billions):	69.1	76.9	84.2
<i>Domestic traffic</i>	<i>55.6</i>	<i>62.5</i>	<i>68.9</i>
<i>International traffic</i>	<i>13.5</i>	<i>14.4</i>	<i>15.3</i>
Broadband traffic (PBytes)(4)	5,774	4,126	3,161
<b>DOMESTIC MOBILE</b>			
Number of lines at year-end (thousand)(5)	29,617	30,007	30,350
Change in lines (%)	(1.3)	(1.1)	(2.8)
Churn rate %(6)	22.8	23.4	24.2
<b>Total traffic:</b>			
Outgoing retail traffic (billions of minutes)	44.9	43.6	42.7
Incoming and outgoing retail traffic (billions of minutes)	69.6	66.1	62.7
Mobile browsing volumes (PBytes)(7)	258.5	182.6	133.9
Average monthly revenues per line(8) (euro)	12.4	12.1	12.1

(1) Excludes full-infrastructure OLOs and FWA-Fixed Wireless Access.

(2) Excludes OLO LLU and NAKED, satellite, full-infrastructure and FWA Fixed Wireless Access.

(3) In 2015 and 2014 amounts are recalculated according to different methods, in particular on cable sections in several central areas.

(4) DownStream and UpStream traffic volumes.

- (5) The figure includes the SIM cards used on platforms for delivering Machine-to-Machine services.
- (6) The data refers to total lines. The churn rate represents the number of mobile customers who discontinued service during the period expressed as a percentage of the average number of customers.
- (7) National traffic, excluding roaming.
- (8) The values are calculated on the basis of revenues from services (including revenues from prepaid cards) as a percentage of the average number of lines.

v **MAIN CHANGES IN THE REGULATORY FRAMEWORK**

For the main regulatory events which occurred in 2016 that may have a significant impact on the operation of the Domestic Business Unit, please see Item 4. Information On The TIM Group 4.3 Regulation .

v **COMPETITION**

*The market*

The competitive market remains characterized by the opening of the TLC market to competition from non-traditional operators (in particular Over the Top companies (OTTs) and producers of electronic and consumer devices) and by the development of new over the network services (mainly in the IT and Media fields) by traditional telecommunications operators. As such, traditional telecommunications operators not only face core competition from other operators in the sector (including Mobile Virtual Operators), which remain the primary

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competitive force in the market, but must also deal with the emergence of OTTs and device producers, which operate in the digital world, using a different set of assets and competitive strategies. OTTs have been leading the transformation of the methods of use of TLC services (including voice), increasingly integrating them with Media and IT.

Over time, therefore, the business models of traditional players are changing to meet the challenges from new entrants and to exploit new opportunities. For example:

- **Media:** with the web becoming increasingly more important as a complementary distribution platform, broadcasters are feeling greater competitive pressure from consumer electronics companies, telecommunications operators and OTTs;
- **Information Technology:** the decline in traditional revenues is driving various players towards cloud computing, with the goal of protecting their core business. Traditional telecommunications operators are strengthening in this sector, including through partnerships;
- **Consumer Electronics:** producers can develop services that can be used through the Internet, building on handset ownership and management of user experience, breaking the relationship between customers and TLC operators; With respect to the current positioning of the telecommunications operators in converging markets, on the other hand, as partially described above, the following is taking place with different levels of progress:
  - development of Innovative Services in the IT market, particularly in Cloud services;
  - development of new Digital Services, especially in the areas of Entertainment (e.g. TV, Music, Gaming), Smart Home, Digital Advertising, Mobile Payment-Digital Identity.

***Competition in Fixed-Line Telecommunications***

The fixed-line telecommunications market continues to experience, on one side, a significant decline in access and voice revenues, mainly due to the reduction in use also determined by the progressive shift of voice traffic to mobile, and on the other side, the growth of broadband revenues. In recent years, operators have concentrated mainly on developing the penetration of broadband and attempting to protect voice by introducing bundled voice, broadband and services deals in a highly competitive environment that is characterized by pricing pressures.

The evolution of the competitive product offering has also been influenced by a convergence on an approach based on the control of infrastructure (above all Local Loop Unbundling LLU). The main fixed operators are also offering mobile services, also as Mobile Virtual Operators (MVOs). With respect to infrastructure, Open Fiber and Infratel have publicly presented development plans for their telecommunications networks as alternatives to TIM. These plans concern the main Italian cities and market failure areas (for further details please see Item 4. Information on the TIM

Group 4.3 Regulation Broadband and Digital Divide ).

Competition in the Italian fixed telecommunications market is characterized by the presence of a number of operators other than TIM, such as Wind-Infostrada, Fastweb, Vodafone, and Tiscali, that have different business models focused on different segments of the market. In 2016, the migration of customers from fixed-line to mobile telephony services continued, as well as the migration to alternative communications solutions (Voice Over IP, messaging applications and social network chat), driven by the use of the Internet, the penetration of broadband, PCs and other connected devices, as well as service quality. At December 31, 2016, fixed accesses in Italy remained stable relative to 2015 at approximately 20.3 million (including infrastructured OLOs and Fixed Wireless Accesses). Competition in the access market led to a gradual reduction in Telecom Italia's market share.

We estimate that in the broadband market, as of December 31, 2016, fixed broadband customers in Italy reached a penetration rate on fixed accesses of about 77%. The spread of broadband is driven not only by the penetration of personal computers and other enabled devices (e.g. Smart TVs), but also by the growing demand for speed and access to new IP based services (Voice over IP, content particularly Video, social networking services, etc.).

***Competition in Mobile Telecommunications***

In the mobile market, which is saturated and mature in the traditional voice services segment, the second and third Human SIM cards continued to follow a rationalization trend while the Not Human SIM cards continued to



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grow. Revenues from traditional services, such as voice and messaging, continued to decline as a result of competition among operators and the increasing spread of over the internet communication apps, such as WhatsApp. In 2016, however, the gradual improvement that had begun in the second half of 2014 consolidated. This, combined with the growth of mobile broadband, which has continued at a sustained rate, caused spending on services to be back to modest growth in 2016.

In 2016, the growth in mobile broadband customers continued due to the development of the LTE and the small screen segment, with a high penetration rate on mobile lines, especially as a result of the increasing spread of smartphones. Alongside innovative services that have already gained traction and are under full-scale development, there are other market environments, associated with the development of mobile broadband, with major potential for growth in the medium term, such as the Internet of Things and mobile payment.

Competition in the Italian mobile telecommunications market is undergoing significant changes. Wind Tre, formed by the merger between Wind and H3G, is currently operating. The transaction was authorized by the competent regulatory authorities following the implementation by the two companies of structural corrective measures (e.g., the sale of frequencies and the signature of a roaming agreement), which will enable the French operator Iliad to enter the Italian market in the near future, thus becoming the fourth operator with infrastructure, in addition to TIM, Vodafone and, precisely, Wind Tre. In addition to these operators, the field also includes mobile virtual operators (MVO), of which PosteMobile is the most important player. These operators continue to enjoy significant growth compared to infrastructured operators.

**4.2.2 BRAZIL**

The TIM Group operates in the mobile phone, fixed telephony, long-distance and data transmission and fixed telecommunications sectors in Brazil through the TIM Brasil group which offers mobile services using UMTS, GSM and LTE technologies. With the acquisitions of 700MHz and 2.5GHz radiofrequencies, the focus is on speeding up the development of 3G and 4G networks. Moreover, with the acquisitions of Intelig Telecomunicações, Tim Fiber RJ and Tim Fiber SP (now merged into Tim Celular S.A.), the portfolio of services has been expanded by offering fiber optic data transmission using full IP technology such as DWDM and MPLS and offering residential broadband services.

The TIM Brasil group's services cover an area that includes approximately 95% of Brazil's urban population. TIM Brasil group has approximately 63.4 million mobile lines which cover each of the Brazilian states and the Federal District. As of December 31, 2016, the market combined penetration reached approximately 118% of the Brazilian population and its combined market share totaled approximately 26%.

Since TIM Brasil group began operating in the Brazilian market, its intention has been to provide its customers with innovative services based on a state-of-the-art technology. This goal has been reached with the provision of services through a robust 3G network in addition to a fast growing state-of-the-art Fourth Generation (4G) network.



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The table below sets forth, for the periods indicated, the number of mobile lines of the Brazil Business Unit:

	<b>As of and for the years ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Number of lines at year-end (thousands)(*)	63,418	66,234	75,721
MOU (minutes/months)(**)	116.6	119.5	135.8
ARPU (Reais)	18.0	16.7	17.7

(\*) Data includes company lines (active SIM cards used by the TIM Brasil group and its employees).

(\*\*) Net of visitors.

#### v **MARKETING**

With the rapid change in the profile of consumption of telecommunications services by Brazilian users, TIM Brasil continued its efforts to innovate its offerings for all customer segments (Prepaid, Control and Postpaid) effectively eliminating different rates for calls within and outside the TIM Brasil network. This effort is intended to increase the convenience of the company's voice and data bundles in all segments. TIM Brasil took this step in order to reduce the usage of multiple SIM cards per user. This change aims to help TIM Brasil protect and increase the value of the prepaid customer base, where the company continues to be a leader, and grow its base of postpaid customers by providing more complete voice and data offers at reasonable prices, which could stimulate usage growth.

Although still preliminary, the first results of TIM Brasil's new offers are very encouraging in terms of attracting new clients, generating new gross additions, increasing ARPU and meeting projected margin targets. These new offers are helping to improve the results of Mobile Number Portability relative to all other operators, across customer segments, beginning from the launch month of the new portfolio.

#### v **DISTRIBUTION**

As of December 31, 2016, we had more than 10.8 thousand points of sales through premium shops and dealers (exclusive or multi-brand) and consolidated partnerships with large retail chains. This figure includes 175 of TIM Brasil's own stores. In addition to these retail stores, TIM Brasil customers have access to prepaid phone services through supermarkets, newsstands, and other small retailers, totaling more than 332 thousand points of sale throughout Brazil.

For the corporate market, TIM Brasil has more than 550 third-party business partners focused on serving small and medium-size companies and a direct sales force team of 94 employees focused on large companies.

In order to serve the customer base of over 63.4 million customers, TIM Brasil maintains 16 customer care centers comprising around 14 thousand customer service representatives. Moreover, TIM Brasil has continuously invested in alternative customer service channels, developing solutions based on interactive voice response and self-service and mobile applications for iOS and Android.

v **MAIN CHANGES IN THE REGULATORY FRAMEWORK**

For the main regulatory developments which occurred in 2016 that may have an economic impact on the Brazil Business Unit, please see Item 4. Information On The TIM Group 4.3 Regulation .

v **COMPETITION**

At the end of 2016, the Brazilian mobile market reached 244.1 million lines, 13.7 million lines (or 5.3%) lower than at the end of 2015, and a penetration rate of 118.0% of the population (125.7% in 2015). Consequently the Brazil Business Unit churn rate in 2016 was 52.4% (59.1% in 2015).

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**Business Units**

**Agreement for the sale of telecommunications towers**

On November 21, 2014, TIM Brasil entered into a sale and leaseback transaction with American Tower do Brasil Cessão de Infraestruturas Ltda., or American Tower, for the sale of part of the mobile infrastructure (6,481 telecommunication towers) for approximately 3 billion reais. The sales agreement was signed in conjunction with a Master Lease Agreement with a term of 20 years and, accordingly, the transaction is to be considered as a partial sale and lease back.

In 2016, the fourth and fifth partial sale of 336 towers was completed for approximately 134 million reais, or approximately 35 million euros. The final realized gain, net of transaction costs, was 44 million reais (approximately 12 million euros at the 2016 average exchange rate). The amount of non-current assets reacquired under finance leases came to 93 million reais (approximately 24 million euros at the 2016 average exchange rate).

In 2016, financial leases were also taken out on newly-built towers for 15 million reais (approximately 4 million euros), in accordance with the contractual arrangements of November 21, 2014 with American Tower.

The sales of the first three blocks, which included a total of 5,483 towers, were completed in 2015.

**4.2.3 COMPETITION**

We face competition in all of our businesses.

For details please see Item 4. Information on the TIM Group 4.1 Business 4.1.7 Updated Strategy , Item 4. Information on the TIM Group 4.2.1 Domestic and Item 4. Information on the TIM Group 4.2.2 Brazil .

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TIM's operations within the European Union ( EU ) are subject to the EU regulatory framework for electronic communications networks and services, which includes directives, regulations, recommendations and communications. As a Member State of the EU, Italy is required to transpose directives issued by the EU into national legislation. The regulations adopted by the European Commission ( EC ) are applicable and binding on each Member State without the need of further national implementation. Recommendations and communications, on the other hand, are not legally binding although they have to be taken into account by each Member State.

National Regulatory Authorities ( NRAs ) are independent bodies tasked with regulating and supervising the telecommunications sector and compliance with the EU framework in each Member State. In Italy, this body is Autorità Garante per le Comunicazioni ( AGCom ).

The EU Regulatory Framework is based on five Directives ( Framework , Access and Interconnection , Authorization Universal Service and Users Rights Privacy and Data Protection ), which regulate all forms of fixed and wireless telecommunications and data transmission. In Italy the Directives have been transposed into the Codice delle comunicazioni elettroniche (Electronic Communications Code ECC).

A Recommendation issued by the EC on relevant product and service markets susceptible of ex ante regulation (Commission's Recommendation on relevant markets) completes this set of legal instruments with the definition of a list of relevant markets whose characteristics may be such as to justify the imposition of regulatory obligations . The Recommendation currently in effect (no. 2014/710/UE) was published on October 9, 2014, following updates in 2003 and 2007. The number of relevant markets subject to ex ante regulation has been reduced over time from 18 to 4, following the growth of the competition in the whole sector (see Market Analyses ).

In 2010, the EC adopted a Communication, the Digital Agenda for Europe (the DAE ), setting forth long-term EU strategies for Broadband. The DAE sets non-binding targets in terms of broadband coverage and take-up to be achieved by 2020 namely:

1. Broadband coverage at 30 Mbit/s or more for 100% of EU citizens; and
2. 50% of EU households having subscriptions above 100Mbps.

In September 2016, through the Gigabit Society Communication, the EC set the following (not binding) additional targets for the year 2025:

connectivity of 1 Gbps (upload and download) for all socio-economic entities (i.e. schools, businesses, public administration, etc.);

- connectivity of 100 Mbps download for all European households and businesses; and
- uninterrupted 5G coverage for all urban areas and major terrestrial transport routes (as an interim target, 5G should be commercially available in at least one major city in each EU Member State by 2020).

On September 14, 2016, the EC issued a legislative proposal for a Directive establishing the European Electronic Communication Code (Recast) (the **EECC**), which reviews and combines in one document the Framework, Access and Interconnection, Authorization and Universal Service and Users Rights directives. The Directive will have to be approved according to the standard co-decision legislative procedure by the European Parliament and the Council and then transposed into national law. The timetable for agreeing to, enacting and implementing the EECC Directive will depend on the levels of support that it receives from the European Parliament and the Council. The transposition into the law of each Member State is unlikely to happen before 2019 and could be as late as 2020.

A new approach to access regulation is the central feature of the proposed EECC. The key elements of the suggested approach to access regulation are:

- regulatory relief in the presence of co-investment and Very High Capacity ( **VHC** ) networks;

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- lighter regulation for wholesale-only vertically separated undertaking;
- no price control in the presence of a demonstrable retail price constraint and effective and non-discriminatory access; and
- a significantly more granular geographic approach to the analysis of broadband infrastructure deployment, with the potential for differing remedies.

The EC proposes to include in the scope of the TLC regulatory framework certain categories of over-the-top ( **OTT** ), thereby addressing the level playing field issue between Telcos and OTTs, albeit only partially, as the majority of the obligations are envisaged only for number-based interpersonal communication services and services based on the conveyance of signal, typically provided by Telcos.

With respect to spectrum, in order to stimulate investment, the EC proposes a minimum duration of new spectrum licenses of 25 years. In addition, Member states would have to submit national measures regarding spectrum assignment procedures and license conditions, e.g., regarding license duration, renewal and coverage obligations, to the scrutiny of the EC, BEREC and other NRAs.

As to the Universal Service Obligation (the **USO** ), the provision of affordable functional internet access and voice communications services at least at a fixed location would be included in the scope of the USO. Member States have the flexibility to also include the availability obligation at a fixed location in the USO, if access to functional internet and voice communications services is not ensured at the national level by market or public bodies. The provision of directories, directory enquiry services and public payphones (legacy services) is removed from the EU universal service obligation, although Member States have the flexibility to retain them. The net cost of universal service would be financed with public funds, rather than by Electronic Communication Service ( **ECS** ) providers.

v **International Roaming**

Intra-EU roaming services are regulated by the roaming Regulation no. 531/2012 (the **Roaming III Regulation** ). The Roaming III Regulation established retail and wholesale caps for voice, SMS and data services. The values valid from July 1, 2014 are:

**at retail level:**

Voice out (eurocents/min)	19
Voice in (eurocents/min)	5
SMS (eurocents/sms)	6
DATA (eurocents/MB)	20

**at wholesale level:**



Voice (eurocents/min)	5
SMS (eurocents/sms)	2
DATA (eurocents/MB)	5

The Telecom Single Market Regulation 2015/2120 (the **TSM Regulation** ), approved in November 2015, introduces new rules on intra-EU roaming by amending the Roaming III Regulation.

The TSM Regulation provides for the abolishing of any roaming service surcharge on top of domestic service prices subject to fair use limits to avoid abuses, starting from June 15, 2017 (Roam Like at Home RLAH regime).

For intra-EU traffic exceeding the fair use limits, operators will be allowed to levy a surcharge on top of domestic tariffs. Such a surcharge will be capped at the wholesale caps defined in the Roaming III Regulation, and reported in the table above.

From April 2016 to June 2017, operators are allowed to levy a surcharge on top of domestic tariffs (equal to the wholesale caps defined in the Roaming III Regulation and reported above) for all intra-EU roaming traffic.

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The TSM Regulation provides for the revision of the wholesale rules before the RLAH regime can become effective. To this end, a proposal by the Commission was published on June 15, 2016. On January 31, 2017, the Parliament and the Council reached a provisional agreement on new wholesale caps (Voice: 3.2 eurocents/min, SMS 1 eurocents/SMS), introducing a glide path for wholesale data (0.77 eurocents/MB in 2017, 0.6 eurocents/MB in 2018, 0.45 eurocents/MB in 2019, 0.35 eurocents/MB in 2020, 0.3 eurocents/MB in 2021, 0.25 eurocents/MB in 2022). The agreement is expected to be officially ratified by the Parliament and the Council by May of 2017.

v ***New rules introduced by the TSM Regulation on Net Neutrality***

The TSM Regulation introduces new rules on Net Neutrality, which will apply starting in April of 2016. In particular, the TSM Regulation:

- establishes the right of end-user access to distribute information and content, use and provide applications and services and use terminal equipment of their choice and forbids internet service providers from blocking or slowing down specific content, applications or services, except in a very limited set of circumstances;
- allows reasonable traffic management aimed at improving the quality of the network based on objectively different technical quality of service requirements for specific categories of traffic. However, such traffic management must be transparent, non-discriminatory and proportionate and it must not be based on commercial considerations;
- allows operators to offer services, other than internet access services, that are optimized for specific content, applications or services only if the network capacity is sufficient to provide them in addition to any internet access services provided and the offering of such services is not to the detriment of the availability or general quality of internet access services for end-users; and
- allows commercial practices such as zero rating subject to monitoring by the National Regulatory Authority.

The TSM Regulation also places additional transparency obligations on providers of internet access services in addition to those already included in the Electronic Communications Regulatory Framework.

#### **4.3.2 THE ITALIAN REGULATORY FRAMEWORK**

v ***The legal Basis***

The legal basis for the electronic communications sector in Italy is as follows:

- the Electronic Communications Code ( **ECC** ), which transposed into national law the EU Access, Authorization, Framework and Universal Service directives;
  - the Data Protection Code ;
  - the Consolidated Law on Radio-Television containing the principles regulating the organization of radio-television system and its convergence with different means of interpersonal and mass communications;
  - Law 36 of February 22, 2001 aimed at protecting the population from the effects of the exposure to electric, magnetic and electromagnetic fields and the decree of the President of the Council of Ministers (Decreto del Presidente del Consiglio dei Ministri; the **DPCM** ) of July 8, 2003, which sets up Exposure limits, attention values and quality goals to protect the population against electric, magnetic and electromagnetic fields generated by frequencies between 100 KHz and 300 GHz ;
  - the Consumer Code ;
  - Law June 18, 2009, no. 69 providing measures to simplify the procedures for the installation and development of optical fiber networks (Article 1 Broadband );
- <sup>2</sup> Zero-rating (also called toll-free data or sponsored data) is the practice of mobile network operators (MNO), mobile virtual network operators (MVNO), and Internet Service Providers (ISP) not to charge end customers for data used by specific applications or internet services through their network, in limited or metered data plans. It allows customers to use provider-selected content sources or data services like an app store, without worrying about bill shocks, which could otherwise occur if the same data was normally charged according to their data plans and volume caps. This has especially become an option to market 4G networks, but has also been used in the past for SMS or other content services.

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· Decree Law July 6, 2011, no. 98, enacted by Law July 15, 2011, no. 111 further simplifying the procedure for the installation of small mobile equipment (0.5 sq. meters of radiator area) and low power equipment (7 watt);	
· Decree Law October 18, 2012 no. 179 (enacted by Law December 17, 2012 no. 221) providing for further broadband networks funding to cancel the digital divide, measures to accelerate the roll-out of mobile fourth generation networks and administrative simplifications for optical fiber layout;	
· implementation Decrees for "Golden Power" rules (Law no. 56/2012) redefining the State powers for the safeguard of national interest in the strategic sectors of energy, transports and telecommunications;	
· Legislative Decree no. 21/2014 (implementation of Directive 2011/83/UE on consumers' rights) defining the rules for distance contracts, with specific reference to the right of withdrawal and the acquisition of consumer's express consent to be bound to the contract. Furthermore the Decree attributes to the Antitrust Authority (Autorità Garante della Concorrenza e del Mercato; the <b>AGCM</b> ) the evaluation of sanctions for unfair commercial practices;	
· Law no. 183/2014 (Legislative decree of the Italian "Jobs Act") and its implementing Decree no. 148/2015, setting forth measures to reform the labor market and safety nets in order to secure a generational turnover;	
· Decree of December 2, 2014 of the Ministry of Environment, implementing the Decree Law no. 179/2012, setting forth certain guidelines in the area of electromagnetic emissions. Two further decrees on this matter are expected to be published;	
· Law no. 115 of 2015 (European Law 2014), amending the contribution fees paid to AGCom by the Operators;	
· Legislative Decree no. 33/2016 (implementing 2014/61/UE Directive), setting forth measures for costs reductions in UBB networks installations and promoting the use of existing infrastructures, enabling more efficient deployment of new infrastructures to reduce installation costs of UBB networks;	
· Ministry Decree May 11, 2016 (Institution of SINFI - Sistema informativo nazionale federato delle infrastrutture), implementing Legislative Decree no. 33/2016, through the establishment of a single infrastructures directory;	
· Legislative Decree no. 179/2016 (Modifications to Digital Administration Code), which set users' right to use the phone credit for electronic micro-payments towards PA;	

- Law no. 232/2016 ( Legge di Bilancio 2017 ), which set i) rules for delocalization of call centers in non-EU countries; ii) renewal of rights of use of the GSM mobile radio frequencies (900 MHz band) and UMTS (1800 MHz); iii) support the implementation of the Digital Agenda.

The MISE is responsible for general policy in the electronic communications sector and AGCom is responsible for ensuring fair competition and protecting customers in the telecom market.

v *The Italian regulatory framework*

In July 2008, TIM proposed to AGCom various undertakings (the **Undertakings** ) with respect to the provision of wholesale services for the access to its network aimed at integrating and strengthening the non-discrimination obligations (imposed by AGCom since 2002) amongst TIM 's own retail divisions and the Alternative Network Operators ( **AltNets** ).

To this end, at the beginning of 2008, TIM created the new Open Access department, a separate operating unit focusing its activities on the implementation of the Undertakings.

The implementation of the Undertakings, their complexity and their impact on the stakeholders' IT systems and procedures, also required the establishment of a new governance model. Specifically, the following bodies were established: an independent supervisory body (the **Supervisory Board** ); the AGCom Undertakings' Monitoring Group, in charge of the undertaking implementation monitoring (Gruppo per il Monitoraggio degli Impegni **GMI** ), the Italian Office of Telecommunications Adjudicator ( **OTA Italia** ), in charge to prevent and settle any possible disputes amongst AltNets; and the **Next Generation Network Committee**, in charge of submitting possible solutions for any technical, organizational and economic issues which would arise due to the transition to the Next Generation Network.

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On November 5, 2015, TIM's Board approved a plan to introduce a New Equivalence Model ( **NEM** ), aimed at further strengthening the efficiency and effectiveness of the delivery (provision) and assurance (maintenance) processes of TIM's wholesale access services.

The New Equivalence Model aims to put TIM's sales divisions on equal footing with AltNets, in order to achieve a more effective internal and external equality of treatment and greater transparency in the management of the line activation requests.

Specifically, the NEM, through the reorganization of both assurance and delivery processes, aims to improve end-to-end performance and to remove any possible internal-external process asymmetries between TIM Retail and AltNets (such as differences in internal and external reasons for refusal of delivery orders, provision times, customer data bases and order workflows) that could produce potential discrimination.

The most important change resulting from the New Equivalence Model is that TIM Retail purchases wholesale access services through the same interface used by the AltNets. TIM Retail and AltNets will use the same processes, IT systems, and information databases. A full equality of treatment of the delivery activities is therefore ensured. In particular, the same regulated wholesale access services are provided to all Operators (TIM Retail and AltNets), at the same level of quality, prices, and with the same times.

As an initial step in the process of implementing the NEM, Open Access and TIM's National Wholesale department have been merged into a single department.

The plan of New Equivalence Model was communicated to AGCom within the proceeding of fixed wholesale access services market analysis (Decision 623/15/CONS see below) and, after a public consultation (June-July 2016), it was approved by the Italian NRA (Decision 652/16/CONS of December 2016).

The implementation of the NEM is ongoing and will be completed by May 2017.

**4.3.3 MARKET ANALYSES**

The EU regulatory framework (Art. 16 of the Framework Directive) obliges National Regulatory Authorities to carry out market analyses before imposing obligations on individual operators having a Significant Market Power ( **SMP** ) according to the specific EU guidelines.

According to art. 14.2 of the Directive *an undertaking is deemed to have SMP when, either individually or jointly with others, it enjoys a position equivalent to dominance, which is a position of economic strength providing the company itself with the power to behave, to an appreciable extent, independently of competitors, customers and ultimately consumers* . Market shares are normally used as a proxy for market power: while undertakings with market shares of no more than 25% are not likely to enjoy a (single) dominant position, single dominance concerns normally arise in the case of undertakings with market shares of over 40%. Market shares in excess of 50% are in themselves, except in exceptional circumstances, evidence of the existence of a dominant position.

The basis of the market analyses is the Recommendation on relevant markets susceptible of ex ante regulation which identifies the relevant markets. The first version of the Recommendation was adopted in 2003 and contained a list of 18 relevant markets. In 2007 the EC adopted the second version and reduced the number of markets to 7 (both retail and wholesale markets): retail access at a fixed location (market 1) and, at wholesale level, call origination at a fixed location (market 2); call termination at a fixed location (market 3); wholesale (physical) network infrastructure access (including shared or fully unbundled access) at a fixed location (market 4); wholesale broadband access (market 5); wholesale terminating segments of leased lines (market 6) and voice call termination on mobile networks (market 7).

In October 2014, the EC adopted the third version which is currently in force and identifies only five wholesale markets susceptible to ex-ante regulation: call termination at fixed location (market 1), call termination on mobile networks (market 2), local access at fixed location (market 3a), central access at fixed location for mass-market products (market 3b), high-quality access at fixed location (market 4).

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The market analyses carried out by the NRAs are subject to the assessment of the EC which, to a certain extent, can challenge the NRAs findings, having a veto power on the definition of the market and on the identification of SMP operators. Vice-versa, the EC has no veto power on the imposition of the remedies, but can raise serious doubts following which the BEREC is requested to give an opinion. The EC, the BEREC and the NRA must then cooperate to find a solution within three months. Neither the EC nor BEREC are able to make a binding intervention. The NRA can decide not to amend or withdraw its decision on remedies but it must provide a reasoned justification .

Following a first round (2006-2007) and a second round (2007-2010) of market analyses, a third round was started by AGCom in 2012. The third round of market analysis ended in October 2016 with the AGCom Decision on fixed voice interconnection market.

With respect to retail markets, despite the fact that they are not included in the current list of the EU relevant markets (Recommendation of 2014), the final AGCom decision of the market analysis on wholesale access markets, retained some obligations, such as the notification of retail charges prior to the commercial launch and the obligation to carry a replicability test of the retail offers (taking into account the most efficient network architecture that could be used by AltNets to compete in a specific context).

A description of the Italian wholesale market analyses is summarized below together with the main recent developments regarding the electronic communications markets.

**4.3.4 WHOLESALE MARKETS****v Wholesale fixed access markets**

In December 2015 (Decision no. 623/15/CONS), AGCom defined the rules for the access to TIM's copper and fiber fixed networks for the years 2015-17.

The main regulatory measures are the following:

- confirmation of the national scope of remedies imposed on TIM, despite the increasing development of the infrastructure competition in some of the geographic areas;
- substantial upholding of Local Loop Unbundling ( LLU ) prices together with a reduction of Sub Loop Unbundling ( SLU ) and Virtual Unbundling Local Access ( VULA ) prices);
- disaggregation of ancillary service provision for provision and maintenance (i.e. delivery and assurance) for LLU and SLU lines, to be implemented through a specific proceeding (in progress);



- introduction of new equivalence measures, according to the New Equivalence Model (NEM);
- stricter constraints on the quality of wholesale services (SLAs and penalties);
- commitment to define switch-off rules in case of decommissioning of TIM local exchanges of the copper access network:
  - 5 years for the switch-off of local exchanges where LLU is available;
  - 3 years for local exchanges where LLU is not available, or for local exchanges where LLU is available as long as TIM provides competitors with a service that is technically equivalent to copper LLU for at least 2 years after the switch-off.

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The following table shows the 2015-2017 wholesale economic prices (2013 and 2014 prices were the same):

<b>Service</b>	<b>2013/14</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
LLU (euro/month/line)	8.68	8.61	8.61	8.61
SLU (euro/month/line)	5.79	5.57	5.43	5.3
SA (euro/month/line)	0.86	0.73	0.73	0.73
WLR POTS (euro/month/line)	11.14	11.06	11.06	11.06
WLR ISDN (euro/month/line)	13.78	13.67	13.67	13.67
Bitstream shared (euro/month/line)	6.74	4.96	4.63	4.29
Bitstream naked (euro/month/line)	15.14	13.59	12.8	12.46
VULA FTTC shared (30 Mbps) (euro/month/line)	13.94	7.92	7.90	7.88
VULA FTTC shared (50 Mbps) (euro/month/line)	13.94	9.73	9.68	9.63
VULA FTTC naked (30 Mbps) (euro/month/line)	20.63	13.58	13.42	13.27
VULA FTTC naked (50 Mbps) (euro/month/line)	20.63	15.38	15.20	15.02
VULA FTTH (100 Mbits/10 Mbits) (euro/month/line)	24.9	23.15	22.64	22.12
VULA FTTH (40 Mbits/40 Mbits) (euro/month/line)	34.53	32.08	31.36	30.65
VULA FTTH (100 Mbits/100 Mbits) (euro/month/line)	86.49	81.37	79.57	77.77

<b>NGA<sup>3</sup> wholesale physical access Monthly fees (euro)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Miniduct access new infrastructures (IRU 15 years euro/miniduct/meter)	10.60	10.60	10.1	9.61	9.11
Miniduct access existing infrastructures (IRU 15 years euro/miniduct/meter)	6.44	6.44	6.36	6.29	6.21
Entries to buildings (IRU 15 years euro/miniduct)	385.46	385.46	382.70	379.95	377.19
Dark fiber primary section (IRU 15 years/fiber)	3,900.35	3,900.35	3,639.97	3,379.58	3,119.20
Dark fiber secondary section (IRU 15 years/fiber)	1,700.91	1,700.91	1,697.32	1,693.72	1,690.13
End to End service (euro/month/line)	65.10	65.10	61.53	57.96	54.39
Fiber terminating segment (euro/month/line)	5.96	5.96	5.84	5.72	5.60

The access service fees are cost-oriented according to BU-LRIC+/CCA (Bottom-Up Long Run Incremental Cost Plus/ Current Cost Accounting) methodology and Weighted Average Cost of Capital ( **WACC** ) has been reduced from 9.36% to 8.77%. Moreover New Generation Access ( **NGA** ) Risk premium has been set equal to 3.2% for Fiber to the Home ( **FTTH** ) and 1.2% for Fiber to the Cabinet ( **FTTC** ).

Within the framework of the rules to access the fixed copper and fiber networks for the years 2015-17, AGCom also defined new measures to strengthen the equality of treatment guarantees in the provision of regulated wholesale access services at a fixed location. AGCom asked TIM to present a proposal to improve the efficiency of its own equivalence model in the provision of wholesale services to competitors and to its own commercial divisions. Consequently, in February 2016, the New Equivalence Model, in accordance with the TIM Board decision taken on November 5, 2015, was communicated to AGCom. With Decision 652/16/CONS (December 2016), AGCom approved both TIM's New

Equivalence Model and some voluntary undertakings adopted by TIM to favor the suspension of two sanctioning proceedings started by AGCom as a result of alleged inefficiencies in the wholesale access services provision processes which caused excessive delivery delays.

Additionally, with Decision 623/15/CONS, AGCom asked TIM to present a proposal to introduce an unbundling and externalization model for the delivery and assurance activities of the local loop and sub-loop unbundling lines. TIM's proposal (sent to AGCom in February 2016 and submitted to public consultation by AGCom in April 2016) is based on the extension of the System Unico (i.e., the recourse to external companies by the competing operators) to the above-mentioned delivery and assurance activities. The proceeding is still ongoing and AGCom's final decision, after notification of the draft decision to the European Commission (EC), is expected by the end of the second quarter of 2017 unless the EC raises doubts and opens an investigation phase which can extend the proceedings by 4 months.

#### **Ø Terminating segment of leased lines**

In July 2015, the Italian NRA approved the decision on terminating segment of leased lines services, essentially confirming the rules laid down at the end of the previous round of market analysis. In particular, regarding

<sup>3</sup> New Generation Access.

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Synchronous Digital Hierarchy / Plesiochronous Digital Hierarchy ( **SDH / PDH** ) leased lines with capacities less than or equal to 155 Mbit/s and Ethernet over SDH leased lines, TIM is subject to a network price cap (for Access rentals CPI-6%, for Internet Protocol **IP** transport 8.6 %) for 2015, 2016 and 2017. Regarding SDH / PDH leased lines with capacities greater than 155 Mbit/s and Ethernet over optical fiber leased lines, as well as ancillary services, prices are to be oriented to the costs resulting from the regulatory cost accounting.

**Ø Wholesale fixed interconnection markets**

In October 2016, AGCom issued the final decision of the third round of analysis of fixed voice interconnection market, specifically fixed call termination, origination and transit services.

AGCom established:

- to confirm SMP designation for TIM in the origination market, although this market has been removed from the EC Recommendation;
- to set stable fixed call termination rates of 0.043 eurocents/min for TIM and alternative network operators valid until the end of 2018, and 0.041 eurocents/min from January 1, 2019;
- to exclude from the scope of price regulation the termination rates of calls originated outside the European Economic Area ( **EEA** ), including the EU member States and Iceland, Liechtenstein and Norway;
- to remove the existing obligations imposed on TIM in the wholesale market for district-level transit; and
- to remove the obligation imposed on TIM to notify its retail call services that rely on the regulated interconnection services 30 days before the commercialization.

**Ø Wholesale mobile markets**

In September 2015, AGCom issued a new Decision on termination on mobile networks. Compared to AGCom's previous market analysis, the full Mobile Virtual Network Operators ( **full MVNOs** ), i.e., BT Italia, Lycamobile, Noverca and Poste Mobile, have SMP in addition to the mobile network operators ( **MNO** ) and termination rates of calls originated outside EEA are explicitly excluded from the scope of price regulation.

In addition, WACC has been set at 10.25%, while the termination rate cap has been set at 0.98 eurocents/min for the period 2014-2017 (for full MVNOs from September 30, 2015).

#### **4.3.5 ACCOUNTING SEPARATION AND NETWORK COST ACCOUNTING**

SMP operators are required to have a transparent accounting of their costs and to provide AGCom, on a yearly basis, with a description and a report on their cost accounting system, to enable AGCom to assess their compliance with the requirements of the electronic telecommunications regulatory framework.

Moreover, SMP fixed and mobile operators must maintain an accounting system that separates the activities in each of the relevant wholesale and retail markets defined by AGCom according to the periodic market analyses.

The rules on regulatory accounting in Italy are set in accordance with EC Recommendations, particularly with Recommendation on Cost Accounting and Accounting Separation, issued in September 2005.

Changes in the regulation on cost accounting and accounting separation follow rules set out in the market analyses.

Through Decision 623/15/CONS on fixed access market analyses for the period 2015-2017, AGCom set the Weighted Average Cost of Capital (WACC) for fixed networks at 8.77% (nominal pre-tax).

Through Decision 497/15/CONS on mobile termination for the period 2015-2017, AGCom set the WACC for the mobile network at 10.25% (nominal pre-tax).

The regulatory accounting report for the year 2014 was produced in 2015 and delivered to AGCom in January 2016.

The regulatory accounting report for the year 2015 was produced in 2016 and delivered to AGCom in September 2016.

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Despite the removal of retail markets from the current list of the EU relevant markets (Commission's Recommendation on relevant markets of 2014), through its decision on the market analysis on wholesale access markets (Decision 623/15/CONS), AGCom confirmed that TIM is subject to the following obligations regarding its publicly available stand-alone and bundled retail offers: a 30-day notification prior to the commercial launch and an assessment by AGCom of the offer replicability (i.e. margin squeeze test and availability of adequate wholesale inputs); if the offer does not meet the replicability requirement, TIM must revise the offer conditions.

The replicability of TIM's retail offers for private tenders and public procurement bids (including either narrowband or UBB fixed access, both stand-alone and in bundling with other services) is verified only after the contract signature, on the basis of either AltNets complaints or AGCom autonomous initiative. Therefore, these retail offers have to be communicated to AGCOM within 30 days after the contract signature.

In December 2016 (Decision 584/16/CONS), AGCom updated the replicability tests (margin squeeze tests) methodology.

In the new guidelines, applicable from April 1, 2017, AGCom introduces the possibility to verify TIM's local retail offers, evaluating the wholesale costs as a mix of the TIM's wholesale services actually used in the specific area where the offer is provided.

With respect to retail offers, AGCom must apply two different replicability assessment models respectively for copper and fiber (ultrabroadband). For the fiber offers, AGCom also applies an ex-post test. If the fiber offer does not pass such ex-post test, AGcom may open a sanctioning proceeding for infringement of the non-discrimination obligation.

**4.3.7 QUALITY OF SERVICES****v *The measures to test the quality of the data service on fixed networks***

AGCom Decision 244/08/CSP and its modifications, namely Decision 151/12/CONS introduced the following obligations on quality measures:

- Internet Service Provider ( **ISP** ) measurements: the measures of the access quality of the most common retail offers are made by an independent body, in the geographical areas of the main towns, for each ISP; and

End-user measurements: allows a user to measure his own fixed broadband line performances with dedicated software called Ne.Me.Sys . Each customer can formally certify the quality of his own fixed-line broadband access using this software and can compare the results with the advertised performances. These results could be used by customers to terminate the contract with the ISP without penalties or to claim Quality of Service ( **QoS** ) parameters levels to be restored. If the results are lower than those advertised, the user may submit a complaint to the provider which is obliged to improve the quality within 30 days. The user may terminate the contract without penalties if a second measure confirms the parameters.

Both measurement methods employ the same Network Measurement System, based on a software agent running on a standard Personal Computer.

#### **4.3.8 THE UNIVERSAL SERVICE**

The Universal Service ( **US** ) is a minimum set of services of a certain quality, which must be made available to all customers, regardless of their geographical location in Italy and must be offered at a reasonable price, taking into account specific national conditions. To date, TIM is the only operator obliged by the Code of Electronic Communications (art. 58) to provide the Universal Service under the Universal Service Obligation ( **USO** ) throughout Italy. Currently the services included in the USO are the provision of access at a fixed location and of telephone service, the directory inquiry service and the directories, the availability of public payphones, and the provision of specific measures for disabled users.

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A Fund (The Universal service Fund), established by the Ministry of Communications, is used to finance the net cost for the provision of Universal Service sustained by the designated operator (TIM) by means of contributions paid by the other operators. All the main companies active in the sector, including TIM, must contribute to this fund.

AGCom is responsible for verifying the net cost of the USO provision and to assess whether this amount represents an unfair burden for the operator. The designated operator can receive compensation only if the burden is determined to be unfair.

AGCom assessed the net cost and authorized the funding mechanism until the year 2005 and did not recognize any contribution for the years 2006 and 2007.

The net cost for the provision of USO for the years 2004-2007 have been calculated on the basis of a methodology established by AGCom in 2008 (decision 01/08/CIR) with retroactive effect, which led to a significant decrease of the amount to be financed.

The Council of State, with a decision published on October 2, 2015, rejected the retroactivity of the criteria introduced by AGCom's Decision 01/08/CIR, so the Italian NRA has been called upon to renew all the procedures for the years 2004 to 2007, applying the net cost calculation methodologies which were in effect at the time. The judgment of the Council of State may result in a reassessment of the net cost for the years 2004-2007.

TIM submitted net cost calculations of the USO for the years 2008, 2009, 2010, 2011 and 2012 to AGCom. The audit of the 2008 and 2009 net costs was completed in March 2014, but AGCom has not yet issued a final decision.

With respect to past litigation, the Council of State, with a decision published on July 7, 2015, rejected the appeal filed by TIM against the decision of the Regional Administrative Court ( **TAR** ) on AGCom's decisions of 2010 by which AGCom had reviewed the proceedings for the years 1999-2000 and 2001-2003. As a result, the Council of State annulled AGCom's Decision of 2010 establishing a possible new renewal of the proceedings for the calculation of the contributions of the years 1999-2000 and 2001-2003.

Following the State Council decision, Vodafone requested TIM to refund the amounts paid for 1999-2000, 2002-2003 and subsequent periods.

The Ministry of Economic Development is responsible for reviewing the scope and definition of the USO every two years and, in September 2014, together with AGCom, opened a formal proceeding concerning the identification of the criteria for designating one or more operators responsible for providing the universal service. The proceeding remains ongoing.

With decision 456/16/CONS (October 2016), AGCom, dismissing TIM's proposal to increase the Voce offer prices (April 2016), introduced a strict procedure for future variations of the retail prices regulated under the USO, providing, for example, a time period of at least one year between two subsequent tariff changes and the possibility to change the prices only with reference to: (i) increase in wholesale costs; (ii) inflation recovery; and (iii) socio-economic conditions. TIM reserved the right to challenge the Decision on the Voce offer before the TAR of Lazio.



Finally, with decision 46/17/CONS, issued on February 24, 2017, AGCom introduces new measures on concessional economic conditions to access fixed and mobile services to the benefit of specific categories of disable customers. The provisions of the measure, applying to deaf, blind and partially sighted people, extend the current concessions, both in terms of concessional services (for example, flat voice and data offers) and of the relevant disabled categories (for example, partially sighted people).

v ***Public Telephony***

In 2010, AGCom established that the criteria regarding the distribution of public payphones in Italy was no longer consistent with the current social needs and removed any quantitative obligations for TIM (i.e. the obligation to

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install a specified number of payphones). As a consequence, TIM is authorized to remove the unprofitable coin-boxes after a consultation with the city councils and the interested citizens. At the end of 2016, the total number of public payphones was about 50,000.

**4.3.9 CONTRIBUTION FEES FOR THE FUNCTIONING OF AGCOM**

TIM and the other operators are required to pay contribution fees to fund the running costs of AGCom. These fees are calculated on the basis of each operator's revenues and they have given rise to a series of litigation proceedings and appeals among TIM, AGCom and other operators.

With respect to the 2016 contribution fee, AGCom confirmed, notwithstanding the judgment of the Administrative Court (TAR) of Lazio and the following judgment of the Council of State, both issued in 2015, the methodology used in the previous years rather than applying the principle that administrative charges imposed on the undertakings should only finance costs related to activities exclusively related to *ex ante* regulation and that there should be balance between these administrative costs imposed on undertakings and the total cost related to these activities.

In particular, on April 1, 2016, TIM paid 19.8 million euros calculated on a revenue basis, under reserve, applying the 2016 AGCom rate of 1.4 per thousand (Decisions 605/15/CONS and 34/16/CONS).

On October 2016, the Cassation Court dismissed the appeal brought by AGCom against the ruling of the Council of State confirming the withdrawal of decisions 99/11/CONS (AGCom's request of the alleged recoverable amounts on AGCom contribution for the years 2006-2010, equal to approximately 27 million euros) and decision 599/10/CONS (determination of AGCom contribution for the year 2011).

On February 6, 2016, AGCom issued Decision 463/16/CONS on the payment of AGCom contribution for the year 2017 (calculated on the 2015 financial statement data). The guidelines for the calculation of contribution fee are unchanged from the guidelines for the calculation of the 2016 fee.

**4.3.10 BROADBAND AND DIGITAL DIVIDE****v Government's plans for UBB networks**

In June 2016, the EU Commission authorized the Italian Government UBB State Aid Plan for a total amount of 4 billion euros aimed at covering almost 25% of the population living in about 7,200 municipalities belonging to the so called UBB "white areas" of Italy (the **Tender**). Approximately 2.9 billion euros of this amount have been allocated. The 7,200 municipalities are grouped into two clusters, C and D. In Cluster C, 70% of connections have to reach at least 100 Mbit/s for download and 50 Mbit/s for upload, while the remaining 30% have to reach at least 30 Mbit/s for downloads and 15 Mbit/s for uploads. In Cluster D, 100% of connections have to reach at least 30 Mbit/s for downloads and 15 Mbit/s for uploads.

On June 3, 2016 Infratel published a first call for tender (the **First Tender**) of 1.4 billion euros for deploying, and managing under concession an UBB "passive" infrastructure (ducts and dark fiber) in the white areas of 6 regions

(Abruzzo, Molise, Emilia Romagna, Lombardia, Toscana and Veneto) and, on October 17, 2016 the qualified operators (TIM, Open Fiber S.p.A. ( **OF** ), E.Via S.p.A. and Estra S.p.A.) submitted their technical-economical offers.

On March 7, 2017, Infratel Italia awarded the company Open Fiber with all the five lots of the first tender after technical and economic sustainability analyses (in the light of the Public Procurement Code Decree by Law 50/2016) carried out on the OF offers made public on January 24, 2017. The publicly subsidized infrastructure is to remain public property and to be allocated under a 20-year concession to the operator awarded the tender lots.

On August 8, 2016, Infratel Italia called for a second tender on the ultrabroadband white areas identified in 10 other Italian regions (Piemonte, Valle d Aosta, Friuli Venezia Giulia, Liguria, Marche, Umbria, Lazio, Campania, Basilicata and Sicilia) and in the Trento Autonomous Province, for a total value of public financing equal to approximately 1.25 billion euros (the Second Tender ). TIM decided to not participate to the Second Tender .

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Despite TIM was pre-qualified also for this second tender, the Company didn't submitted any bids in line with what it communicated to the Ministry of Economic Development and Infratel Italia. In fact, TIM updated its investment plan at the end of 2016, planning to roll-out ultrabroadband network coverage selectively to some white areas of the Regions included in the Infratel tender process. This choice was confirmed in the 2017-2019 Strategic Plan already presented by the company to the financial community too.

**4.3.11 PRIVACY AND DATA PROTECTION**

TIM must comply with Italy's Personal Data Protection Code (Legislative Decree June 30, 2003 no. 196), which has been in force since January 1, 2004.

The Privacy Code is divided into three parts: (1) general data protection principles; (2) additional measures applicable to organizations in certain areas, including telecommunications services; and (3) sanctions and remedies.

The Privacy Code applies to all data processing within Italy and also affects organizations not based in Italy but using equipment located in Italy, such as computer-based systems.

According to the Code, personal data shall be processed lawfully and fairly, retained accurately and up to date and must not be excessive or stored for a longer period than needed. Therefore, information systems shall be configured in order to minimize the use of personal data.

The data subject (any natural person that is the subject of the personal data) and the subscriber (any natural or legal person who or which is party to a contract with the provider of publicly available electronic communications services, or is the recipient of such services by means of pre-paid cards) shall receive preliminary information on the purposes and modalities of data processing.

Prior consent of the data subject is needed to process personal data, except in specific cases (i.e. obligations imposed by law or by a contract with the data subject). Furthermore, the data subject has the right to access his/her personal data and to obtain information on the purposes and methods of the processing.

v ***Italy's Privacy Provisions Related to Specific Processing Operations in the Electronic Communications Sector***  
Italian Communication Service Providers ( CSPs ) must comply with strict specific obligations that apply only to the electronic communication sector, which are provided by a specific section of the Privacy Code that transposes the relevant EU Directives.

Notably, with respect to data retention, CSPs are allowed to retain traffic data for a six-month period in order to deal with disputes over billing and subscriber services. CSPs are also required to retain telephone and electronic communications traffic data for the purpose of detecting and preventing crimes. The data retention terms for crime prevention and prosecution provided by the Italian Data Protection Code are: 24 months for telephony traffic (fixed and mobile); 12 months for electronic communications traffic; and 30 days for unsuccessful call attempts. However, over the course of 2015 and 2016, Decree no. 7/2015, on urgent antiterrorism measures, and the subsequent Law no.

21/2016, introduced transitional rules according to which telephone and electronic communication traffic data, as well as unsuccessful call attempts, generated after April 21, 2015 must be retained until June 30, 2017. Such transitional provisions will cease to apply on July 1, 2017.

Traffic data must be kept and controlled in compliance with general provisions issued by the Italian Data Protection Authority ( **Garante per la protezione dei dati personali** ), which requires CSPs to adopt strict security measures.

Moreover, customer profiling in the electronic communications sector is regulated by the Italian Data Protection Authority. CSPs must obtain the consent of the data subject for profiling based on individual and detailed personal data, while prior approval of the Italian Data Protection Authority is needed to process aggregated personal data without the data subject's consent.

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Concerning direct marketing activities, the general rule is the **opt-in system**. Nevertheless the Privacy Code also allows the processing of personal data obtained from directories of subscribers, in order to carry out operator-assisted telephone calls for commercial purposes. Such processing is possible in respect of any entities (i.e. subscriber) that have not exercised their right to object by having the respective telephone numbers entered in a public opt-out register, which came into force on February 1, 2011.

Finally, CSPs must adopt technical and organizational measures that are adequate in the light of the existing risk, in order to safeguard the security of their services and to take measures when breaches of personal data occur. Such measures must protect personal data against the risk of their accidental or unlawful destruction or loss and of unauthorized access to the data or of processing operations that are either unlawful or inconsistent with the purposes for which the data have been collected.

Under the Privacy Code, in case of a personal data breach (a security breach leading, accidentally or not, to the destruction, loss, alteration, unauthorized disclosure or access to personal data transmitted, stored or otherwise processed in the context of the provision of a publicly available communications service) the provider shall inform without delay the Italian Data Protection Authority (currently the Italian Data Protection Authority specified the term in 24 hours for the first communication and in other 3 days for the communication of further details). Moreover, where the breach is likely to adversely affect the personal data or privacy of a subscriber or other individuals, the provider must also inform them within 3 days.

Another relevant provision regards cookies. Article 122 of the Privacy Code sets out that storing information, or accessing information already stored in the terminal equipment of subscriber/user (i.e. by cookies or similar tools such as web beacons, web bugs, clear GIFs or others), shall only be permitted on condition that the subscriber/user has given his prior consent after being informed by simplified arrangements. Subscriber/users prior consent is not necessary to install the technical cookies, which are those used exclusively with a view to carrying out the transmission of a communication on an electronic communications network, or insofar as this is strictly necessary to the provider of an information society service that has been explicitly requested by the contracting party or user to provide the said service.

On May 8, 2014, the Data Protection Authority adopted a general provision relating to Simplified Arrangements to Provide Information and Obtain Consent Regarding Cookies, requiring that concerned entities be compliant with the simplified arrangements, pursuant to Article 122 of the Privacy Code, by June 2, 2015.

TIM implemented the requested measures to comply with the above mentioned provision.

v **Regulation EU 2016/679**

EU Regulation no. 2016/679 on the protection of natural persons in connection with the processing of personal data and to the free movement of such data General Data Protection Regulation ( **GDPR** ), published on May 4, 2016 in the Official Journal of the EU, shall be directly applicable in all Member States from May 25, 2018.

The GDPR will:

- apply both to companies established in the EU and to companies not established in the EU but that offer their services in the EU or that monitor the behavior of individuals in the EU;
  - include a right to data portability;
  - contain new obligations for companies, for instance notifying personal data breaches and designating a Data Protection Officer ( **DPO** );
  - set up a one-stop-shop whereby companies will only have to deal with a single national data protection authority (DPA) in cross-border data protection cases;
  - establish a new European Data Protection Board ( **EDPB** ) bringing together the heads of national DPAs (replacing the current Article 29 Working Party) and with the power to adopt binding decisions; and
  - contain fines up to 4% of the total worldwide turnover of a company.
- TIM has put in place a specific project, in order to carry out all the activities needed to ensure its compliance with the new rules that the GDPR will introduce.

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**4.3.12 ANTITRUST ISSUES**

v *Antitrust in Italy*

**Ø Legislation on competition**

TIM is subject to Italian competition law, and namely the Law of October 10, 1990 no. 287 ( Provisions aiming at protecting competition and the market ) which set up the AGCM, or Antitrust Authority .

The Antitrust Authority is responsible for:

- (i) applying Law 287/1990 and supervising: (a) restrictive agreements; (b) abuses of a dominant position; and (c) concentrations of enterprises;
- (ii) applying, whenever the necessary conditions are met, the relevant EU provisions (i.e., Articles 101 and 102 of the Treaty on the Functioning of the European Union);
- (iii) applying Legislative Decree September 6, 2005 no. 206 concerning unfair commercial practices; and,
- (iv) monitoring conflicts of interest in the case of individuals holding government positions.

In addition, the Antitrust Authority may:

- (i) adopt interim measures; and
- (ii) enforce commitments binding upon the proposing parties in order to dispel identified anticompetitive concerns closing the investigation without any finding of a violation.

**Ø Proceedings**

In 2016, there were two antitrust proceedings involving TIM before AGCM:



**Proceeding A428C** : on July 17, 2015, TIM received the filing from a proceeding concerning a possible infringement of the order contained in the A428 Decision from May 2013 with reference to the abuse of dominant position related to the supply of wholesale services to AltNets. On January 13, 2017, the Antitrust Authority (AGCM), notified TIM of its decision acknowledging that TIM had fully complied with resolution A428 and that the conditions for imposing sanctions for non-compliance did not apply. AGCM also acknowledged that TIM's conduct following the 2013 resolution has been focused on improving performance in connection with the provision of wholesale access services that concerned the services subject to investigation and new ultrabroadband access services. AGCM also acknowledged the positive impact of the implementation of the TIM's New Equivalence Model (NEM), which remains ongoing. AGCM's decision requires TIM to: i) carry on with the implementation of NEM, which is to be completed by April 30, 2017 and ii) inform the AGCM on the levels of performance of the wholesale access services provisioning systems and on the completion of the related project of internal re-organization by May 2017.

**Proceeding A500B** : on November 16, 2016, AGCM notified TIM the opening of an investigation for alleged abusive behaviors in the market of Bulk SMS services. TIM would have hampered competition by abusing its dominant position in the market of SMS termination on its own network. The proceeding was initiated by a notification of the operator Ubiquity, active in the segment of the SMS alert services for the banking and financial sectors, in competition with TIM and other mobile operators, Vodafone included. In the complaint Ubiquity claims that TIM is applying wholesale prices that make unprofitable the provision of the retail services for the non-vertically integrated competitors such as Ubiquity. AGCM set November 30, 2017 as the deadline to close the procedure. An analogous charge has been addressed to Vodafone, against which AGCM started a separate enquiry, assuming an alleged analogous abuse of dominant position.

**Proceeding I799** : in February 2017 the Antitrust Authority launched an investigation into the new partnership Flash Fiber between TIM and Fastweb. The partnership is aimed at accelerating the creation of ultrabroadband infrastructure with FTTH (Fiber to the Home) technology in 29 Italian cities. The investigation aims to verify whether the agreement violates Art.101 of the Treaty on the Functioning of the European Union by examining the possible effects of the commercial coordination activities by the two entities. The investigation is expected to conclude by December 31, 2017.

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TIM is subject to the European competition law. European competition policy was developed from rules set out in the Treaty on the Functioning of the European Union (**TFEU or Treaty**) and covers anticompetitive practices and abuse of dominance, mergers and state aid:

- anticompetitive practices: agreements between two or more independent market operators which restrict competition are prohibited by Article 101 of the Treaty on the Functioning of the European Union. This provision covers both horizontal agreements (between actual or potential competitors operating at the same level of the supply chain) and vertical agreements (between firms operating at different levels, i.e. agreement between a manufacturer and its distributor). Only limited exceptions are foreseen in the general prohibition. The most obvious example of illegal conduct infringing Article 101 is the creation of a cartel between competitors (which may involve price-fixing and/or market sharing);
- abuse of dominance: Article 102 of the Treaty prohibits firms holding a dominant position on a determined market to abuse that position, for example by charging unfair prices, by limiting production, or by refusing to innovate to the prejudice of consumers;
- mergers: the EC is responsible for reviewing mergers if the annual turnover of the combined businesses exceeds specified thresholds in terms of global and European sales. In such cases, the EC must be notified of the transaction. Transactions falling below these thresholds may be reviewed by the national competition authorities in the EU Member States; and
- state aids: public aid distorting competition and trade within the EU are prohibited (Art. 107 of the Treaty). State aid is defined as an advantage in any form whatsoever conferred on a selective basis to undertakings by national public authorities. Therefore, subsidies granted to individuals or general measures open to all enterprises do not constitute State aid.

Furthermore, the EC Treaty provides that in some circumstances, government interventions are necessary for a well-functioning and equitable economy, stating some exceptions and sector specific rules. The Guidelines for the application of State aid rules in relation to rapid development of broadband networks establish that public funding of broadband projects is not considered state aid if one of three exemptions are used:

- the public authority invests under the same conditions that would be applied to a private investor (Market Economy Investor Principle **MEIP**);

- the public contribution is limited to the compensation of the provision of a service of general economic interest (Services of General Economic Interest principle **SGEI** );
- it meets certain conditions (promoting the economic development of underdeveloped areas, promoting the execution of an important project of common European interest or to remedy a serious disturbance in the economy of a Member State, facilitating the development of certain activities or areas, promoting culture and heritage conservation).

The EC is empowered by the Treaty to apply these prohibition rules and holds a number of investigative powers to that end (e.g. inspection at business and non-business premises, written requests for information, etc.). It may also impose fines on undertakings which infringe the EU antitrust rules. The main rules on procedures on the implementation of the competition rules set forth in Art. 101 and 102 of the Treaty are set out in Council Regulation (EC) 1/2003.

Since May 1, 2004 all National Competition Authorities have also been empowered to fully apply EU Antitrust rules (i.e. Art. 101 and 102 of the TFEU) in order to ensure that competition is not distorted or restricted. National courts may also apply these provisions in order to protect the individual rights conferred on citizens by the Treaty. State aids rules, on the contrary, can only be applied by the EC.

As part of the overall enforcement of EU competition law, the EC has also developed and implemented a policy on the application of EU competition law to actions for damages before national courts. It also cooperates with national courts in order to ensure the coherent application of the EU competition rules within the Member States.

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TIM Group's operations in Brazil are subject to the 1997 General Law on Telecommunications (Lei Geral de Telecomunicações - **LGT**) and to a comprehensive regulatory framework for the provision of telecommunications services adopted by the Regulatory Agency for Telecommunications - Agência Nacional de Telecomunicações (**ANATEL**).

ANATEL is responsible for the regulation and implementation of national policies in matter of telecommunications. It is a quasi-independent body (the relationship with the Ministry of Communication is institutional, but not hierarchical) enjoying financial and operational autonomy and a wide range of functions and powers, to ensure competition and to avoid concentration of services. The board members have a fixed term, are selected and appointed by the President under approval by the Senate.

ANATEL has the power to impose restrictions, limitations or conditions on concessions, permits or authorizations. ANATEL has the authority to propose and issue legally binding regulations on telecommunications service providers. The rules issued by ANATEL are subject to periodic updates. Any proposed regulation or action by ANATEL is subject to a period of public consultation, which may include public hearings, and can be challenged in Brazilian courts.

ANATEL privatized the former public monopolistic operator and progressively opened the market to competition, in addition to promoting universal access to basic telecommunications services.

With regard to the operational activity of TIM Brasil, ANATEL developed regulations for mobile communication services (**SMP** - Personal Mobile Services), fixed communications services (**Serviço Telefônico Fixo Comutado** or **STFC**) and data transmission and multimedia services (**SCM**).

In 2010 virtual mobile operators were allowed to enter the market upon commercial agreements with the established operators.

**v Authorizations**

ANATEL carried out the privatization of the former public monopoly operator and gradually opened the sector to competition, in addition to fostering universal access to basic telecom services. According to the General Telecommunications Law and to the regulations issued by ANATEL, licenses to provide telecommunications services are granted either under the public regime, by means of a Concession or a Permission, or under the private regime, by means of an Authorization. Only certain fixed-line service providers are currently operating under the public regime (Telefônica, Embratel and Oi, commonly referred to as Concessionaires). All the other telecommunications services providers in Brazil are currently operating under the private regime, including all the mobile and data service providers.

Since the launch of GSM mobile services in 2002, four main players operate in the mobile market (Claro, Vivo, Oi and TIM) and compete nationwide. Third generation mobile services were introduced in 2008 while fourth generation

mobile services started in 2012.

The authorizations for fixed and mobile services give the TIM Group (which operates under the brand name TIM Brasil) coverage of the entire country of Brazil allowing it to provide fixed, mobile, long distance and multimedia services.

According to Brazilian law, Internet access is considered a value-added service, and providers of Internet services are not considered to be telecommunications operators.

The rules require that all telecommunications services operators allow network access to any interested party to provide value-added services, without discrimination, unless technically impossible. The voice service providers can also provide value-added service through their own networks.

v ***Interconnection rules***

Telecommunication operators must publish a public interconnection offer highlighting both economic and technical conditions and are subject to the General Interconnection Regulatory Framework enforced by ANATEL in 2005.

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Until 2016, the interconnection charges for fixed network ( **TU-RL** : Tarifa de Uso da Rede Local) amount to a percentage of retail prices for the incumbent operators. Alternative operators (including TIM) can apply asymmetrical interconnection rates exceeding up to 20% the one applied by the incumbents. From 2016, the fixed interconnection rates will follow a cost oriented approach.

In May 2012, ANATEL approved a new regulation which, from January 2014, requires the application of the **Bill and Keep** system for local fixed termination rates, **i.e.**, operators will take rights of tariffs generated on their networks, and no interconnection remuneration will be owed for local calls between two different networks.

The values of mobile termination rate (called **Value to Use the Mobile network** - **VU-M** ) are freely negotiated by operators. The National Regulatory Authority has, however, arbitration power in case of disagreement and it can determine a reference value according to criterion set up by regulation. From January 2013, the reference values set by ANATEL comply with a **glide path** which would lead to cost orientated values starting from 2016 until 2019.

Interconnection agreements are subject to prior approval by ANATEL.

v **General Competition Plan**

In November 2012, ANATEL published the General Plan for Competition Targets (the **PGMC** ), introducing tools for market analysis, identification of operators with market power and for the imposition of ex-ante obligations.

The decision opens the networks of the operators with SMP to unbundling and wholesale broadband access. It also improves transparency measures through the creation of a Supervisory Board to ensure the respect of the wholesale service quality levels.

Fixed networks in fiber optics are benefiting from a regulatory **holiday** of nine years, which has to be confirmed after a public consultation to be launched in 2016 when the relevant markets, SMP operators and the remedies applied will be revised.

In each market, ANATEL imposed a set of asymmetrical obligations to operators having SMP.

In the fixed access market an access obligation on copper networks (e.g., Leased Lines, bitstream and full unbundling) for the vertically integrated, fixed operators having SMP (Oi, Telefónica and Telmex) was introduced.

TIM Brasil has been identified as having SMP in the wholesale markets of mobile termination, national roaming and access to Towers. The measures applied to a SMP operator in those markets include:

- a glide path on mobile termination rates based on a price cap system;

- an obligation to offer the service of national roaming to operators not having SMP: regional licensed CTBC and Sercomtel and national licensed Nextel; and

- an obligation to present a Reference Offer of Towers, with regulated price and conditions.

The second analysis and definition of SMP operators was held in 2015 confirming the previous decision of 2012 and the remedies imposed on TIM Brasil remained unchanged.

The review of the markets susceptible to be regulated and the remedies applicable to SMP operators is ongoing. Public consultation was due on March 22, 2017.

#### Ø **Cost models implementation**

In 2005, ANATEL issued a ruling for Accounting Separation and Cost Accounting . This ruling introduced the obligation to present the Accounting Separation and Allocation Document ( Documento de Separação e Alocação de Contas **DSAC** ) for license holders and groups holding SMP in the fixed and/or mobile network interconnection and wholesale leased lines markets ( Exploração Industrial De Linha Dedicada **EILD** ). Operators, including TIM, are providing ANATEL with the requested information since 2006 for fixed services and

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since 2008 for mobile services. In July 2014, ANATEL published the final decision regarding the costing models to set the wholesale reference values for the fixed and mobile access and interconnection services, as well as the reference values for the Leased Lines (Industrial Exploitation of the Dedicated Line **EILD** ).

ANATEL established that Fixed Termination Rates ( **FTRs** or **TU-RL** ) and Mobile Termination Rates ( **MTRs** ) will be cost oriented beginning in 2016 to achieve the efficient cost level based on BU-LRIC model in 2019. For EILD, the efficient cost level will be reached in 2020.

ANATEL signaled that all products (not only call termination rates and Leased Lines) will be cost oriented from the revision of the PGMC. In October 2016, all operators were required to answer a Data Request from ANATEL, which intended to raise the necessary data to update the cost model for all the products in the PGMC, such as national roaming and passive infrastructure.

**Ø Fixed termination rates**

In February 2016, fixed termination rates of local incumbent operators (Telefonica, Oi, CTBC, Sercomtel) decreased by almost 70% on average. Interconnection rates in Brazil vary per region and operator. They will continue to decrease, reaching 0.0044 reais/min (0.12 eurocents) in 2019. The sharp decrease is the result of ANATEL implementing a BU-LRIC model to set cost oriented interconnection rates.

**Ø Mobile interconnection rate glide path**

In November 2012, TIM Brasil, along with other national mobile operators Vivo, Claro and Oi, were identified by ANATEL as having Significant Market Power (SMP) in the wholesale mobile termination market.

The remedies applied to SMP mobile operators included a glide path on mobile termination rate (VU-M), based on a price cap system.

In July 2014, ANATEL published a final decision regarding the cost model and the reference values of the mobile termination rates that will apply over the period from 2016 to 2019 for SMP operators. For 2016, MTRs were set with a Top Down methodology, and 2017-2018 MTRs will be based on linear progressive reductions until convergence to the BU-LRIC model is reached in 2019. The 2019 MTR (based on a full LRIC cost model) of 0.017 reais/min (0.47 eurocents), will be lower than the current European MTR average of approximately 1.1 eurocents, although the latter is based on pure LRIC cost model.

Under the glide path of reductions defined by ANATEL, from February 2016, SMP operator MTRs (TIM Brasil, Vivo, Claro and Oi) are about 0.10 reais/min (2.7 eurocents) on average. These termination rates represent a decrease of 37% relative to 2015 rates.

Between operators with SMP a full billing scheme is applied (i.e. each operator charges the total amount of the traffic terminated on its network). Conversely, between SMP and non SMP operators, an asymmetric scheme applies (so



called *partial bill&keep* ): each operator only pays the portion of the terminated traffic on the other network that exceeds a threshold percentage determined by the regulator with respect of the total traffic exchanged at the interconnection. Until February 2015, this threshold was set at 80% (i.e. a non SMP operator pays only if the terminated traffic on the SMP operator network is more than 80% of the total traffic exchanged at the interconnection).

According to the previous rules, by February 2015, the *partial bill & keep* threshold between SMP and non SMP operators would have decreased to 60% and from February 2016 the *full billing* scheme would have been adopted. To harmonize the evolution of the values of mobile interconnection with the introduction of cost-oriented values, in February 2015 the regulatory authority (ANATEL) postponed to 2019 the introduction of the *full billing* scheme in the interconnection between operators with market power and without market power, with a progressive decrease of the mentioned threshold over the next years.

#### **Ø Lower fixed to mobile call prices for incumbent operators**

Under the Brazilian regulation, MTR reductions must translate into reductions in retail fixed to mobile call prices. Accordingly, ANATEL established new fixed to mobile retail call rates for fixed telephony concessionaries reflecting the lower mobile termination rates applicable starting on February 25, 2016.

**Table of Contents****Item 4. Information On The TIM Group****Regulation****Ø Allocation of the 700 MHz band**

The auction for the allocation of the 700MHz band (698-806 MHz), the provision of the fourth generation mobile services and high speed internet was held in September 2014.

TIM Brasil, Claro and Vivo were granted three of the four auctioned national blocks of 10 + 10 MHz. TIM Brasil offered 1,947 million reais. The Auction also ordered the winning bidders to constitute an entity responsible for the spectrum clean-up process. A total amount of 3.6 billion reais is designated for the completion of the process and TIM shall pay 1,199 million reais.

The frequencies will be available in all Brazilian cities that could face interference in simultaneous TV and LTE operations within 9 months of the complete switch-off of analogue television channels.

The initial forecast contemplated 5,570 cities with a switch-off in 2018, however, Ministry Ordinance n° 3493/2016, established that:

- approximately 1,500 cities can have an immediate LTE activation since the frequencies are already free;
- approximately 2,700 cities only need analog channel relocation (switch-off not necessary now); and
- approximately 1,400 cities would have a switch-off by 2018.

Bid winners are required to cover the costs for the implementation of the measures to overcome any spectrum interference and the expenses resulting from the reallocation of Digital TV channels.

On February 29, 2016 Rio Verde in Goiás was the first city to become 100% digital. In October, the Analog TV switch off process was initiated in Brasilia and the process for the region was completed on November 17. Commercial LTE already implemented.

**Ø Spectrum auction in the 1800 MHz, 1900 MHz, and 2500 MHz bands**

On April 19, 2016, ANATEL's auction Committee assigned the multi-band local spectrum (135 MHz in the 1800 MHz, 1900 MHz, and 2500 MHz bands, including 60 MHz of unpaired Time Division Duplex spectrum) auctioned in December 2015 for mobile and fixed-wireless broadband services.

TIM was awarded Frequency Division Duplex ( **FDD** ) spectrum in the 2500 MHz band enabling the provision of 4G/LTE services in the metropolitan areas of Recife and Curitiba. Authorization Terms were signed in July 2016 for 15 years, and can be renewed for additional 15.

TIM and other incumbent mobile operators (Vivo, Claro, and Oi) were not eligible to bid for any spectrum in the 1800 MHz band because of existing spectrum caps.

Ø **Marco Civil de Internet**

The Marco Civil Internet , which went into effect in June 2014, constitutes a kind of Constitution on the use of the Internet in Brazil.

Key topics covered in the new regulations include net neutrality, collection, use and storage of personal data, confidentiality of communications, freedom of expression and the treatment of illegal, immoral or offensive contents.

The Marco Civil has been elaborated upon by the issuance of a government decree of implementation and enforcement. The ministry s decree (issued on May 11, 2016) addresses three main aspects:

- clarification of the scope and implementation of the net neutrality rules;
- implementation of the rights and obligations for the protection of personal data; and
- governance of the Marco Civil, including authorities in charge of its enforcement.

The decree went into effect on June 10, 2016.

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**Regulation**

**Ø Review of the current regulatory model for the provision of telecom services**

The Brazilian government aims to review the 1997 General Telecommunication Law and to transform the old fixed telephony Concessions into Authorizations, modifying the relevant and related obligations.

On April 11, 2016, following a public consultation that closed on January 15, 2016, , the Ministry of Communications issued guidelines for ANATEL on how to carry out this transformation and move to a more market-oriented licensing approach.

The Ministry recommended that public authorities should promote access to broadband service at affordable costs and levels, putting broadband at the center of public policies.

ANATEL is directed to:

- propose concrete rules and criteria to enable the phasing-out of concessions;
- highlight the consistency of the new licensing rules with the existing infrastructure coverage obligations;
- ensure service provision (including broadband) in less attractive economic areas;
- give incentives to concessionaires to migrate to the new licensing framework;
- lessen the universal service obligations for fixed telephony;
- schedule the phasing-out of the retail price control over retail fixed telephony services;
- withdraw recurring licensing fees;
- schedule the phasing out of the asset reversion scheme (foreseeing that the network assets used to provide services under a concession must be returned to the state upon the expiry of the concession); and
- establish suitable mechanisms to ensure regulation compliance control.

As a result of the on-going debate regarding the licensing regime, ANATEL was tasked with reviewing concession contracts by December 2016. However, after the publication of Resolution 673, approved on December 30, 2016, the

deadline for reviewing these contracts was postponed to June 30, 2017.

Additionally, a Bill of Law (PLC Projeto de Lei da Câmara 79/2016) is under review, which amends Law 9.472/1997 (LGT), allowing ANATEL to change the licensing model of telecommunications service. The concession agreement shall be replaced by an authorization form following ANATEL's approval. ANATEL is responsible for attesting the criteria of effective competition and proof of fulfillment of universal service targets in the provision of Serviço Telefônico Fixo Comutado or Fixed Switched Telephony Service **STFC**.

This Bill also changes radiofrequency rules, establishing subsequent and unlimited renewals of up to 20 years and creates Spectrum Secondary Market, allowing Radiofrequency trading among players.

The Bill has been approved by the Lower House and the Senate but has not been approved at the presidential level. On December 22, 2016, a number of senators from opposition parties filed a petition for writ of injunction (Mandado de Segurança). Legislative discussion returned in February, 2017 and the Bill of Law now awaits for the Senate approval.

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**Transactions With U.S. Sanctioned Countries**

**4.4 TRANSACTIONS WITH U.S. SANCTIONED COUNTRIES**

In accordance with our Code of Ethics and Conduct, we seek to comply with all applicable international trade laws including applicable sanctions and embargoes. Below we discuss our activities related to certain countries that are targets of U.S. economic sanctions: Iran, Sudan and Syria (the Designated Countries ).

**Activities relating to the Designated Countries**

The only activities we have that, to our knowledge, relate in any way to the Designated Countries are:

- (i) Roaming Agreements with local mobile phone operators:
  - KFZO-TKC (former Payam Kish), Gostaresh Ertebatat Taliya PJS (former Taliya), Rightel Communication, Irancell (MTN), Mobile Company of Iran (MCI) and Kish Cell Pars Co., in Iran;
  - Sudanese Mobile Telephone (former ZAIN SD) and MTN Sudan, in Sudan;
  - MTN Syria (former Spacetel Syria 94 and former Areeba) and Syriatel Mobile Telecom SA ( Syriatel ), in Syria.
- (ii) International Carrier Agreements for the delivery of voice and data traffic from such countries to our networks and from our networks to such countries including in connection with our roaming agreements. To this end, our subsidiary Telecom Italia Sparkle S.p.A. ( TI Sparkle ) directly and through its subsidiaries has agreements with Telecommunication Infrastructure Company of Iran (TIC) in Iran; Sudan TLC (former PT&TG PUBLIC SUDAN), Sudatel, ZAIN Sudan and Canartel in Sudan; and Syrian TELECOMM (Directorate General of Syrian) in Syria.

In addition TI Sparkle has an agency agreement with Cypress Corporation DFZCO (a company incorporated in the free zone of the Dubai airport) that promotes the use of voice services towards Syrian Telecom Establishment (STE), a company reportedly affiliated with the government of Syria. The agreement provides that we pay this agent based on a fee that is a percentage of revenues we earn.

In addition, also TIM S.p.A. has entered into certain agreements for the provision of TLC services (marine radio traffic) with Telecommunication Infrastructure Company of Iran (TIC) for services to Islamic Republic of Iran Shipping Lines.

## (iii) Commercial Sale and Other Agreements.

In quantitative terms, the impacts of all such agreements (roaming, international carrier, commercial sale and other) on the TIM Group consolidated financial statement line items are as follows:

	<b>Year ended December 31, 2016</b>
	<b>(thousands of euros)</b>
Revenues	14,988
Expenses	7,082
Receivables	34,016
Payables	31,927

*Roaming Agreements*

We operate one of the largest mobile networks in Italy. Through our foreign subsidiaries, we also have large mobile operations in Brazil (Tim Participações S.A. through its subsidiary Tim Celular S.A.). The following is the definition of roaming:

Roaming: A function that enables wireless subscribers to use the service on networks of operators other than the one with which they signed their initial contract. The roaming service is active when wireless is used in a foreign country (included in GSM network).

Like all major mobile networks, in response to competition and customer demands, TIM and Tim Participações group have entered into roaming agreements with many foreign mobile networks, in order to allow customers to make and receive calls when travelling abroad.

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Roaming agreements, including those relating to the Designated Countries, are on standard terms and conditions. In fact, entering into roaming agreements is an activity carried out in the ordinary course of business by a mobile network operator.

Roaming agreements are, generally, reciprocal. Pursuant to a roaming agreement our mobile customers may, when they are in a foreign country covered by the network (the Foreign Network) of an operator with which we have a roaming agreement, make and receive calls on their mobile using such operator's network. Likewise, when a customer of such Foreign Network is in Italy (or Brazil), such customer may make and receive calls using our networks or the networks of other mobile operators in Italy (or Brazil) if this foreign Network has an International Roaming Agreement with other Italian (or Brazilian) Operators.

Calls made and received by our customers through the services of the Foreign Network are billed by the Foreign Network to us at the roaming rate agreed upon in the applicable roaming agreement. We then bill our end customers according to the specific tariff plan of the subscription they have signed with us. Similarly, we bill the Foreign Network at the roaming rate agreed upon in the applicable roaming agreement. The Foreign Network will bill its clients for the calls made and received using our networks according to their specific offer to their customer base. Roaming contracts do not, generally, contemplate other fees or disbursements.

The purpose of all of these roaming agreements is to provide our customers with coverage in areas where we do not own networks. In order to remain competitive and maintain such coverage, we intend to continue maintaining these agreements.

In 2016, our total revenues from roaming agreements with networks of the Designated Countries are detailed as follows:

	<b>Year ended December 31, 2016 (thousands of euros)</b>
Iran	26
Sudan	27
Syria	10
<b>Total revenues from roaming agreements</b>	<b>63</b>

In 2016, our total charges from roaming agreements with networks of the Designated Countries are detailed as follows:

<b>Year ended December 31, 2016 (thousands of euros)</b>
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Iran	687
Sudan	68
Syria	20

**Total charges from roaming agreements** **775**

As of December 31, 2016, our total receivables from roaming agreements with networks of the Designated Countries are detailed as follows:

	<b>As of December 31, 2016 (thousands of euros)</b>
Iran	646
Sudan	55
Syria	34

**Total receivables from roaming agreements** **735**

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As of December 31, 2016, our total payables from roaming agreements with networks of the Designated Countries are detailed as follows:

	<b>As of December 31, 2016 (thousands of euros)</b>
Iran	2,208
Sudan	65
Syria	67
<b>Total payables from roaming agreements</b>	<b>2,340</b>

The amounts of revenues, charges, receivables and payables are de minimis when compared to our consolidated revenues, operating expenses, trade receivables and trade payables, respectively.

***International Carrier Agreements with the Designated Countries***

As a rule in the modern telecommunication business, when traffic from a specific network is placed with, or transported through, our networks, we receive a fee from the incoming network. Likewise, when traffic coming from one of our networks is placed with, or transported through, another network, we owe a fee to such network.

The purpose of these agreements is to allow the uninterrupted exchange of international traffic. Consequently, we intend to continue maintaining these agreements.

In 2016, our total revenues from traffic from networks located in the Designated Countries to our networks are detailed as follows:

	<b>Year ended December 31, 2016 (thousands of euros)</b>
Iran	355
Sudan	4,211
Syria	9,005
<b>Total revenues from traffic</b>	<b>13,571</b>

In 2016, our total charges from traffic to networks in the Designated Countries from our networks are detailed as follows:

	<b>Year ended December 31, 2016 (thousands of euros)</b>
Iran	993
Sudan	3,789
Syria	1,525
<b>Total charges from traffic</b>	<b>6,307</b>

As of December 31, 2016, our total receivables from traffic from networks located in the Designated Countries to our networks are detailed as follows:

	<b>As of December 31, 2016 (thousands of euros)</b>
Iran	4,811
Sudan	10,550
Syria	14,254
<b>Total receivables from traffic</b>	<b>29,615</b>

**Table of Contents****Item 4. Information On The TIM Group****Transactions With U.S. Sanctioned Countries**

As of December 31, 2016, our total payables from traffic to networks in the Designated Countries from our networks are detailed as follows:

	<b>As of December 31, 2016 (thousands of euros)</b>
Iran	5,370
Sudan	10,095
Syria	14,122
<b>Total payables from traffic</b>	<b>29,587</b>

Such amounts of revenues, charges, receivables and payables are de minimis with respect to our consolidated revenues, operating expenses, trade receivables and trade payables, respectively.

*Commercial Sale and Other Agreements*

TI Sparkle provides institutional access to Internet to Syria and Sudan by means of Seabone IP ports and data transmission capacity through international cable systems.

On December 20, 2016, Olivetti and Faravaran Hamgam (a local Iranian company) executed an agreement for the local production and sale of Olivetti's electronic cash registers and the provision of assistance in connection with these machines in Iran. Faravaran Hamgam will locally assemble Olivetti products through one of its own controlled companies.

In September 2016, TI Sparkle reached an agreement with the Iranian company Telecommunications Infrastructure Company (TIC) for the development of a Point of Presence of Sparkle Internet backbone in Iran and the provisioning of IP Transit services from Sparkle to TIC.

In 2016, our total revenues from Commercial Sale and Other Agreements with the Designated Countries are detailed as follows:

	<b>Year ended December 31, 2016 (thousands of euros)</b>
Iran	
Sudan	368
Syria	986
<b>Total revenues from commercial sale and other agreements</b>	<b>1,354</b>

As of December 31, 2016, our total receivables from Commercial Sale and Other Agreements with the Designated Countries are detailed as follows:

	<b>As of December 31, 2016 (thousands of euros)</b>
Iran	502
Sudan	382
Syria	2,782
<b>Total receivables from commercial sale and other agreements</b>	<b>3,666</b>

\* \* \*

**Disclosure pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 (ITRSHRA)**

Other than the disclosure above on activities related to the Designated Countries, to our knowledge, none of our sales of products and services are required to be disclosed pursuant to ITRSHRA Section 219.

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The following explanations are not intended as technical definitions, but to assist the general reader to understand certain terms as used in this Annual Report.

**2G (second-generation Mobile System).** Second-generation protocols using digital encoding and including GSM, D-AMPS (TDMA) and CDMA. 2G networks are in current use all over Europe and other parts of the world. These protocols support voice and limited data communications. 2G networks technology offer auxiliary services such as data, fax and SMS. Most 2G protocols offer different levels of encryption.

**3G (third-generation Mobile System).** Third-generation wireless service, designed to provide high data speeds, always-on data access, and greater voice capacity. 3G networks allow the transfer of both voice data services (telephony, messaging) and non-voice data (such as downloading Internet information, exchanging email, and instant messaging). The high data speeds, measured in Mbps, are significantly higher than 2G and, 3G networks technology enable full motion video, high-speed internet access and video-conferencing. 3G technology standards include UMTS, based on WCDMA technology (quite often the two terms are often used interchangeably) and CDMA2000.

**4G (fourth-generation Mobile System).** Fourth-generation protocols that are designed to provide, in addition to the usual voice and other services of 3G, mobile broadband Internet access, for example to laptops with wireless modems, to smartphones, and to other mobile devices. Potential and current applications include mobile web access, IP telephony, gaming services, high-definition mobile TV, video conferencing and cloud computing applications.

**5G (fifth-generation Mobile System).** 5G indicates the fifth generation of mobile network that will be introduced on market starting in 2020. At worldwide level, the ITU Commission (International Telecommunication Union) began to set out the first Standards on 5G future connectivity and the first field trials will be launched in 2018, during the Olympic Winter Games .

The main elements of the 5G network will be:

- bit-rate significantly higher than 4G (capacity up to 10 Gbit/s) to ensure greater efficiency and quality of service, such as video download and live streaming;
- possibility of connecting simultaneously to hundreds of thousands of objects (Internet of Things): wearable technologies, automatic systems for traffic control, assisted driving for vehicles, home automation;
- ultra-low latency (high-speed in data transmission in the order of milliseconds);
- ability to connect moving vehicles at higher speeds.

**Access charge.** Amount charged by national operators for the use of their network by operators of other networks. Also known as an interconnection charge .

**ADSL (Asymmetric Digital Subscriber Line).** Technology that, through a modem, transforms the traditional copper fixed line into high-speed digital connection for the transfer of multimedia data. ADSL is an asymmetrical technology used to achieve broadband transmission.

**AltNets (Alternative Network Operators).** Companies other than the incumbent operators, that operate telecommunications systems in a national market.

**Analog.** An old transmission technology which is not digital, e.g., the representation of voice, video or other not in digital form.

**ATM.** Asynchronous Transfer Mode is a network protocol through which the transfer of data is achieved using the encapsulation of fixed length (53 bytes) data units, called cells instead of variable-length packets as is the case in packed-switched networks.

**Backbone.** Portion of the telecommunication network that supports long-distance connections which aggregates large amount of traffic and from which the connections for serving specific local areas are extended.

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**Bit-stream access.** Wholesale interconnection services which consist in the supply by a dominant telecommunications operator (incumbent) of access transmission capacity between an end customer and an interconnection point of another operator (OLO) that wants to offer broadband services to their end customers.

**Bottom-up.** The bottom-up approach develops a cost accounting model beginning with the expected demand in terms of subscribers and/or traffic. It then assesses the network design and related costs based on the network engineering model.

**Broadband services.** Broadband includes network technologies to achieve a transmission speed of 2 Mbit/s. These speeds are made available on both the copper fixed-line, through ADSL technology, and mobile network, starting from third generation systems. Broadband services include voice and data. Data services comprise high speed internet access, interactive video and audio files, point to point and multi point video services (video calling and video conferencing), video on demand (download and streaming) and television programs.

**Broadcast.** Simultaneous transmission of information to all nodes and terminal equipment of a network.

**BSC (Base Station Controller).** Control node of the 2G radio access network and interface with the MSC switching exchange. It has the task of supervising and controlling radio resources, both during the phase when a call or a data connection is being set up and during the maintenance phase.

**BSS (Business Support System).** The system used by network operators to manage business operations such as billing, sales management, customer-service management and customer databases.

**BTS (Base Transceiver Station).** Radio base station which sends the GSM radio signal via the antenna to cover an area (cell) and coordinates one or more radio transceivers (TRX).

**Bundle.** Commercial offer including multiple telecommunications services (voice, broadband internet, IPTV, other) by an operator under the same brand. *Bundle Dual Play* offer includes fixed telecommunication services and broadband internet; *bundle Triple Play* offer is the bundle dual play integrated with IPTV; *bundle Quadruple Play* offer is the bundle triple play integrated with mobile telecommunication services.

**Carrier.** Company that makes available the physical telecommunication network.

**Carrier Aggregation.** Technology used in 4G mobile network which functions by aggregating radio carriers to increase the transmission speed.

**CCA.** In a current cost accounting (CCA) approach, the operator's asset base is annualized based on the gross replacement cost of the assets. CCA belongs to the family of constant annualization methodologies where the depreciation share is stable and the cost of capital share decreases over time, resulting in decreasing annuities. Unlike historical cost accounting, in current cost annualization methods the amortization is adjusted according to variations in the price of the assets being considered due to technical progress and general variations in price (inflation).

**CDMA (Code Division Multiple Access).** A channel access used in radio communication for transmission between a mobile phone and a radio base station. First radio systems based on CDMA were developed by Qualcomm, and commercially introduced in 1995. It enables the simultaneous transmission and reception of several messages, each of



which has a coded identity to distinguish it from the other messages.

**Cell.** Geographical portion of the territory illuminated by a radio base station.

**Cellular.** A technique used in mobile radio technology to use the same spectrum of frequencies in one network multiple times. Low power radio transmitters are used to cover a cell (i.e., a limited area) so that the frequencies in use can be reused without interference for other parts of the network.

**Channel.** The portion of a communications system that connects a source to one or more destinations by means of transmission medium and optical, electric, electromagnetic signals.

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**Closed User Group.** Groups of customers who can only make calls and receive calls or messages from members within the group and can have dedicated pricing.

**Community.** A group of people who have something in common and communicate via Internet (i.e. via social network).

**Co-siting.** Agreements to share technological sites (for Telecommunications, specifically, sites of access to the network and passive infrastructure) by several operators in order to achieve a more efficient use of the network infrastructure in urban and rural areas.

**CPS (Carrier Pre-selection).** Permits a customer to pre-select his telecommunication operator without dialing an identifying code.

**D-AMPS (Digital-Advanced Mobile Phone Service).** It is a digital version of AMPS (Advanced Mobile Phone Service), the original analog standard for cellular telephone service in the United States.

**DCS 1800 (Digital Communication System).** A derivative of the GSM cellular mobile telephone standard. 1800 refers to the frequency used of 1800 MHz. DCS 1800 is the European PCN standard.

**Digital.** A mode of representing a physical variable such as speech using digits 0 and 1 only. The digits are transmitted in binary form as a series of pulses. Digital networks are rapidly replacing the older analog ones. They allow for higher capacity and higher flexibility through the use of computer-related technology for the transmission and manipulation of telephone calls. Digital systems offer lower noise interference and can incorporate encryption as a protection from external interference.

**Digital divide.** The gap between people with effective access to digital and information technology and those with very limited or no access. The term encompasses, among other things, gaps in ownership of or regular access to a computer or internet access due to being located in geographical areas with no broadband connectivity.

**DSLAM (Digital Subscriber Line Access Multiplexer).** DSLAM denotes telecommunications equipment able to process digital signals of various clients and multiply them in a data link to the nodes of the Internet.

**DSL Network (Digital Subscriber Line Network).** A network built on existing telephone lines with DSL technology devices which use sophisticated modulation schemes to pack data onto copper wires for connections from a telephone switching station to a home or office.

**DTT (Digital Terrestrial TV).** Digital Terrestrial Television Broadcasting is a type of broadcasting technology that provides a more effective way of transmitting television services using a digital system instead of the existing analogue system.

**DVB H (Digital Video Broadcasting Handheld).** DVB H is a standard for the transmission of digital video optimized for mobile devices.

**DWDM (Dense Wavelength Division Multiplexing).** This is a technology for multiplying and transmitting optical signals with different wavelengths along a single optical fiber contemporaneously.

**EDGE (Enhanced Data for GSM Evolution).** Technology that increases the speed of GPRS, the standard from 30-40 kbit/s to 400 kbit/s in the best radio transmission radio conditions.

**Ethernet:** Family of computer networking technologies for local area networks (LANs) and metropolitan area networks (MANs).

**Exchange.** See Switch.

**Fixed UBB.** Access technologies involving the use of optical fibers, known as FTTx, to provide ultrabroadband connectivity.

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**FTTx (*Fiber to the* ).** It is the term used to indicate any network architecture that uses fiber optic cabling in telecommunications access networks to replace, partially or totally, traditional copper cables. The various technological solutions differ in the point of the distribution network where the fiber connection is made, with respect to the end-user's location. In the case of FTTC (Fiber to the Cabinet) the fiber connection reaches the equipment (distribution cabinet) located on the sidewalk, from where copper connections are run to the customer; in the case of FTTH (Fiber to the Home), the fiber connection terminates inside the customer premises.

**FWA (Fixed Wireless Access).** FWA is a variant of wireless broadband, where a radio link is used in the access network instead of cable or fiber for the transmission of voice and data.

**Gateway.** An interconnection node between networks. A Gateway node may be used to separate networks belonging to different Domains or make functionally different networks interwork through protocol interworking.

**GGSN (Gateway GPRS Support Node).** Node that acts as a gateway for data traffic between mobile networks (2G and 3G) and the Internet network or private networks.

**GPON (Gigabit capable Passive Optical Network).** A passive optical network (PON) is a network architecture that brings fiber cabling and signals to the home using a point-to-multipoint scheme that, by unpowered fiber optic splitters, enables a single optical fiber to serve multiple premises.

**GPRS (General Packet Radio System).** Packet switched system to efficiently transmit data over 2G cellular networks.

**GRX (GPRS Roaming eXchange for Mobile Operators).** The GRX service allows Mobile Operators to globally interconnect GPRS networks around the world enabling global GPRS roaming coverage.

**GSM (Global System for Mobile Communication).** A worldwide standard for digital cellular telephony working on the 900MHz and 1800MHz bands. It belongs to the Second Generation (2G) of mobile systems.

**HDSL (High-bit-rate Digital Subscriber Line).** Technology of xDSL family, standardized in 1994. It provides up to 8 Mb/s symmetrical over copper.

**HLR (Home Location Register).** Database where customer data are recorded. It is part of 2G and 3G systems.

**Home Access Gateway Access Gateway Home gateway Residential Gateway.** Home networking device that is used to concentrate voice/data/video traffic of customers for private TLC networks and to connect devices in the home to the Internet or other WAN.

**Housing.** Leasing of physical space to customers, which is managed within a data center for the installation of their own equipment or servers.

**HSDPA (High-Speed Downlink Packet Access/UMTS Hi Speed Universal Mobile Telecommunications System).** Evolution of UMTS, which enables broadband mobile data both in Downstream (HSDPA) and Uplink (HSUPA), up to 42 Mb/s and 5.76 Mb/s, respectively.

**ICT (Information and communication(s) technology).** Broad area concerned with information technology, telecommunications networking and services and other aspects of managing and processing information, especially in large organizations.

**IEEE (Institute of Electrical and Electronics Engineers).** An organization of professional scientists aiming at promoting technology science and research in the field of electrical and electronics engineering and related fields. IEEE also works as a publishing house and standardization body.

**IMSI (International Mobile Subscriber Identity).** A unique identifier associated with a SIM card in cellular networks.

**Interactive.** A program that allows a user to change some aspect of the program.

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**Internet.** Global network for networks interconnection based on a common protocol suite, i.e. TCP/IP, which is the language by which connected equipment (hosts) are able to communicate.

**IP (Internet Protocol).** A connectionless data routing protocol, used for data transmission on both public and private networks, in particular over the Internet.

**IP/MPLS (Internet Protocol/Multi Protocol Labeling Switching).** A packet switching protocol to optimize network behaviors of mapping Layer3 (IP) end-to-end data flow to Layer2 traffic between adjacent network nodes.

**IPTV (Internet Protocol Television).** A system that utilizes the Internet Protocol infrastructure to transmit digital television content over a network and deliver it via a broadband Internet connection.

**ISDN (Integrated Services Digital Network).** A system in which several services (e.g., voice and data) may be simultaneously transmitted end to end in digital form.

**ISPs (Internet Service Provider).** A vendor who provides access to the Internet and World Wide Web.

**ITU (International Telecommunication Union).** An international organization that aims to set telecommunications standards and in the use of radio waves. Founded in 1865 in Paris, it is one of the specialized agencies of the United Nations and its head office is in Geneva.

**Jitter.** In electronics and telecommunications, jitter indicates the variation of one or more characteristics of a signal, such as amplitude, frequency, phase, transmission delay. The causes leading to jitter must be kept at the center of the design of electronic systems and components in which signal integrity is a strict constraint.

**Lambda.** Represents the single optical channel on which a signal is transmitted in fiber-optic networks.

**LAN (Local Area Network).** A private network that covers a local geographic area and provides public telecommunications services as well as interconnection between personal computers.

**LLU (Local Loop Unbundling).** Service by which alternative operators other than TIM can lease the local loop, i.e., the wire connection between the TIM local exchange and the customer's premises.

**Local Loop.** Twisted pair of copper wires through which the telephone connection reaches users; it is the foundation of traditional telephone lines and it is often called the "last mile".

**LRIC (Long run incremental cost).** Long run incremental cost is the cost of producing a specific additional increment of a given service in the long run (the period over which all costs are variable) assuming at least one other increment is produced. It includes all the directly assignable variable economic costs of a specific increment of service, which is usually less than the whole service.

**LTE (Long Term Evolution).** Represents the fourth generation (4G) of mobile phone systems. LTE belongs to the 3GPP (Third Generation Partnership Project) standard and is the latest evolution of the GSM / UMTS / HSPA standards. LTE offers a higher spectral efficiency in bits per Hertz and download bandwidth up to 150 Mbit/s per cell reducing the latency time. LTE enables services that require high interactivity (e.g., gaming, video conferencing). A

further development of LTE, called LTE Advanced , is being implemented and will allow reaching even higher bitrates in download.

**MEMS (Micro-Electro-Mechanical Systems).** MEMS are miniaturized devices ranging in size from a few micrometers to a few millimeters, which execute one or more monitoring, processing or actuation functions by deploying a combination of electronic, mechanical, optical, chemical or biological components integrated on a usually silicon hybrid circuit.

**MGCP (Media Gateway Control Protocol).** An Internet Engineering Task Force (IETF) signaling protocol allowing a bridge between classic telephone networks and Internet (i.e., IP-based) infrastructures.

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**MGW (Media GateWay).** Equipment that processes voice and video traffic adapting codings between different technologies (e.g. from circuit to packet).

**Mobile UBB.** Mobile ultrabroadband refers to the use of HSPA mobile network (evolution of the 3G network), LTE and its evolution to provide ultrabroadband connectivity.

**MPLS (Multi Protocol Label Switching).** See IP/MPLS.

**MSC (Mobile Switching Center).** Executes functions such as controlling calls, switching traffic, taxation, controlling network interfaces and acts as an interface with other networks.

**Multimedia.** A service involving two or more communications media (e.g., voice, video, text, etc.) and hybrid products created through their interaction.

**MVNO. (Mobile Virtual Network Operator).** MVNO is a mobile communications service provider that does not own the radio spectrum or wireless network infrastructure over which the MVNO provides services to its customers.

**Naked.** A digital subscriber line without an analog or ISDN telephony service.

**Network.** An interconnected system of elements. In a telephone network, these consist of switches connected to each other and to customer equipment. The transmission equipment may be based on fiber optic or metallic cables or radio connections.

**Network cap.** See Price cap.

**NGAN (New Generation Access Network).** It can be realized with different technological solutions, typically fiber optic and VDSL pairs.

**NGDC (Next Generation Data Center).** A major rethink of the IT and Data Center architecture through the physical concentration and virtualization of servers to reduce the costs of maintenance/management and energy consumption, and to improve efficiency.

**NGN (Next Generation Network).** New generation network created by TIM to meet the demands of corporations, public administrations and citizens. The new network architecture guarantees an infrastructure designed to cover multiple offers by increasing customization levels and bandwidth availability, removing bandwidth limits and providing a huge capacity along with a wide selection of access systems.

**NGNs (Non-Geographic Numbers).** Non-geographic numbers are unique as they are by definition not associated with any particular geographic location (e.g., premium rate services, toll free, directory assistance services).

**Node.** Topological network junction, commonly a switching center or station.

**Node B (similar to BTS in GSM).** This is the Radio Base Station in UMTS technology which, via an antenna, sends the UMTS radio signal that creates cell coverage (typically 3 cells for Node B). It also performs functions that are strictly linked to managing the radio connection.



**N-play offering.** Offerings to customers which bundle two or more of the following mobile and fixed services: voice, broadband and ultrabroadband, video, mobile.

**OLOs (Other Licensed Operators).** Companies other than the incumbent operator that operate telecommunications systems in a national market.

**Optical fiber.** Thin glass, silica or plastic wires, building the base infrastructure for data transmission. An optical fiber cable contains several individual fibers, and each of them is capable of delivering a signal (light

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impulse) at almost unlimited bandwidth. Optical fibers are usually employed for long-distance communication: they can transfer heavy data loads protected from possible disturbances along the way. The driving capacity of optical fibers is higher than the traditional cable and copper twister-pair lines.

**OSS (Operations Support System).** Methods and procedures (whether automatized or not) that directly support the daily operation of the telecommunications infrastructure.

**OTT (Over the Top) players.** Operators offering contents and services on the Internet without owning the proprietary TLC network infrastructure.

**Outsourcing.** Hiring outsiders to perform various telecommunications services, which may include planning, construction, or hosting of a network or specific equipment belonging to a company, and, ultimately, the management of entire telecommunications systems. Value-added applications may also be provided in various sectors.

**Packet-Switched Services.** Telecommunications services provided by telcos and long distance carriers that route packets of data between local area networks (LANs) in different geographical locations to form a wide area network (WAN). Packet-switching services are used to connect multiple LANs into a point-to-multipoint configuration, usually called a multipoint WAN.

**Pay-Per-View or PPV.** A system by which the viewer pays to see a single program (such as a sporting event, film or concert) at the moment at which it is transmitted or broadcast.

**Pay TV.** Subscription TV channels. To receive Pay TV or Pay-Per-View programs, a decoder must be connected to the television set, and a conditional access system is needed.

**PCS (Personal Communications Services).** Set of wireless communications functionalities, voice and/or data, which provide similar services such as mobile ones.

**Peering.** The voluntary interconnection of Internet networks, that refer to different Internet Service Providers which allows users to exchange traffic between different networks.

**Penetration.** It represents the number of people (or subscriber) who acquires goods/ services of a particular brand or a particular category, divided by the population where the service is available.

**Platform.** It is an execution environment that includes hardware, software, application servers and other supporting tools, for the execution of programs.

**POP (Point Of Presence).** It is a point of access to the network (router), provided by an Internet Service Provider (ISP), able to route traffic to end users connected to POP. When a POP is within a specific local area, users can connect to the Internet by dialing a local phone number.

**POTS (Plain Old Telephone Service).** Refers to the basic telephony service (single-line telephones, fixed-line services and access to public voice telephony network).

**Price-cap.** Under price-cap, a regulator sets a cap on the price that the regulated operator may charge for a given service or basket of services. Then it identifies the maximum price limit at which a product/service can be sold.

**PSTN (Public Switched Telephone Network).** It is the first-generation telephone network and provides basic telephone service.

**RNC (Radio Network Controller counterpart of BSC in GSM).** It is the equipment (or node) for the control and aggregation of 3G network radio resources, both during the call set-up phase and during the maintenance phase (for example, handover between different cells).

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**Roaming.** Agreement among two or more Mobile Operators from different Countries, under which Users can use the mobile network of other Operators participating in the agreement. The roaming service is activated for example when the terminal is used overseas and enables a mobile user to access a different network from the one to which he subscribes.

**RTG.** Also known as the Public Switched Telephone Network, is the first-generation telephone network and provides basic telephone service.

**SDH Standard (Synchronous Digital Hierarchy).** The European standard for high-speed digital transmission. It is a protocol of the physical layer used for multiplexing in time division and the subsequent digital transmission of telephony and data, in geographic networks on optical fiber, electric cable or radio link.

**Service Provider.** The party that offers to the Users (Residential or Business) that subscribe his offer, a range of contents and services.

**SGT (Transit exchange interconnection level for telephone traffic).** Transit Exchange for telephone traffic carriage, routing and transmission.

**SGU (Local exchange interconnection level for telephone traffic).** Local Exchange for telephone traffic carriage, routing and transmission.

**Shared Access.** Shared access to the user's twisted pair with another TLC service provider by using separately voice and non-voice band frequency spectrum. This mode allows keeping voice telephony with an Operator (TIM or others) and ADSL service on the proprietary network of the shared access operator, i.e., not passing over the TIM network but directly through the DSLAM of the operator.

**SLU (Sub Loop Unbundling).** It consists in providing access to the local sub-section of the Operator copper network, in particular the section of the network between the user site and the distribution cabinet or an intermediate concentration point.

**Smartphone.** Electronic device that combines the functions of a mobile phone and a handheld computer equipped with a complete operating system.

**SME.** The small- and medium-size enterprise market (from 3 to 50 employees).

**SMS (Short Message Service).** Short text messages that can be received and sent through GSM-network connected cellular phones. The maximum text length is 160 alpha-numerical characters.

**SOHO.** The small office/home office market which consists of businesses that use telephone lines to connect to the Internet, as opposed to dedicated lines, and is made up of small businesses, generally with one or two employees, and businesses conducted out of the home.

**STB (Set-Top Box).** It is a customer device able to receive TV signals from a communication network (such as broadband/ultrabroadband access network, terrestrial broadcast, satellite broadcast, etc) and output them to TVs and other display devices (monitors, projectors, etc). It may include Conditional Access functions to handle paid content.

**Switch Telephone Switch.** Synonymous of Telephone Exchange, i.e. network equipment used to set up and route telephone calls to the number called possibly through other switches. They may also record information for billing and control purposes.

**Switch Network Switch.** Data networking equipment able to receive and forward packets using information at layer 2 of OSI (Open Systems Interconnection) model (i.e. hardware addresses of other equipment).

**Synchronous.** Type of data transmission in which there is permanent synchronization between the transmitter and receiver.

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**Tablet.** Portable computer with compact dimensions whose screen can be used to write or give commands with the touch of your fingers or using a specially designed stylus.

**TDMA (Time Division Multiple Access).** A technology for digital transmission of radio signals between, for example, a mobile phone and a radio base station. TDMA breaks signals into sequential pieces of defined length, places each piece into an information channel at specific intervals and then reconstructs the pieces at the end of the channel.

**ToIP (Telephony over IP).** The term is often used as synonymous of VoIP, however it has a wider meaning since it includes advanced telephony services (such as video, messaging, possibly some call handling, etc.) beyond the basic voice communication.

**TRX.** Radio transceivers located in BTS.

**ULL (Unbundling of the Local Loop).** See LLU.

**Ultrabroadband.** Includes all network technologies that offer connectivity from 30Mbit/s to over 1Gbit/s, referring in particular to the peak rate and not to the average available. The definition is related to the characteristics of the fixed and mobile access network. By increasing the capacity and the speed, Ultrabroadband technologies allow quicker access from multiple users to the content available on the net, also on the move, and to take advantage of high quality video up to Ultra HD and interactive gaming.

**UMTS (Universal Mobile Telecommunications System).** Third-generation mobile communication standard. It consists of a broadband system in which data travels at a bandwidth of 2Mb/s, communication is faster, quality is better and multimedia contents can travel over the Net.

**UMTS Cell.** Geographical portion of territory illuminated by a Node B.

**UMTS Channels.** These enable all the customers of the cell to access both the CS (Circuit Switched) services and PS (Packet Switched) services of UMTS technology.

**Unbundling.** It is the service offered by the incumbent to the alternative operator which consists of the rental of the local loop i.e. the wire connection between the local exchange and the customer's premises, so that the alternative operator is able to connect the twisted pair from the customer to its own equipment.

**Universal Service.** The obligation to supply basic service at an affordable price, or at special rates solely for subsidized users.

**VAS (Value Added Services).** Value Added Services provide a higher level of functionality than the basic transmission services offered by a telecommunications network for the transfer of information among its terminals, which include wired or wireless switched-circuit analog voice communications; direct unrestricted digital point-to-point service at 9,600 bit/s; packet switching (virtual call); direct broadband analog transmission of TV signals, and supplementary services, such as closed user groups; call waiting; collect calls; call forwarding, and identification of number called. Value Added Services provided by the network, the terminals or the specialized centers include message handling services (MHS) (which can be used, among other things, for commercial documents

in predetermined formats); electronic directories listing users, network addressees and terminals; e-mail; fax; teletext; videotext and videotelephone. Value Added Services could include also value added voice telephony services such as Freephone or Premium Rate Services.

**VDSL (Very-high-data-rate Digital Subscriber Line).** Access technology that allows providers to give clients, by means of an apparatus installed in their homes, access to voice and TV services on the traditional telephone line with speeds of up to 50 Mbps in downstream.

**VDSL2 (Very-high-data-rate Digital Subscriber Line 2).** 2nd generation VDSL, able to achieve downstream speed in the range of hundreds of Mbps. Actual data rate however is largely dependent upon the distance between customer equipment and network equipment, e.g. for distances of some hundred meters the

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achievable rate is about 100 Mbps. For this reason network equipment is typically located in street cabinets, so to be closer to customers. Currently there are ongoing trials of so called eVDSL (enhanced VDSL) technologies that are able to achieve rates around 200 Mbps.

**Virtualization.** An approach to implementation of functionality resorting only to software running on general purpose hardware generally not dedicated, as opposed to approaches resorting also to special purpose and/or dedicated hardware.

**VOD (Video On Demand).** TV-program offering on user's request, with payment of a fee for each purchased program (a movie, a soccer match, etc.). Broadcast is specifically for cable and satellite TV.

**VoIP (Voice Over IP).** A technology that allows transmission of voice communication over an Internet connection or another dedicated network using the Internet Protocol (IP) data networks (such as IP-based LANs, intranets or the Internet) instead of a conventional phone line.

**VoLTE/ViLTE (Voice over LTE / Video over LTE).** A service providing voice and video calls over IP via LTE radio access, controlled by standard ToIP architecture named IMS (IP Multimedia Subsystem). The mated naming VoLTE/ViLTE is used since the service is essentially the same for voice and video, differing only in the type of media streams that are set up. Since it is standard based, it achieves interoperability among user terminals and between terminals and networks.

**VPN (Virtual Private Network).** A network designed for a business customer or government agency, using the infrastructures of a carrier and providing customized services, and which operates in such a manner as to appear dedicated to the user thereof.

**VULA (Virtual Unbundling Local Access).** A wholesale service provided by incumbent providers to alternative operators, where the incumbent provides over its broadband access network the transport of data traffic (a bitstream) between the end customer and an interconnection point where the alternative operator receives said traffic. In TIM's case, the interconnection point is located at local exchange level, aside the OLT (Optical Line Termination) i.e. the head end of optical access network.

**WAN (Wide Area Network).** A private network that covers a wide geographic area using public telecommunications services.

**WI-FI.** A service for wireless Internet connection and high speed access.

**Wi Max (Worldwide Interoperability for Microwave Access).** A technology that allows wireless access to broadband telecommunications networks. It is defined by the Wi MAX Forum, a global consortium that brings together major companies in the field of fixed and mobile telecommunications and whose purpose is to develop, test and promote the interoperability of systems based on IEEE 802.16-2004 standards for fixed access and IEEE.802.16e-2005 for fixed and mobile access.

**WLL (Wireless Local Loop).** The means of providing a local loop equivalent (e.g. connection from customer premises to local exchange) without the use of wiring, resorting instead to wireless technologies.



**WLR (Wholesale Line Rental).** It is a telephony only wholesale service provided by the Incumbent to alternative operators, whereby the alternative operator gets an ULL-like service without the need to physically deploy equipment at local exchange sites. It is technically similar to Carrier PreSelection (CPS), and differs from CPS on the commercial side since the end customer is not subscribed to the incumbent's access service, nor billed for it; in this way alternative operators are able to provide to customers both access and traffic services and to produce a single bill covering both services.

**xDSL (Digital Subscriber Line).** It is a technology that makes use of standard telephone lines and it includes different categories including: ADSL (Asymmetric DSL), HDSL (High-data-rate DSL), VDSL (Very high bit rate DSL) and eVDSL (enhanced Very high bit rate DSL). This technology uses a digital signal at very high frequencies in order to achieve high data transfer rates.

**Table of Contents****Item 4. Information On The TIM Group****Description Of Property, Plant And Equipment****4.6 DESCRIPTION OF PROPERTY, PLANT AND EQUIPMENT****General**

As of December 31, 2016 and 2015, property, plant and equipment owned and leased are detailed as follows:

	As of December 31, 2016				As of December 31, 2015			
	Owned	Leased	Total property, plant and equipment (millions of euros, except percentage)	% of total property, plant and equipment	Owned	Leased	Total property, plant and equipment	% of total property, plant and equipment
Land	203	16	219	1.3	171	16	187	1.3
Civil and industrial buildings	509	1,835	2,344	14.3	444	1,880	2,324	15.6
Plant and equipment	11,709	365	12,074	73.9	10,909	284	11,193	75.3
Manufacturing and distribution equipment	38		38	0.2	41		41	0.3
Other	391	125	516	3.2	378	7	385	2.6
Construction in progress and advance payments	1,097	72	1,169	7.1	716	21	737	5.0
<b>Total</b>	<b>13,947</b>	<b>2,413</b>	<b>16,360</b>	<b>100.0</b>	<b>12,659</b>	<b>2,208</b>	<b>14,867</b>	<b>100.0</b>

Land comprises both built-up land and available land.

Buildings (civil and industrial) almost exclusively include 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 services.

Manufacturing and distribution equipment consists of instruments and equipment used for the operations and maintenance of plants and equipment.

Other mainly consists of hardware for the functioning of the Data Center and for work stations, furniture and fixtures and, to a minimal extent, transport vehicles and office machines.

There are no encumbrances that may affect our utilization of our property or equipment.

**REAL ESTATE (LAND, CIVIL AND INDUSTRIAL BUILDINGS)**

As of December 31, 2016, the Company owned a number of buildings located throughout Italy. Specialized buildings for telecommunications services account for the majority of properties both in number and in terms of book value. Such buildings house mainly exchange equipment and transmission equipment, and are used as part of our continuing telecommunications operations. General purpose properties consist chiefly of offices, depots and computer centers.

At the end of 2014, TIM launched a major real estate project, aimed at restructuring the use of space for industrial usage in a manner consistent with the evolution of next-generation networks and optimizing the number of properties used as offices through the creation of functional centers that adopt a modern and more efficient space utilization.

This real estate project provides for a path of restructuring, termination and renegotiation of contracts, to achieve efficiency and savings, mainly through the extension of terms and lower rents.

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Properties of strategic importance have been identified, in relation to their current use and to significant investments in technology and real estate planned to support the technological evolution of the network and new ICT services.

In particular, in 2015, the Company purchased five strategic buildings and two strategic buildings were acquired in 2016. Over the 2015-2016 period the Company renegotiated and/or renewed approximately 1,100 leases. Over half of the renegotiated property rental contracts were previously accounted for using the operating lease method, however, as a result of the changes to the relevant contracts, they have been recognized in the statement of financial position at December 31, 2016 using the financial method (Tangible assets held under finance leases).

We currently expect to complete the above-mentioned real estate project, in respect of the remaining medium and small properties, with the aim to get a reduction in rental costs in the next few months.

**NETWORK INFRASTRUCTURE (PLANT AND EQUIPMENT)**

The TIM Group network infrastructure includes the domestic (Italian) and international fixed network, the domestic mobile network and the Brazilian mobile network. See -4.5 Glossary of Selected Telecommunications Terms , for definitions of the technical terms used in this section.

***Domestic (Italian) Fixed Network***

At December 31, 2016, the domestic fixed network had the following figures:

Central Offices	approximately 10,365
Switching areas	565
Gateway areas (TDM)	33
Aggregation areas	12
Copper network	114.4 million kilometers-pair <sup>4</sup>
Fiber optic access/carrier network	12.6 million kilometers-fiber
Long Distance VC4	5,250
Long Distance Lambda(l)	672 l at 1 Gbps, 62 l at 2.5 Gbps and 1,023 l at 10 Gbps
Broadband/ADSL network	9,666 Central Offices covered
Main PoP data networks	32

**Fixed Voice network.** The Fixed Voice Network dedicated to serving traditional voice (**TDM**) consists of 607 main local switches (**SGU**). Concerning the OLO interconnection, local switches are divided in 33 gateway areas.

Each local switch is physically interconnected to 2 out of 24 (12 pairs) Backbone Nodes ( **BBN** ).

Voice over IP (VoIP) service is guaranteed by a specific control platform dedicated to consumer and business customers. The IP/TDM interworking is carried out in the transit layer.

In terms of cable infrastructures, the fixed network includes 114.4 million km of copper pairs, mainly in the distribution network, and also 12.6 million km of fiber, both in access and trunk network.

Optical fiber cables significantly increase network capacity and make it possible to offer hi-tech services based on the simultaneous transmission of various types of signal, such as voice, data and video.

**Domestic Transport Network.** The transport network uses the **SDH** (Synchronous Digital Hierarchy) or **PTN** technology and the optical **DWDM** technology (Dense Wavelength Division Multiplexing) and is based on optical fibers with systems from 155 Mbit/s to 10 Gbit/s. WDM systems realize point-to-point connections multiplying by a factor from 12 to 96 the bandwidth capacity of each optical fiber, thereby increasing the total capacity of the transport network.

The fixed long-distance transport network routes 5,250 VC-4 on the SDH Arianna, Phoenix, Phoebe, Kosmos networks. It supports also 672 lambda at 1 Gbps, 62 at 2.5 Gbps point to point optical channels and 1,023 at 10 Gbps point to point optical channels on the optical DWDM systems and on the **Kaleidon** network.

<sup>4</sup> in 2016 TIM adopted a new copper twisted pair counting system which influenced the measures in some CO Areas.

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Kaleidon is the new national optical transport platform that allow to set up a completely photonic optical mesh network. Kaleidon supports optical channels at 40 Gbit /s and 100 Gbit /s with protection and restoration mechanisms at photonic level.

**OPB (Optical Packet Backbone).** The OPB is the IP backbone of TIM based on 32 POPs equipped with Terarouters.

The OPB network supports:

- Internet traffic of residential, business and Wholesale customers;
- VPN traffic (Virtual Private Network) of business customers;
- Voice traffic;
- Video traffic;
- Mobile data traffic.

**OPM (Optical Packet Metro).** The OPM network is the Metro-Ethernet network at regional level for traffic aggregation and transport up to the 32 IP POPs. The OPM network consists of 30 metro regional networks and support traffic from mobile and fixed access nodes. The OPM provides also Gigabit Ethernet Services for business customers (Ethernity, Hyperway, Gigabusiness and GEA on GBE optical access).

**Broadband/xDSL network.** The broadband access network of TIM offers hi-tech telecommunications and multimedia applications and is based on ADSL2 DSLAM technology.

In 2016, the xDSL services for residential and business customers (retail and wholesale) covers more than 99.3% of the population and have been extended to 7,687 towns, including S. Marino.

At the end of 2016, 9,666 local switching areas were covered by ADSL technology (compared to 9,597 at the end of 2015).

**NGAN (Next Generation Access Network).** In 2016 TIM continued to deploy a **NGAN**, based on optical fiber cables. NGAN deployment started in 2009 in Milan based on Fiber-To-The-Home ( **FTTH** ) architecture. Since 2012, deployment has been extended to the main cities in Italy with Fiber-To-The-Cabinet ( **FTTCab** ) architecture using fiber to street cabinets equipped with VDSL2 cards. In 2016, TIM also introduced eVDSL cards to increase the UBB speed to 200 Mbit/s.

In 2015, TIM continued FTTCab deployment and initiated a project to bring FTTH to 50 cities by 2019 (and other 59 BUL<sup>5</sup> cities) 30 of which will be reached by 2018 and the other 20 by 2019, with the aim of improving ultrabroadband service to 200 Mbit/s and to 1 Gbit/s for FTTH.

More than 14,300,000 households had been reached by the end of 2016, mainly through approximately 2,900 distribution central offices. The NGAN coverage in FTTH/Cab was approximately 59% of reached households at the end of 2016 (the reached households in FTTH numbered more than 1,080,000, with a coverage of more than 4%).

At the end of 2016, 84,300 cabinets NGAN were reached with fiber optic cables (of which 70,240 cabinets were installed with completely active service).

### ***Domestic (Italian) Mobile Network***

The domestic mobile network consists of:

- GSM network (2G: second generation network);
- UMTS network (3G: third generation network);
- LTE network (4G: fourth generation network).

<sup>5</sup> is an Italian acronym (Banda UltraLarga) referring to a public funding project aimed to development of ultrabroadband infrastructure.

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On December 31, 2016 TIM domestic mobile network had the following figures:

**GSM/EDGE network**

- 14,616 BTS (Base Transceiver Station) GSM radio station (18,085 BTS at the end of 2015): -19.2% due to the GSM@1800 MHz refarming towards new technologies (LTE); about 1,000 of them are  $\mu$ BTS;
- 719,594 radio channels (902,271 at the end of 2015), -20.3%;
- 97 BSC (Base Station Controller) (98 at the end of 2015), -1 due to the adoption of new generation equipment with superior performance;
- GSM Core Network: since the Circuit Switched Core Network is common to GSM and UMTS (Dual Access architecture), its description is given below.

**UMTS/HSPA network**

- 18,487 node B UMTS radio base station (17,245 node B at the end of 2015) +7.2%;
- 2,728,295 radio channels (2,541,383 radio channels at the end of 2015) +7.4%;
- 120 RNC (Radio Network Controller) (144 at the end of 2015): -24 RNC compared to 2015 due to the adoption of new generation equipment with superior performance;
- GSM/UMTS Core Network: 50 MSC-server (Mobile Switching Center/Gateway), 85 access MGW (Media Gateway), 13 transit MGW, 8 IP STP (Signalling Transfer Point), 6 TSC-server (Transit Switching Center), 42 HLR (Home Location Register), 4 GGSN (Gateway GPRS Support Node), 1 SGSN (Serving GPRS Support Node).

Note that decommissioning of SGSNs (-29 compared to end of 2015) is part of the ongoing convergence of Packet Switched Core Network onto the LTE EPC (Evolved Packet Core).

In 2016, TIM continued implementation of the plan to distribute the High Speed Downlink Packet Access ( **HSDPA** ) and the High Speed Uplink Packet Access ( **HSUPA** ); these systems aim to increase the overall data transmission speed offered by UMTS.

In particular the HSDPA at 42 Mbit/s coverage level has overstepped 84% of the resident population.



## **LTE network**

TIM acquired frequency blocks on 800 MHz, 1800 MHz and 2600 MHz through an auction in September 2011.

The three bands are used for LTE deployment to provide ultrabroadband services to mobile customers. Moreover, in September 2015, TIM has acquired a frequency block in the 1500 MHz band, specifically devoted to mobile ultrabroadband. In 2016, TIM has initiated deployment of this new layer.

At the end of 2016, the LTE network coverage is higher than 96% of the national population.

- 13,391 enode B (9,342 at the end of 2015) +43.3%;

- LTE core network is undergoing a technological upgrade and currently includes: 10 SPGW (Packet Data Network/Serving Gateway), 12 MME (Mobility Management Entity) all using triple access 2G/3G/4G technology, 3 HSS (Home Subscriber Server) Front End and 3 CUDB (Centralized User Database) according to Data Layered Architecture, 6 Mobile Broadband Policy Manager.

As of the end of 2016, the IMS core Network includes 3 CSCF (Call session Control Function), 3 MTAS (Multimedia Telephony Application Server) and 1 VoLTE Policy Manager for handling voice services on LTE (VoLTE).

Table of Contents**Item 4. Information On The TIM Group****Description Of Property, Plant And Equipment***International Fixed Network*

Telecom Italia Sparkle provides connectivity services (voice, mobile data, IP and managed bandwidth) and Cloud and Data Center services (IaaS, Disaster Recovery, enhanced colocation) to national and international wholesale customers and to multinational corporates (MNCs) relying on an international network made of a proprietary cross-border backbone and bilateral connections.

Telecom Italia Sparkle international backbone spans 450,000 km covering all of the major regions worldwide and connects over 500 international voice operators. The cross-border backbone integrates 4 regional networks:

- Pan European backbone ( **PEB** );
- Latin American backbone;
- Mediterranean backbone;
- USA backbone.

In detail:

- **Pan European Backbone.** Proprietary high speed optical network built over a fiber optic backbone spanning the main European countries: Italy, France, United Kingdom, Netherlands, Belgium, Germany, Switzerland, Austria, Spain, Czech Republic, Slovakia and Romania. The overall length is about 45,000 km;
- **Latin American backbone.** High-capacity backbone based on fiber optic ring networks, both terrestrial and submarine, with an overall length of about 36,000 km, including the Miami-New York section. The ring connects the main cities of South and Central America to North America;
- **Mediterranean backbone.** Submarine ring network with a highly reliable configuration complemented by terrestrial fiber extensions from Istanbul and Athens to Sofia. The total length is about 10,000 km and connects the major markets of the Mediterranean and Balkans area: Italy, Greece, Cyprus, Turkey, Israel and Bulgaria;
- **USA backbone.** High-capacity terrestrial backbone with POPs in: Newark, New York, Miami, Jacksonville, Ashburn, Chicago, Palo Alto, Los Angeles and Dallas.

Telecom Italia Sparkle network is an integrated multi-service backbone based on an IP-MPLS core handling differentiated classes of services. The transport layer is based over DWDM with 10, 40 and 100 Gbps optical lambdas while voice services are provided by Class 4 switches. Traffic protection is implemented by MS SPRING, SNCP, OTN, MSP 1+1 and meshed technologies.

In 2016, the new 100 Gbps optical backbone was deployed over the Paris Brussels Amsterdam, Paris-London, and London-Amsterdam routes. Upgrades at the 100Gbps level were carried out both on OTN ASON and OTN Light infrastructures for the provisioning of protected and unprotected capacity services across Italy and Europe, in line with the sales plan.

With respect to the network efficiency and decommissioning plan, old DWDM 2.5G and 10G technologies have been dismantled over the Milan-Vienna-Venice, Milan-Kehl-Frankfurt, Amsterdam-Brussels-Paris, Paris-Kehl, Paris-Lyon-Marseille-Milan, Paris-Bordeaux-Bilbao, Marseille-Barcelona, London-Amsterdam links. Additionally, the Bordeaux POP was decommissioned.

DWDM capacity upgrades were carried out on both Tuas-Equinix and Equinix-Ansar rings, to keep up with new sales.

With respect to the IP backbone, new core equipment was deployed in Milan (Caldera site), Palermo and Istanbul to further optimize capital expenditure efficiency, network scalability and resiliency. At the edge level, upgrades were made at 10/100Gbps on main PoPs in line with the sales plan and a new router was deployed in Frankfurt Equinix dedicated to IP over SDH services. In the US IP backbone, a new direct route between Dallas and Newark/New York was deployed, with the aim of increasing network architecture efficiency and optimizing capital expenditures, and a new edge router was deployed in Jacksonville Cologix.

New POPs were made available in London Equinix and in Kuala Lumpur through a partnership with a local operator. The Atlanta POP was decommissioned.

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With respect to submarine cables, Telecom Italia Sparkle is a co-owner of the new Sea-Me-We 5 cable brought into service in November of 2016, including the terrestrial ring from the landing station in Catania and Sicily Hub in Palermo. Capacity upgrade was delivered on Sea-Me-We 4 and SAT-3/WASC cables, connecting Europe with Singapore and Western Africa.

On the Mobile and Voice services front, Softswitch platform upgrades were completed to handle increasing signaling and voice traffic volumes, mainly to support voice and messaging services over IP. New SBC equipment was brought into service in Frankfurt PoP and the SMS Firewall platform was enhanced with additional capabilities, new SMS routing rules and reporting features.

**Mediterranean Backbone**

In 2016, TIM carried out an upgrade of the Haifa-Catania segment of MedNautilus submarine cable. Moreover, network upgrades on both transmission and IP backbones were completed, in line with the sales plan in the area.

Technical infrastructure updates were carried out in Catania, Athens, Chania and Istanbul data centers with the aim of increasing efficiency and reliability. The Company has started the building of a new data center in Catania, for the deployment of a new virtualized environment for network and IT technologies. Enhancements of cloud infrastructure in Athens and Istanbul, through new storage appliance purchased with a pay-as-you-grow model, and the launch of new Secure Cloud Identity Suite service in collaboration with AliasLAB partner, were also carried out in the period.

**Latin American Backbone**

Capacity upgrades on both the SAC (South American Crossing) cable and Sao Paulo backhaul were completed. With respect to IP backbone, upgrades at the 100Gbps level on Buenos Aires, Sao Paulo and Rio de Janeiro PoPs were completed, in line with the sales plan. In addition, replacement of the old technology core router in Buenos Aires POP was carried out by introducing state-of-the-art equipment with the aim of optimizing the capital expenditures. A new dark fiber, connecting Boca Raton landing station to Miami PoP, was bought in order to build a protected ring and to increase network resiliency.

***Brazilian Network***

The investments of TIM Brasil group prioritized projects for (i) the expansion of its fiber optic network (ii) the optimization of the use of the network, with adjustments to improve the signal quality in the current coverage areas and (iii) the mapping of the main causes of interruptions and failures of the network, as well as the necessary measures to prevent these events, ensuring call and data connection quality, for greater user access capability. As a provider of an essential service to the socioeconomic development of the country, TIM Brasil strongly believes that this is contributing to the country's infrastructure development and promoting universal access to telecommunications services.

Efficiency and quality were the main pillars of Network strategy in 2016. TIM Brasil was able to improve all quality metrics and provide an improved customer experience, in both 4G and 3G technologies, with fewer capital expenditures and maintaining its leadership in cities covered with 4G. Quality and level of coverage are fundamental to attracting and retaining customers as the Company evolves, primarily in the postpaid segment.

Coverage, capacity and quality constitute the main focus for the Network, with approximately 85% of total 2016 capital expenditures dedicated to infrastructure, to support total traffic that grew more than 56% during the year. Sites densification, hetnet coverage expansion, backhaul development and carrier aggregation were the main Network projects to support this growth with improved quality.

Aiming to provide a high quality experience in mobile broadband, the Company focused on the MBB (Mobile BroadBand) project in 2016, prioritizing investment allocation in most critical areas with high consumer densification. The project has allowed the Company to optimize data traffic, expanding and enhancing the services, with fewer capital expenditures. In 2016, the MBB project had 20 clusters, totaling 268 cities planned to be covered in 2016-2017. The cluster concept expands the targeted zones to metropolitan areas of cities that

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**Description Of Property, Plant And Equipment**

were already included in the MBB project in 2015 prioritizing state capitals and their metropolitan areas, conurbation cities, major coastal cities and main primary access roads. The project has been evolving according to its program and the main clusters are already implemented.

During 2016, TIM Brasil maintained its leadership position in cities covered with 4G technology, reaching 1,255 cities or 74% of urban population in the country and more than tripling the number of cities covered as compared to 2015. TIM Brasil used spectrum refarming to achieve these significant 4G implementation results. The project uses the 1,800MHz band and reorganizes the frequency usage according to the spectrum availability together with coverage optimization, achieving better results with fewer capital expenditures.

As for the 3G network, TIM Brasil expanded its coverage to almost 1,000 new cities in 2016, a growth of approximately 55%, resulting in overall coverage of 2,833 cities or 89% of urban population. GSM coverage stood at almost 95% of urban population.

In 2016, the TIM Brasil group concluded the sale of two additional telecommunications towers to American Tower do Brasil. The transaction involved the simultaneous execution of a finance lease for the portion of the towers used by the TIM Brasil group.

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**Item 4A. Unresolved Staff Comments**

**Item 4A. UNRESOLVED STAFF COMMENTS**

None.

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*The following discussion should be read in conjunction with the Consolidated Financial Statements included elsewhere in this Annual Report. Such financial statements have been prepared in accordance with IFRS as issued by the IASB.*

**5.1 CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our discussion and analyses of our financial condition and results of operations is based upon our Consolidated Financial Statements, which have been prepared in accordance with IFRS as issued by the IASB (designated as **IFRS** ). Our reported financial condition and results of operations as reported under IFRS are based on the application of accounting methods which involve the use of subjective assumptions and estimates that underlie the preparation of our financial statements. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available. Actual results could differ, even significantly, from these estimates owing to possible changes in the factors considered in the determination of such estimates. Estimates are reviewed periodically.

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 economic substance of the transactions, are neutral, prepared on a prudent basis and complete in all material respects and in accordance with IFRS.

Since our selection and application of accounting policies involve judgments and other assumptions affecting the application of those policies, reported results are sensitive to changes in conditions or assumptions of management and these are factors to be considered when reading our Consolidated Financial Statements. We believe the critical accounting policies described below involve the most significant subjective assumptions and estimates used in the preparation of our Consolidated Financial Statements under IFRS.

**Revenue recognition**

Revenues are recognized to the extent that it is probable that economic benefits will flow to the Group and their amount can be measured reliably. Revenues are stated net of discounts, allowances, and returns.

· *Revenues from services rendered*

Revenues from services rendered are recognized in the separate consolidated income statement according to the stage of completion of the service and only when the outcome of the service rendered can be estimated reliably.

Traffic revenues from interconnection and roaming are reported gross of the amounts due to other TLC operators.

Revenues for delivering information or other content are recognized when the information or content is delivered to the customer. In the event that the Group is acting as agent, only the commission received from the content provider is recognized as revenue.



Revenues from the activation of telephone services (as well as the related costs) are deferred over the expected duration of the relationship with the customer (in Italy, generally 8 years for retail customers and 3 years for wholesale customers). In particular, costs from the activation of telephone services are deferred taking also into account the reasonable expectations of cash flows arising from these services. To determine the expected duration of the relationship with customers we perform an analysis of our historical customer relationship trends.

Revenues from prepaid traffic are recorded on the basis of the minutes used at the contract price per minute. Deferred revenues for unused minutes are recorded in Trade and miscellaneous payables and other current liabilities in the consolidated statement of financial position.

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Critical Accounting Policies And Estimates***· Revenues from sales and bundled offerings*

Revenues from sales (telephone and other equipment) are recognized when the significant risks and rewards of ownership are transferred to the buyer.

For offerings which include the sale of mobile handsets and service contracts, we recognize revenues related to the sale of the handset when it is delivered to the final customer whereas traffic revenues are recorded on the basis of the minutes used; the related subscriber acquisition costs, including sales commissions, are expensed as incurred. The revenues allocated to the handset sale are limited to the contract amount that is not contingent upon the rendering of telecommunication services, i.e. the residual of the amount paid by the customer exceeding the services value. The determination of fair values in the telecommunications business is complex, because some of the components are price-sensitive and, thus, volatile in a competitive marketplace.

A small portion of our bundled mobile offerings are contracts with a minimum contractual period between 12 and 36 months which include an enforced termination penalty. For these contracts, the subscriber acquisition costs are capitalized under Intangible assets with a finite useful life if the conditions for capitalization as described in the related accounting policy are met.

*· Revenues on construction contracts*

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

Revenue recognition is subject to estimation in respect of the expected duration of customer relationships, the estimate of relative fair values and estimates of discounts, returns and allowances. Revisions to such estimates may significantly affect our future operating results.

**Allowance for doubtful accounts**

Management maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of our customers to make required payments. Management bases its estimates on the ageing of our accounts receivable balances and our historical write-off experience with similar receivables, customer credit-worthiness and changes in our customer payment history when evaluating the adequacy of our allowance for doubtful accounts. If the financial condition of our customers were to deteriorate, our actual write-offs might be higher than we estimate.

**Accounting for tangible and intangible non-current assets**

Accounting for tangible and intangible non-current assets involves the use of estimates for determining fair value at the acquisition date in the case of assets acquired in a business combination and the expected useful lives of assets with a finite useful life. The determination of the fair values of assets, as well as the useful lives of the assets is based on management's judgment. Changes in the economic conditions of the markets in which we operate, technology and competitive forces could significantly affect the estimated useful lives of these assets and may lead to a difference in the timing and amount of depreciation and amortization expense.

**Acquisition accounting, goodwill and purchase price allocation**

We have entered into certain acquisitions and in the future may make further acquisitions. The calculation of the purchase price, and the subsequent allocation of that purchase price to the fair value of the assets acquired and liabilities assumed, is critical due to the long-term impact on the separate consolidated income statement.

Under IFRS, we are required to perform a purchase price allocation and, consequently, as part of that allocation, all consideration, including the fair value of exchanged shares, shall be valued. When equity instruments are issued as part of the consideration, under IFRS we measure them at their fair value as of the date of exchange.

The purchase price is then allocated to the fair value of the assets acquired and liabilities assumed.

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### **Item 5. Operating And Financial Review And Prospects**

### **Critical Accounting Policies And Estimates**

The purchase price allocation requires that all assets and liabilities be recorded at fair values which requires significant estimates and judgments to be made. A change in any of these estimates or judgments could change the amount allocated to the assets and liabilities. The resulting change in the purchase price allocation to assets or liabilities has a direct impact on the final amount of the purchase price that is allocated to goodwill.

If actual results differ from these estimates, or we adjust the estimated economic useful lives in future periods, operating results could be significantly affected by these estimates and judgments which involve:

- the definition of the purchase price;
  - the identification of the assets acquired and liabilities assumed in the acquisition;
  - the valuation of these assets and liabilities in the purchase price allocation; and
  - the assessment of whether selected assets have a finite or indefinite useful life.
- These could have a significant impact on both the level of total goodwill and ultimately on the separate consolidated income statement.

### **Impairment of assets**

The determination of impairment of intangible and tangible assets involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment.

- **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 groups of cash-generating units which is expected to benefit from the acquisition.

Allocation is made to the lowest level at which goodwill is monitored for management purposes and that lowest level is not larger than the operating segment determined in accordance with IFRS 8 (*Operating Segments*).

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 a cash-generating unit denominated in a foreign currency is estimated in the local currency by discounting cash flows to their present value on the basis of an appropriate rate for that currency. The present value obtained is translated to Euro at the spot rate on the date of the impairment test (in the case of the TIM Group, the date of the financial statements).

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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.

Based on the impairment test conducted as of December 31, 2016, the recoverable amount of assets exceeded the carrying amount for all Cash Generating Units.

See Note Goodwill of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

- **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 their 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, we estimate 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.

The identification of impairment indicators, the estimation of future cash flows and the determination of fair values of assets or groups of assets (or cash-generating units) require management to make significant judgments including expected cash flows, applicable discount rates, useful lives and residual values. These estimates can have a material impact on fair value and the amount of any write-downs.

**Financial assets**

Financial assets include in particular investments, some of which are publicly traded and have highly volatile share prices. Generally, an impairment charge is recorded when an investment's carrying amount exceeds the present value of its estimated future cash flows. The calculation of the present value of estimated future cash flows and the determination of whether an impairment is other than temporary involve judgments and rely heavily on assessments by management regarding the future development and prospects of the investee company. In determining the value, quoted market prices are used, if available, or other valuation methodologies. To

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determine whether an impairment is other than temporary, we consider the ability and intent to hold the investment for a reasonable period of time to ascertain whether a forecasted recovery of fair value exceeds the carrying amount, including an assessment of factors such as the length of time and magnitude of the excess of carrying value over market value, the forecasted results of the investee company, the regional economic environment and state of the industry. Future adverse changes in market conditions, particularly a downturn in the telecommunications industry, or poor operating results could result in losses or an inability to recover the carrying amount of the investment, which could result in impairment charges.

**Derivative financial instruments**

We have entered into several different types of derivative contracts in order to manage our 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. The changes in the fair value of derivatives which do not qualify for hedge accounting, fair value hedge derivatives and the ineffective portion of cash flow hedge derivatives are recognized in the separate consolidated income statement in the period of change. The gain or loss on the effective portion of qualifying cash flow hedges is recognized directly in a specific equity reserve. 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 assessment of the fair value of a derivative contract requires the use of quoted market prices, banker price quotations, price quotations for similar instruments traded in different markets and, where applicable, pricing models. Pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized. We rely on these pricing models when external fair values are unavailable. The estimates regarding future prices require estimating several factors, including interest rates, currency values and cash flows. Prices realized in the future could differ from these estimates, therefore producing different financial results.

**Provision for employee severance indemnity**

Employee severance indemnity, mandatory for Italian companies pursuant to art. 2120 of the Italian Civil Code, is a deferred compensation and is based on the employees' years of service and the compensation earned by the employee during the service period.

Under IAS 19 (*Employee Benefits*), the employee severance indemnity is considered a Defined benefit plan. From January 1, 2007, Italian Law provided employees with the choice to direct their accruing indemnity either to supplementary pension funds or leave the indemnity as an obligation of the Company. Companies that employ at least 50 employees should transfer the employee severance indemnity to the Treasury fund managed by INPS, the Italian Social Security Institute.

Consequently, the Group's obligation to INPS and the contributions to supplementary pension funds take the form, under IAS 19, of a Defined contribution plan.

The obligation for the employee severance indemnity classified as a defined benefit plan is determined in accordance with actuarial methods. In the event that changes in assumptions are required, the future amounts of the post-employment benefit may be materially affected. A critical assumption to this accounting is the discount rate. Other assumptions include factors such as expected retirement date, mortality rate and estimates of inflation.



**Provisions and contingent liabilities**

We exercise considerable judgment in determining our exposure to and recognizing provisions for contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation as well as other contingent liabilities.

Judgment is necessary in assessing the likelihood that a pending claim will succeed or a liability will arise and to quantify the possible range of the final settlement. Provisions are recorded for liabilities when losses are considered probable and can be reasonably estimated. Because of the inherent uncertainties in making such judgments, actual losses may be different from the originally estimated amount recognized. Significant estimates

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are involved in the determination of provisions related to taxes, environmental liabilities, our workforce reduction initiative and litigation risks. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or outside consultants, such as actuaries or legal counsel. Adjustments to loss provisions may significantly affect future operating results.

**Income tax expense and deferred tax assets**

The Group calculates income tax expense in each of the tax jurisdictions in which it operates. This process involves a jurisdiction-by-jurisdiction calculation of the current tax charge and an assessment of temporary differences resulting from the different treatment of certain items for consolidated financial and tax reporting purposes. Temporary differences result in the recognition of deferred tax assets or liabilities in the consolidated financial statements. Deferred tax assets are recognized to the extent that their realization is probable. The realization of deferred tax assets depends, among other things, on the company's ability to generate sufficient taxable income in future years and the reversal of taxable temporary differences, taking into account any restrictions on the carry-forward of tax losses. Various factors are used to assess the probability of the future realization of deferred tax assets, including future reversals of existing taxable temporary differences, past operating results, operational plans, loss carry-forward periods, and tax planning strategies. If actual results differ from these estimates or, if these estimates must be adjusted in future periods, the financial position and results of operations may be affected. In the event of a change in the assessment of future utilization of deferred tax assets, the recognized deferred tax assets must be increased or decreased, as the case may be, and the consequent effects 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 effect is recognized in the relevant equity reserves.

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**5.2 RESULTS OF OPERATIONS FOR THE THREE YEARS ENDED DECEMBER 31, 2016**

**5.2.1 SIGNIFICANT TRENDS IMPACTING OUR CORE BUSINESSES**

Intense competition continues to have a significant impact on the development of the business. Key trends affecting the core businesses are:

*Domestic Business Unit*

In 2016, the Italian TLC market confirmed the gradual slow-down in the fall in value, which had started in the second half of 2014, simultaneously with the reduction in price-based competitive pressures, that had characterized the previous years.

Growth in broadband and ultrabroadband particularly Mobile, also aided by the increased penetration of next-generation handsets continued to be the main driver of the market.

In order to address these underlying macro trends in our business, the main strategic priorities and objectives of TIM in the domestic (Italian) market are as follows:

- excellent network infrastructure, the roll out of which will be further accelerated over the Plan period;
- a commercial approach focused on convergent offers and content;
- in the Domestic Mobile segment, TIM will focus on speeding up the penetration of mobile ultrabroadband, strengthened by the extensive reach of its 4G network and the dissemination of quality content;
- in the Fixed Domestic segment, TIM plans to accelerate the spread and adoption of optic fiber;
- the implementation of efficiency recovery actions, aimed at increasing cash-flow generation;
- re-launch of the main subsidiaries of the Group.

*Brazil Business Unit*

The main macroeconomic indicators still show mixed signals in terms of recovery of the Brazilian economy. In particular, GDP decreased throughout 2016, with a slightly better forecast at year end than that recorded in 2015. Conversely, inflation in 2016 showed signs of improvement after the peak recorded in 2015 (+10.7%), but with year-end values still expected to remain at high levels (+6-7%).

In the course of 2016, direct taxation increased more than expected to cope with the increased budget deficit of the Federal and Central States, which also affected the telecommunications industry through a series of increases in the main tax on services (ICMS) recorded in almost all States.

### 5.2.2 BUSINESS SEGMENTS

The TIM Group reports its financial results on the basis of the following operating segments:

- **Domestic:** includes Italian voice and data operations on fixed and mobile networks for final customers (retail) and other operators (wholesale), the operations of the Telecom Italia Sparkle group (International wholesale), that operates internationally (in Europe, in the Mediterranean and in South America) in the development of fiber optic networks for wholesale customers, the operations of Olivetti (products and services for Information Technology), as well as INWIT S.p.A. (a company operating in the electronic communications infrastructure business, specifically relating to infrastructure for housing radio transmission equipment for mobile telephone networks, both for TIM and other operators) and the units supporting the Domestic sector.

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Following the change in Persidera's business mission, the Media Business Unit was included into the Domestic Business Unit as of January 1, 2016;

- **Brazil:** includes mobile (TIM Celular) and fixed (TIM Celular and Intelig) telecommunications operations in Brazil;
- **Other Operations:** includes finance companies and other minor companies not strictly related to the core business of the TIM Group.

The principal changes in the scope of consolidation in 2016 are as follows:

- **TIMVISION S.r.l. Domestic Business Unit:** established on December 28, 2016;
- **Noverca S.r.l. Domestic Business Unit:** TIM S.p.A. acquired 100% of the company on October 28, 2016;
- **Flash Fiber S.r.l. Domestic Business Unit:** established on July 28, 2016;
- **Sofora Telecom Argentina group:** classified under Discontinued operations (discontinued operations/non-current assets held for sale) was sold on March 8, 2016;
- **Revi Immobili S.r.l., Gestione Due S.r.l. and Gestione Immobili S.r.l. Domestic Business Unit:** on January 11, 2016, INWIT S.p.A. acquired 100% of these companies, subsequently merged by incorporation, which therefore entered the Group's consolidation scope.

These changes did not have a significant impact on the Consolidated Financial Statements of the TIM Group at and for the year ended December 31, 2016.

The principal changes in the scope of consolidation in 2015 are as follows:

- **INWIT S.p.A. Domestic Business Unit:** was established in January 2015 and in June 2015 the initial public offering for the ordinary shares of INWIT S.p.A. on the Electronic Stock Exchange organized and managed by Borsa Italiana S.p.A. was successfully completed;
- **Alfabook S.r.l. Domestic Business Unit:** on July 1, 2015 Telecom Italia Digital Solutions S.p.A. (now merged into Olivetti S.p.A) acquired 100% of Alfabook S.r.l., which consequently entered the Group's scope of

consolidation;

- **TIM Real Estate S.r.l. Domestic Business Unit:** was established in November 2015. On February 3, 2017, as part of the programme to streamline the Company's holdings, the Board of Directors approved the start of the process to incorporate the wholly owned subsidiary Tim Real Estate S.r.l. into TIM. The Company expects to complete the incorporation process by mid-2017.

With the exception of the INWIT initial public offering, these changes did not have a significant impact on the Consolidated Financial Statements of the TIM Group at and for the year ended December 31, 2015.

For a description of certain of these businesses, see Item 4. Information on the TIM Group 4.2 Business Units .

### 5.2.3 NON-GAAP FINANCIAL MEASURES

In this Annual Report on Form 20-F, in addition to figures presented in accordance with IFRS as issued by IASB, we disclose figures derived from IFRS that are non-GAAP financial measures ( **Non-GAAP Measures** ).

Such financial data is considered Non-GAAP financial measures as defined in Item 10(e) of Regulation S-K under the 1934 Act.

In this Annual Report the Non-GAAP Measure used relates to Net Financial Debt.

**Net Financial Debt** is a Non-GAAP financial measure as defined in Item 10(e) of Regulation S-K under the 1934 Act, but is widely used in Italy by financial institutions to assess liquidity and the adequacy of a company's financial structure. We believe that Net Financial Debt provides an accurate indicator of our ability to meet our financial obligations (represented by gross debt) by our available liquidity, represented by the other items shown

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in the reconciliation table. Net Financial Debt allows us to show investors the trend in our net financial condition over the periods presented. The limitation on the use of Net Financial Debt is that it effectively assumes that gross debt can be reduced by our cash and other liquid assets. In fact, it is unlikely that we would use all of our liquid assets to reduce our gross debt all at once, as such assets must also be available to pay employees, suppliers, and taxes, and to meet other operating needs and capital expenditure requirements. Net Financial Debt and its ratio to equity (including Non-controlling Interest), or leverage, are used to evaluate our financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether our financial structure is adequate to achieve our business plan and our financial targets. Our management believes that our financial structure is sufficient to achieve our business plan and financial targets. Our management monitors the Net Financial Debt and leverage or similar measures as reported by other telecommunications operators in Italy and outside Italy, and by other major listed companies in Italy, in order to assess our liquidity and financial structure relative to such companies. We also monitor the trends in our Net Financial Debt and leverage in order to optimize the use of internally generated funds versus funds from third parties. Net Financial Debt is reported in our Italian Annual Report to shareholders and is used in presentations to investors and analysts. Net Financial Debt is calculated as follows:

	<b>As of December 31,</b>				
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>(millions of euros)</b>				
Non-current financial liabilities	30,469	30,518	32,325	31,084	34,091
Current financial liabilities	4,056	6,224	4,686	6,119	6,150
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale		348	43	27	
<b>Gross financial debt (A)</b>	<b>34,525</b>	<b>37,090</b>	<b>37,054</b>	<b>37,230</b>	<b>40,241</b>
<b>Non-current financial assets (B)</b>	<b>(2,698)</b>	<b>(2,989)</b>	<b>(2,445)</b>	<b>(1,256)</b>	<b>(2,496)</b>
<b>Current financial assets:</b>					
Securities other than investments	(1,519)	(1,488)	(1,300)	(1,348)	(754)
Financial receivables and other current financial assets	(389)	(352)	(311)	(283)	(502)
Cash and cash equivalents	(3,964)	(3,559)	(4,812)	(5,744)	(7,436)
<b>Total current financial assets (C)</b>	<b>(5,872)</b>	<b>(5,399)</b>	<b>(6,423)</b>	<b>(7,375)</b>	<b>(8,692)</b>
<b>Financial assets relating to Discontinued operations/Non-current assets held for sale (D)</b>		<b>(227)</b>	<b>(165)</b>	<b>(657)</b>	
<b>Financial assets (E=B+C+D)</b>	<b>(8,570)</b>	<b>(8,615)</b>	<b>(9,033)</b>	<b>(9,288)</b>	<b>(11,188)</b>
<b>Net financial debt (A+E)</b>	<b>25,955</b>	<b>28,475</b>	<b>28,021</b>	<b>27,942</b>	<b>29,053</b>

**5.2.4 OVERVIEW OF 2016 RESULTS OF OPERATIONS**

In 2016, the TIM Group successfully managed a turnaround, launched in April 2016, that resulted in a significant recovery of the main economic and financial indicators and enabled the Company to meet predefined targets.

The following characterized the results in the Italian (domestic) market:

**Domestic.** In the domestic market, TIM achieved revenue stabilization and significant improvement in operating profit. These results were achieved through a cost containment program and collateral innovations in TIM's range of products and services, from increasing ultrabroadband coverage to boosting sales of smartphones and enabling higher value added services.

The following characterized the results in our Brazil Business Unit:

**Brazil.** In the Brazil market there were signs of recovery, with progressive improvements, supported by the cost containment program and the re-positioning of commercial offers.

The completion of the sale of the Sofora-Telecom Argentina group in March 2016 and the conversion of the Mandatory Convertible Bond into TIM shares in November 2016 supplemented cash flow from operations and led to a decrease in the Group's net financial debt by more than 2.5 billion euros.



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The following table sets forth our consolidated income statement for the years ended December 31, 2016, 2015 and 2014.

	<b>Year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	(*)	(*) (Revised)	(*) (Revised)
	(millions of euros)		
Revenues	19,025	19,719	21,574
Other income	311	287	401
<b>Total operating revenues and other income</b>	<b>19,336</b>	<b>20,006</b>	<b>21,975</b>
Acquisition of goods and services	(7,793)	(8,532)	(9,432)
Employee benefits expenses	(3,106)	(3,589)	(3,119)
Other operating expenses	(1,083)	(1,491)	(1,175)
Change in inventories	9	(44)	(52)
Internally generated assets	639	656	588
Depreciation and amortization	(4,291)	(4,135)	(4,284)
Gains (losses) on disposals of non-current assets	14	336	29
Impairment reversals (losses) on non-current assets	(3)	(244)	(1)
<b>Operating profit (loss)</b>	<b>3,722</b>	<b>2,963</b>	<b>4,529</b>
Share of profits (losses) of associates and joint ventures accounted for using the equity method	(23)	1	(5)
Other income (expenses) from investments	7	10	16
Finance income	2,543	2,760	2,404
Finance expenses	(3,450)	(5,281)	(4,594)
<b>Profit (loss) before tax from continuing operations</b>	<b>2,799</b>	<b>453</b>	<b>2,350</b>
Income tax expense	(880)	(403)	(930)
<b>Profit (loss) from continuing operations</b>	<b>1,919</b>	<b>50</b>	<b>1,420</b>
Profit (loss) from Discontinued operations/Non-current assets held for sale	47	611	541
<b>Profit (loss) for the year</b>	<b>1,966</b>	<b>661</b>	<b>1,961</b>
<b>Attributable to:</b>			
<i>Owners of the Parent</i>	<i>1,808</i>	<i>(70)</i>	<i>1,351</i>
<i>Non-controlling interests</i>	<i>158</i>	<i>731</i>	<i>610</i>

(\*) On November 13, 2013, TIM accepted the offer of Fintech Group to acquire the entire controlling interest of TIM Group in the Sofora Telecom Argentina group. The agreements made in connection with this transaction were subsequently modified in October 2014. As a result and in accordance with IFRS 5 (*Non-current Assets Held for Sale and Discontinued Operations*), starting with the fourth quarter of 2013, the Sofora Telecom Argentina group has been treated as Discontinued operations/Non-current assets held for sale. On March 8, 2016, the TIM Group completed the sale of Sofora Telecom Argentina group.

#### **5.2.5 BUSINESS UNIT FINANCIAL DATA**

The table below sets forth revenues, operating profit (loss), capital expenditures and number of employees by Business Units, for the periods indicated.

Following certain correction of errors made in 2016 within the Brazil Business Unit, the data for the years 2015 and 2014 have been appropriately adjusted and referred to as revised (for further details please see the Note *Form, Content and other general information The correction of errors* of the Notes to the 2016 Consolidated Financial Statements included elsewhere in this Annual Report ).

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Following the change in the business mission of Persidera, the Media Business Unit was included into the Domestic Business Unit (Core Domestic) as of January 1, 2016; without that change, the revenues of the Domestic Business Unit in 2016 would have totaled 14,933 million euros.

			Domestic	Brazil	Media	Operations	Adjustments Other and eliminations	Consolidated Total
			(millions of euros, except number of employees)					
Revenues (1)							(39)	
	2016		15,006	4,047			11	19,025
	2015	(Revised)	15,001	4,637	82		49	19,719
	2014	(Revised)	15,303	6,245	71		(45)	21,574
Operating profit (loss)							(18)	(4)
	2016		3,376	368			(52)	3,722
	2015	(Revised)	2,359	638	14			2,963
	2014	(Revised)	3,738	794	6		(12)	4,529
Capital expenditures on an accrual basis	2016		3,709	1,167	8			4,876
	2015		3,900	1,289				5,197
	2014		2,783	2,195	6			4,984
Number of employees at year-end (2)	2016		51,280	9,849			100	61,229
	2015		52,644	13,042	64		117	65,867
	2014		53,076	12,841	89		19	66,025

(1) Revenues are total revenues of the various business units of the TIM Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

(2) The number of employees at year-end excludes employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale, and includes personnel with temporary work contracts.

**5.2.6 Year Ended December 31, 2016 compared with Year Ended December 31, 2015**

**Revenues** declined by 694 million euros, or 3.5%, from 19,719 million euros in 2015 to 19,025 million euros in 2016. The decrease of 694 million euros was mainly attributable to the Brazil Business Unit (590 million euros).

The table below sets forth for the periods indicated gross revenues by Business Unit and consolidated revenues.

	Year ended December 31,		Year ended December 31,		Changes	
	2016	% of	2015	% of	(a-b)	%
	Revenues <sup>(1)</sup>	Consolidated	Revenues <sup>(1)</sup>	Consolidated		
	(a)	revenues	(b)	revenues		
	(millions of euros, except percentages)					
Domestic <sup>(2)</sup>	15,006	78.9	15,001	76.1	5	0.0
Core Domestic <sup>(3)</sup>	13,926	73.2	14,001	71.0	(75)	(0.5)
International Wholesale	1,351	7.1	1,314	6.7	37	2.8
Brazil	4,047	21.3	4,637	23.5	(590)	(12.7)
Other Operations <sup>(4)</sup>	11	0.1	131	0.7	(120)	
Adjustments and eliminations	(39)	(0.3)	(50)	(0.3)	11	
<b>Total Revenues</b>	<b>19,025</b>	<b>100.0</b>	<b>19,719</b>	<b>100.0</b>	<b>(694)</b>	<b>(3.5)</b>

(1) Revenues are total revenues of the various business units of the TIM Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

(2) Following the change in the business mission of Persidera, the Media Business Unit was included into the Domestic Business Unit (Core Domestic) as of January 1, 2016; without that change, the revenues of the Domestic Business Unit for the year 2016 would have totaled 14,933 million euros.

(3) From January 1, 2016, this also includes the company Olivetti. Figures for the period under comparison have been changed accordingly.

(4) The Other Operations of the TIM Group consist of the financial companies and other minor companies not associated with the core business of the TIM Group.

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The following table sets forth other income for the years ended December 31, 2016 and 2015:

	Year ended December 31,			
	2016 (a)	2015 (b)	Changes (a-b)	%
	(millions of euros, except percentages)			
Late payment fees charged for telephone services	60	59	1	1.7
Recovery of employee benefit expenses, purchases and services rendered	33	32	1	3.1
Capital and operating grants	36	33	3	9.1
Damage compensation, penalties and sundry recoveries	24	25	(1)	(4.0)
Release of provisions and other payable items	45	75	(30)	(40.0)
Other income	113	63	50	79.4
<b>Total other income</b>	<b>311</b>	<b>287</b>	<b>24</b>	<b>8.4</b>

Total other Income increased by 24 million euros relative to 2015 (+8.4%).

**v OPERATING EXPENSES**

Operating expenses amounted to 15,614 million euros in 2016, a decrease of 1,429 million euros, or 8.4% compared to 17,043 million euros in 2015.

The components of our operating expenses include the following:

- **Acquisition of goods and services** amounted to 7,793 million euros in 2016, a decrease of 739 million euros compared to 2015 (8,532 million euros). The decline was mainly due to the Brazil Business Unit, which experienced a decline in acquisition of goods and services costs of 415 million euros (including a negative exchange rate effect of 103 million euros). Acquisition of goods and services for the Domestic Business Unit showed a reduction of 261 million euros, mainly due to lower costs of consulting and professional services, and lower advertising and promotion expenses.

The following table sets forth the acquisition of goods and services for the years ended December 31, 2016 and 2015:

	Year ended December 31,			
	2016 (a)	2015 (b)	Changes (a-b)	%

	<b>(millions of euros, except percentages)</b>			
Purchase of goods	1,614	1,811	(197)	(10.9)
Portion of revenues to be paid to other operators and interconnection costs	2,000	2,080	(80)	(3.8)
Commercial and advertising costs	1,231	1,398	(167)	(11.9)
Power, maintenance and outsourced services	1,220	1,272	(52)	(4.1)
Rent and leases	702	699	3	0.4
Other service expenses	1,026	1,272	(246)	(19.3)
<b>Total acquisition of goods and services</b>	<b>7,793</b>	<b>8,532</b>	<b>(739)</b>	<b>(8.7)</b>
<i>% on Revenues</i>	<i>41.0</i>	<i>43.3</i>		

For further details, please see Note-Acquisition of goods and services , of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

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The following table sets forth employee benefits expenses for the years ended December 31, 2016 and 2015:

	Year ended December 31,			
	2016 (a)	2015 (b)	Changes (a-b)	%
<b>Employee benefits expenses Italian companies:</b>				
Ordinary employee expenses and costs	2,600	2,769	(169)	(6.1)
Corporate restructuring expenses	144	446	(302)	n.s.
<b>Total employee benefits expenses Italy</b>	<b>2,744</b>	<b>3,215</b>	<b>(471)</b>	<b>(14.7)</b>
<b>Employee benefits expenses Outside Italy</b>				
Ordinary employee expenses and costs	347	374	(27)	(7.2)
Corporate restructuring expenses	15		15	
<b>Total employee benefits expenses Outside Italy</b>	<b>362</b>	<b>374</b>	<b>(12)</b>	<b>(3.2)</b>
<b>Employee benefits expenses</b>	<b>3,106</b>	<b>3,589</b>	<b>(483)</b>	<b>(13.5)</b>
<i>% on Revenues</i>	<i>16.3</i>	<i>18.2</i>		

Employee benefits expenses in 2016 amounted to 3,106 million euros compared to 3,589 million euros, a decrease of 483 million euros. The change was due to:

a decrease of 169 million euros in the Italian component of ordinary employee expenses. The average salaried workforce decreased by 2,195 average employees (with a decrease of 1,702 average employees related to the application of Solidarity Contracts ). In addition, the earnings for 2016 benefited in particular from the reversal of the provision, made in the 2015 financial statements for 66 million euros, following the failure to achieve the conditions for payment of the Results Bonus to employees. The amount reversed for the Parent alone was 58 million euros;

the recognition of expenses (provisions to Employee benefits and sundry expenses) from domestic companies totaling 144 million euros. In particular, the Parent recognized expenses of overall 94 million euros, of which 75 million euros essentially relate to the start of the managerial restructuring plan linked to the ongoing revision of the company organizational structures (Agreements of June 19, 2015 and July 25, 2016) consisting of the application to management staff of Article 4, paragraphs 1-7ter, of Italian Law no. 92 of June 28, 2012, the Fornero Law (33 million euros) and forms of compensation related to the termination of the employment relationship (42 million euros). Furthermore, the Parent Company also set aside a further

17 million euros following the updating of forecast on non-managerial personnel exit in application of art. 4 paragraphs 1-7ter, of Law no. 92 of June 28, 2012, ( Fornero Law ) as per the Agreement of October 27, 2015. In addition, Telecom Italia Information Technology (subsequently merged into TIM S.p.A), TI Sparkle, HR Services and Olivetti have allocated provisions totaling 50 million euros, essentially connected to the application of Article 4 of the Fornero Law for non-managerial and managerial personnel and the commencement by Telecom Italia Information Technology and TI Sparkle of a managerial restructuring plan similar to the one adopted by the Parent.

In 2015, provisions totaled 446 million euros (422 million euros by the Parent, 17 million euros by Olivetti, 3 million euros by Telecom Italia Information Technology, 2 million euros by HR Services and 2 million euros by Telecom Italia Sparkle). More details are provided in the Note Employee benefits expenses of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report; and

a decrease of 12 million euros in the component outside Italy of employee benefits expenses, including a negative currency effect of around 15 million euros net of which the change would have been positive for 3 million euros; this effect was essentially related to the recognition of expenses from the implementation of the corporate restructuring plan initiated by the Brazil Business Unit (14 million euros), which was offset by the effects of the decrease in the average salaried workforce (1,503 average employees).



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The Group's average salaried workforce for the periods indicated was as follows:

	Year ended December 31,			
	2016 (a)	2015 (b)	Changes (a-b)	%
(full time equivalent units, except percentages)				
Average salaried workforce Italy	47,166	49,361	(2,195)	(4.4)
Average salaried workforce Foreign	10,689	12,192	(1,503)	(12.3)
<b>Total average salaried workforce(1)</b>	<b>57,855</b>	<b>61,553</b>	<b>(3,698)</b>	<b>(6.0)</b>
Non-current assets held for sale (Sofora Telecom Argentina group)	2,581	15,465	(12,884)	(83.3)
<b>Total Average salaried workforce including Non-current assets held for sale (1)</b>	<b>60,436</b>	<b>77,018</b>	<b>(16,582)</b>	<b>(21.5)</b>

(1) Includes the average employees with temporary work contracts: 4 units in 2016 (3 in Italy and 1 outside Italy). In 2015 average employees with temporary work contracts were 3 units (2 in Italy and 1 outside Italy). Group's employees at December 31, 2016 and 2015 were as follows:

	As of December 31,			
	2016 (a)	2015 (b)	Changes (a-b)	%
(units, except percentages)				
Employees Italy	51,125	52,555	(1,430)	(2.7)
Employees Foreign	10,104	13,312	(3,208)	(24.1)
<b>Total Employees (1)</b>	<b>61,229</b>	<b>65,867</b>	<b>(4,638)</b>	<b>(7.0)</b>
Non-current assets held for sale (Sofora Telecom Argentina group)		16,228	(16,228)	(100.0)
<b>Total Employees including Non-current assets held for sale (1)</b>	<b>61,229</b>	<b>82,095</b>	<b>(20,866)</b>	<b>(25.4)</b>

(1) Includes employees with temporary work contracts: 4 units at December 31, 2016 and 3 units at December 31, 2015.

· **Other operating expenses**

The following table sets forth other operating expenses for the years ended December 31, 2016 and 2015.

	Year ended December 31,			
	2016 (a)	2015 (b)	Changes (a-b) %	
	(millions of euros, except percentages)			
Writedowns and expenses in connection with credit management	335	345	(10)	(2.9)
Provision charges	144	330	(186)	(56.4)
TLC operating fees	373	342	31	9.1
Indirect duties and taxes	100	116	(16)	(13.8)
Penalties, compensation and administrative sanctions	44	292	(248)	(84.9)
Association dues and fees, donations, scholarships and traineeships	18	18		
Sundry expenses	69	48	21	43.8
<b>Total other operating expenses</b>	<b>1,083</b>	<b>1,491</b>	<b>(408)</b>	<b>(27.4)</b>
<i>% on Revenues</i>	<i>5.7</i>	<i>7.6</i>		

Other operating expenses were 1,083 million euros in 2016, compared to 1,491 million euros in 2015, a decrease of 408 million euros. The decrease is largely attributable to the Domestic Business Unit, which showed a reduction of 425 million euros, partly offset by the increase in the Brazil Business Unit, for 35 million euros, which was affected by higher contribution fees and subscription charges for the conduct of telecommunication activities.

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The following table sets forth depreciation and amortization for the years ended December 31, 2016 and 2015.

	Year ended December 31,			
	2016 (a)	2015 (b)	Changes (a-b) %	
	(millions of euros, except percentages)			
Amortization of intangible assets with a finite useful life	1,743	1,788	(45)	(2.5)
Depreciation of tangible assets owned and leased	2,548	2,347	201	8.6
<b>Total depreciation and amortization</b>	<b>4,291</b>	<b>4,135</b>	<b>156</b>	<b>3.8</b>
<i>% on Revenues</i>	<i>22.6</i>	<i>21.0</i>		

Details are provided in the Note Tangible assets (owned and under finance leases) and Note Intangible assets with a finite useful life of the Notes to the Consolidated Financial Statements, included elsewhere herein.

**· Gains (losses) on disposals of non-current assets**

In 2016, Gains (losses) on disposals of non-current assets were 14 million euros and included the gain realized by the Brazil Business Unit of 44 million reais (approximately 12 million euros at the 2016 average exchange rate) following the conclusion of the sale of two additional tranches of telecommunications towers to American Tower do Brasil.

In 2015, this item amounted to 336 million euros and was mainly attributable to the gain of 1,211 million reais (approximately 328 million euros) realized by the Brazil Business Unit from the sale of the first three tranches of telecommunications towers to American Tower do Brasil.

For further details, please see 5.2.7 Results of Operations of Business Units for the Year Ended December 31, 2016 Compared with the Year Ended December 31, 2015- Brazil included elsewhere in this Annual Report.

**· Net impairment losses on non-current assets**

Net impairment losses on non-current assets amounted to 3 million euros in 2016 (244 million euros in 2015) and reflect the restatement of the value of some minor assets.

In preparing the 2016 Consolidated Financial Statements, the TIM Group carried out an impairment test on the goodwill. The results of that testing, carried out in accordance with the specific procedure adopted by the Group, confirmed the amounts of Goodwill allocated to the Group's individual Cash Generating Units.

In the year 2015 they referred to a goodwill impairment loss in the Brazil Business Unit for 240 million euros and to other items for 4 million euros.

For further details please see Note-Goodwill of the Notes to the Consolidated Financial Statements , included elsewhere herein.

v **OPERATING PROFIT (LOSS)**

**Operating profit** was 3,722 million euros in 2016 (2,963 million euros in 2015), an increase of 759 million euros, or +25.6%, with an operating profit margin of 19,6% (15,0% in 2015, +4,6 percentage points), as a result of the difference between revenues and other (operating) income and operating expenses described above.

In particular, in 2016 and 2015, the TIM Group recognized certain operating expense and income items that are material in terms of amount and that, by their nature, do not occur continuously in the normal course of operations. They include expenses resulting from corporate restructuring and reorganization processes, expenses resulting from regulatory disputes and penalties and the liabilities related to those expenses, expenses for disputes with former employees, and liabilities with customers and/or suppliers.

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In detail:

(millions of euros)	Year ended December 31,	
	2016	2015 (*)
<b>Acquisition of goods and services and Change in inventories</b>		
Expenses related to agreements and development of specific projects	2	112
<b>Employee benefits expenses</b>		
Expenses related to restructuring and rationalization	159	446
<b>Sundry expenses and provisions</b>		
Expenses related to disputes and regulatory penalties and liabilities related to those expenses, and expenses related to disputes with former employees and liabilities with customers and/or suppliers	36	518
Gain from Brazil Towers disposal	(12)	(328)
Brazil goodwill impairment loss		240
Impairment losses on tangible assets		2
<b>Impact on Operating profit</b>	<b>185</b>	<b>990</b>

(\*) For further details, please see 5.2.8 Year Ended December 31, 2015 compared with Year Ended December 31, 2014 included elsewhere in this Annual Report.

**v SHARE OF PROFITS (LOSSES) OF ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD**

In 2016, the item was negative by 23 million euros and mainly related to the loss of the investment in Alfiere S.p.A. In 2015, the item was positive and amounted to 1 million euros.

**v OTHER INCOME (EXPENSES) FROM INVESTMENTS**

In 2016, the item amounted to a positive 7 million euros, including mainly dividends distributed by Emittenti Titoli to TIM S.p.A. In 2015, this item showed a positive balance of 10 million euros and was mainly related to the gain from the sale of the non-controlling interest in SIA S.p.A., which took place on July 10, 2015.

**v FINANCE INCOME (EXPENSES)**

Finance income (expenses) decreased by 1,614 million euros, from 2,521 million euros in 2015 to 907 million euros in 2016. The balance recorded in 2016 was affected by:

- the positive impact of 565 million euros (negative for 454 million euros in 2015) relating to the fair value measurement through profit and loss performed separately to its liability component of the embedded option included in the mandatory convertible bond issued by Telecom Italia Finance S.A. at the end of 2013, for 1.3 billion euros ( Guaranteed Subordinated Mandatory Convertible Bonds due 2016 convertible into ordinary shares of TIM S.p.A. );
  - the effects of the changes in several non-monetary items of a valuation and accounting nature, linked in particular to derivatives;
  - the positive impact of the bond buybacks carried out in the previous year, which had generated a negative effect of 379 million euros in 2015, resulting from the buyback price net of the benefits from the consequent termination of several hedging derivatives associated with the securities bought back; and
  - lower finance expenses due to the reduction in the Group's debt exposure and in interest rates.
- For further details about finance income and finance expenses, please see Note Finance income and Finance expenses , of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

#### v INCOME TAX EXPENSE

Income tax expense amounted to 880 million euros, an increase of 477 million euros on 2015 (403 million euros), mainly related to the higher taxable base of the Parent TIM.

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In 2016, this item amounted to a positive 47 million euros (611 million euros in 2015), and was related to:

- the positive contribution (59 million euros) to consolidated earnings from the Sofora Telecom Argentina group for the period January 1 to March 8; and
  - the negative impact from the sale of the equity interest and relative income taxes totaling 12 million euros.
- For further details, please see Note Discontinued operations/Non-current assets held for sale, of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

**5.2.7 RESULTS OF OPERATIONS OF BUSINESS UNITS FOR THE YEAR ENDED DECEMBER 31, 2016 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2015****v DOMESTIC**

The following table sets forth, certain financial and other data for the Domestic Business Unit for the years ended December 31, 2016 and 2015.

	<b>Year ended December 31,</b>			
	<b>2016</b>	<b>2015</b>	<b>Changes</b>	
	<b>(a)</b>	<b>(b)</b>	<b>(a-b)</b>	<b>%</b>
	<b>(millions of euros, except percentages and employees)</b>			
Revenues	15,006	15,001	5	0.0
Operating profit (loss)	3,376	2,359	1,017	43.1
% of Revenues	22.5	15.7		
Employees at year-end (units)	51,280	52,644	(1,364)	(2.6)

The Media Business Unit was incorporated into the Domestic Business Unit as of January 1, 2016. One of the key strategic drivers for growth identified in the Previous Industrial Plan (confirmed in the 2017-2019 Industrial Plan) is the development of quadruple Play convergent services through the offer of a broad range of diversified video content, realized both in partnership with key content providers and through TIMVision, the Group's own platform of services. Within this framework, Persidera plays an important role in supporting the development of TIMVision services, building on its distinctive Head End expertise (management and distribution of TV signals via cable platform) and Play Out experience (television program broadcasting operations). Other key synergies to help guarantee the medium-term stability/growth of revenues from bandwidth rental for Persidera come from the development of strategic partnerships between TIM and content providers that do not have proprietary broadcasting channels (multiplexes) for free-to-air television broadcasting and which instead pursue a multi-platform distribution strategy.

The framework of the 2017-2019 Industrial Plan and the new governance structure of Persidera are consistent with this future scenario, based on the increasingly closer link between the TLC industry and Media/Content providers to underpin the growth of ultrabroadband services in the Consumer segment.

Following the change in scope, the table below shows the performance of the Domestic Business Unit in 2016, reported on a like-for-like basis with the previous year, thus excluding the contribution of the Media Business Unit:

	<b>Year ended December 31,</b>			
	<b>2016</b>	<b>2015</b>	<b>Changes</b>	
	<b>(a)</b>	<b>(b)</b>	<b>(a-b)</b>	<b>%</b>
	<b>(millions of euros, except percentages and employees)</b>			
Revenues	14,933	15,001	(68)	(0.5)
Operating profit (loss)	3,357	2,359	998	42.3
% of Revenues	22.5	15.7		6.8
Employees at year-end (units)	51,218	52,644	(1,426)	(2.7)

### Revenues

Revenues in 2016 amounted to 15,006 million euros, increasing slightly compared to 2015 (+5 million euros) due to the structural improvement recorded during the year, which resulted in a turnaround in the third and fourth



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quarters with a positive growth rate compared to the same periods of the previous year (+2.5% in the fourth quarter, +1.0% in the third quarter, compared with -1.2% and -2.3% respectively in the second and first quarter). Revenues from services also showed a recovery and improvement trend in particular the Mobile segment, which recorded a positive growth rate in all quarters with a limited decrease on the previous year of -180 million euros (-1.3%), less than that recorded in 2015 (-276 million euros, down 1.9% compared to 2014). In the fourth quarter of 2016, the decline in revenues from services amounted to -1.3%, which was due to the reduction of regulated wholesale prices.

In more detail:

- revenues from services in the Mobile business amounted to 4,579 million euros, an increase of 63 million euros compared to the previous year (+1.4%); this was a continuation of the steady growth seen in previous quarters (+3.0% in the fourth quarter, +1.1% in the third quarter, +0.7% in the second quarter and +0.6 in the first quarter of 2015), in particular, the last quarter benefited from the launch of innovative offers during the fall campaign, further impetus to the spread of 4G coverage and services and optimal pricing strategy, aimed, on the one hand, to appropriately respond to commercial pressures on the low-spending segment and, on the other, to ensure quality and convergence in the medium-high spending segment. This improvement was also evidenced by the strong recovery of the main operational indicators: in the fourth quarter of 2016, ARPU increased to 13.3 euro/month (compared to 12.8 euro/month in the fourth quarter of 2015), the churn stood at 23% confirming as best-in-class in the field, while the Mobile Number Portability balance improved, moving into positive territory (+26 thousand in the fourth quarter of 2016 compared to -44 thousand in the third quarter of 2016);
- revenues from Fixed-line services in 2016 amounted to 9,965 million euros a decline of 407 million euros compared to 2015 (-3.9%); the decline was driven by the decline in revenues from voice services (-533 million euros due to the loss of traditional accesses, but with a recovery trend compared to previous periods), only partially offset by continued growth in the broadband and ultrabroadband customer base which is driving growth in innovative connectivity services (+158 million euros in 2016, +6.8%). These results were also significantly affected by the reduction in regulated prices of some wholesale services. The line losses also significantly dropped and were down to -83 thousand in the last quarter of 2016, confirming the trend already observed in previous quarters. The trend of net new fiber lines sharply accelerated (+125 thousand in the fourth quarter), with an NGN customer base of approximately 1 million.

Revenues from product sales, including the change in work in progress, amounted to 1,128 million euros in 2016, significantly improving on 2015 (+185 million euros), due to the growth in volumes and revenues from the sale of products enabling Internet connectivity and entertainment services (smartphones, SmartTV and modems).

The following table sets forth the Domestic Business Unit's revenues by market segment for the years ended December 31, 2016 and 2015.

**Core Domestic**

	Year ended December 31,			
	2016 (a)	2015 (b)	Changes (a-b)	%
	(millions of euros, except percentages and employees)			
Revenues(1)	13,926	14,001	(75)	(0.5)
<i>Consumer</i>	7,389	7,271	118	1.6
<i>Business(2)</i>	4,535	4,745	(210)	(4.4)
<i>Wholesale</i>	1,780	1,827	(47)	(2.6)
<i>Other</i>	222	158	64	40.5
Operating profit (loss)	3,309	2,275	1,034	45.5
<i>% of Revenues</i>	23.8	16.2		
Employees at year-end (units)(*)(**)	50,527	51,999	(1,472)	(2.8)

(1) Following the change in the mission of Persidera, the Media Business Unit was included in the Domestic Business Unit (Core Domestic) as of January 1, 2016; without that change, Core Domestic revenues would have totaled 13,853 million euros in 2016, compared to 14,001 million euros in 2015.

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(2) As result of the new organizational view, as of January 1, 2016 the Business segment also includes Olivetti. Figures for the period under comparison have been changed accordingly.

(\*) Includes employees with temporary work contracts: 1 unit in 2016, no units in 2015.

(\*\*) Without the change resulting from the aforementioned inclusion of the Media Business Unit into the Domestic Business Unit (Core Domestic), the headcount for the Core Domestic segment for the reporting period would have totaled 50,465 employees.

· Consumer: revenues for the Consumer segment of 2016 amounted to 7,389 million euros, an increase of 118 million euros compared to the previous year (+1.6%). This positive result was driven by the trend of structural improvement in Mobile revenues, resulting from both a stable market share and the stabilization of ARPU levels, as well as by the gradual recovery of revenues in the Fixed-line segment, boosted by the significant reduction and improvement of the trend of lost accesses.

The following is noted in particular:

- revenues from the Mobile business amounted to 3,759 million euros and showed a significant and steady increase relative to 2015 (+161 million euros, +4.5%). Revenues from services increased by 101 million euros (+3.2%), with the positive performance continuing in the last quarter relative to the fourth quarter of 2015, due to the improvement in competition conditions, with the progressive stabilization of market share and the steady growth in Internet mobile and digital entertainment services supporting ARPU levels;
- revenues for the Fixed-line segment amounted to 3,584 million euros, decreasing 125 million euros compared to 2015 (-3.4%). Revenues, however, showed signs of recovery in the last quarter of 2016 compared to other 2016 quarters (+2.0 in the fourth quarter, -3.2% in the third quarter, -6.0% in the second quarter, -6.0% in the first quarter). This trend of revenue improvement over the course of 2016 was attributable to a reduction in the loss of voice-only accesses, accompanied by growth in broadband and ultrabroadband customers and the growth of products enabling digital connectivity and content services (SmartTV, decoders and modems).
- Business: revenues for the Business segment amounted to 4,535 million euros, decreasing 210 million euros compared to 2015 (-4.4%), of which 193 million euros (-4.5%) attributable to the services component and 18 million euros (-3.7%) attributable to equipment and products component.

In particular:

revenues from Mobile services fell by 45 million euros (-4.0% on the previous year). Specifically, the continuing decline in traditional services (-12.7% in the voice and messaging component compared to 2015) was driven by the shift of customers towards bundled formulas with a lower overall ARPU level and the migration of Public Administration clients towards the new Consip offer (with lower unit prices), and was only partially offset by the positive performance of new digital services (+4.4% compared to 2015). The fourth quarter, however, showed a reversal of the trend with significant recovery in performance (+2.2% in the fourth quarter, -4.4% in the third quarter, -5.6% in the second quarter, -7.9% in the first quarter);

- revenues from Fixed-line services fell by 118 million euros (-3.7% compared to the previous year), despite the steady growth in revenues from ICT services (+3.1%), particularly for Cloud services. Indeed, the segment continued to be adversely affected by the slow economic recovery, the reduction in prices on traditional voice and data services, and the technological shift towards VoIP systems.
- Wholesale: revenues for the Wholesale segment in 2016 amounted to 1,780 million euros, declining relative to 2015 (-47million euros, -2.6%). The impact on revenues is entirely attributable to the reduction in regulated prices which had a negative impact of 46 million euros, and was partially offset by the contribution from several infrastructure capacity sales deals.

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- International Wholesale Telecom Italia Sparkle group**

	Year ended December 31,			
	2016 (a)	2015 (b)	Changes (a-b)	%
	(millions of euros, except percentages and employees)			
Revenues	1,351	1,314	37	2.8
Operating profit	67	85	(18)	(21.2)
<i>% of Revenues</i>	5.0	6.5		
Employees at year-end (units)(1)	753	645	108	16.7

(1) Includes employees with temporary work contracts: 3 units in 2016, 2 units in 2015.

In 2016, revenues for the Telecom Italia Sparkle group International Wholesale totaled 1,351 million euros, an increase on 2015 (+37 million euros, +2.8%). The result is due to the increase in revenues from Voice services (+34 million euros, +3.7%), while the performance of the other business lines was substantially stable.

**Operating profit**

Operating profit in 2016 amounted to 3,376 million euros (2,359 million euros in 2015), an increase of 1,017 million euros, or +43.1% compared to 2015, with an Operating profit margin of 22.5% (+15.7% in 2015).

The operating profit was also impacted by the change in the following line items included under operating expenses and shown in the table below:

	Year ended December 31,			
	2016 (a)	2015 (b)	Changes (a-b)	%
	(millions of euros, except percentages)			
Acquisition of goods and services	5,785	6,046	(261)	(4.3)
Employee benefits expenses	2,759	3,206	(447)	(13.9)
Other operating expenses	574	999	(425)	(42.5)
Depreciation and amortization	3,310	3,205	105	3.3

In detail:

- acquisition of goods and services** fell by 261 million euros compared to 2015. This decrease, which was achieved without reducing sales drives, was due to efficiency improvements, selection and cost-cutting measures, particularly with respect to items relating to space occupation, professional and consulting

services, management of IT equipment and systems and other costs;

- **employee benefits expenses** amounted to 2,759 million euros in 2016, a decrease of 447 million euros compared to 2015, due to the same factors that affected the employee benefits expenses at Group level;
- **other operating expenses** amounted to 574 million euros in 2016, fell by 425 million euros compared to 2015, mainly due to lower provisions and costs for disputes and regulatory penalties. The breakdown of the item is reported in the table below:

	Year ended December 31,			
	2016 (a)	2015 (b)	Changes (a-b) %	
	(millions of euros, except percentages)			
Writedowns and expenses in connection with credit management	266	270	(4)	(1.5)
Provision charges	51	236	(185)	n.s.
TLC operating fees and charges	54	56	(2)	(4)
Indirect duties and taxes	94	100	(6)	(6.0)
Sundry expenses	109	337	(228)	(68)
<b>Total</b>	<b>574</b>	<b>999</b>	<b>(425)</b>	<b>(42.5)</b>

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- **depreciation and amortization**, amounted to 3,310 million euros in 2016, an increase of 105 million euros compared to 2015 (3,205 million euros, +3.3%) .

**Employees**

Employees were 51,280 as of December 31, 2016, a reduction of 1,364 units compared to December 31, 2015.

**v BRAZIL**

The following table sets forth certain financial and other data for the Brazil Business Unit for the years ended December 31, 2016 and 2015.

	Year ended December 31,		2015		Changes	
	2016	2015 (Revised)	2016 (a)	2015 (Revised) (b)	(a-b)	%
	(millions of euros, except percentages and employees)		(millions of Brazilian reais, except percentages and employees)			
Revenues	4,047	4,637	15,617	17,142	(1,525)	(8.9)
Operating profit	368	638	1,418	2,358	(940)	(39.9)
<i>% of Revenues</i>	<i>9.1</i>	<i>13.8</i>	<i>9.1</i>	<i>13.8</i>		
Employees at year-end (units)	9,849	13,042	9,849	13,042	(3,193)	(24.5)

**Revenues**

Revenues for 2016 amounted to 15,617 million reais, a decrease of 1,525 million reais (-8.9%) compared to 2015. Service revenues totaled 14,720 million reais, a decrease of 667 million reais compared to 15,387 million reais for 2015 (-4.3%). Mobile Average Revenue Per User (ARPU) was 18.0 reais for 2016, compared to 16.7 reais in the previous year (+7.8%).

The Business Unit's total number of lines at December 31, 2016 was 63.4 million, representing a decrease of 2.8 million (-4.3%) compared to December 31, 2015; the market share at the end of December 2016 was 26.0% (25.7% at December 31, 2015).

Revenues from product sales came to 897 million reais (1,755 million reais in 2015; -48.9%), reflecting a commercial policy less focused on the sale of handsets, in addition to the impact of the Brazilian macroeconomic crisis on household spending.

The performance of the fourth quarter of 2016 confirms the recovery already observed in the third quarter, both in terms of total revenues, amounting to 4,043 million reais (-1.7% compared to -5.2% in the third quarter, -12.4% in the second quarter and -15.3% in the first quarter) and of service revenues, which amounted to 3,842 million reais (-0.7% compared to -2.4% in the third quarter, -5.9% in the second quarter and -8.3% in the first quarter), mainly driven by

the steady improvement in service revenues generated by mobile customers.

**Operating profit**

Operating profit amounted to 1,418 million reais, down by 940 million reais compared to 2015. This result was affected by the effect of higher depreciation and amortization (+423 million reais) and the lower benefit from the sale of telecommunication towers which in 2015 resulted in a gain of 1,211 million reais compared to a gain of 44 million reais in 2016.



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With regard to changes in operating costs, the following table sets forth certain expenses for the years ended December 31, 2016 and 2015.

	2015		2015		Changes	
	2016	(Revised)	2016	(Revised)	(a-b)	%
	(millions of euros)		(a)		(b)	
			(millions of Brazilian reais, except percentages)			
Acquisition of goods and services	2,028	2,443	7,826	9,033	(1,207)	(13.4)
Employee benefits expenses	336	349	1,296	1,289	7	0.5
Other operating expenses	505	470	1,948	1,736	212	12.2
Change in inventories	(1)	33	(2)	122	(124)	
Depreciation and amortization	980	909	3,785	3,362	423	12.6

- **acquisition of goods and services** showed a significant decrease, for all components compared to 2015 (-1,207 million reais; -13.4%);
- **employee benefits expenses**, increased (+7 million reais; +0.5%) mainly due to the salary inflation adjustment, in addition to other net costs for termination benefits of 56 million reais;
- **other operating expenses** amounted to 1,948 million reais, an increase of 212 million reais (+12.2%) which were especially affected by the increase in TLC operating fees and charges;
- **depreciation and amortization** amounted to 3,785 million reais in 2016, an increase of 423 million reais compared to 3,362 million reais in 2015 due to the effect of the acceleration of investments in the past two years.

**Employees**

Employees were 9,849 units at December 31, 2016, a decrease of 3,193 units compared to December 31, 2015 (13,042 units).

\* \* \*

**Agreement for the sale of telecommunication towers**

On November 21, 2014, TIM Celular agreed to enter into a sale and leaseback transaction with American Tower do Brasil Cessão de Infraestruturas Ltda, or American Tower, for the sale of part of the mobile infrastructure (6,481 telecommunication towers) for a total value of around 3 billion reais. The sales agreement was signed in conjunction

with a Master Lease Agreement with a term of 20 years and, accordingly, the transaction is to be considered as a partial sale and lease back.

In 2016, the fourth and fifth partial sale of 336 towers was completed at a price of approximately 134 million reais, corresponding to around 35 million euros. The final realized gain, already net of transaction costs, was 44 million reais (around 12 million euros at the 2016 average exchange rate). The amount of non-current assets reacquired under finance leases came to 93 million reais (around 24 million euros at the 2016 average exchange rate).

In 2016, finance leases were also taken out on newly-built towers for 15 million reais (about 4 million euros), as already envisaged in the contractual arrangements of November 21, 2014 with American Tower.

The sales of the first three blocks, for a total of 5,483 towers, were completed in 2015.

v **Discontinued operations/Non-current assets held for sale (Sofora Telecom Argentina group)**

On March 8, 2016, the TIM Group completed the sale of Sofora Telecom Argentina group after receiving approval from Enacom, the Argentine communications regulator.

A summary is provided below of the income statement impacts from the Sofora Telecom Argentina group and its sale; the figures for 2016 have been translated at the average exchange rate for the period January 1 March 8 (15.7981 pesos per euro), whereas the figures for 2015 have been translated at the related average exchange rate (10.26890 pesos per euro).

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		<b>1.1-3.8 2016</b>	<b>Year ended December 31, 2015</b>
(millions of euros)			
<b>Revenues</b>		504	3,943
<b>Operating profit (loss)</b>		133	1,035
Finance income (expenses), net		(42)	(94)
<b>Profit (loss) before tax from Discontinued operations/Non-current assets held for sale</b>		91	941
Income tax expense		(32)	(320)
<b>Profit (loss) after tax from Discontinued operations/Non-current assets held for sale</b>	(A)	59	621
Other minor entries	(B)		(10)
<b>Profit (loss) from Discontinued operations/Non-current assets held for sale</b>	(C=A+B)	<b>59</b>	<b>611</b>
<b>Income statement effects on the selling entities:</b>			
Net gains on disposal		307	
Transfer to the separate consolidated income statement of the Reserve for exchange differences on translating foreign operations		(304)	
Income tax expense relating to the disposal		(15)	
	(D)	(12)	
<b>Profit (loss) from Discontinued operations/Non-current assets held for sale</b>	(C+D)	<b>47</b>	<b>611</b>
Attributable to:			
<i>Owners of the Parent</i>		(3)	89
<i>Non-controlling interests</i>		50	522

Further details are provided in the Note Discontinued operations/Non-current assets held for sale of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

**5.2.8 YEAR ENDED DECEMBER 31, 2015 COMPARED WITH YEAR ENDED DECEMBER 31, 2014**

Following certain corrections of errors made in 2016 within the Brazil Business Unit, the data for the years 2015 and 2014 have been appropriately adjusted and referred to as revised (for further details please see the Note *Form, Content and other general information* The correction of errors of the Notes to the 2016 Consolidated Financial Statements included elsewhere in this Annual Report ).

Data relating to other Business Units are historical, therefore they do not take into account the changes occurred in 2016 for Persidera and Olivetti. As a result of this:

- as of January 1, 2016, the Media Business Unit was included into the Domestic Business Unit (Core Domestic);
- the company Olivetti, previously a separate Cash Generating Unit under Domestic Business Unit, from January 1, 2016 is part of the Core Domestic Cash Generating Unit under Domestic Business Unit.

v **REVENUES**

**Revenues** declined by 1,855 million euros, or 8.6%, from 21,574 million euros in 2014 to 19,719 million euros in 2015.

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The table below sets forth for the periods indicated gross revenues by Business Unit and consolidated revenues.

	2015 (Revised)		Year ended December 31, 2014 (Revised)		Changes	
	Revenues(1) (a)	% of Consolidated revenues (b)	Revenues(1) (b)	% of Consolidated revenues	(a-b)	%
	(millions of euros, except percentages)					
Domestic	15,001	76.1	15,303	70.9	(302)	(2.0)
Core Domestic	13,858	70.27	14,205	65.8	(347)	(2.4)
International Wholesale	1,314	6.7	1,244	5.8	70	5.6
Olivetti	172	0.9	227	1.1	(55)	(24.2)
Brazil	4,637	23.5	6,245	28.9	(1,608)	(25.7)
Media and Other Operations (2)	131	0.7	71	0.3	60	84.5
Adjustments and eliminations	(50)	(0.3)	(45)	(0.1)	(5)	11.1
<b>Total Revenues</b>	<b>19,719</b>	<b>100.0</b>	<b>21,574</b>	<b>100.0</b>	<b>(1,855)</b>	<b>(8.6)</b>

(1) Revenues are total revenues of the various business units of the TIM Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

(2) The Other Operations of the TIM Group consist of the financial companies and other minor companies not associated with the core business of the TIM Group.

The **Domestic Business Unit** (divided into Core Domestic, International Wholesale and Olivetti), recorded a decline in revenues for 2015 of 302 million euros (-2.0%), compared to 2014, but with an improvement in revenues from services (changes in each quarter of 2015, relative to the corresponding quarter of 2014, were: fourth quarter -1.1%, third quarter -1.5%, second quarter -1.7%, first quarter -3.3%). There were, however, positive signs over the course of 2015, with the decline in revenues, as compared to 2014, becoming smaller from quarter to quarter. This development is mainly due to an improvement in competition conditions, which permitted for an acceleration of growth for connection and content services for broadband and ultrabroadband networks, a steady hold on market share and a steady reduction in the declines of ARPU with respect to traditional services, mainly in the Mobile segment, which posted a positive performance in the fourth quarter of 2015, both in terms of total revenues (+0.7%) and revenues from services (+0.1%), as compared to the same period of 2014.

In 2015, the **Brazil Business Unit** generated revenues of 4,637 million euros (17,142 million reais), a decline of 1,608 million euros (2,360 million reais), or -25.7%, from 6,245 million euros in 2014 (19,502 million reais). The decline was mainly due to a decline in revenues from services, which was caused by further reductions in mobile termination rates and a contraction in revenues from traditional voice and SMS services. These declines were only

partially offset by an increase in revenue generated by the innovative component.

Furthermore, revenues from product sales were 475 million euros in 2015 (1,755 million reais) compared to 1,016 million euros in 2014 (3,173 million reais), a decrease of 541 million euros, or 53.2%, likely reflecting the impact of the Brazilian macroeconomic crisis.

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The following table sets forth other income for the years ended December 31, 2015 and 2014:

	Year ended December 31,		Changes	
	2015 (Revised) (a) (millions of euros, except percentages)	2014 (Revised) (b)	(a-b)	%
Late payment fees charged for telephone services	59	64	(5)	(7.8)
Recovery of employee benefit expenses, purchases and services rendered	32	27	5	18.5
Capital and operating grants	33	26	7	26.9
Damage compensations, penalties and sundry recoveries	25	36	(11)	(30.6)
Release of provisions and other payable items	75	132	(57)	(43.2)
Other income	63	116	(53)	(45.7)
<b>Total other income</b>	<b>287</b>	<b>401</b>	<b>(114)</b>	<b>(28.4)</b>

Total other Income declined by 114 million euros relative to 2014. In 2014, total other income included the full release of the remaining risk provisions, for an amount of 84 million euros, already allocated in the 2009 consolidated financial statements, with respect to the alleged administrative offense pursuant to Legislative Decree 231/2001, in connection with the Telecom Italia Sparkle affair .

**v OPERATING EXPENSES**

Our operating expenses amounted to 17,043 million euros in 2015, a decrease of 403 million euros, or 2.3% compared to 17,446 million euros in 2014.

The components of our operating expenses include the following:

- **Acquisition of goods and services** amounted to 8,532 million euros in 2015, a decrease of 900 million euros compared to 2014 (9,432 million euros). The decline was mainly due to the Brazil Business Unit, which experienced a decline of 1,153 million euros (including a negative exchange rate effect of 559 million euros). The Domestic Business Unit, on the other hand, reported an increase of 215 million euros, mainly due to higher purchases of equipment and handsets, related to the increase of product sales. In 2015, this item also included approximately 102 million euros for special projects and agreements.

The following table sets forth the acquisition of goods and services for the years ended December 31, 2015 and 2014:

	Year ended December 31,			
	2015 (Revised) (a)	2014 (Revised) (b)	Changes (a-b) %	
	(millions of euros, except percentages)			
Purchase of goods	1,811	2,231	(420)	(18.8)
Portion of revenues to be paid to other operators and interconnection costs	2,080	2,403	(323)	(13.4)
Commercial and advertising costs	1,398	1,475	(77)	(5.2)
Power, maintenance and outsourced services	1,272	1,336	(64)	(4.8)
Rent and leases	699	742	(43)	(5.8)
Other service expenses	1,272	1,245	27	2.2
<b>Total acquisition of goods and services</b>	<b>8,532</b>	<b>9,432</b>	<b>(900)</b>	<b>(9.5)</b>
<i>% on Revenues</i>	<i>43.3</i>	<i>43.7</i>		

For further details, please see Note-Acquisition of goods and services , of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.



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The following table sets forth employee benefits expenses for the years ended December 31, 2015 and 2014:

	Year ended December 31,		Changes	
	2015 (Revised) (a) (millions of euros, except percentages)	2014 (Revised) (b)	(a-b)	%
<b>Employee benefits expenses Italian companies:</b>				
Ordinary employee expenses and costs	2,769	2,697	72	2.7
Corporate restructuring expenses	446	8	438	n.s.
<b>Total employee benefits expenses Italy</b>	<b>3,215</b>	<b>2,705</b>	<b>510</b>	<b>18.9</b>
<b>Employee benefits expenses Outside Italy</b>				
Ordinary employee expenses and costs	374	410	(36)	(8.8)
Corporate restructuring expenses		4	(4)	
<b>Total employee benefits expenses Outside Italy</b>	<b>374</b>	<b>414</b>	<b>(40.0)</b>	<b>(9.7)</b>
<b>Total employee benefits expenses</b>	<b>3,589</b>	<b>3,119</b>	<b>470</b>	<b>15.1</b>
<i>% on Revenues</i>	<i>18.2</i>	<i>14.5</i>		

Employee benefits expenses in 2015 totaled 3,589 million euros compared to 3,119 million euros in 2014, an increase of 470 million euros. The change was due to:

an increase of 72 million euros in the Italian component of ordinary employee expenses, mainly due to the increased contractual minimums established in the TLC National Collective Labor Agreement signed on February 1, 2013, which resulted in the addition of pay-scale points in April and October 2014, and the growth in the average workforce by 1,842 employees compared to 2014. In particular, the Solidarity Contracts applied by the Parent and T.I. Information Technology (now merged in TIM) which entailed a reduction in working hours and a reduction in the average workforce came to an end in April 2015, resulting in an increase of 2,062 average employees compared to 2014;

the recognition for 446 million euros of charges and provisions to Employee Benefits and other minor items. In particular, the Parent and other Group companies signed specific agreements with the trade unions in 2015 for the application of regulatory instruments that, from 2016 and subsequent years, will enable the management of personnel surpluses, resulting from the streamlining processes affecting all the companies operating in the TLC sector. These instruments will be implemented through solidarity contracts, with

voluntary early retirement (in application of Article 4, paragraphs 1-7ter of law no. 92 of June 28, 2012, the Fornero law ) and through the use of mobility scheme under law no. 223/91. These expenses consisted of 422 million euros for the Parent TIM S.p.A., 17 million euros for the restructuring plan announced in May 2015 by Olivetti, 3 million euros for the company TI Information Technology (now merged in TIM), 2 million euros for HR Services, and 2 million euros for Telecom Italia Sparkle. More details are provided in the Note Employee benefits expenses of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report;

a decrease of 40 million euros in the component outside Italy of employee benefits expenses due to the higher increase in labor costs related to the growth in the average workforce (+426 average employees) and local salary increases, which were more than offset by a negative exchange rate effect of approximately 59 million euros, essentially relating to the Brazil Business Unit. In 2014, restructuring expenses of 4 million euros were also recognized in relation to a number of foreign companies of the Olivetti group.

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The Group's average salaried workforce for the periods indicated was as follows:

	Year ended December 31,			
	2015 (a)	2014 (b)	Changes (a-b)	%
	(full time equivalent units, except percentages)			
Average salaried workforce Italy	49,361	47,519	1,842	3.9
Average salaried workforce Foreign	12,192	11,766	426	3.6
<b>Total average salaried workforce(1)</b>	<b>61,553</b>	<b>59,285</b>	<b>2,268</b>	<b>3.8</b>
Non-current assets held for sale (Sofora Telecom Argentina group)	15,465	15,652	(187)	(1.2)
<b>Total Average salaried workforce including Non-current assets held for sale (Sofora Telecom Argentina group) (1)</b>	<b>77,018</b>	<b>74,937</b>	<b>2,081</b>	<b>2.8</b>

(1) Includes the average employees with temporary work contracts: 3 units in 2015 (2 in Italy and 1 outside Italy). In 2014 average employees with temporary work contracts were 9 units (4 in Italy and 5 outside Italy).

The Group's employees at December 31, 2015 and 2014 were as follows:

	As of December 31,			
	2015 (a)	2014 (b)	Changes (a-b)	%
	(units, except percentages)			
Employees Italy	52,555	52,882	(327)	(0.6)
Employees Foreign	13,312	13,143	169	1.3
<b>Total Employees (1)</b>	<b>65,867</b>	<b>66,025</b>	<b>(158)</b>	<b>(0.2)</b>
Non-current assets held for sale (Sofora Telecom Argentina group)	16,228	16,420	(192)	(1.2)
<b>Total Employees including Non-current assets held for sale (Sofora Telecom Argentina) (1)</b>	<b>82,095</b>	<b>82,445</b>	<b>(350)</b>	<b>(0.4)</b>

(1) Includes employees with temporary work contracts: 3 units at December 31, 2015 and 9 units at December 31, 2014.

**Other operating expenses**

The following table sets forth other operating expenses for the years ended December 31, 2015 and 2014.

	Year ended December 31,			
	2015 (Revised) (a) (millions of euros, except percentages)	2014 (Revised) (b)	Changes (a-b) %	
Writedowns and expenses in connection with credit management	345	375	(30)	(8.0)
Provision charges	330	84	246	292.9
Indirect duties and taxes	116	118	(2)	(1.7)
TLC operating fees	342	449	(107)	(23.8)
Penalties, compensation and administrative sanctions	292	68	224	329.4
Association dues and fees, donations, scholarships and traineeships	18	18		
Sundry expenses	48	63	(15)	(23.8)
<b>Total other operating expenses</b>	<b>1,491</b>	<b>1,175</b>	<b>316</b>	<b>26.9</b>
<i>% on Revenues</i>	<i>7.6</i>	<i>5.4</i>		

Other operating expenses were 1,491 million euros in 2015, compared to 1,175 million euros in 2014, an increase of 316 million euros. This change was mainly due to 518 million euros for provisions and costs

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connected to regulatory disputes and sanctions, and liabilities related to these disputes, charges for specific transactions with customers and suppliers and costs related to disputes with former employees.

In particular:

- write-downs and expenses in connection with credit management (345 million euros; 375 million euros in 2014) consisting of 270 million euros for the Domestic Business Unit (295 million euros in 2014) and 62 million euros for the Brazil Business Unit (80 million euros in 2014);
- provision charges (330 million euros; 84 million euros in 2014) mainly consisting of 236 million euros for the Domestic Business Unit (6 million euros in 2014) and 86 million euros for the Brazil Business Unit (74 million euros in 2014);
- TLC operating fees and charges (342 million euros; 449 million euros in 2014) consisting of 285 million euros for the Brazil Business Unit (399 million euros in 2014) and 56 million euros for the Domestic Business Unit (49 million euros in 2014).

· **Depreciation and Amortization**

The following table sets forth depreciation and amortization for the years ended December 31, 2015 and 2014.

	Year ended December 31,			
	2015 (Revised) (a)	2014 (Revised) (b)	Changes (a-b) %	
	(millions of euros, except percentages)			
Amortization of intangible assets with a finite useful life	1,788	1,854	(66)	(3.6)
Depreciation of tangible assets owned and leased	2,347	2,430	(83)	(3.4)
<b>Total depreciation and amortization</b>	<b>4,135</b>	<b>4,284</b>	<b>(149)</b>	<b>(3.5)</b>
<i>% on Revenues</i>	<i>21.0</i>	<i>19.9</i>		

The reduction in depreciation and amortization of 149 million euros was mainly attributable to the Domestic Business Unit (-85 million euros), which was affected by the revision of the useful lives of the passive infrastructure of the Mobile Base Transceiver Stations, which resulted in an overall impact of 51 million euros of lower depreciation, and to the Brazil Business Unit (-68 million euros, which includes the negative exchange rate effects of 152 million euros). Net of the exchange rate effect, the depreciation and amortization of the Brazil Business Unit would have increased by 85 million euros.

Further details are provided in the Note Tangible assets (owned and under finance leases) of the Notes to the Consolidated Financial Statements, included elsewhere herein.

· **Gains (losses) on disposals of non-current assets**

In 2015, this item amounted to 336 million euros (29 million euros in 2014) and was mainly attributable to the gain realized by the Brazil Business Unit of 1,211 million reais (approximately 328 million euros) following the conclusion of the sale of the first three tranches of telecommunications towers to American Tower do Brasil.

For further details, please see 5.2.9 Results of Operations of Business Units for the Year Ended December 31, 2015 Compared with the Year Ended December 31, 2014 Brazil included elsewhere in this Annual Report.

· **Net impairment losses on non-current assets**

This item amounted to 244 million euros in 2015 (1 million euros in 2014).

The impairment losses for the year 2015 included:

- 240 million euros with respect to goodwill of the Brazil Business Unit due to the results of the impairment testing conducted at December 31, 2015, carried out by comparing the recoverable amount of the Brazil Cash Generating Unit (CGU) with its carrying amount on the same date;
- 4 million euros for other items.

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For further details, please see Note Goodwill of the Notes to the Consolidated Financial Statements, included elsewhere herein.

**v OPERATING PROFIT (LOSS)**

**Operating profit** was 2,963 million euros in 2015 (4,529 million euros in 2014), a decrease of 1,566 million euros, or -34.6%, as a result of operating income and expenses described above.

In particular, in 2015, the TIM Group recognized certain operating expense and income items that are material in terms of amount and that, by their nature, do not occur continuously in the normal course of operations. They include expenses resulting from corporate restructuring and reorganization processes, expenses resulting from regulatory disputes and penalties and the liabilities related to those expenses, expenses for disputes with former employees, and liabilities with customers and/or suppliers.

In detail:

(millions of euros)	Year ended December 31, 2015
<b>Acquisition of goods and services and Change in inventories</b>	
Expenses related to agreements and development of specific projects	112
<b>Employee benefits expenses</b>	
Expenses related to restructuring and rationalization	446
<b>Sundry expenses and provisions</b>	
Expenses related to disputes and regulatory penalties and liabilities related to those expenses, and expenses related to disputes with former employees and liabilities with customers and/or suppliers	518
Gain from Brazil Towers disposal	(328)
Brazil goodwill impairment loss	240
Impairment losses on tangible assets	2
<b>Impact on Operating profit</b>	<b>990</b>

**v OTHER INCOME (EXPENSES) FROM INVESTMENTS**

This item amounted to a positive 10 million euros in 2015 (a positive 16 million euros in 2014), essentially reflecting the gain from the sale of the non-controlling interest in SIA S.p.A., which took place in July 10, 2015.

**v FINANCE INCOME (EXPENSES)**

Finance income (expenses) showed an increase in net expenses of 331 million euros, from 2,190 million euros in 2014 to 2,521 million euros in 2015.

This increase was linked to the effects of the changes in certain non-monetary items of a valuation and accounting nature, linked in particular to derivatives and of bond buybacks, which were offset by the reduction in finance expenses connected to the related debt position.

In particular:

- the negative impact of 454 million euros (174 million euros in 2014) relating to the fair value measurement through profit and loss performed separately to its liability component of the embedded option included in the mandatory convertible bond issued by Telecom Italia Finance S.A. at the end of 2013, for 1.3 billion euros ( Guaranteed Subordinated Mandatory Convertible Bonds due 2016 convertible into ordinary shares of TIM S.p.A. );
- a negative effect of 379 million euros in relation to the bond buybacks carried out during 2015 by TIM S.p.A. for a total of 3.8 billion euros. This impact resulted from the difference between the buyback prices and the values of the liabilities at the transaction date, net of the benefits from the termination of several hedging derivatives linked to the bonds repurchased. In 2014, the negative impact of the buybacks carried out during the period and the exercise of the early redemption option for a bond amounted to 62 million euros.



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For further details about finance income and finance expenses, please see Note Finance income and Finance expenses , of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

**v INCOME TAX EXPENSE**

This item amounted to 403 million euros, a decrease of 527 million euros compared to 2014 (930 million euros), mainly due to lower taxable income of the Parent and the unexpected full deductibility of labor costs from the IRAP tax base introduced by art. 1, c. 20 of the Stability Law 2014 (law n.190/14) which resulted in lower IRAP of approximately 60 million euros.

**v PROFIT (LOSS) FROM DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE**

In 2015, the item Profit from Discontinued Operations/Non-current assets held for sale amounted to 611 million euros (541 million euros in 2014) and was mainly related to the positive contribution to the consolidation from the Sofora Telecom Argentina group.

For further details, please see Note Discontinued operations/Non-current assets held for sale , of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

**5.2.9 RESULTS OF OPERATIONS OF BUSINESS UNITS FOR THE YEAR ENDED DECEMBER 31, 2015 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2014**

Following certain corrections of errors made in 2016 within the Brazil Business Unit, the data for the years 2015 and 2014 have been appropriately adjusted and referred to as revised (for further details please see the Note *Form, Content and other general information The correction of errors* of the Notes to the 2016 Consolidated Financial Statements included elsewhere in this Annual Report).

Data relating to other Business Units are historical, therefore they do not take into account the changes occurred in 2016 for Persidera and Olivetti. As a result of this:

- as of January 1, 2016, the Media Business Unit was included into the Domestic Business Unit (Core Domestic);
- the company Olivetti, previously a separate Cash Generating Unit under Domestic Business Unit, from January 1, 2016 is part of the Core Domestic Cash Generating Unit under Domestic Business Unit.

**v DOMESTIC**

The following table sets forth, certain financial and other data for the Domestic Business Unit for the years ended December 31, 2015 and 2014.

	Year ended December 31,			
	2015 (a)	2014 (b)	Changes (a-b)	%
	(millions of euros, except percentages and employees)			
Revenues	15,001	15,303	(302)	(2.0)
Operating profit (loss)	2,359	3,738	(1,379)	(36.9)
% of Revenues	15.7	24.4		
Employees at year-end (units)	52,644	53,076	(432)	(0.8)

### Revenues

Revenues decreased by 302 million euros from 15,303 million euros in 2014 to 15,001 million euros in 2015.

There were a number of significant indicators during the year 2015 and the last quarter, including the continued steady recovery in revenue performance, which strengthened compared to the previous quarters, and positive performance in the Mobile business, both in terms of total revenues (+0.7% in the fourth quarter of 2015) and revenues from services only (+0.1% in the last quarter of 2015 compared to the same period of 2014).

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This recovery in revenues was attributable to the commercial actions aimed at progressively stabilizing the customer base with market share up slightly in both the Mobile and Fixed-line Broadband businesses and the ARPU, with a growth in revenues from Fixed-line Broadband, ICT and Mobile Internet.

In more detail:

**Revenues from domestic services**, amounted to 14,058 million euros in 2015 and decreased by 276 million euros (-1.9%) compared to 2014.

The quarterly trend confirmed the recovery trend already mentioned, stronger than in previous quarters: (quarters 2015 compared to quarters 2014: fourth quarter -1.1%, third quarter -1.5%, second quarter -1.7%, first quarter -3.3%).

In detail:

- revenues from Fixed-lined services amounted to 10,372 million euros in 2015, a decrease of 300 million euros compared to 2014 (-2.8%);
- revenues from services in the Mobile business amounted to 4,517 million euros a decrease of 91 million euros compared to 2014 (-2.0%). The performance contributed to the improving trend with a positive +0.1% in the fourth quarter of 2015, compared to the same period in 2014, preceded by -1.5% in the third quarter of 2015, -2.5% in the second quarter of 2015, -4.2% in the first quarter of 2015.

**Revenues from product sales**, including changes to work in progress, amounted to 943 million euros in 2015 (a decrease of 26 million euros compared to 2014) and grew by 68 million euros in the Mobile business, due to a continued growth in demand for advanced handsets (smartphones), and declined in the Fixed-line business of the product portfolio.

The following table sets forth the Domestic Business Unit's revenues by market segment for the years ended December 31, 2015 and 2014.

· **Core Domestic**

	Year ended December 31,			
	2015 (a)	2014 (b)	Changes (a-b)	%
	(millions of euros, except percentages and employees)			
Revenues	13,858	14,205	(347)	(2.4)
Consumer	7,267	7,349	(82)	(1.1)
Business	4,600	4,824	(224)	(4.6)

<i>National Wholesale</i>	1,785	1,793	(8)	(0.4)
<i>Other</i>	206	239	(33)	(13.8)
Operating profit (loss)	2,287	3,593	(1,306)	(36.3)
<i>% of Revenues</i>	16.5	25.3		
Employees at year-end (units)	51,741	51,849	(108)	(0.2)

- **Consumer:** revenues of the Consumer segment amounted to 7,267 million euros in 2015, with a decrease of 82 million euros (-1.1%) compared to 2014, with a recovery driven, in particular, by the progressive and structural recovery in the Mobile business, due to the steady market share and the stabilization of ARPU levels. In particular:
  - **revenues from Mobile business** amounted to 3,599 million euros, and grew slightly compared to 2014 (+29 million euros, +0.8%), confirming the positive trend seen over the two consecutive quarters (fourth quarter of 2015, +2.5%, third quarter +3.3%, second quarter -1.6%, first quarter -1.5%). Service revenues decreased by 39 million euros (-1.2% compared to 2014), also evidencing a significant recovery trend (fourth quarter of 2015: +1.5%; third quarter: -0.3%; second quarter: -2.1%; first quarter: -4.3%), attributable to a slowdown of competitive pressure, the progressive stabilization of market share and the steady growth of mobile internet and digital services to support the stabilization of ARPU;

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- **revenues from Fixed-line business** amounted to 3,705 million euros, with a decrease of 112 million euros compared to 2014 (-2.9%) and showed a slowdown in the last quarter of 2015 (-6.7%) compared to the improvement seen from the second half of 2014, due to the actions aimed at increasing ARPU undertaken in the last months of the year (repricing, introduction of flat tariffs and bundle development).
- **Business:** the revenues of the Business segment amounted to 4,600 million euros, a decrease of 224 million euros compared to 2014 (-4.6%). Revenues from services (4,232 million euros, -204 million euros compared to 2014) continued the stabilization that began during 2014 (-4.7% in the fourth quarter of 2015). Specifically:
  - **Mobile services revenue** fell by 66 million euros (-5.5% compared to 2014): the positive performance of new digital services, and, in particular, of the Mobile Internet component (+38 million euros, +9% compared to 2014) was offset by a reduction in traditional mobile services for voice calls and messaging (-109 million euros) due to the customers repositioning towards bundle deals with lower overall ARPU;
  - **Fixed-line services revenue** fell by 141 million euros (-4.3% compared to 2014): despite the steady growth in ICT service revenues (+5.7%), in particular on Cloud services (+26% compared to 2014), the segment continued to be adversely affected by the slow economic recovery, the reduction in prices of traditional voice and data services, and the technological shift towards VoIP systems.
- **National Wholesale:** revenues for the Wholesale segment in 2015 amounted to 1,785 million euros, essentially stable compared to 2014 (-8 million euros, or 0.4%). Indeed, the impact of the change in regulated prices in 2015 was similar to the impact in 2014, due to the retroactive change in the wholesale access prices for the period 2010-2012.
- **International Wholesale**

	Year ended December 31,			
	2015 (a)	2014 (b)	Changes (a-b)	% %
	(millions of euros, except percentages and employees)			
Revenues	1,314	1,244	70	5.6
Operating profit	85	172	(87)	(50.6)
<i>% of Revenues</i>	6.5	13.8		
Employees at year-end (units)	645	641	4	0.6

Telecom Italia Sparkle group revenues for 2015 amounted to 1,314 million euros, a significant increase compared to 2014 (+70 million euros, or 5.6%). This increase was related in particular to revenues for Voice services (+39 million euros, +4.3%) and revenues for IP/Data services (+33 million euros, +12.8%). The other business segments remained

substantially stable (-2 million euros, -2.2%).

· **Olivetti**

Following approval of the restructuring plan of the Olivetti group on May 11, 2015, in 2015, the business lines to be abandoned through divestment or termination in accordance with the plan have no longer been consolidated under Olivetti. Instead, these lines have been included under Other Operations.

	<b>Year ended December 31,</b>			
	<b>2015</b>	<b>2014</b>	<b>Changes</b>	
	<b>(a)</b>	<b>(b)</b>	<b>(a-b)</b>	<b>%</b>
	<b>(millions of euros, except percentages and employees)</b>			
Revenues	172	227	(55)	(24.2)
Operating profit (loss)	(13)	(34)	21	61.8
<i>% of Revenues</i>	<i>(7.6)</i>	<i>(15.0)</i>		
Employees at year-end (units)	258	586	(328)	(55.9)

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In 2015, the revenues of business lines defined as Core (Office, Retail and Systems, and Advanced Caring) amounted to 172 million euros.

In particular, in 2015 there was an increase in revenues in the Office segment relating to the sales of multifunctional products under long-term rental agreements (+15 million euros compared to 2014), while revenues from services in the Advanced Caring segment registered an increase of 6 million euros as compared to 2014.

**Operating profit**

Operating profit in 2015 amounted to 2,359 million euros (3,738 million euros in 2014), a decrease of 1,379 million euros, or -36.9% compared to 2014, with an Operating profit margin of 15.7% (24.4% in 2014).

The operating profit was also impacted by the change in the following line items included under operating expenses and shown in the table below.

	Year ended December 31,			
	2015 (a)	2014 (b)	Changes (a-b) %	
	(millions of euros, except percentages)			
Acquisition of goods and services	6,046	5,831	215	3.7
Employee benefits expenses	3,206	2,730	476	17.4
Other operating expenses	999	570	429	75.3
Depreciation and amortization	3,205	3,290	(85)	(2.6)

In detail:

- **acquisition of goods and services** increased by 215 million euros (+3.7%) compared with 2014. In particular:
  - higher costs for the acquisition of goods for resale (+145 million euros, of which +78 million euros for the acquisition of Mobile handsets linked to the increase in sales volumes);
  - higher advertising costs (+25 million euros, mainly related to the sponsoring of EXPO 2015 and the launch of the new single Brand);
  - higher commercial costs (+24 million euros);
  - higher costs for revenues due to other operators (+26 million euros);

- lower costs for indirect operating expenses, not directly linked to commercial and industrial policies (-117 million euros);
  
- **employee benefits expenses** increased by 476 million euros compared to 2014, mainly due to:
  - an increase of 60 million euros in ordinary employee expenses, mainly due to the increased contractual minimums established in the TLC National Collective Labor Agreement signed on February 1, 2013, which resulted in the addition of pay-scale points in April and October 2014, and the growth in the average workforce by a total of 1,691 average employees compared to 2014. In particular, the Solidarity Contracts applied by the Parent and T.I. Information Technology (now merged into TIM) which entailed a reduction in working hours and a consequent reduction in the average workforce came to an end in April 2015, resulting in an increase of 2,062 average employees compared to 2014;
  
  - the recognition of 429 million euros in charges and provisions to employee benefits, consisting of 422 million euros for the Parent TIM S.p.A., 3 million euros for Telecom Italia Information Technology, 2 million euros for HR Services and 2 million euros for Telecom Italia Sparkle. In particular, in 2015 the Parent signed specific agreements with the trade unions for the application of regulatory instruments that starting in 2016 will enable the management of personnel surpluses, resulting from the streamlining processes affecting the companies operating in the TLC sector. These instruments will be implemented through solidarity contracts, voluntary early retirements (in application of Article 4, paragraphs 1-7ter, of Law no. 92 of June 28, 2012, the Fornero law) and through the use of mobility scheme under law n. 223/91;



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- **other operating expenses**, amounted to 999 million euros, an increase of 429 million euros compared to 2014. This increase was mainly due to costs totaling 512 million euros for provisions and costs connected to regulatory disputes and sanctions, and to liabilities related to these disputes, some charges for specific transactions with customers and suppliers and costs related to disputes with former employees.

Details of other operating expenses are shown in the table below:

	Year ended December 31,			
	2015 (a)	2014 (b)	Changes (a-b)	%
(millions of euros, except percentages)				
Writedowns and expenses in connection with credit management	270	295	(25)	(8.5)
Provision charges	236	6	230	n.s.
TLC operating fees and charges	56	49	7	14.3
Indirect duties and taxes	100	99	1	1.0
Sundry expenses	337	121	216	178.5
<b>Total</b>	<b>999</b>	<b>570</b>	<b>429</b>	<b>75.3</b>

- **depreciation and amortization**, amounted to 3,205 million euros in 2015, a decrease of 85 million euros compared to 2014 (3,290 million euros), due to the revision of the useful lives of the passive infrastructure of the Mobile Base Transceiver Stations.

The operating profit was also impacted by **Other income** which amounted to 258 million euros in 2015 (382 million euros in 2014), a decrease of 124 million euros compared to 2014. In 2014, the amount included the entire release of the risk provision, recorded in the 2009 Consolidated Financial Statements for the alleged administrative offense pursuant to Legislative Decree 231/2001, linked to the so-called Telecom Italia Sparkle affair (71 million euros).

**Employees**

Employees were 52,644 as of December 31, 2015, a reduction of 432 units compared to December 31, 2014.

\* \* \*

The company Infrastrutture Wireless Italiane S.p.A. ( **INWIT** ) was established on January 14, 2015. On April 1, 2015, the Parent TIM S.p.A. transferred to INWIT the business unit consisting of around 11,500 sites in Italy that house the radio transmission equipment for mobile telephone networks for the Parent Company and other operators. In June 2015, an IPO was successfully completed for ordinary shares of INWIT S.p.A. on the Electronic Stock Exchange organized and managed by Borsa Italiana S.p.A., which was followed in July 2015 by the exercise of the greenshoe option. This transaction did not result in a loss of control for the TIM Group over INWIT and was therefore treated as a transaction between shareholders in accordance with the accounting standards. Accordingly, no impacts were recognized in the consolidated income statement and the effects of the transaction were recognized directly as an

increase in Equity attributable to Owners of the Parent.

		<b>As of December 31, 2015</b>
<b>INWIT Infrastrutture Wireless Italiane S.p.A.</b>		
Set of towers transferred from TIM to INWIT	No.	11,500
Number of shares in the IPO	No.	239,800,000
% of capital transferred		39.97%
IPO unit price per share	euro	3.65
Total consideration received, net of transaction costs	million euros	854
Increase in Equity attributable to Owners of the Parent	million euros	279
TIM percentage interest in INWIT at December 31, 2015		60.03%

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The following table sets forth certain financial and other data for the Brazil Business Unit for the years ended December 31, 2015 and 2014.

	Year ended December 31,				Changes	
	2015 (Revised)	2014 (Revised)	2015 (Revised) (a)	2014 (Revised) (b)	(a-b)	%
	(millions of euros, except percentages and employees)		(millions of Brazilian reais, except percentages and employees)			
Revenues	4,637	6,245	17,142	19,502	(2,360)	(12.1)
Operating profit	638	794	2,358	2,480	(122)	(4.9)
<i>% of Revenues</i>	<i>13.8</i>	<i>12.7</i>	<i>13.8</i>	<i>12.7</i>		
Employees at year-end (units)	13,042	12,841	13,042	12,841	201	1.6

**Revenues**

Revenues for 2015, amounted to 17,142 million reais and decreased by 12.1% compared to 2014 (-2,360 million reais).

Service revenues totaled 15,387 million reais, a decrease of 942 million reais compared to 16,329 million reais for 2014 (-5.8%). The decline in revenues was partly attributable to the revenues from incoming SMS and mobile traffic, due to the reduction in the mobile termination rate (MTR) and lower volumes, as well as traditional voice and SMS outgoing traffic. This was partially offset by an increase in revenue generated by the innovative component, mobile data and VAS content.

Revenues from product sales were 1,755 million reais (3,173 million reais in 2014; -44.7%), likely reflecting the impact of the Brazilian macroeconomic crisis.

The total number of lines as of December 31, 2015 amounted to 66,234 thousand, a decrease of 9,487 thousand compared to December 31, 2014. This corresponds to a market share of approximately 25.7% (27% at December 31, 2014).

**Operating profit**

Operating profit amounted to 2,358 million reais, down 122 million reais compared to 2014. This result was affected by goodwill impairment losses totaling 887 million reais and the positive impacts arising from the conclusion of the sale of the first three tranches of telecommunications towers to American Tower do Brasil. More specifically, at the time of the sales, the gains arising on the assets sold amounted to 1,211 million reais net of transaction costs.

With regard to changes in operating costs, the following table sets forth certain expenses for the years ended December 31, 2015 and 2014.

	Year ended December 31,					
	2015	2014	2015	2014	Changes	
	(Revised)	(Revised)	(Revised)	(Revised)	(a-b)	%
	(millions of euros)		(a)	(b)	(millions of Brazilian reais, except percentages)	
Acquisition of goods and services	2,443	3,596	9,033	11,229	(2,196)	(19.6)
Employee benefits expenses	349	379	1,289	1,183	106	9.0
Other operating expenses	470	597	1,736	1,865	(129)	(6.9)
Change in inventories	33	11	122	33	89	269.7
Depreciation and amortization	909	977	3,362	3,049	313	10

- **acquisition of goods and services** amounted to 9,033 million reais in 2015 (11,229 million reais in 2014), a decrease of 2,196 million reais;

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- **employee benefits expenses**, amounting to 1,289 million reais in 2015, up 106 million reais compared to 2014 (+9.0%). The ratio of employee benefits expenses to total revenues rose to 7.5%, up 1.4 percentage point on 2014. The average workforce grew from 11,451 employees in 2014 to 11,931 employees in 2015;
- **other operating expenses** amounted to 1,736 million reais, a decrease of 6.9% on 2014. The expenses were broken down as follows:

	Year ended December 31,			
	2015 (Revised) (a) (millions of Brazilian reais, except percentages)	2014 (Revised) (b)	Changes (a-b) %	
Writedowns and expenses in connection with credit management	230	249	(19)	(7.6)
Provision charges	320	232	88	37.9
TLC operating fees	1,054	1,247	(193)	(15.5)
Indirect duties and taxes	51	51		
Sundry expenses	81	86	(5)	(5.8)
<b>Total</b>	<b>1,736</b>	<b>1,865</b>	<b>(129)</b>	<b>(6.9)</b>

- **depreciation and amortization** amounted to 3,362 million reais in 2015, an increase of 313 million reais compared to 3,049 million reais in 2014 due to the effect of the acceleration of investments in the past two years.

**Employees**

Employees were 13,042 at December 31, 2015, an increase of 201 units compared to December 31, 2014 (12,841 units).

\* \* \*

In 2015, the TIM Brasil group concluded the sale of the first three tranches of telecommunications towers to American Tower do Brasil. The transaction involved the simultaneous execution of a finance lease for the portion of the towers used by the TIM Brasil group, recorded as a financial debt for leases.

**v MEDIA**

On June 30, 2014, Telecom Italia Media (TI Media) and Gruppo Editoriale L'Espresso (Espresso group) completed the merger of the digital terrestrial network operator businesses respectively controlled by Persidera S.p.A. (a subsidiary of TI Media) and Rete A S.p.A.

The merger of Rete A by absorption into Persidera was completed on December 1, 2014.

The merger of Telecom Italia Media S.p.A. into TIM S.p.A. was completed on September 30, 2015, effective retroactively, for accounting and tax purposes, as of January 1, 2015.

The table below shows the figures for the Media Business Unit which, for the first half of 2014, did not include the results of Rete A.

	<b>Year ended December 31,</b>			
	<b>2015</b>	<b>2014</b>	<b>Changes</b>	
	<b>(a)</b>	<b>(b)</b>	<b>(a-b)</b>	<b>%</b>
	<b>(millions of euros, except percentages and employees)</b>			
Revenues	82	71	11	15.5
Operating profit (loss)	14	6	8	n.s.
<i>% of Revenues</i>	<i>17.1</i>	<i>8.5</i>		
Employees at year-end (units) (*)	64	89	(25)	(28.1)

(\*) Includes employees with temp work contracts: nil at December 31, 2015, 1 at December 31, 2014.

**Table of Contents****Item 5. Operating And Financial Review And Prospects      Results Of Operations For The Three Years Ended December 31, 20****Revenues**

Revenues amounted to 82 million euros in 2015, an increase of 11 million euros (+15.5%) compared to 71 million euros in 2014. This change, which was partly driven by the merger of Rete A, which had not yet occurred in the first six months of 2014, was entirely attributable to the Network Operator (Persidera).

**Operating profit (loss)**

Operating profit was 14 million euros in 2015 (6 million euros in 2014). This performance was mainly due to the aforementioned increase in revenues, as well as the increase in other income, only partially offset by an increase in operating expenses, mainly attributable to the costs from the former Rete A (operations not present in the first six months of 2014) and by the increase of 4 million euros in depreciation and amortization.

**Employees**

Employees were 64 at December 31, 2015, a decrease of 25 units compared to December 31, 2014 (89 units).

**v Discontinued operations/Non-current assets held for sale (Sofora Telecom Argentina group)**

On March 8, 2016, the TIM Group completed the sale of Sofora-Telecom Argentina group, after having received the approval of Enacom, the Argentine communications regulator.

The results of the Sofora Telecom Argentina group, which were classified under Discontinued operations/Non-current assets held for sale following the agreement for the sale to Fintech entered into on November 13, 2013 and subsequently amended on October 24, 2014, are shown below. Specifically, following those agreements:

- the first closing took place on October 29, 2014 and, as a result, 17% of the Sofora capital was sold. Consideration was received for this closing also including other related assets totaling US\$ 215.7 million (around 170 million euros); this resulted in the direct and indirect economic interest in Telecom Argentina group of the TIM group being reduced from 19.30% to 14.47%;
  - the sale of the controlling interest of 51% in the capital of Sofora was planned to occur within two and a half years of October 29, 2014, subject to approval by the Argentine regulatory authority;
  - the guarantees of performance by Fintech were secured by a pledge of securities worth US\$ 600.6 million.
- The average exchange rate used for the conversion into euro of the Argentine peso (expressed in terms of units of local currency per 1 euro) was 10.26890 in 2015 and 10.76605 in 2014. In terms of the spot exchange rate, the Argentine currency was subject to a significant devaluation in December 2015: the euro exchange rate for the Argentine peso on December 31, 2015 was 14.0972 pesos per euro compared to 10.2755 pesos per euro at December 31, 2014.

The following table sets forth certain financial and other data for the Sofora Telecom Argentina group for the years ended December 31, 2015 and 2014.

	Year ended December 31,				Changes	
	2015	2014	2015 (a)	2014 (b)	(a-b)	%
	<b>(millions of euros, except percentages and employees)</b>		<b>(millions of Argentine pesos, except percentages and employees)</b>			
Revenues	3,943	3,097	40,495	33,341	7,154	21.5
Operating profit	1,035	804	10,632	8,657	1,975	22.8
<i>% of Revenues</i>	26.2	26.0	26.3	26.0		
Employees at year-end (units)	16,228	16,420	16,228	16,420	(192)	(1.2)

### Revenues

Revenues for 2015 amounted to 40,495 million pesos, increasing 7,154 million pesos (+21.5%) compared to 2014 (33,341 million pesos), mainly due to the growth in ARPU. The main source of revenues was mobile telephony, which accounted for about 73% of the consolidated revenues of the Sofora Telecom Argentina group, an increase of 20.1% compared to 2014.



Table of Contents**Item 5. Operating And Financial Review And Prospects Results Of Operations For The Three Years Ended December 31, 2015****Operating profit**

Operating profit in 2015 was 10,632 million pesos compared to 8,657 million pesos recorded in 2014. The increase of 1,975 million pesos was mainly attributable to the aforementioned increase in revenues, partially offset by the increase in the related costs, as described below.

With regard to the change in the main costs, the following is noted:

- **acquisition of goods and services** amounted to 19,017 million pesos (14,963 million pesos in 2014). The increase of 27.1% compared to 2014 (+4,054 million pesos) was mainly due to higher external service costs of 1,912 million pesos and greater purchases of goods of 2,025 million pesos;
- **employee benefits expenses**, amounting to 7,317 million pesos, increased by 1,662 million pesos compared to 2014 (+29.4%). The change was due to salary increases resulting from periodic revisions in union agreements, primarily linked to inflation, and to the increase in provisions for termination benefit incentives. The percentage of employee benefits expenses to total revenues was 18.1%, up 1.1 percentage points over 2014;
- **changes in inventories** totaled 1,460 million pesos and reflecting higher purchases of handsets by Telecom Personal, mentioned above, with an increase of 62% in stock levels compared to the end of 2014;
- **other operating expenses** amounted to 4,835 million pesos, increasing 797 million pesos compared to 2014, mainly as a result of the 540 million pesos increase in indirect duties and taxes;
- **net impairment losses on non-current assets** of 224 million pesos in 2015, as compared to 26 million pesos in 2014, were mainly related to work in progress and several business projects that the group decided not to pursue. As required by IFRS 5, the calculation of the depreciation and amortization for the Sofora Telecom Argentina group, which would have amounted to 4,438 million pesos in 2015 and 3,244 million pesos in 2014 (432 million euros in 2015 and 301 million euros in 2014), was suspended effective as of the date of classification as a Discontinued operation.

Further details are provided in the Note Discontinued operations/Non-current assets held for sale of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

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**Item 5. Operating And Financial Review And Prospects**

**Liquidity And Capital Resources**

**5.3 LIQUIDITY AND CAPITAL RESOURCES**

The TIM Group's policy is to manage financial risks (market risk, credit risk and liquidity risk) by defining, at a central level, guidelines for directing operations, identifying the most appropriate financial instruments to meet pre-determined objectives, monitoring the results achieved and excluding the use of financial instruments for speculative purposes.

TIM has a centralized Finance Department which operates in the interests of the entire Group:

- allocating liquidity where necessary;
- obtaining excess cash resources from the Group companies;
- guaranteeing an adequate level of liquidity compatible with individual needs;
- supporting its subsidiaries to gain access to the loan market; and
- providing financial consulting services to its subsidiaries.

These activities reduce the Group companies' need to seek bank lines and enable those companies to obtain better conditions from the banking system by constantly monitoring cash flows and ensuring a more efficient use of liquidity in excess of requirements.

Furthermore, the TIM Group has a centralized financial risk management policy for market, credit and liquidity risks. For additional details on funding and treasury policies and risk policies reference should be made to the Note Financial Assets (non-current and current) and Note Financial risk management of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

The TIM Group's goal is to achieve an adequate level of financial flexibility which is expressed by maintaining a treasury margin (composed by cash and cash equivalents, marketable securities and undrawn committed credit lines) to cover refinancing requirements at least for the next 12-18 months.

**5.3.1 LIQUIDITY**

TIM Group's primary source of liquidity is cash generated from operations and its principal use of funds are the payment of operating expenses, capital expenditures and investments, the servicing of debt and the payment of dividends to shareholders.

For additional details, reference should be made to the Note Financial Assets (non-current and current) of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

The table below summarizes, for the periods indicated, the TIM Group's cash flows.

	Year ended December 31,		
	2016	2015	2014
	(Revised)	(Revised)	(Revised)
	(millions of euros)		
Cash flows from (used in) operating activities	5,706	5,070	5,197
Cash flows from (used in) investing activities	(3,964)	(5,385)	(5,710)
Cash flows from (used in) financing activities	(1,263)	(902)	(273)
Cash flows from (used in) Discontinued operations/Non-current assets held for sale (*)	(45)	(19)	(499)
<b>Aggregate cash flows (A)</b>	<b>434</b>	<b>(1,236)</b>	<b>(1,285)</b>
<b>Net cash and cash equivalents at beginning of the year (**) (B)</b>	<b>3,216</b>	<b>4,910</b>	<b>6,296</b>
<b>Net foreign exchange differences on net cash and cash equivalents (C)</b>	<b>302</b>	<b>(458)</b>	<b>(101)</b>
<b>Net cash and cash equivalents at end of the year (**) (D=A+B+C)</b>	<b>3,952</b>	<b>3,216</b>	<b>4,910</b>

(\*) For further details please see the Note "Discontinued operations/non-current assets held for sale" of the Consolidated Financial Statements included elsewhere in this Annual Report.

(\*\*) For further details please see the Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014 of the Consolidated Financial Statements included elsewhere in this Annual Report.

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**Cash flows from operating activities.** Cash flows from operating activities were 5,706 million euros in 2016, 5,070 million euros in 2015 and 5,197 million euros in 2014.

**2016 compared to 2015**

The increase of 636 million euros in 2016 compared to 2015 was mainly attributable to:

- an increase in profit (loss) from continuing operations of 1,869 million euros (a profit of 1,919 million euros in 2016 compared to a profit of 50 million euros in 2015);
- a positive effect of net change in deferred tax assets and liabilities equal to 83 million euros (a net source of 38 million euros in 2016 compared to a net use of 45 million euros in 2015);
- a positive effect of change in trade payables of 710 million euros (a net source of 229 million euros compared to a net use of 481 million euros in 2015); and
- a positive effect of losses (gains) realized on disposals of non-current assets (including investments) of 328 million euros (a net use of 15 million euros in 2016 compared to a net use of 343 million euros in 2015);
- a positive effect of net change in current income tax receivables/payables equal to 568 million euros (a net source of 581 million euros in 2016 compared to a net source of 13 million euros in 2015); and
- an increase in depreciation and amortization of 156 million euros (4,291 million euros in 2016 compared to 4,135 million euros in 2015).

Such increases in cash flows were offset in part by:

- a negative effect of net change in miscellaneous receivables/payables and other assets/liabilities of 1,549 million euros (a net use of 915 million euros in 2016 compared to a net source of 634 million euros in 2015);
- a negative effect of change in trade receivables and net amounts due from customers on construction contracts equal to 720 million euros (a net use of 310 million euros in 2016 compared to a net source of 410 million euros in 2015);
-

a negative effect of change in provisions for employee benefits of 520 million euros (a net use of 131 million euros in 2016 compared to a net source of 389 million euros in 2015); and

- a negative effect of impairment losses (reversals) on non-current assets (including investments) of 247 million euros (a net source of 6 million euros in 2016 compared to a net source of 253 million euros in 2015).

**2015 compared to 2014**

The decrease of 127 million euros in 2015 compared to 2014 was mainly attributable to:

- a decrease in profit (loss) from continuing operations of 1,370 million euros (a profit of 50 million euros in 2015 compared to a profit of 1,420 million euros in 2014);
- a negative effect of net change in current income tax receivables/payables equal to 340 million euros (a net source of 13 million euros in 2015 compared to a net source of 353 million euros in 2014);
- a negative effect of losses (gains) realized on disposals of non-current assets (including investments) of 314 million euros (a net use of 343 million euros in 2015 compared to a net use of 29 million euros in 2014);
- a negative effect of net change in deferred tax assets and liabilities equal to 232 million euros (a net use of 45 million euros in 2015 compared to a net source of 187 million euros in 2014);
- a negative effect of change in trade payables of 158 million euros (a net use of 481 million euros in 2015 compared to a net use of 323 million euros in 2014); and
- a decrease in depreciation and amortization of 149 million euros (4,135 million euros in 2015 compared to 4,284 million euros in 2014).

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Such decreases in cash flows were offset in part by:

- a positive effect of net change in miscellaneous receivables/payables and other assets/liabilities of 1,218 million euros (a net source of 634 million euros in 2015 compared to a net use of 584 million euros in 2014);
- a positive effect of change in trade receivables and net amounts due from customers on construction contracts equal to 535 million euros (a net source of 410 million euros in 2015 compared to a net use of 125 million euros in 2014);
- a positive effect of change in provisions for employee benefits of 448 million euros (a net source of 389 million euros in 2015 compared to a net use of 59 million euros in 2014); and
- a positive effect of impairment losses (reversals) on non-current assets (including investments) of 240 million euros (a net source of 253 million euros in 2015 compared to a net source of 13 million euros in 2014).

***Cash flows used in investing activities.*** Cash flows used in investing activities were 3,964 million euros in 2016, 5,385 million euros in 2015 and 5,710 million euros in 2014.

**2016 compared to 2015**

The decrease in cash used in investing activities in 2016 compared to 2015 of 1,421 million euros was due to:

- an increase of 492 million euros in proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of (492 million euros in 2016 compared to nil in 2015);
- a decrease in capital expenditures (intangible and tangible assets on a cash basis) of 768 million euros (4,658 million euros in 2016 compared to 5,426 million euros in 2015); and
- a positive effect of change in financial receivables and other financial assets of 810 million euros (a source of 175 million euros in 2016 compared to a net use of 635 million euros in 2015).

Such effects were offset in part by:

- a decrease of 675 million euros in proceeds from sale/repayments of intangible, tangible and other non-current assets (a net source of 42 million euros in 2016 compared to a net source of 717 million euros in 2015).

**2015 compared to 2014**

The decrease in cash used in investing activities in 2015 compared to 2014 of 325 million euros was due to:

- an increase of 639 million euros in proceeds from sale/repayments of intangible, tangible and other non-current assets (a net source of 717 million euros in 2015 compared to a net source of 78 million euros in 2014); and
- a negative effect of change in financial receivables and other financial assets of 483 million euros (a net use of 635 million euros in 2015 compared to a net use of 1,118 million euros in 2014).

Such effects were offset in part by:

- an increase in capital expenditures (intangible and tangible assets on a cash basis) of 767 million euros (5,426 million euros in 2015 compared to 4,659 million euros in 2014).

**Cash flows used in financing activities.** Cash flows used in financing activities were 1,263 million euros in 2016, 902 million euros in 2015 and 273 million euros in 2014.

*Cash flows used in financing activities* in 2016 of 1,263 million euros reflected mainly the following:

- a net use in financial liabilities and other of 1,040 million euros, as a result of the issuance of new debt (a source of 3,561 million euros), the change in current financial liabilities and other (a net use of 437 million euros) and the repayments of non-current financial liabilities (a use of 4,164 million euros); and
- the payment of dividends of 227 million euros.

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*Cash flows used in financing activities* in 2015 of 902 million euros reflected mainly the following:

- a net use in financial liabilities and other of 1,729 million euros, as a result of the issuance of new debt (a source of 5,054 million euros), the change in current financial liabilities and other (a net source of 408 million euros) and the repayments of non-current financial liabilities (a use of 7,191 million euros);
- the payment of dividends of 204 million euros; and
- the changes in ownership interests in consolidated subsidiaries of 845 million euros.

*Cash flows used in financing activities* in 2014 of 273 million euros reflected mainly the following:

- a net use of financial liabilities and other of 195 million euros, as a result of the issuance of new debt (a source of 4,377 million euros), the change in current financial liabilities and other (a net source of 1,305 million euros) and the repayments of non-current financial liabilities (a use of 5,877 million euros); and
- the payment of dividends of 252 million euros.

**5.3.2 CAPITAL RESOURCES*****Net Financial Debt***

Net Financial Debt is a non-GAAP financial measure as defined in Item 10(e) of Regulation S-K under the 1934 Act. For further details please see 5.2.3 Non-GAAP Financial Measures .

On a consolidated basis, at December 31, 2016 Net Financial Debt was 25,955 million euros compared to 28,475 million euros at December 31, 2015 and compared to 28,021 million euros at December 31, 2014.

In our 2017-2019 Plan, we reaffirmed our commitment to maintaining strong financial discipline as a strategic priority. We expect the Group's Net Financial Debt to benefit, among other things, from planned efforts to increase efficiency.

Please see Introduction Cautionary Statement for Purposes of the Safe Harbor Provisions of the United States Private Securities Litigation Reform Act of 1995 , included elsewhere in this Annual Report, for a discussion of factors which could cause our actual results to differ materially from the target discussed above. See, also, Item 3. Key Information 3.1 Risk Factors .

There can be no assurance that we will be able to achieve the financial targets we have established.

Net Financial Debt as of December 31, 2016, 2015 and 2014 is set forth in the following table.



	<b>As of December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>(millions of euros)</b>		
Non-current financial liabilities	30,469	30,518	32,325
Current financial liabilities	4,056	6,224	4,686
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale		348	43
<b>Gross financial debt (A)</b>	<b>34,525</b>	<b>37,090</b>	<b>37,054</b>
<b>Non-current financial assets (B)</b>	<b>(2,698)</b>	<b>(2,989)</b>	<b>(2,445)</b>
<b>Current financial asset:</b>			
Securities other than investments	(1,519)	(1,488)	(1,300)
Financial receivables and other current financial assets	(389)	(352)	(311)
Cash and cash equivalents	(3,964)	(3,559)	(4,812)
<b>Total current financial assets (C)</b>	<b>(5,872)</b>	<b>(5,399)</b>	<b>(6,423)</b>
<b>Financial assets relating to Discontinued operations/Non-current assets held for sale (D)</b>		<b>(227)</b>	<b>(165)</b>
<b>Financial assets (E=B+C+D)</b>	<b>(8,570)</b>	<b>(8,615)</b>	<b>(9,033)</b>
<b>Net financial debt (A+E)</b>	<b>25,955</b>	<b>28,475</b>	<b>28,021</b>

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The non-current portion of gross financial debt was 30,469 million euros at December 31, 2016 (30,518 million euros at December 31, 2015 and 32,325 million euros at December 31, 2014) and corresponds to 88.25% of total gross financial debt.

The TIM Group financial risk management policies aim to diversify market risks, hedging exchange rate risk in full and optimizing interest rate exposure through an appropriate diversification of the portfolio, which is also achieved through the use of carefully selected derivative financial instruments. Such instruments are not used for speculative purposes and all have an underlying, which is hedged.

Furthermore, in order to determine its exposure to interest rates, the Group defines an optimum composition for the fixed-rate and variable-rate debt structure and uses derivative financial instruments to achieve that prefixed composition. Taking into account the Group's operating activities, the optimum mix of medium/long-term non-current financial liabilities has been established, on the basis of the nominal amount, in a range of 65%-75% for the fixed-rate component and 25%-35% for the floating-rate component.

In managing market risks, the Group has adopted the Guidelines for the Management and control of financial risk and mainly uses Interest Rate Swaps (IRS) and Cross Currency Interest Rate Swaps (CCIRS).

**CHANGE IN NET FINANCIAL DEBT DURING 2016**

The following table summarizes the main transactions which had an impact on the change in net financial debt during 2016:

	(millions of euros)
<b>Net financial debt as of December 31, 2015</b>	<b>28,475</b>
Capital expenditures	4,876
Change in finance lease contracts	232
Dividends paid	227
Financial investments	15
Share capital increases/decreases	(4)
Disposal of investments and other divestitures	(745)
Cash flows from operating activities, net of other uses (sources)	(7,121)
<b>Net change in 2016</b>	<b>(2,520)</b>
<b>Net financial debt as of December 31, 2016</b>	<b>25,955</b>

In particular:

- **Capital expenditures on an accrual basis** were 4,876 million euros in 2016, a decrease of 321 million euros compared to 2015. The breakdown is as follows:

	Year ended December 31,				Changes (a-b)
	2016		2015		
	(a)	% of total	(b)	% of total	
	(millions of euros, except percentages)				
Domestic(*)	3,709	76.1	3,900	75.0	(191)
Brazil	1,167	23.9	1,289	24.8	(122)
Other activities			8	0.2	(8)
<i>Adjustments</i>					
<b>Total consolidated capital expenditures</b>	<b>4,876</b>	<b>100.0</b>	<b>5,197</b>	<b>100.0</b>	<b>(321)</b>
<i>% on revenues</i>	25.6		26.4		

(\*) Following the change in the business mission of Persidera, the Media Business Unit was included into the Domestic Business Unit (Core Domestic) as of January 1, 2016; without that change, the capital expenditures of the Domestic Business Unit for 2016 would have totaled 3,702 million euros.

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Capital expenditures in 2016 totaled 4,876 million euros, down 321 million euros on 2015. In particular:

- the **Domestic Business Unit** posted capital expenditures of 3,709 million euros, a decrease of 191 million euros compared to 2015, which comprised, *inter alia*, the investment for the user rights related to the L band frequencies (231 million euros) and for the extension of the GSM license (117 million euros).

The Group continued to engage in selective capital expenditures by identifying projects with higher returns, targeted at innovation and transformation, while maintaining its focus on ultrabroadband coverage and service quality. In the domestic market, capital expenditures for the development of next-generation network (NGN) infrastructure enabled the fiber-optic coverage to reach 60% of housing units and the 4G (LTE) network to cover 96% of the population;

- the **Brazil Business Unit** reported a decline of 122 million euros in capital expenditures in 2016 (including a negative exchange rate effect of 55 million euros compared to 2015 due to the combined effects of the efficiency measures initiated in the course of 2016 (renegotiation of contracts with suppliers and projects to optimize recurring expenses on the traditional investment components) and a more efficient allocation of capital to infrastructure investments for the development of 4G coverage. Through these initiatives the development of the mobile broadband network was advanced, with a urban population coverage at year-end 2016 of 89% on the 3G network (up 7 percentage points from 2015) and 74% on the 4G network (up 15 percentage points compared to 2015).
- **Change in finance lease contracts** amounted to 232 million euros in 2016. This item mainly represents the higher value of tangible assets under finance lease, which also reflects the associated higher financial payables, recorded mainly as a result of contractual renegotiations by TIM S.p.A. in 2016 within the real estate transformation project and the new rental agreements for industrial autovehicles, and of the finance lease contract concluded by the TIM Brasil group with respect to the telecommunications towers.
- **Financial investments** amounted to 15 million euros in 2016 and mainly consisted of the following:
  - 6 million euros for the payment made by INWIT S.p.A., net of the cash acquired, for the acquisition of the investments in Revi Immobili S.r.l., Gestione Immobili S.r.l. and Gestione Due S.r.l.; such companies were subsequently merged with and into INWIT;
  - 5 million euros for the subscription of units in the company Northgate Telecom Innovations Partners L.P. Fund;
  - 4 million euros for the payment, net of the cash acquired, for the acquisition of the investment in Noverca S.r.l.

- **Disposal of investments and other divestitures** amounted to 745 million euros in 2016 and principally relates to:
  - the sale of the Sofora Telecom Argentina group for 704 million euros (545 million euros representing the price and 159 million euros for the deconsolidation of the related net financial debt), with the remaining amount relating to disposals of assets as part of normal operations;
  - the proceeds of 134 million reais (corresponding to around 35 million euros) realized by the Brazil Business Unit in 2016 from the sale of telecommunications towers.

\*\*\*

The following should also be taken into account with respect to net financial debt:

- **Sales of receivables to factoring companies**

Sales of receivables to factoring companies completed during 2016 resulted in a positive effect on net financial debt of 1,091 million euros as of December 31, 2016 (1,106 million euros as of December 31, 2015).

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The following table summarizes the main transactions which had an impact on the change in net financial debt during 2015:

	(millions of euros)
<b>Net financial debt as of December 31, 2014</b>	<b>28,021</b>
Capital expenditures	5,197
Change in finance lease contracts	1,523
Dividends paid	204
Financial investments	51
Share capital increases/decreases	(186)
Disposal of investments and other divestitures	(1,571)
Cash flows from operating activities, net of other uses (sources)	(4,764)
<b>Net change in 2015</b>	<b>454</b>
<b>Net financial debt as of December 31, 2015</b>	<b>28,475</b>

In particular:

- **Capital expenditures on an accrual basis** were 5,197 million euros in 2015, an increase of 213 million euros compared to 2014. The breakdown is as follows:

	Year ended December 31,				Changes (a-b)
	2015		2014		
	(a)	% of total	(b)	% of total	
	(millions of euros, except percentages)				
Domestic	3,900	75.0	2,783	55.8	1,117
Brazil	1,289	24.8	2,195	44.0	(906)
Media, and other activities	8	0.2	6	0.2	2
<i>Adjustments</i>					
<b>Total consolidated capital expenditures</b>	<b>5,197</b>	<b>100.0</b>	<b>4,984</b>	<b>100.0</b>	<b>213</b>
<i>% on revenues</i>	<i>26.4</i>		<i>23.1</i>		

In particular:

- the **Domestic Business Unit** reported an increase of 1,117 million euros in capital expenditures in 2015. This increase is primarily due to:
  - the increase in innovative investments dedicated to the development of next-generation networks and services (+788 million euros), which currently represent 44% of total investments (compared to 33% in 2014);
  - the award of the user rights for the frequencies of the L band (231 million euros); and
  - the disbursement related to the extension of the GSM license for three years, amounting to 117 million euros.
- the **Brazil Business Unit** reported a decline of 906 million euros in capital expenditures in 2015 (including a negative exchange rate effect of 341 million euros). These capital expenditures were mainly aimed at the development of the industrial infrastructure and sales-support platforms. The 2014 capital expenditures included the acquisition of the user rights for the 700MHz frequency totaling 936 million euros.
- **Change in finance lease contracts** amounted to 1,523 million euros in 2015. This item mainly represents the higher value of tangible assets under finance lease, which also reflects the associated higher financial payables, recorded mainly as a result of contractual renegotiations that took place during 2015 as part of the project of transformation of real estate assets by TIM S.p.A. (1,178 million euros) and of the finance lease contract by the TIM Brasil group with respect to the telecommunications towers (1,245 million reais, or, approximately 337 million euros).

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- **Financial investments** amounted to 51 million euros in 2015 and mainly referred to disbursements of:
  - 23 million euros for the acquisition of 50% of the share capital of Alfiere S.p.A., a real estate company that owns several buildings in the EUR district of Rome;
  - 6 million euros for the purchase, in July 2015, of 100% of the equity capital of Alfabook S.r.l.; this transaction represented a financial investment (of which 5 million euros represented the price and 1 million euros was related to the net financial debt acquired); and
  - approximately 9 million euros, in October 2015, for the withdrawal rights exercised by the previous shareholders of Telecom Italia Media S.p.A., which was merged into TIM on September 30, 2015.
- **Disposal of investments and other divestitures** amounted to 1,571 million euros in 2015 and principally related to:
  - 854 million euros, net of the related transaction costs, resulting from the placement of 39.97% of the share capital of Infrastrutture Wireless Italiane S.p.A. (INWIT), which took place in June 2015, followed, in July 2015, by the exercise of the greenshoe option;
  - 2,498 million reais (approximately 676 million euros) of proceeds generated by the Brazil Business Unit from the sale of the first tranches of telecommunications towers to American Tower do Brasil;
  - 19 million euros from the sale of the company Teleleasing S.p.A., which took place in December 2015;
  - 9 million euros from the sale of the company SIA S.p.A., classified under Other investments, which took place in July 2015;
  - for the remaining amount, to the disposal of assets in the normal operating cycle.

\* \* \*

The following should also be taken into account with respect to net financial debt:

- **Sales of receivables to factoring companies**



Sales of receivables to factoring companies completed during 2016 resulted in a positive effect on net financial debt of 1,091 million euros as of December 31, 2016 (1,016 million euros as of December 31, 2015).

***Gross Financial Debt***

On a consolidated basis, at December 31, 2016, our gross financial debt amounted to 34,525 million euros (37,090 million euros at December 31, 2015) and included non-current financial liabilities (long-term debt) of 30,469 million euros (30,518 million euros at December 31, 2015) and current financial liabilities (short-term debt) of 4,056 million euros (6,224 million euros at December 31, 2015).

At December 31, 2015, gross financial debt included also 348 million euros of financial liabilities directly associated with Discontinued operations/Non-current assets held for sale.

As of December 31, 2016, approximately 66.1% of our gross financial debt was denominated in Euro, while the remainder was primarily denominated in U.S. Dollars, Pound Sterling and Brazilian Reais.

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The following table sets out the currency composition of our gross financial debt:

	As of December 31, 2016		As of December 31, 2015	
	(millions of foreign currency)	(millions of euros)	(millions of foreign currency)	(millions of euros)
USD	7,504	7,119	8,463	7,774
GBP	2,017	2,356	2,041	2,781
BRL	7,128	2,075	6,442	1,515
JPY	20,032	162	20,036	153
EURO		22,813		24,519
		<b>34,525</b>		<b>36,742</b>
Discontinued operations/Non-current assets held for sale				348
<b>Total gross financial debt</b>		<b>34,525</b>		<b>37,090</b>

For information regarding the split of our debt between fixed rate and floating rate please see Note Financial risk management of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Long-term debt includes notes we have issued in order to reduce our dependence on short-term debt, extend the average life of our financial debt and expand our investor base. For this purpose, we have issued long-term debt in the capital markets under, among others:

**Active programs:**

- the Telecom Italia Euro Medium Term Note ( **EMTN** ) Programme. The maximum amount permitted to be issued under the Programme, including multiple tranches and multiple currencies, is 20 billion euros. This is the Group's only active debt program although it can issue debt instruments on an ad hoc basis if needed.

**Inactive programs:**

- the **Shelf Registration Statement**, which expired on December 29, 2011, for the issuance, by TIM S.p.A.'s wholly-owned subsidiary Telecom Italia Capital S.A. and under a guarantee by TIM S.p.A., of an indeterminate amount of debt securities at various terms, rates and maturities;
- the **Olivetti Euro Medium Term Note Programme**, for the issuance of a total amount of 15 billion euros in debt (or the equivalent in other currencies), at various terms, rates and maturities; and

· the Old Telecom Italia Global Medium Term Note Program ( **Global Note Program** ), for the issuance of a total amount of U.S.\$12 billion in debt (or the equivalent in other currencies), at various terms, rates and maturities. The following table highlights the utilization of the above mentioned EMTN Programme at the end of 2016.

		<b>As of December 31, 2016</b>
		<b>EMTN Programme</b>
		<b>(millions of euros)</b>
<b>Total amount of the program (max outstanding notes)</b>	(A)	<b>20,000.00</b>
Notes and bonds issued		28,552.79
Notes and bonds repaid		(15,300.72)
<b>Net utilization of the program</b>	(B)	<b>13,252.07</b>
<b>Remaining available amount of the program</b>	(A-B)	<b>6,747.93</b>

*Notes and bonds*

At December 31, 2016 we had notes and bonds outstanding of 22,964 million euros (23,564 million euros at December 31, 2015). The nominal repayment amount at December 31, 2016 was 22,417 million euros, a decrease of 530 million euros compared to December 31, 2015 (22,947 million euros).

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Changes in bonds during 2016 were as follows:

	<b>Currency</b>	<b>Amount (millions)</b>	<b>Issue date</b>
<b>NEW ISSUES</b>			
Telecom Italia S.p.A. 750 million euros 3.6250% maturing 01/19/2024	Euro	750	01/20/2016
Telecom Italia S.p.A. 1,000 million euros 3.6250% maturing 05/25/2026	Euro	1,000	05/25/2016
Telecom Italia S.p.A. 1,000 million euros 3.000% maturing 09/30/2025	Euro	1,000	09/30/2016

	<b>Currency</b>	<b>Amount (millions)</b>	<b>Repayment date</b>
<b>REPAYMENTS</b>			
Telecom Italia S.p.A. 5.125% 663 million euros (1)	Euro	663	01/25/2016
Telecom Italia S.p.A. 8.250% 708 million euros (2)	Euro	708	03/21/2016
Telecom Italia S.p.A. EURIBOR 3M + 0.79% 400 million euros	Euro	400	06/07/2016

(1) Net of buybacks by TIM S.p.A. of 337 million euros during 2014 and 2015.

(2) Net of buybacks by TIM S.p.A. of 142 million euros during 2014.

**BUYBACKS**

<b>Bond Title</b>	<b>Outstanding nominal amount prior to the Tender Offer (GBP)</b>	<b>Repurchased nominal amount (GBP)</b>	<b>Buyback price</b>	<b>Buyback date</b>
Telecom Italia S.p.A. 400 million GBP, maturing May 2023, coupon 5.875%	400,000,000	25,000,000	111.000%	06/29/2016

On November 15, 2016, a mandatory conversion at maturity took place in connection with the 1,300,000,000 6.125% Guaranteed Subordinated Mandatory Convertible Bonds due 2016 issued by Telecom Italia Finance S.A. and guaranteed by TIM S.p.A.. These bonds were converted on the basis of the final conversion ratio (Relevant conversion ratio) of 131,018.75372, corresponding to 1,702,850,712 new ordinary shares of TIM S.p.A., representing approximately 11.2% of the ordinary share capital of the Company or 8% on a fully diluted basis.

On September 22, 2016, a total of 360,100 TIM ordinary shares were issued following a voluntary conversion notice for the nominal amount of 300,000 euros.

With respect to the TIM S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group, at December 31, 2016, the amount was 201 million euros (nominal amount) and increased by 1 million euros compared to December 31, 2015 (200 million euros).

For further details about the outstanding notes and bonds as of December 31, 2016 please see also Note Financial liabilities (non-current and current) of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

### ***Revolving Credit Facility and Term Loan***

The following table shows the composition and the drawdown of the committed credit lines available at December 31, 2016.

	<b>As of December 31, 2016</b>	<b>As of December 31, 2015</b>
	<b>Committed</b>	<b>Drawdown</b>
	<b>(billions of euros)</b>	
Revolving Credit Facility expiring May 2019	4.00	4.00
Revolving Credit Facility expiring March 2020	3.00	3.00
<b>Total</b>	<b>7.00</b>	<b>7.00</b>

TIM has two syndicated Revolving Credit Facilities for amounts of 4 billion euros and 3 billion euros, expiring on May 24, 2019 and March 25, 2020, respectively. No amounts have been drawn from these facilities.

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TIM also has access to:

- a bilateral term loan from Banca Regionale Europea expiring July 2019 for 200 million euros, drawn down for the full amount;
- a bilateral term loan from Cassa Depositi e Prestiti, expiring in April 2019 for 100 million euros, drawn down for the full amount;
- two bilateral term loans from Mediobanca; one for 200 million euros expiring in November 2019 and another for 150 million euros expiring in July 2020, drawn down for the full amount;
- a bilateral term loan from ICBC expiring in July 2020 for 120 million euros, drawn down for the full amount;
- a bilateral term loan from Intesa Sanpaolo expiring August 2021 for 200 million euros, drawn down for the full amount;
- a Hot Money loan from Banca Popolare dell' Emilia Romagna expiring July 2017 for 200 million euros, drawn down for the full amount.

***Maturities of financial liabilities and average cost of debt***

The average maturity of non-current financial liabilities (including the current portion of medium/long-term financial liabilities due within 12 months) is 8.02 years.

The average cost of the Group's debt, considered as the cost for the year calculated on an annual basis and resulting from the ratio of debt-related expenses to average exposure, is about 5.1%.

For further details about the maturities of financial liabilities in terms of the expected nominal repayment amounts, as contractually agreed, please see below Contractual Obligations and Commitments .

***Current financial assets and liquidity margin***

The TIM Group's available liquidity margin was 12,483 million euros at December 31, 2016 corresponding to the sum of Cash and cash equivalents and Current securities other than investments , totaling 5,483 million euros (5,047 million euros at December 31, 2015), and the committed credit lines, mentioned above, of which a total of 7,000 million euros had not been drawn down. This margin is sufficient to cover the Group's Financial Liabilities due at least for the next 24 months.

In particular:

- Cash and cash equivalents amounted to 3,964 million euros (3,559 million euros at December 31, 2015). The different technical forms of investing available cash at December 31, 2016 can be analyzed as follows:
    - Maturities: all deposits have a maximum maturity of three months;
    - Counterparty risk: investments by the European companies are made with leading banking, financial and industrial institutions with high credit quality. Investments by the companies in South America are made with leading local counterparties;
    - Country risk: deposits have been made mainly in major European financial markets.
  - Securities, other than investments, amounted to 1,519 million euros (1,488 million euros at December 31, 2015). These forms of investment represent alternatives to the investment of liquid funds with the aim of improving returns. They consist of 258 million euros of Italian treasury bonds purchased by TIM S.p.A. and 548 million euros of Italian treasury bonds purchased by Telecom Italia Finance S.A. as well as 573 million euros of bonds purchased by Telecom Italia Finance S.A. with varying maturities but all having active trading markets and readily convertible into cash. The purchases of the above government bonds, which, pursuant to Consob Communication DEM/11070007 of August 5, 2011, represent investments in Sovereign debt securities, have been made in accordance with the Guidelines for the Management and control of financial risk adopted by the TIM Group since August 2012. In addition, the Brazil Business Unit made an investment of 140 million euros in a monetary fund that invests almost entirely in U.S. dollar instruments.
- For further details please see Note Financial Risk Management of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Liquidity And Capital Resources*****Treasury policies***

The Group uses a variety of instruments to finance its operations and raise liquidity, in particular bond issues, alongside committed and uncommitted bank lines.

***Off-Balance Sheet Arrangements***

Guarantees, net of back-to-back guarantees received, amounted to 15 million euros.

The guarantees provided by third parties to Group companies, amounting to 5,695 million euros, consisted of guarantees for loans received (1,771 million euros) and of performance under outstanding contracts (3,924 million euros).

The guarantees provided by third parties for TIM S.p.A. obligations include the surety issued in favor of the Ministry of Economic Development for 38 million euros, for the commitment made by the Company to build equipment networks with eco-sustainable characteristics. In particular, the Company has made a commitment to achieve energy savings in the new LTE technologies of approximately 10% on infrastructure and 20% on transmission devices over a period of 5 years (compared to energy consumed by current technology).

A surety was also issued in October 2016 on behalf of Telecom Italia Sparkle, in favor of the Italian Revenue Agency Lazio Regional Department, for 198 million euros, upon the outcome of the summary suspension order for the provisional execution of the ruling issued by the Provincial Tax Commission of Rome, which had rejected the Company's appeal against the fines issued by the Italian Revenue Agency Lazio Regional Department for a total amount of 280 million euros (see paragraph a) Significant disputes and pending legal actions). The guarantee has been issued in accordance with Article 68 of Italian Legislative Decree 546/1992 and gives the Italian Revenue Agency Lazio Regional Department the right, with respect to the appeal lodged by the Company, to collect an amount equal to 2/3 of the original claim

For further details please see Note Contingent liabilities, other information, commitments and guarantees of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

***Contractual Obligations and Commitments***

The following table aggregates our contractual obligations and commitments with definitive payment terms which will require significant cash outlays in the future based on nominal amounts.

As of December 31, 2016, the **nominal repayment amounts of payables** and the relating expiration dates were as follows:

	Amounts due as of December 31,						Total
	2017	2018	2019	2020	2021	After 2021	
	(millions of euros)						
Bonds	2,049	1,817	2,546	1,267	563	14,175	22,417



Amounts due to banks, other financial payables and liabilities	567	1,355	1,918	750	702	225	5,517
Finance lease liabilities	141	124	110	109	108	1,984	2,576
<b>Total</b>	<b>2,757</b>	<b>3,296</b>	<b>4,574</b>	<b>2,126</b>	<b>1,373</b>	<b>16,384</b>	<b>30,510</b>
Current financial liabilities	596						596
<b>Total</b>	<b>3,353</b>	<b>3,296</b>	<b>4,574</b>	<b>2,126</b>	<b>1,373</b>	<b>16,384</b>	<b>31,106</b>

For further details please see also Note Derivatives and Note Other information, Operating leases of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

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The table below sets forth, for the periods indicated, our total capital expenditures (on an accrual basis) allocated to the Business Units.

	<b>Year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>(millions of euros)</b>		
<b>Capital expenditures on tangible assets:</b>			
Domestic (*)	2,596	2,446	1,782
Brazil	639	784	774
Media and Other Operations (*)		8	6
Adjustments and eliminations			
<b>Total capital expenditures on tangible assets (1)</b>	<b>3,235</b>	<b>3,238</b>	<b>2,562</b>
<b>Capital expenditures on intangible assets (2)</b>	<b>1,641</b>	<b>1,959</b>	<b>2,422</b>
<b>Total capital expenditures (3)</b>	<b>4,876</b>	<b>5,197</b>	<b>4,984</b>

(\*) Following the change in the business mission of Persidera, the Media Business Unit was included into the Domestic Business Unit (Core Domestic) as of January 1, 2016; without the change, the capital expenditures on tangible assets of the Domestic Business Unit would have totaled 2,590 million euros.

(1) Capital expenditures on tangible assets are mainly related to local and long distance networks, exchange equipment, investments in subscribers equipment, radio and transmission equipment.

(2) Capital expenditures on intangible assets include expenditures for software for telecommunications systems and licenses.

(3) Intercompany capital expenditures are adjusted to eliminate intercompany profit.

The capital expenditures planned for the 2017-2019 period at the TIM Group level in Italy and in Brazil are:

- **11 billion euros of investments in Italy**, approximately 5 billion euros of which will be dedicated to speeding up the development of the ultrabroadband networks;

- **less than 12 billion reais of investments in Brazil**, mainly for the deployment of the broadband mobile network.  
\* \* \*

For details about market risk disclosures please see Item 11. Quantitative And Qualitative Disclosures About Market Risks .

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TIM operates the largest fixed voice and data infrastructure in Italy, covering the whole of the country, and provides one of the country's most extensive and advanced mobile network platforms. Therefore, in terms of size, ubiquity and infrastructural and technological assets, it is a system company, integrated with the territory and with the social, economic and production fabric, with a pervasive role for the whole of the country's economy and the competitiveness of its companies, the efficiency of local governmental bodies and, more generally, the welfare of its citizens.

The Group produces approximately 0.7% of the added value of Italian Gross Domestic Product<sup>6</sup>. In Italy, the Group employs approximately 50 thousand people directly and approximately 100 thousand people indirectly, i.e., employees operating on projects connected with the business of TIM, which corresponds to approximately 1% of Italy's entire private sector.

In recent years, we have witnessed a digital transformation process involving every player in the economy (changes in technology and in working methods) and society, with major and widespread global impacts. This process is the basis for the development of new business models, which are themselves part of new ecosystems, based on enabling platforms like information systems, customer experience, analytics, intelligence, etc. which require fast technological evolution, particularly to ensure, quickly and safely, that significant amounts of information can be collected, processed and exchanged instantly.

TIM is playing a broadly strategic role in this respect and is at the forefront of developing new models, both as a protagonist of the ICT sector and as an enabler of other sectors of the economy, translating into products and services two of the key drivers of digital transformation, the Internet of Things and Cloud.

Aware of its strategic role, TIM works constantly to manage and innovate the infrastructure and technology with which it serves the country. During 2016, the Group invested approximately 2 billion euros in next generation networks alone. The Group's three-year business plan for 2017-2019 confirms its commitment to investing in advanced infrastructure and technologies and is focused on next generation ultrabroadband (UBB) networks in particular, a major undertaking that network technicians and engineers are working to deliver every day.

To complete its commitment to creating next generation networks, the Group has set up a new company (Flash Fiber S.r.l.) to promote the creation of ultrabroadband infrastructure using FTTH (Fiber To The Home) technology in Italy's main cities. Flash Fiber aims to create a fiber optic access network that is expected to connect around 3 million households in Italy's biggest 29 cities with FTTH technology by 2020, providing connection speeds of 1 Gbps and involving a total investment of 1.2 billion euros.

In addition, in March 2017, the Board of Directors approved a new project to create a company dedicated exclusively to the selective development of new fiber infrastructure in some specific Italian rural areas (or so called "white areas"). Creation of this new company, in partnership with a financial partner, is intended to enable TIM to achieve its targets to cover the country with UBB almost 2 years ahead of the schedule set out in the three year plan. The acceleration expected to result from such a company could lead to 95% coverage of the Italian population with UBB connections by mid-2018, with coverage increasing to 99% at the end of the current plan in 2019, aided also by the contribution of wireless technologies. Over 6,000 municipalities would be affected by the project, with over 7 million homes to be

connected. The company is expected to offer all operators wholesale connection services, guaranteeing equal treatment.

The Company has confirmed its commitment to offering the most advanced and reliable technology for mobile communications as well. In 2016, mobile networks have achieved almost total coverage of the country with the new 4G/LTE standard and, in order to respond quickly to the growing demand for high speed data, the Group is committed to testing 5G technology, which allows it to respond to the growing demand for video content, social media and digital services on the move.

<sup>6</sup> Internal estimates of 2015 data.

<sup>7</sup> According to the Italian Strategy for the Next Generation Access Networks, cluster C is made up of areas of market failure, i.e., rural areas for which operators invest in networks with more than 100 Mbps only because of state aid support, whereas cluster D involves market failure areas for which broadband connectivity above 30 Mbps can only be provided through public intervention.

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The investment plan TIM is implementing coincides with a phase in which the Italian government is engaged in implementing the national strategic ultrabroadband plan, which aims to achieve the challenging objectives of the European Digital Agenda in terms of a widespread supply of infrastructure and an increase in the demand for digital services. In this regard, during 2016, the European Commission made the digitalization targets in Member States even more challenging by establishing three strategic connectivity objectives for 2025, with the aim of satisfying the growing need for connectivity of European citizens and strengthen European competitiveness. These three strategic objectives include ensuring (i) high connectivity for main socio-economic drivers, such as schools, universities, research centers and other providers of public services, (ii) download speeds of at least 100Mbps for all European households, and (iii) uninterrupted 5G coverage for all urban areas and major roads and railways.

**Research and development**

The Telecommunications sector has undergone a rapid major transformation in recent years, characterized by the decline in traditional voice services and the growth of fixed and mobile broadband and the new services enabled by it, contributing towards the rapid digitization of the life for consumers and business processes.

In recent years, the Group has started its own evolution path, confirming its role as a systems company in the supply of services and platforms as well as a supplier of connectivity with innovative digital services. Innovation, both technological and business-based, is confirmed as the central element to respond to the change in the technological, market and competitive context. The Group has taken action in several ways:

- reinforcing the lines of internal innovation and focusing on developing fixed and mobile networks towards future 5G standards and ultrabroadband and issues concerning service platforms and new operations systems, including through collaboration with and development of the Joint Open Labs ( JOLs ) with some of Italy's main universities;
- promoting innovation and the creativity of employees launching projects to crowdsource ideas through the Idea Sharing<sup>8</sup> initiative;
- affirming the Open Innovation principles in relation to the world of start-ups and new innovative entrepreneurship. Open Innovation enables integration of internal innovations with external sources of innovative ideas. The flow of ideas from the ecosystem are flanked by:
  - co-innovation, co-creation and generation of ideas and values by means of new partnership models with the most important global players;
  - catalyzing of the innovation capacities of start-ups through the TIM #Wcap acceleration program and investments in equity through TIM Venture;

simplification of the process of activating supplies made by innovative start-ups through the so-called *Albo Veloce* (Fast Supplier List), which enables the qualification on the list of suppliers of a start-up with a simplified, faster procedure, and *Basket Innovazione* (Innovation Basket), a budget dedicated to encouraging the purchase of solutions from the start-ups included on the *Albo Veloce* partially covering the costs.

Different innovative solutions and prototypes were transformed into business propositions and commercial opportunities for TIM, including *CitySensing* (a platform for managing large events in urban areas based on the collection of Big Data from social media and mobile networks), *Cloud Robotics* and *Virgil* (solutions involving drones and remote presence robots connected through the TIM 4G network), Internet of Things systems, including *Smart Agriculture* (developed with Olivetti).

In addition to contributing to developments within the Company, TIM produces a significant number of patents, filing approximately 120 patents over the 2015-2016 period. In order to maximize the value of such patents, a spin-up model was recently developed, which involves the launch of start-ups that have received assets and the rights to use patents in exchange for equity options.

- <sup>8</sup> *Idea Sharing* is a competition designed to produce ideas, the purpose being to discover the talent and creativity of the Group's employees to improve the customer experience of TIM services. The competition ended in December 2016.

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In the last three years, the Group has received over 5 million euros from the European Union and has collaborated with some of the most important European and North American universities and centers of excellence. In the last four years, 133 PhDs have been financed, sponsoring first level masters degrees at the Scuola Superiore Sant Anna di Pisa (Management, Innovation and Engineering of Services and Digital Life & Smart Living) and Tor Vergata university (Big Data in business), and the TIM Chair in Market Innovation at Milan's Bocconi University.

Moreover, activities to accelerate and invest in start-ups have continued. TIM #Wcap is the business accelerator of the TIM Group that each year selects, finances and accelerates digital start-ups. Since 2013, the TIM #Wcap start-ups have launched over 50 go-to-market activities within TIM. From 2009 to date, more than 9,000 business ideas have been examined and approximately 300 projects have been selected and supported, to which 6.6 million euros have been awarded. The survival rate of the TIM #Wcap start-ups is over 90%.

In 2014, TIM launched TIM Ventures, a venture capital company created with the aim of investing in innovative start-ups in all the sectors of strategic interest for TIM. In just over two years of business, TIM Ventures has invested in 14 start-ups (12 of which came from TIM #Wcap) and was mentioned by CB Insights (venture capital data base) as one of the most active global Corporate Venture Capital investors for 2015.

In June 2016, Fondazione Nesta and Startup Europe Partnership ranked TIM 7th among the 25 European companies that dialogue best with start-ups. TIM was the only Italian company on the list.

In Italy, TIM employs approximately 1,200 resources in engineering, technological innovation and service activities. Investments in innovation and transformation amount to 1.9 billion euros, equaling approximately 52% of the total investments on the domestic market.

**Relevant Stakeholders**

The relevant stakeholders for research and development are:

- the areas of the company involved (e.g. Marketing and Purchasing);
- the suppliers, for the joint development of solutions in accordance with the technical requirements of the TIM Group;
- the traditional (e.g., car makers) and digital (e.g., eCommerce players) partners, for the joint go to market of digital services;
- research centers and universities, for cooperation and joint projects. In 2016, 11 research contracts were formalized and went into effect, for a total value of 388,000 euros, exclusively with Turin Polytechnic, on topics such as Internet of Things ( **IoT** ), smart mobility, privacy protection, new communication services and paradigms; the activities were carried out in the JOL activated at Turin Polytechnic;



- over 30 standardization bodies and discussion groups at national and international levels and the international research and development bodies (including NGMN, Open Networking Forum, 3GPP<sup>9</sup>, ETSI<sup>10</sup>, IEC, CENELEC, TM Forum, BBF, ITU) in which TIM continues to actively participate;
- the Ministries (Ministry for Economic Development and Ministry of Education, Universities and Research), the European Union and public authorities (e.g., the National Research Council ( **CNR** ) and local authorities) for projects funded through participation in competitive tenders, and partnership initiatives; and
- non-governmental organizations, associations, alliances and industry forums (e.g. GSM Association, m-health), which bring together all the entities involved in the value chain of the specific market.

This model of managing innovation contributed to TIM receiving the prestigious National Prize for Innovation in 2016, established by the Prime Minister's Office and awarded by Confindustria and which rewards the capacity to innovate the quality of portfolio solutions and services, processes of managing innovation, the company culture geared towards innovation and the capacity to efficiently transform innovation projects into services to support citizens, businesses and organizations.

<sup>9</sup> The 3rd Generation Partnership Project.

<sup>10</sup> European Telecommunications Standards Institute.

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The themes on which projects are developed, are identified on the basis of the Three-Year Technological Plan (the **Plan** ), the reference document for the Group, which provides guidelines for the evolution of the network, platform and services.

The Plan is published annually and is the result of a wide-ranging process that includes input from most Company departments. It identifies the main external factors (regulations, standards, vendors, other market operators) that may influence the Company's strategies and highlights the emerging and cross-cutting technologies in other sectors that may be of interest to the Group.

These guidelines also cover the Patents project, which for TIM represents a continuous activity that is structured into numerous processes, involving various corporate departments and is aimed at promoting, supporting and optimizing patenting activities in the company and, through collaboration with universities, throughout Italy.

Through the collaboration with Italian universities, patenting by the Group contributes to the rate of innovation in Italy, assisting in the patenting of the universities themselves and making the results of their research more tangible. The JOLs are part of this effort. With the company on campus model, they encourage a natural interchange between the academic and industrial worlds. TIM has launched this innovative model of cooperation, promoting the development of different JOLs throughout Italy and localized within the various Italian universities.

**Partnerships with external players**

The Group maintains partnerships with external players, through which the Group oversees the various areas of digital services, including:

- **Cognitive Computing:** an important collaboration agreement has been signed with IBM, which makes the Cognitive Computing platform, called IBM Watson , available to the Group. Cognitive computing is a branch of computing that aims to equip machines with the capacity to reason and interact with humans in a natural manner. Watson is the leading technology in this sector and is currently used in the United States in analyzing imaging diagnostics, as well as in the development of automatic agents, referred to as chatbots that can dialogue with clients on matters that the system has previously learned . The cognitive computing systems learn by reading documents and interacting with humans and the environment. In agreement with the Customer Care and Open Access Departments of the Group, a study is underway to establish how to make cognitive computing available to technical assistance and commercial customer care processes. The operative projects aim to develop two chatbots that guide clients towards the solution of technical problems connected with fiber and provide suitable responses to queries on mobile offers.
- **e-Commerce:** in a partnership with Amazon, an innovative business model has been developed, which optimizes the ability to reach potential clients by relying on geo-marketing to locate potential clients that are in the proximity of the business. In this case, the collaboration is based on a shared remuneration with the partner and thus the partnership is considered an important example of the Group's ability to enter into the value chain of an

Over The Top ( **OTT** ).

- **Participation in The Next Nest project** the Group developed a digital abstraction of a canvas by Daniele Gallian, on display at The Next Nest exhibition, which was open from April to September 2016 as part of the XXI International Exhibition of the Milan Triennale. The digital canvas allowed visitors to interact in a gestural manner, creating new digital versions of the work that are unique and unrepeatable and could be downloaded from the installation site. The way in which visitors interact with the work has a great deal of affinity with the ways in which, by means of the telecommunications services, the Group helps the people to live and share social life, making interaction as natural and simple as possible and helping improve the quality of domestic, social and urban life.
- **Big Data:** learning to collect and effectively analyze large amounts of structured and unstructured data, created by Company systems or available from external sources, has become essential to improving the quality of services and to staying ahead of demand requirements. Effective data management requires radical technological, organizational, procedural, as well as cultural transformations. As such, the Group has undertaken an evolutionary path based on several design sites . Within these sites, various initiatives were launched in 2015 and completed in 2016, with the development of the first internal applications (aimed at

<sup>11</sup> [www.nest.city](http://www.nest.city)

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improving the Customer Experience), the launch of the first services for the Business market on anonymous data, the start-up of the TIM Competence Center that will aim to train the internal competences and scout and search for new Big Data technologies and applications, working in an open logic with the industry's main players. Moreover, in 2016, additional initiatives were also started, aimed at aggregating various industry players and managers to construct data partnership models with the goal of developing innovative applications intended for digital cities (Living Lab project with Turin municipality) and to create innovative services to support private businesses in different fields such as insurance, automobile connectivity, etc..

**Innovative services for the public sector**

In the context of public sector services, in accordance with the Italian Digital Agenda or Agenda Digitale Italiana ( **ADI** ) and European Directives, in 2016, TIM consolidated and streamlined its offer of Smart Services (a range of services for energy efficiency and digital services in urban areas), Urban Security (new services dedicated to security, the environment and optimal energy management) and the Digital School. The aim is to promote the Smart City model to improve quality of life by developing innovative digital services to ferry communities towards a Smart Community model (as described in the Digital Agenda) that enables new forms of cooperation between citizens and public authorities.

			NUVOLA IT	NUVOLA IT
<b>LIGHTING SUITE</b>	<b>SMART BUILDING</b>	<b>NUVOLA IT ENERGREEN</b>	<b>URBAN SECURITY</b>	<b>DIGITAL SCHOOL</b>
Integrated management of the local infrastructural networks and construction of the Smart City environments.	Intelligent management and automation of buildings through specifically designed solutions able to be implemented on a project basis through the components of the Lighting Suite and Nuvola IT Energreen offers.	Remote management of energy consumption, implemented on TIM assets and services, for the purpose of saving energy.	Management of participated security and urban territory control.	Integrated digital management of teaching and school administration. The offer can be configured according to the requirements of the schools and includes a range of integrated, but modular, services, accessible via a single portal-showcase.
Enabled services:		Enabled services:	Enabled services:	Enabled services:
· planning of electricity consumption and maintenance. Energy savings are estimated between 15% (light produced by high-efficiency lamps, e.g. LEDs) and 30% or more in the case of light	Energy savings are estimated to be around 10% if only the Metering & Reporting function is implemented and more than 50% for	· on-site energy audit: on-site analysis for energy efficiency;	· computerized management of the process for issuing fines in connection with traffic and other violations for local public administration;	

<p>produced by old style lamps (e.g., sodium vapour or incandescence). Additionally, there is an option to vary lighting by switching on and/or reducing the intensity of individual lamp posts;</p> <ul style="list-style-type: none"> <li>· video surveillance;</li> <li>· digital communication with citizens and users in general (e.g., tourists); and</li> <li>· Wi-Fi hot spots (broadband access).</li> </ul>	<p>specific efficiency projects.</p>	<ul style="list-style-type: none"> <li>· Metering &amp; Reporting;</li> <li>· Efficiency strategy (advanced reporting and Energy Management consulting services);</li> <li>· Energy Cost Management Services; and</li> <li>· Special Projects: ad hoc efficiency improvement work.</li> </ul>	<ul style="list-style-type: none"> <li>· management of urban issues, with reporting of safety-related issues, antisocial activities and urban decay;</li> <li>· real time monitoring of the urban and natural environment of cities (humidity, temperature, noise pollution, CO<sub>2</sub>, gaseous pollutants, etc.); and</li> <li>· monitoring of available public parking spaces.</li> </ul>	<ul style="list-style-type: none"> <li>· enabling infrastructure (fixed internet, Wi-Fi &amp; security connectivity);</li> <li>· management services for the school (administrative management, cloud electronic register);</li> <li>· digital teaching services (application integrated with school e-book stores); and</li> <li>· devices (for users and for classes).</li> </ul>
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In a world in which technology facilitates contact with people, by disseminating broadband technology and the services it enables, TIM is assisting in overcoming socio-cultural barriers that restrict the opportunity to take part in the information society and enjoy its benefits. The innovative services aimed at promoting the digitization of important areas of activity include those listed below.

With respect to technological innovation, the following are some of the key projects in this area:

- **Support for the launch of numerous LTE Advanced services** at 225 Mbps, 300 Mbps and the first in-the-field test of LTE Advanced services at 500 Mbps, the first in Italy.
- The **creation in Turin of the TIM IoT Open Lab**, a distributed laboratory open to partners and companies for the development and testing of solutions for the Internet of Things world, in particular with LTE NB-IoT (Long Term Evolution NarrowBand Internet of Things) technology, which, due to the low cost of the radio modules, reduced energy consumption and the excellent reception of the radio signal, means that even battery-powered objects can be connected in areas that are difficult to reach, such as gas or drinking water meters.
- **e2Call:** broadband mobile communication technologies represent a platform enabling new functions and services for road safety. In this context, the real-time communication of information on the situation of the roads and localization techniques that allow the position of vehicles to be identified with a high degree of precision are particularly important. This is the basis on which the e2Call project has been created, with the aim of searching for innovative solutions on board vehicles and on the Internet. The scientific responsibility for the study has been assigned to a joint work group guided by the Centro Ricerche Fiat and TIMLab of Trento, co-financed by the Autonomous Province of Trento. The project closed on May 31, 2016, with a workshop to present the results held in Palazzo della Regione Trentino-Alto Adige, in Trento.
- **TIM Personal:** the Group aims to play an increasingly important role in clients' trusted digital lives with respect to sensitive services such as transport, ticketing and payments for which it is important to have a strong user identification mechanism. The TIM Personal service combines the solidity of a digital authentication mechanism based on the mobile terminal and on the SIM (Digital Identity) with the possibility of making secure payments, all via a single app.
- **TIM Market Place and TIM Open:** the so-called Network APIs (Application Programming Interfaces), which allow interoperability between modules and platforms, mean the smart network can be opened up to the applications of external providers. The TIM Market Place is a tool which, using a coordinated approach with such external providers, combines the intelligence and functionality of the network with external services/content, and therefore forms part of the Group's path of transformation into a Platform Company, based on a new shared business model. TIM Market Place has allowed the development of TIM Open commercial services.

- **TIM City forecast:** given their pervasive nature, mobile terminals can be compared to a capillary network of sensors able to provide accurate data in real time on the distribution of the population over the territory and on its movements (Mobility Patterns). Mobility Patterns enable applications linked to the monitoring and management of the territory, related services and mobility infrastructures, all in respect of privacy legislation, by means of a suitable anonymous, aggregated processing of data. For example, the City forecast service predicts the real time distribution of people (by unit of area) over the territory, even where there are specific events, such as the quantification of tourists in a given area. The solutions developed in the TIM City forecast project are used by the Mobility Services Agency, a Roma Capitale company, as an analysis tool for monitoring the presence and mobility of the population and Italian and foreign visitors, in particular in the areas of religious and tourism interest, also in connection with the Jubilee.

#### **Innovative e-health services**

TIM is actively involved, either alone or in partnership with external partners, in devising and developing healthcare services at the national, regional and local level. Designed to improve the Italian health service and the quality and effectiveness of healthcare, the services allow doctors, nurses and patients to carry out many activities remotely. The main electronic healthcare service applications available or being developed include:

- value products and services for general practice, aimed at enabling new primary care models and proactive medical services (e.g. screening campaigns managed by general practitioners);

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- legal archiving of digital diagnostic images on the network, ensuring the authenticity and integrity of documents;
- management of healthcare, administrative and logistical processes and a patient's healthcare information throughout the period of hospitalization;
- management and coordination of operational facilities dedicated to emergencies (118) and continuity of assistance; and
- healthcare monitoring (Nuvola IT Home Doctor).

All the solutions are designed to comply with the data privacy and transaction security requirements of healthcare processes.

Specifically:

- **Nuvola IT Home Doctor:** allows the monitoring of physiological parameters (body weight, blood pressure, heart rate, blood oxygen levels, glycaemia, lung capacity, electrocardiogram, physical activities, etc.) for patients suffering from chronic illnesses, or in post-hospital care, directly from their own homes or in properly equipped facilities (medical centers, medical practices, etc.). The system consists of a technological platform and software configured on the patient's mobile phone (or alternatively a PC or tablet) and on the healthcare personnel's PC. Based on the plans established by the doctor, patients receive reminders on their mobile phones regarding needed measurements, which can then be taken through the use of portable electro-medical devices equipped with a Bluetooth interface and which can be transmitted by mobile phone through the online platform. The benefits of the service are that it improves the patient's quality of life while optimizing costs for the healthcare organization.
- **Fisio@Home:** an experimental motor telerehabilitation service that allows medical personnel to remotely monitor the conditions of patients with orthopedic problems. The prototype, tested at the health authority of Viareggio, has been developed for the rehabilitation of knees, although the application can be used for other conditions. The system allows doctors to evaluate compliance with the established program and the correctness of the exercises performed. Movement data is collected by sensors worn by the patient, which measure acceleration, angular speed and magnetic field along the reference axes. The data is sent by Bluetooth to a tablet, where an application processes it in real time in order to extract information that can be used to define the movements and store them. The sensors, created by Scuola Superiore Sant'Anna, have already been engineered and are ready for large-scale deployment.
- **Cassiel 2.0:** the service provides remote assistance to elderly people, monitoring them and receiving alarm signals in cases of emergency. The sensors located in dwellings process the data collected, to perform behavioral analyses with a view to improving quality of life. The complete solution includes a reminder service, called RicordaMI, to monitor therapies and ensure their completion. Through the involvement of 3 Federfarma Pisa



pharmacies in supplying the requirements and dosages set for each patient, and Farmadati for the supply of the medicines database, the system was successfully tested in the province of Pisa, collecting valuable data to improve the solution. Through the adoption of a simple tablet application, the system can also be used by people with mild cognitive impairments. The service also allows for monitoring of the cardiovascular system, which tends to be less healthy in elderly patients, by using non-invasive methods (pressure, weight and physical activity) and based on statistical models accepted by the scientific community (Framingham risk score). Formal and informal caregivers can check the state of health of their loved ones on a specific site.

- **Tele-monitoring of Parkinson s disease:** as part of the development of a tele-monitoring system for patients affected by Parkinson s disease, TIM has filed two patent applications relating to the upper and lower limbs. Based on the data collected during trials, machine learning techniques were applied to developing a UPDRS (Unified Parkinson s Disease Rating Scale) automatic assessment algorithm to emulate the assessment provided by the neurologist according to this standardized scale.
- **WebSensor:** a prototype for remote monitoring of the progress in Parkinson s disease developed with the support of neurologists. A set of sensors worn on the body and hands monitors the exercises performed by the patient and sends the data to a platform that processes them and supplies parameters that can be used to assess the status of the disease. The hand sensors, which are often uncomfortable to wear, were replaced

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by an appropriate stereoscopic (LeapMotion) camera that frames the hand and automatically extracts the exact position of the fingers in space. In collaboration with the non-profit organization Neurocare from Cascina (PI) data was obtained from over 15 Parkinson's sufferers and the same number of healthy elderly people (controls); this data made it possible to validate the use of the Leap Motion sensor to identify and measure the degree of advancement of the disease.

- **PAPI:** a prototype tested on 30 people aged over 65, suffering from slight cognitive function deficits, for their remote rehabilitation. The system provides a kit of interactive games for Android tablets, designed in collaboration with neuropsychologists to stimulate the patient's various cognitive functions. The games, tested in collaboration with NeuroCare from Cascina (Pisa) and TrentoRise's living lab in Trento, communicate with a remote server to send data relating to the patient's performance and to download their settings. The experiments have allowed the games to be improved, making them more interesting for users and integrating them with other games created by third parties involving the rest of the family, in a kind of game show that encourages their use (GameBus project).

**Infomobility and Smart Cities**

Infomobility systems, using information obtained from mobile handsets, allow for the optimization of traffic flows, reducing travel times and the emission of greenhouse gases.

- **URBeLOG:** a project funded by MIUR<sup>12</sup> as part of the Smart Cities project in which TIM participates alongside six other organizations: TNT, Iveco, Temporary Association of Companies (ATI) (comprised of FIT, Italdata and TEMA), Polytechnic of Turin, Bocconi University and Scuola Superiore Sant'Anna. The reference topic is urban logistics, namely the distribution of goods in what is defined as the last mile. The aim of the project is to propose new processes and methods and an open and integrated ICT environment that allows all stakeholders to interact efficiently, minimizing the environmental impact of activities. TIM is helping to develop an open and cooperative multi-sided platform and specifically an innovative layer of middleware capable of managing all the information available arriving from various sources (devices, vehicles, fleet management systems, traffic management legacy systems etc.). The URBeLOG solutions will be tested as part of two field trials planned in the municipalities of Turin and Milan.
- **National Pilot eCall I\_HeERO project:** the public service for vehicle emergency calls based on calls to a single emergency number E112 (eCall) will be operational in all EU Member States for all new models of cars registered and produced after March 2018; these vehicles must be natively equipped with a mobile network modem capable of automatically calling the emergency number in the event of an accident. All mobile network operators must update their networks to correctly process and route incoming eCalls to the first level PSAP (Public Safety Answering Point) identified at national level. TIM has already supported the first pilot phase with pre-operative tests in the Varese area and the deployment of the first national eCall PSAP in Varese. The second phase of the pilot project, which will take place over the 2016-2017 period, will expand the service to the Trento area and will be the last step before full deployment. The pilot phases are co-funded by the European project I\_HeERO.

**Open Air Lab (OAL):** TIM's smart city lab for more sustainable cities. The Open Air Lab, located at TiLab in Turin, represents aspects of a Smart City model, and the transformations that ICT and the always-connected dimension will define for the urban scenarios of the upcoming years. Analysts forecast greater connectivity among objects in the coming years. Gartner Inc. envisages that objects directly connected to each other and through the mobile networks (4G, 5G and future developments) will increase at a rate of 5.5 million per day, reaching over 20 billion by 2020. At the OAL, there are representations and illustrations of models that include Smart Mobility, smart rest areas, efficient management of waste and public green areas, servicing of robotics, urban security, management of the public lighting network, Smart Metering, gas, electricity and water distribution networks, Digital Island services, loaning of books, food and beverage distribution, smart parking and public telephone Totem, which provides advanced digital and multimedia services in addition to regular public telephony services. The garden area includes objects and spaces equipped with sensors for data collection and transmission, including (i) the smart bench, which provides connectivity, produces light effects and plays online music, detects air parameters such as atmospheric pressure, pollution, temperature, humidity and luminosity; (ii) the greenhouse with meteorological and environmental sensors, such as water potential and leaf wetness, allowing for remote activation; (iii) the small dome, an urban waste container

<sup>12</sup> Ministero dell'Istruzione, dell'Università e della Ricerca, the Italian Ministry of Education, Universities and Research.

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with integrated sensors to track and make separated waste collection more efficient; (iv) the bus shelter with traffic and environmental sensors; (v) lampposts that can be switched on and off and which can be adjusted remotely; (vi) noise and environmental pollution sensors; and (vii) gas and water meters to provide customers with a service that delivers more information and efficiency. At the core of operations in the OAL is the Control Room, where an IoT-TiLab platform collects and stores the data detected by the sensors. The OAL allows Internet of Things scenarios to be assessed, technological scenarios that will characterize the innovation of upcoming decades in which, through the evolving use of the Internet, objects will become recognizable and smart by communicating collected data.

**Research and innovation in e-security**

TIM is involved in research and innovation regarding cyber security and more generally the security of information and networks. Activities carried out in 2016 included the following:

- the design of a proprietary platform based on open source technologies for the collection and management of security Big Data;
- the study and development of new examination models to be used with visual analysis tools for security Big Data;
- the study and testing of new approaches for safety analysis and risk management on LTE networks and telco cloud platforms;
- implementation of various scouting and testing campaigns on innovative security solutions;
- the development of new enhanced SIM solutions (iUICC Universal Integrated Circuit Card<sup>®</sup>) in the context of the GSMA to enable new authentication models for the Consumer and IoT world of the next generation;
- the pursuit of activities for the security analysis of mobile apps and mobile devices;
- the collaboration, within the scope of 3GPP SA3 SECAM<sup>14</sup>, for the definition of the security requirements and test methods on devices for 3GPP standard networks;
- completion of activities in the international projects IST NEMESYS (Information Society Technologies, enhanced Network security for seamless service provisioning in the smart Mobile EcoSYSstem) project and CIP (Competitiveness and Innovation framework Programme) Advanced Cyber Defence Center project;

- the participation, with another 15 partners, in the works of the 5G-ENSURE consortium (5G Enablers for Network and System Security and Resilience), in order to obtain a loan under the scope of the European H2020 program and study, define and test the security measures and resilience of the future 5G networks, developing a 5G Security Architecture;
- the development, in the context of ETSI, of the works of the Cybersecurity Technical Committee ( **TC CYBER** ) focused on Cyber Security;
- the continuation of other monitoring and guidance activities in the area of GSMA Fraud and Security Group;
- development of cooperation launched in 2013 with EIT (European institute of Innovation and Technology), Digital and the Action Line Guide to Privacy, Security & Trust.

#### **Importance of the Group in Brazil**

TIM Brasil invested 4.5 billion reais in 2016 and plans to invest just under 12 billion reais in 2017-2019, in connection with a plan to provide 4G coverage to over 95% of the urban population by 2019. TIM Brasil manages more than 63 million mobile lines.

By December 2016, the urban population covered with 4G technology reached 74%, an increase of 15% over the previous year. 3G technology reached 89% of the urban population by the end of 2016.

<sup>13</sup> It is the smart card used in mobile terminals in GSM and UMTS networks.

<sup>14</sup> SA3 is the Working Group responsible for security and privacy in 3GPP systems, and is a subgroup of the Technical Specification Group on Service and System Aspects (TGS-SA) of 3GPP, where SECAM is the SECurity Assurance Methodology for 3GPP nodes developed by SA3.

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The number of towns and cities covered by LTE more than tripled in 2016, reaching a total of 1,255 compared with 411 at the end of 2015, while the number of towns and cities covered by 3G technology is 2,833, an increase of 1,000 compared to 2015. By 2019, approximately 3,600 towns and cities are expected to be covered by 4G technology and 3,200 by 3G. The investment in infrastructure allowed the fiber optic network (both urban and long distance) to be extended to 76,000 km by the end of 2016.

**Research and development in Brazil**

Over the past three years TIM Brasil has invested over 16 billion reais, most of which in innovative infrastructures. The industrial plan for the three-year period 2017-2019 envisions investments of approximately 12 billion reais that will be almost completely dedicated to boosting 3G and 4G mobile network development in the country, with the objective to extend the coverage to more than 92% of the population in urban areas.

At TIM Brasil, Research and Development ( **R&D** ) is carried out by the Innovation & Technology Department ( **I&TD** ), headed by the Chief Technology Officer and numbering 27 telecommunications, electric and electronics engineers, IT experts and other technicians of varying expertise, competence and experience, which cover all network operations, pursue innovative solutions and provide support to R&D). The main responsibilities of this department are the definition of the network's technological innovation, evolutionary need for new technologies and devices, architectural guidelines and development of strategic partnerships, so as to exploit the new business models and guarantee the evolution of network infrastructures in line to business strategy.

With respect to infrastructure, one important result was the constitution of the Innovation Lab, consisting of a multi-purpose test environment based in Rio de Janeiro, which is able to guarantee the assessment and validation of innovative services, products and technologies, certifying their functional efficiency and performance and developing new models and configurations and consolidating the innovation flow. The Innovation Lab plays a strategic role in providing support for the conduct of Credibility Tests, Trials and Proofs of Concept, the validation of 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. Along with the R&D department, it facilitates innovation and promotes collaborations with universities and research institutes.

In 2016, 206 validation and innovation projects were completed, which will tend to increase in view of the extensive range of innovation and R&D initiatives underway. The latest technological plan approved (2017-2019), envisages investments in excess of 24 million reais in this project, which also includes the construction of a new Innovation center (at the Corporate Executive Offices complex) in Barra da Tijuca, in the state of Rio de Janeiro. This new center, which will operate as a national reference point for R&D activities will host technicians and researchers and serving as an open space of innovation for new opportunities and the development of innovation for the Brazilian telecommunications market.

***Relevant stakeholders***

TIM Brasil develops synergies and partnerships with important stakeholders with proven experience in R&D. The most relevant are:

- TIM Lab;
- the suppliers, for the joint development of solutions in accordance with the technical requirements of TIM;
- research centers and universities, for cooperation and joint projects;
- government Ministries;
- non-governmental organization; and
- alliance and industry forums.

***Relevant issues***

The Innovation & Technology department has worked on projects aiming to ensure the evolution of the business of TIM Brasil through the recommendation of sustainable, efficient network platforms and disruptive models, including anticipating the availability of new services. The main developments are set out below.

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The reassignment of the 1,800 MHz spectrum from 2G to 4G is bringing about three important competitive advantages for TIM Brasil:

- 1) reduction of costs for LTE deployment;
- 2) increased LTE coverage area;
- 3) improved indoor coverage.

In addition to the expansion of coverage, use of the 1,800 MHz bandwidth can increase the capacity in cities already covered by the LTE bandwidth at 2.6 GHz, at only a small additional cost. Another important consideration in this scenario is that 70% of current LTE terminals are already compatible with the bandwidths 1,800 MHz and 2,600 MHz, hence the implementation of LTE 1,800 MHz benefits from the dissemination of devices.

The deployment of the LTE 700 MHz layer will result in significant expansion of the coverage and indoor penetration, promoting the presence of LTE throughout the national territory and consolidating TIM Brasil's leadership in LTE. The actual rollout will be in accordance with the rules dictated by the EAD (Entidade Administradora de Processo de Redistribuição e Digitalização de Canais de TV e RTV), in order to manage the spectrum cleaning and avoid interference problems with the analogue TV transmission service. Approximately 64% of the devices used by the current users of TIM Brasil services are enabled for the 700 MHz bandwidth.

In June 2016, TIM Brasil activated its first commercial LTE 700 MHz network in the city of Rio Verde, which makes it one of the first Brazilian operators to explore this frequency bandwidth.

In 2016, as part of the IP Multimedia Network Evolution, TIM Brasil was able to set up the functional infrastructure to provide services such as Voice over LTE ( VoLTE ) and Wi-Fi Calling, which allow calls to be made without the need to pass through switched lines. This was accomplished in part due to tests conducted in the past at the Innovation Lab for evaluating the IP Multimedia Subsystem ( IMS ) solutions and focused on functional tests, specific analyses and interoperability with the so-called legacy system .

With respect to the Network Functions Virtualization ( NFV<sup>15</sup>) and Software Defined Networks ( SDN<sup>16</sup>) some initiatives were launched, including the creation of the TIM Brasil NFV Program , developed through four working groups (established on the basis of the logical domains and competencies of the NFV) and which have a mandate to define technical requirements, infrastructural plans, roadmaps of the virtualized network functions, open lab specifications and reference architecture compliant with the ETSI standard on NFVs. In this context, the first Virtual Network Function made available was the messaging/VAS Consolidation , followed by IMS and the roaming services platform developed following the NFV approach. Other virtual functions, such as Policy and Charging Rules Function ( PCRF<sup>17</sup>) are under development. Preliminary studies are also being conducted on the different approaches to the Software Defined Networking, aimed at the creation and full orchestration of the Cloud environment. The main drivers that push the adoption of these innovative network approaches are reduction of the CapEx/OpEx, faster time-to-market, optimization and boosting innovation.



## Main projects

In the upcoming years, mobile networks will have to handle an ever greater amount of traffic due in particular to the use of video content. In order to optimize the use of the network resources, TIM Brasil has started to explore LTE broadcast technology, which represents an evolution of 4G that enables new generation mobile TV with highly efficient video transmission. TIM Brasil has already implemented video transmission through the LTE mobile network in partnership with Ericsson, Samsung and Qualcomm and with the main Brazilian television networks.

- <sup>15</sup> The NFV benefits from the typical virtualization technologies of the IT world, in order to allow several network applications to share the same hardware and to ensure greater operational flexibility through the use of automated tools for managing the life cycle of the infrastructure and services.
- <sup>16</sup> Software Defined Networking is a technique that transforms traditional networks into flexible and smart platforms to respond in real time to the bandwidth requirements and the dynamic nature of the modern applications.
- <sup>17</sup> PCRF refers to the software node authorized in real time to determine the policy rules in multimedia network environments.

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The expansion of 4G RAN sharing<sup>18</sup>, in partnership with other Brazilian mobile operators, aims to define the architectural requirements, technical assumptions and specifications for the RAN sharing solution, optimizing the network resources and costs. TIM has assessed RAN sharing solutions since 2007. Another powerful motivation is the need to extend the 2.6 GHz radio coverage to many cities in a short time, which requires the activation of many sites in compliance with regulatory requirements. Initially, tests were conducted in a controlled environment at the Innovation Lab and thereafter a pilot project was launched to assess other technical problems.

Tests are being carried out to activate savings and energy efficiency solutions, which primarily concern the low traffic periods for the 2G, 3G and 4G access layers. The energy savings may be up to 10% per site, depending on the access technology and the coverage conditions.

<sup>18</sup> Sharing of the radio access network (RAN Radio Access Network) 4G.

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**5.5 CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. The foregoing discussion in Item 5 Operating and Financial Review and Prospects and the following discussion under Item 11 Quantitative and Qualitative Disclosures About Market Risks contain forward looking statements.

Forward-looking statements are statements that are not historical facts and can be identified by the use of forward-looking terminology such as believes, may, is expected to, will, will continue, should, seeks or similar expressions or the negative thereof or other comparable terminology, or by the forward-looking nature of discussions of strategy, plans or intentions.

Actual results may differ materially from those projected or implied in the forward-looking statements. Such forward-looking information is based on certain key assumptions which we believe to be reasonable but forward-looking information by its nature involves risks and uncertainties, which are outside our control, that could significantly affect expected results.

The following important factors could cause actual results to differ materially from those projected or implied in any forward-looking statements:

- our ability to successfully implement our strategy in the future;
- a deterioration of the economic environment in the principal markets in which we operate, including, in particular, our core Italian market;
- the impact of regulatory decisions and changes in the regulatory environment in Italy, Brazil and other countries in which we operate;
- the impact of political developments in Italy, Brazil and other countries in which we operate;
- our ability to successfully compete on both price and innovation capabilities with respect to new products and services;
-

our ability to develop and introduce new technologies that are attractive in our principal markets, to manage innovation, to supply value added services and to increase the use of our fixed and mobile networks;

- our ability to successfully implement our internet and broadband strategy;
- our ability to successfully achieve our financial targets (including debt reduction);
- the impact of fluctuations in currency exchange and interest rates and the performance of the equity markets in general;
- the outcome of litigation, disputes and investigations in which we are involved or may become involved;
- our ability to build up our business in adjacent markets and in international markets (particularly in Brazil), due to our specialist and technical resources;
- our ability to achieve the expected return on the investments and capital expenditures we have made and continue to make in Italy, Brazil and other countries in which we operate;
- the amount and timing of any future impairment charges for our authorizations, goodwill or other assets;
- our ability to manage any business or operating model transformation plans;
- disruptions or uncertainties resulting from the United Kingdom's Potential exit from the European Union;
- any difficulties which we may encounter in our supply and procurement processes, including as a result of the insolvency or financial weaknesses of our suppliers; and
- the costs we may incur due to unexpected events, in particular where our insurance is not sufficient to cover such costs.

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The foregoing factors should not be construed as exhaustive. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. We undertake no obligation to release publicly the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof, including, without limitation, changes in our business or acquisition strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

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On April 16, 2014 the Shareholders Meeting of the Company elected the Board of Directors of TIM which will remain in office until approval of the 2016 annual financial statements.

The Shareholders Meeting established the number of Directors at 13; set the overall annual remuneration for the Board of Directors at 1,900,000 euros (to be divided among the members thereof in accordance with the resolutions to be adopted by the Board itself); authorized the Directors to continue with the activities specified in their respective curricula vitae, and released them from restrictions on competition, as permitted under Article 2390 of the Italian Civil Code. The same shareholders meeting also appointed Giuseppe Recchi as Chairman of the Company's board of directors. On April 18, 2014, the board of directors appointed Marco Patuano as Chief Executive Officer of the Company.

On December 15, 2015 the Shareholders Meeting approved a shareholder proposal by Vivendi to increase the number of Directors of TIM from 13 to 17 members. Four new Directors, where appointed according to the proposal presented by Vivendi: Arnaud Roy de Puyfontaine, Stéphane Roussel, Hervé Philippe and Félicité Herzog. These new members will be in office for the remaining term of the existing Board. The Shareholders Meeting also approved an increase of the overall remuneration of the Board of Directors, for the current term, in proportion to the number of Directors appointed (to 2,484,615 euros).

The Company and Mr. Marco Patuano reached an agreement to terminate Mr. Patuano's relationship as an employee and Director effective March 22, 2016. Subsequently, effective March 30, 2016, the Board of Directors appointed Mr. Flavio Cattaneo as new Chief Executive Officer of the Company. On April 27, 2016, the Board of Directors appointed the director Arnaud de Puyfontaine as Vice Chairman of the Company, without assigning him any delegated powers.

At April 7, 2017 the Board of Directors of TIM was composed as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Appointed</b>
Giuseppe Recchi	53	Executive Chairman/Director	2014
Tarak Ben Ammar	67	Director	2014
Davide Benello(1)	63	Director	2014
Lucia Calvosa(1)	55	Director	2014
Flavio Cattaneo	53	Chief Executive Officer(3)/Director	2014
Laura Cioli(1)	53	Director	2014
Francesca Cornelli(1)	54	Director	2014
Arnaud Roy de Puyfontaine	53	Deputy Chairman/Director	2015
Jean Paul Fitoussi(2)	74	Director	2014
Giorgina Gallo(1)	57	Director	2014
Félicité Herzog(1)	49	Director	2015
Denise Kingsmill(1)	70	Director	2014

Luca Marzotto(1)	46	Director	2014
Hervé Philippe	58	Director	2015
Stéphane Roussel	55	Director	2015
Giorgio Valerio(1)	50	Director	2014

(1) Independent Directors according to both legal requirements and the Borsa Italiana Code. For details on the criteria applied to determine independence, see Item 10 Additional Information 10.1 Corporate Governance .

(2) Independent Director according to legal requirements. For details on the criteria applied to determine independence, see Item 10 Additional Information 10.1 Corporate Governance .

(3) He was appointed as Chief Executive Officer starting from March 30, 2016.

On April 7, 2017, the Secretary of the Board of Directors was the General Counsel of TIM, Agostino Nuzzolo.

In 2016:

- the Board of Directors met 14 times, with meetings generally scheduled pursuant to a calendar set forth in advance;

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- the Control and Risk Committee, which as of April 7, 2017 was composed of Lucia Calvosa (Chairwoman), Laura Cioli, Francesca Cornelli, Giorgina Gallo, Félicité Herzog and Giorgio Valerio, held 16 meetings. Where deemed desirable in light of the issues on the agenda, the Committee and the Board of Auditors held joint meetings;
  - the Nomination and Remuneration Committee, which as of April 7, 2017 was composed of Davide Benello (Chairman), Arnaud Roy de Puyfontaine, Luca Marzotto, Stephane Roussel and Giorgio Valerio, met 12 times; and
  - the Strategic Committee, which as of April 7, 2017 was composed of Arnaud Roy de Puyfontaine (Chairman), Giuseppe Recchi, Flavio Cattaneo, Davide Benello, Laura Cioli, met once.
- For a detailed description of TIM's corporate governance, including activities, responsibilities and organization of the Board of Directors and the Committees, see Item 10 Additional Information 10.1. Corporate Governance .

\* \* \*

**6.1.1 BIOGRAPHICAL DATA**

The following are the selected biographical data of the Directors as of April 7, 2017.

**Giuseppe Recchi:** Giuseppe Recchi was born in Naples, in 1964. He has been Executive Chairman of TIM since April 2014 and Chair of the Fondazione TIM (TIM Foundation) since July 2014. Mr. Recchi is a member of the Strategic Committee from July 2016. He was Chairman of the Board of Directors of Eni S.p.A. from 2011 to 2014. He is a member of the Board of Directors of UnipolSai Assicurazioni S.p.A. and Esaote S.p.A. He is also a member of the General Committee of Confindustria (where he chaired the Foreign Investment Committee); the Italian Institute of Technology; the Corporate Governance Committee and of the Board of Assonime (Italian Joint Stock Companies). He is Chair of the B20 Task Force on Improving Transparency and Anti-Corruption. Until 1999 he was an entrepreneur with Recchi Costruzioni Generali, a general contractor active in 25 Countries in the construction of high-tech public infrastructure, spending most of his professional life in the United States. In 1999 he joined General Electric, where he held several managerial positions in the United States and Europe. He served as Director of GE Capital Structure Finance Group and Managing Director for Industrial M&A of EMEA. Until May 2011, he was President and CEO of GE South Europe. He was a member of the Board of Directors of Exor S.p.A. He served in several boards among which the European Advisory Board of Blackstone; the Advisory Board of Invest Industrial (private equity); the Massachusetts Institute of Technology E.I. Advisory Board. He graduated in Engineering at the Polytechnic University of Turin. He has been visiting Professor in Corporate Finance at Turin University (2004-2006).

**Flavio Cattaneo:** Flavio Cattaneo was born in Rho (Milan) on June 27, 1963. He has been Chief Executive Officer of TIM since March 2016 and a member of Strategic Committee since July 2016. He has a degree in Architecture from the Milan Politecnico and has also received specialized training in business management. From February 2015 to April 2016, he was Chief Executive Officer of NTV S.p.A. and he is currently a Director. Mr. Cattaneo has been an independent Director of Generali Assicurazioni S.p.A. since December 2014 until May 2016. From January 2008 to April 2015, he was an Independent Director in Cementir Holding S.p.A., and from November 2005 to May 2014, Mr. Cattaneo was CEO of Terna S.p.A. From 2008 to 2012, he served as Vice President in charge of energy and



environmental policies at UIR (Unione degli Industriali e delle Imprese di Roma). He has held important managerial and administrative positions in various Italian companies in the construction, energy, radio and television, service, new technologies, public service and facilities sectors. He became head of the former Ente Autonomo Fiera Internazionale di Milano as Extraordinary Commissioner in 1999 and went on to oversee its stock market listing as Fiera di Milano S.p.A, serving as Chairman and CEO until 2003. Flavio Cattaneo has been Director of AEM S.p.A. (as Deputy Chairman). He was appointed head of Italy's public television network RAI S.p.A. in April 2003, in the position of General Manager, which he held until August 2005. From May 2006 to November 2009 he was Chairman of Terna Participações S.A., a subsidiary of Terna S.p.A.

**Tarak Ben Ammar:** Tarak Ben Ammar was born in Tunis (Tunisia) on June 12, 1949. Ben Ammar, whose uncle Habib Bourguiba was Tunisia's first independent President, over the course of four decades has been involved in politics, finance, film and TV. His achievements include bringing George Lucas's Star Wars and Steven Spielberg's Raiders of the Lost Ark to Tunisia, and producing Franco Zeffirelli's Oscar-nominated La Traviata, as well as the

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epic Emmy Award-winning TV series *The Bible*, amongst dozens of other feature films and TV series. He has also built some of the biggest film studios in both France and the Arab world. In the business and political worlds, Ben Ammar has served as special advisor and partner to Rupert Murdoch, HRH Prince Waleed Bin Talal and former Italian Prime Minister Silvio Berlusconi. He currently sits on the board of Mediobanca, Italy's largest private investment bank. In May 2015, he was appointed to the Board of Directors of Vivendi S.A. and its Nomination and Remuneration Committee. In September 2015, Naguib Sawiris invited him to join the Board of Directors of European News Channel. He is a founding shareholder and board member of The Weinstein Company and also owns Eagle Pictures, the leading independent film distributor in Italy. In 2009, Tarak Ben Ammar officially launched Nessma TV in Tunisia, the first privately owned, independent satellite channel that catered to audiences in North Africa. In December 2012, Ben Ammar acquired leading Egyptian news channel ONTV. The new platform of Nessma and ONTV reaches a combined population of 170 million across North Africa and Egypt, accounting for more than half of the Arab world. Recently, Ben Ammar played a crucial role bringing the two sides of the Tunisian political spectrum together to help shepherd the peaceful handover of power, culminating in the passage of the new Tunisian constitution.

**Davide Benello:** Davide Benello was born in Milan on March 6, 1954. On April 16, 2014, he became a member of the current Board of Directors of TIM S.p.A. He is Chairman of the Nomination and Remuneration Committee and has been a member of Strategic Committee since July 2016. Mr Benello has been Lead Independent Director since July 2016. He graduated from the University of Oxford with a Master of Arts in Mathematics and from Harvard Business School with a Master in Business Administration. He was a Second Lieutenant at Scuola Militare Alpina in Aosta, where he was named Head Cadet. He worked at the management consulting firm McKinsey & Company, where he is now a Director Emeritus, from 1982 to 2011. He developed in depth knowledge of the telecommunications, insurance, and industrial sectors. He served multinational clients in almost all European countries, in the United States, and in Asia. He had strategic and operating leadership roles at the firm, had global roles in the election and evaluation of Partners, and was a member of the U.K. Executive Committee with supervision over personnel and leadership of the Telecom, Media and High Tech Practice, was a leader of the Strategy Practice in Europe and of the Mobile Commerce Strategic Initiative. He has been an independent non-executive Director of the Board of Telekom Malaysia since 2011. In 2014, he was an independent non-executive Director of the Board of Rostelecom in Russia. In 2015, he was appointed as an independent non-executive Director of Tungsten Corporation plc and member of the Audit Committee. Since 2014, Mr. Benello has been a non-executive Director of Orthox Ltd. Since 2015, Mr. Benello has been Chairman of the Governing Body of King's College London Maths School, a non-profit organization. Since 2016, Mr. Benello has been Chairman non-executive of V-Nova International Limited.

**Lucia Calvosa:** Lucia Calvosa was born in Rome on June 26, 1961. She is a professor of commercial law at the University of Pisa, where she has also previously taught Bankruptcy Law, Private Law and Banking Law. She served as Chair the degree course in Economics and Commerce at the University of Pisa for two terms, she Chairs the Scientific Teaching Committee of a regional professional association of chartered accountants (Associazione Ordine Dottori Commercialisti dell'Alto Tirreno) and is a member of the Board of academic tutors for postgraduate research in institutions, business and work at the Cattolica University in Milan. A number of her works have been published, including three monographs: *La clausola di riscatto nella società per azioni*, Milan, 1995; *La partecipazione eccedente e i limiti al diritto di voto*, Milan, 1999; *Fondo patrimoniale e fallimento*, Milan, 2003. She has been asked to collaborate on the most widely used and accredited manuals of commercial disciplines currently in circulation, as well as in numerous commentaries of company and bankruptcy law. She has been a member of the Pisa professional association of lawyers since 1987, and of the professional association of appeal lawyers since 1999, and has been a practicing lawyer for over twenty-five years, focusing in the areas of company law and bankruptcy. Mrs. Calvosa has

been a member of the Commission Procedure Concorsuali e Crisi d'Impresa del C.N.F. She has been a member of the Board of Directors of the Fondazione Teatro di Pisa, of the Fondazione Arpa, of the Pisa Chamber of Commerce and of the Fondazione Pisa (formerly Fondazione Cassa di Risparmio di Pisa). From 2008 to 2011, she was Chairman of the Cassa di Risparmio di San Miniato S.p.A., and in connection with this post, she served as a member of the national committee of banks (Comitato delle Società Bancarie) and served on the board of the Italian banking association, ABI (Associazione Bancaria Italiana). Since August 2011, she has been an independent member of the Board of Directors of TIM S.p.A., as well as a member of the Control and Risk Committee, which she has chaired since April 2014. Since November 2014, she has been an independent member of the Board of Directors of Editoriale Il Fatto S.p.A.. Since April 2015, she has been an independent member of the Board of Directors of Banca Monte dei Paschi di Siena S.p.A. In 2005, she was awarded the Ordine

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del Cherubino, bestowed by the University of Pisa to those professors, who have helped to enhance its prestige for outstanding scientific and cultural merits and their decisive contribution to academic life and to the functioning of the University. In February 2010, she was awarded a UNESCO medal for having contributed, with the publication of *Monumenta*, to highlighting and raising awareness of an important episode in Italian artistic culture in the spirit of UNESCO. Through a Presidential Decree of the Ministry of Economy and Finance, dated June 2, 2012, she was awarded, upon a proposal of ABI, a knighthood in the Order of Merit of the Italian Republic. In June 2015, she was awarded the Ambrogio Lorenzetti prize for the good governance in companies, as engaged in academic and cultural activities, internationally recognized and having promoted, as a Director, scientific rigor and independence as a value in highly complex and competitive company contexts.

**Laura Cioli:** Laura Cioli was born in Macerata in 1963. She has been a member of the Board of Directors of TIM S.p.A., a member of the Control and Risk Committee and a member of the Strategic Committee since July 2016. She holds a cum laude degree in Electronic Engineering from Bologna University and an MBA from Bocconi University. She is a Board member of the Bocconi Alumni Association. Laura Cioli served as Chief Executive Officer at RCS Mediagroup S.p.A. until August 2016 and has been an independent Board of Directors member at World Duty Free Group, ANSA, VISA Italia (Chairwoman) COFIDE and at Salini-Impregilo. In the past, Laura Cioli has served as a top executive, leading global corporations in the service sector, including as Chief Executive Officer of Cartasi, Chief Operating Officer at Sky Italia (News Corporation Group), Senior Vice President at ENI Gas & Power and Executive Director at Vodafone Italia where she occupied various roles over time including Strategy and Business Development Director, Operations Director and Business Division Director. Mrs. Cioli was also a Partner of Bain and Company.

**Francesca Cornelli:** Francesca Cornelli was born in Milan in 1962. On April 16, 2014, she became a member of the current Board of Directors of TIM S.p.A. and is member of the Control and Risk Committee. She is a Professor of Finance at the London Business School. She is the Director of Private Equity at LBS, a research institute of the London Business School. She previously held positions or taught at the Wharton School, the Fuqua School of Business at Duke University, The London School of Economics, the Indian School of Business in Hyderabad and the New Economic School in Moscow. Her interests include corporate governance, private equity, privatization, bankruptcy, IPOs and innovation policy. Her latest publications concern research on short sales, manager incentives, the impact of investments from private equity companies on the board and the importance of increasing transparency in companies and its effects on manager incentives. She has published several papers in major finance and economic journals and gives regular talks in major conferences and universities and international institutions. She is director of the American Finance Association, a member of the Scientific Committee of the Banque de France Foundation, and a Research Fellow of the Center for Economic and Policy (CEPR). She is an editor of the *Review of Financial Studies* and has been an associate editor of the *Journal of Finance*, the *Journal of Financial Intermediations* and the *Review of Economic Studies*. She is a member of the Board of Intesa SanPaolo S.p.A. and has been a member of the Board of Swiss Re Europe and Swiss Re International. She obtained her B.A. at University Commerciale Bocconi, in Milano, Italy, and her M.A. and Ph. D. in Economics at Harvard University.

**Arnaud Roy de Puyfontaine:** Arnaud Roy de Puyfontaine was born in Paris in 1964. Since December 2015, he has been a Director of the Board of Directors of TIM S.p.A., and, since February 2016, a member of the appointments and remuneration committee. Mr. de Puyfontaine has been Deputy Chairman of TIM since April 2016, a member of the strategic committee since July 2016 and Chairman of the strategic committee since September 2016. He is a graduate of the ESCP (1988), the Multimedia Institute (1992) and Harvard Business School (2000). In 1989, he started his career as a consultant at Arthur Andersen and then worked as a project manager at Rhône-Poulenc Pharma in Indonesia. In 1990, he joined Figaro as Executive Director. In 1995, as a member of the founding team of the Emap

Group in France, he headed Télé Poche and Studio Magazine, managed the acquisition of Télé Star and Télé Star Jeux, and started up the Emap Star Division, before becoming Chief Executive Officer of Emap France in 1998. In 1999, he was appointed Chairman and Chief Executive Officer of Emap France, and, in 2000, joined the Executive Board of Emap Plc. He has led several M&A deals, and from 2000 to 2005, served as chairman of EMW, the Emap/Wanadoo digital subsidiary. In August 2006, he was appointed Chairman and Chief Executive Officer of Editions Mondadori France. In June 2007, he became General Head of all digital business for the Mondadori Group. In April 2009, Mr. Puyfontaine joined the US HEARST media group as

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Chief Executive Officer of its UK subsidiary, Hearst UK. In 2011, on behalf of the Hearst Group, he led the acquisition of 102 magazines from the Lagardère Group published abroad, and in June 2011, was appointed Executive Vice President of Hearst Magazines International before being appointed Managing Director of Western Europe in August 2013. In May 2012, he joined the Board of Directors of Schibsted. He has been Chairman of ESCP Europe Alumni. From January to June of 2014, Mr. Puyfontaine was a member of Vivendi's Management Board and Senior Executive Vice President in charge of its media and content operations. Since June 24, 2014, he has been Chairman of the Management Board. Current positions within the Vivendi group include: Chairman of the Management Board of Vivendi, Member of the Supervisory Board of Canal+ Group, Member of the Supervisory Board of StudioCanal and Chairman of the Supervisory Board of Universal Music France. He is also an Independent Director of Schibsted Media Group, a member of the Advisory Committee of Innit, a permanent representative of Vivendi on the Supervisory Board of Banijay Group (SAS), non-executive Chairman of Gloo Networks plc. and Chairman of the French-American Foundation.

**Jean Paul Fitoussi:** Jean Paul Fitoussi was born in La Goulette (Tunisia) in 1942. Mr. Fitoussi has served as a member of the Board of Directors of TIM since May 2004 and was a member of the appointments and remuneration committee until February 2016. He is a Professor Emeritus at the Institut d'Etudes Politiques de Paris (SciencesPo) and Professor at LUISS Guido Carli University in Rome. Jean-Paul Fitoussi is also a member of the Centre for Capitalism and Society at Columbia University. Since 2013, he is Co-Chairman of HLEG (an OECD high-level group of experts) on measurement of Economic Performances and Social Progress. From 1995 to September 2014, he was member of the Economic Commission of the Nation (France). From 1997 to 2012, he was a member of the Council of Economic Analysis of the French Prime Minister. From 1990 to 2010, he was President of OFCE at SciencesPo. From 2010 to 2016, he was a member of the Oversight Council of Intesa SanPaolo, and from 2013 to 2014, he was a member of the board of directors of Pirelli S.p.A. He has published a number of articles in international scientific journals on inflation and unemployment theories, open-economy theory, macroeconomic theory and policy, and European integration. He has also published numerous books and essays on related subjects. Among his latest books are: *Mismeasuring our lives*, with Joseph Stiglitz and Amartya Sen, the New Press, 2010; *After the Crisis, the Way Ahead*, with Edmund S. Phelps, Christopher Pissarides and al., Luiss University Press, 2010; *Report on the State of the European Union*, with Jacques Le Cacheux, Palgrave, 2010, *Le théorème du lampadaire, Les liens qui Libèrent*, 2013 (also published by Einaudi). Dr. Fitoussi has contributed regularly to French and foreign newspapers and is a columnist for *La Repubblica*, *Le Monde* and *Project syndicate*. From 2000 to 2009, he was an expert at the European Parliament, Commission of Monetary and Economic Affairs. He was also a member of the UN Commission on the Reform of the International Monetary and Financial System and Coordinator of the Commission on the Measurement of Economic Performance and Social Progress (2008-2009). Dr. Fitoussi was awarded the Prize of the Association Française de Sciences Economiques, and the Rossi Prize of the Académie des Sciences Morales et Politiques for his PhD work. The Association française de sciences économiques selected his *Le théorème du lampadaire* as book of the year. He has been honored as Honorary Dean of the Faculty of Economics of Strasbourg, Doctor Honoris Causa from the universities of Buenos Aires and Trè de Febrero and Professor Onorario of the University of Trento. He is an Officier de l'Ordre National du Mérite and Officier de la légion d'honneur in France and Grand Officier de l'ordre de l'Infant Henri in Portugal.

**Giorgina Gallo:** Giorgina Gallo was born in Turin in 1960. She was appointed as an independent member of the Board of Directors and a member of the control and risk committee since April, 2014. Giorgina Gallo obtained a university degree in Business Administration at the Università di Economia e Commercio (School of Management and Economics) in Turin, specializing in marketing. She completed her managerial training at Cedep of Insead in Fontainebleau (Paris). Her career developed within the L'Oréal Italia multinational, of which she is today Honorary

President. She started work in the marketing function, dealing with product development and brand management, then becoming Marketing Director and later Sales Director. In 1997 she was appointed General Manager of the leader brand, L'Oréal Paris. In 2001 she became CEO and general Manager of L'Oréal Saipo, in charge of the two largest business units and the manufacturing plant. In 2008, she was appointed Chairwoman and CEO of L'Oréal Italia, the company which groups together all the Italian activities (approx. 2000 staff and 1 billion turnover). She became very familiar with the mass market and later the luxury goods market, distribution and media sectors, and gained experience in company reorganization. She developed international projects and over the years an important Corporate Social Responsibility program. She has held the following positions: Deputy Chairwoman of Cosmetica Italia, Deputy Chairwoman of CentroMarca, member of the Advisory Boards and Councils of: Federchimica (chemical federation), Assolombarda (Lombardy federation of industry), Unione Industriale Torino (Piemonte federation of industry), GS1-Indicod/ECR (association of Italian FMCG industry and distribution), Upa

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(association of advertising investors), Auditel. She has received the following awards: in 2005 Grande Ufficiale della Repubblica Italiana (Order of Merit of the Italian Republic), in 2006 Chevalier de l'Ordre national du Mérite of the Republic of France, in 2012 the Bellisario Award in the manager category. Since 2014, she has been a corporate advisor and independent Director of the Board of Autogrill and since 2016 she has been independent Director of the Board of Intesa SanPaolo S.p.A. and Zignago Vetro S.p.A.

**Félicité Herzog:** Félicité Herzog was born in Boulogne-Billancourt (France) in 1968. She was appointed as an independent member of the Board of Directors of TIM in December 2015 and, since February 2016, she has been a member of the control and risk committee. She is a graduate of the Institut d'Etudes Politiques de Paris and of INSEAD (MBA program). In 1992, she joined Lazard Frères in Paris, where she was a member of the government consulting team for Gabon and Russia, advising on debt restructuring issues. She continued her career in the mergers and acquisitions department of Lazard Frères in New York until 1996, when she joined the mergers and acquisitions team of JP Morgan in London. In 1997, she moved to Apax Ventures, a private equity fund in London, where she specialized in telecommunications investments in Europe. In 2000, she was hired by Madison Dearborn Partners, a US private equity fund in London, where she supervised investments of the same type. In 2002, she became Vice President, Mergers and Acquisitions of the Publicis Group, supervising and implementing mergers, disposal and acquisitions in the publicity and marketing services. In 2007, she joined Areva as Senior Vice President of Development, in charge of organizational advice, optimization of structures, cost control and product range optimization, before being appointed as Deputy CEO of Technicatome, an Areva subsidiary producing naval propulsion nuclear reactors. Ms. Herzog is Chairwoman and Chief Executive Officer of Apremont Conseil, a strategy consulting firm and worked as a senior advisor to Ondra Partners from March 2015 to March 2016. She is also an author of fiction and non-fiction publications in France.

**Denise Kingsmill:** Denise Kingsmill was born in Roturoa (New Zealand) in 1947. In April 2014, Baroness Kingsmill was appointed as an independent member of the Board of Directors of TIM and a member of the appointments and remuneration committee, a position in which she served until June 2016. Baroness Kingsmill is a member of the House of Lords and is a member of the Select Committee on Economic Affairs. Her career has encompassed periods as a leading lawyer, Deputy Chair of the Competition Commission and as a non-executive director of public, private, charitable, arts and UK government boards. After an early career in the textile and fashion industry Baroness Kingsmill became one of London's leading lawyers handling disputes for some of the UK's leading FTSE companies. Baroness Kingsmill was appointed as Deputy Chair to the Competition Commission, the UK's antitrust regulator. She chaired more than 20 major investigations into monopolies and mergers in fields as diverse as banking, underwriting, car pricing, milk, energy supply and cruise liners. Baroness Kingsmill has headed two Government enquiries: one into women's pay and employment and the other into the manner in which companies manage their Human Capital. Currently, Baroness Kingsmill is a member of the supervisory board of E.ON SE, a non-executive director of International Airlines Group SA, and Inditex and Chairwoman of Monzo. She is a member of the International Advisory Board of the Spanish Business School, IESE. Baroness Kingsmill speaks on a wide range of business and political issues. She holds a number of honorary degrees in Law and Business and was awarded the CBE for service to Employment Law and Competition in 2000.

**Luca Marzotto:** Luca Marzotto was born in Rome in 1971. Since April 2014, he has been an independent Director of the Board of TIM S.p.A., and since February 2015, has been a member of the appointments and remuneration committee. After receiving a law degree in 1995, he began working for the Marzotto Group. In 1997, he became sales director of Marzotto Textile Department for the Asian market. His on-site experience covers the whole textile chain, from production to management control and marketing. In 1998, he became assistant to the CEO of Guabello S.p.A., a



company specializing in the production of high-quality cashmere. From 2000, he focused on the Asian market, becoming the Director of Marzotto Japan in Tokyo, and in 2002, he was elevated to the position of General Director of Marzotto Trading Hong Kong and took control of the entire activity of Marzotto S.p.A. in Asia. In June 2003, he was appointed Director of Marlboro Classics, the sportswear division of Valentino Fashion Group S.p.A. Since September 2005, he has been CEO of Industrie Zignago Santa Margherita S.p.A. (now Zignago Holding S.p.A.) and CEO and Vice President of Santa Margherita S.p.A. (position he still holds). From 2007 to 2012, he was Director of Banca Popolare Friuladria S.p.A., and since June 2008, he has been one of the Chairmen of Federvini. He was Director of Valentino Fashion Group until November 2012. He is a Director of Hugo Boss AG and a member of the Working Committee of Hugo Boss AG. From May 2011 to October 2015, he was a Director at H-Farm Ventures S.p.A. (now H-Farm S.p.A.).

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**Hervé Philippe:** Hervé Philippe was born in Cheillè (France) in 1958. Since December 2015 he has been a Director of the Board of TIM S.p.A. He is a graduate of the Institut d Études Politiques de Paris and holds a degree in economic sciences. He began his career with Crédit National in 1982 as account manager for business financing in the Île-de-France region. In 1989, he joined the French market authority, the Commission des opérations de bourse (COB) as manager for the sector of French companies listed for trading. From 1992 to 1998, he served as Head of the Transactions and Financial Information Department. In 1998, he joined the Sagem Group, where he held the positions of Director of Legal and Administrative Affairs at Sagem SA (1998-2000), Chief Administrative and Financial Officer of Sfim (1999-2000), and Director of Communication at Sagem SA (2000-2001). In 2001, he assumed the position of Chief Financial Officer and became a member of the Sagem SA Management Board in 2003. Hervé Philippe was appointed Chief Financial Officer of the Havas Group in November 2005 and, in May 2010, was named deputy Chief Executive Officer (Directeur Général Délégué) until December 31, 2013. He has served as Vivendi's Chief Financial Officer since January 1, 2014. Since June 24, 2014, he has been a member of the Management Board. His current positions within the Vivendi group include: Member of the Management Board of Vivendi, Vice-Chairman of the Supervisory Board of Canal+ Group, Member of the Supervisory Board of StudioCanal, President of the Compagnie Financière du 42 Avenue De Friedland (SAS), Director and member of the Audit Committee of Dailymotion, Member of the Supervisory Board of Universal Music France and permanent representative of Financière de Longchamp on the Board of Directors of Havas Group. He is also a Director of Harvest, Sifraba and Jean Bal.

**Stéphane Roussel:** Stéphane Roussel was born in Paris in 1961. Since December 2015, he has been a Director on the Board of TIM S.p.A., and since February 2016, he has been a member of the appointments and remuneration committee. He is a graduate of the École des Psychologues Praticiens de Paris. He was appointed to the Vivendi Management Board in June 2014 and has been Chief Operating Officer since November 10, 2015, after joining the group's management team in August 2013. Stéphane Roussel held the position of Executive Vice President of Human Resources at Vivendi from 2009 to 2012, before being appointed Chairman and Chief Executive Officer of SFR. From 2004-2009, he served as SFR's Vice President of Human Resources. From 1997 to 2004, Mr. Roussel held positions within the Carrefour Group. He was first appointed Director of Human Resources for hypermarkets in France, before becoming Director of Human Resources Development for international business and then Director of Human Resources France for the entire Carrefour Group. From 1985 to 1997, Stéphane Roussel worked at Xerox. Current positions within the Vivendi group include: member of the Management Board and Chief Operating Officer of Vivendi, Chairman and CEO of Gameloft, member of the Supervisory Board of Canal+ Group, member of the Supervisory Board of StudioCanal, Director of Dailymotion, member of the Supervisory Board of Universal Music France, and President of Group Vivendi Africa. Other positions and offices: Director of IMS, Director (as permanent representative of Vivendi company) of Groupe Fnac, member of the Supervisory Board of Banijay Group (SAS) and Chairman of Association WeTechCare.

**Giorgio Valerio:** Giorgio Valerio was born in Milan in 1966. Since April 2014, he has been an Independent non-Executive Director of TIM S.p.A. and a member of the control and risk committee. He has also been a member of the appointments and remuneration committee since June 2016. Until July 2016, he has served as the Lead Independent Director of TIM. He graduated from the University of San Francisco with a Bachelor's degree in Business Administration, cum laude (1989). From September 1989 to 1992, he was Paris and London Sales manager for Securities and Financial Services to Italian Institutional Investors at Schroder Securities Ltd. From November 1992 to March 1997, he was Manager in the M&A, Corporate Finance and Advisory Services department at Mediobanca. From April 1997 to December 2000, he was Deputy Director for Corporate Development and Financial Control at Holding di Partecipazioni Industriali (RCS Group). In January 2001, he was appointed Director for Corporate

Development and Financial Control in RCS Mediagroup and served until June 2003. From July 2003 to December 2005, he was Chief Executive Officer of Unidad Editorial S.A. (RCS Mediagroup Spain), where he was in charge of managing and developing the RCS operations in the Spanish market. From 2006 to 2010, he held various positions in RCS Mediagroup Companies (Chief Executive Officer/Managing Director at RCS Quotidiani S.p.A and Chairman and Chief Executive Officer at RCS Digital S.p.A.). From 2011 to 2013, he was an independent non-executive Director and member of the Nomination and Remuneration Committee at Prelios, a Company operating in the Real Estate sector. From 2012 to April 2014, he was Strategy Advisor & non-Executive Director at Primi sui Motori, a Company listed on the Milan AIM Stock Exchange, operating in the digital marketing & advertising sector. He has also served as an Independent non-Executive Director at Gruppo Argenta, a leading operator of vending machines in Italy.

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As of April 7, 2017 the executive officers of TIM and their respective positions were as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Appointed</b>
<b>Directors:</b>			
Giuseppe Recchi	53	Executive Chairman	2014
Flavio Cattaneo	53	Chief Executive Officer	2016
<b>Managers:</b>			
Lorenzo Forina	44	Head of Business and Top Client	2016
Agostino Nuzzolo	49	Head of Legal Affairs	2017
Piergiorgio Peluso	49	Chief Financial Officer and Head of Administration Finance and Control and ad interim Head of Business Support Office(1)	2012
Francesco Micheli	71	Head of Special Group Projects and ad interim Head of Human Resources and Organizational Development	2016
Cristoforo Morandini	54	Head of Regulatory Affairs	2015
Giovanni Ferigo	57	Head of Technology	2016
Stefano Azzi	48	Head of Consumer & Small Enterprise	2016
Stefano Ciurli	54	Head of Wholesale	2014
Stefano De Angelis	49	CEO Tim Participações	2016

(1) Since April 15, 2016 he has been Head of TIM's Business Support Office.

The following are the selected biographical data of the executive officers, other than Directors (for the biographical data of Mr. Giuseppe Recchi and Mr. Flavio Cattaneo please see above under 6.1 Directors):

**Stefano Azzi:** Mr. Azzi was born in Naples, in 1968. Since July 2016, he has been Head of the Function Consumer & Small Enterprise of TIM. Mr. Azzi has a Degree in Business and Economics Marketing. From 1993 to 1994, Mr. Azzi was a Junior Consultant and Trainer for young entrepreneurs at C.R.S. Consulting and Training of Naples. From 1994 to 1999, he was an Assistant Brand Manager at Colgate Palmolive. From 1999 to 2007, he was Head of Promotions and Conventions at Wind Telecommunication. In 2007, he became Head of Large Distribution Channel Management at Wind, where he dealt with retail chains and national agreements. From 2007 to 2009, he was appointed Director of Regional Sales in H3G at Wind, where he was responsible for the management of all Retail Sales Channels, and Outbound Business and Trade Marketing. In January 2010, he was hired by TIM S.p.A. for the Domestic Market Operations division, where he was appointed Head of Regional Sales Center Sales of Consumer function. In August 2011, following the reorganization of the Consumer function, he was assigned the responsibility for the Retail Channel function, within the Sales of Consumer Mobile function. Starting in February 2013, Mr. Azzi, under the Consumer Sales function, was assigned the responsibility of Pull Channel Management, with the task of ensuring the definition of trade policies and development of the sales network for Retail Sales Channels. He was Responsible for Go to Market of Marketing Offers and Devices and for coordination in regional activities. In 2014, he was appointed new Head of Sales Department. Keeping the previously assigned responsibilities, in May 2016, he was

appointed to support the CEO Flavio Cattaneo in coordinating the Consumer & Small Enterprise Market function. He has previously served as Chairman of the Board of Director of 4G Retail S.r.l. and of Noverca S.r.l.

**Stefano Ciurli:** Mr. Ciurli was born in Rome, in 1962. Since November 2015, he has been Head of the Wholesale Department at TIM. After graduating with a degree in Economics and Commerce, he began his professional career in 1987 in Sip. During his years with TIM he has had increasing more responsibilities within the Finance, Administration and Control, International, Supply Chain and Logistics, Real Estate and Energy departments. From July 2003 to December 2005, he served as Chief Financial Officer of TIM (a subsidiary of the Company). Since 2006, he has been in charge of the International Support area with responsibility for business development activities and plug & play opportunities at the international level. In August 2008, he was appointed head of the Planning & Control department. In March 2009, he was appointed Head of the Purchasing department. In April 2011, he was appointed Head of Supply Chain & Real Estate. In December 2012, he was appointed Head of the Caring Services division. In December 2014, he was appointed Head of the National Wholesale Services.

**Stefano De Angelis:** Mr. De Angelis was born in Rome, in 1967. Since May 2016, he has been Chief Executive Officer at TIM Participações S.A. He graduated from the Università Studi La Sapienza in Rome with a degree in

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Economics and Business. Mr De Angelis obtained an MBA in Business Administration at the School of Management of the University of Turin. In 1996, Mr. De Angelis began working as a financial controller for Fiat S.p.A. From 1997 to 2001, Mr. De Angelis was Business Controller at TIM. During his years with TIM he has had increasingly more responsibilities. From July 2004 to August 2007, he was Director of Administration, Finance and Control and an Investor Relations Officer at TIM Participações S.A.. From September 2007 until March 2009, has was Director of Planning and Control for Domestic & Int'l Business Units at TIM S.p.A. He was Director of Administration, Planning and Control at TIM S.p.A. from March 2009 until January 2013. From January 2013 to September 2014, Mr. De Angelis held the position of Chief Executive Officer at Telecom Argentina S.A. From August 2014 to May 2016, he was a Director of the Consumer and Multimedia Entertainment Division at TIM S.p.A. In 2000, he was appointed Board Officer at Stream S.p.A. and, from 2001 to 2002, he served as Chief Financial Officer of Telecom Italia Media S.p.A.. He was Director of Planning and Control at Tim S.p.A. from 2002 to 2004.

**Giovanni Ferigo:** Mr. Ferigo was born in Udine, in 1959. Since July 2016, Mr. Ferigo has been Chief Technology Officer of TIM, responsible for engineering, development and maintenance of network and service infrastructures as well as technology, product and service innovation and the development of relations with players of the Telco and ICT Industries. Mr. Ferigo graduated with a Master Degree in Electronic Engineering. From 1987 to 1993, he was Head of TIM's Territorial Network Unit for Reggio Emilia. From 1994 until 1997, Mr. Ferigo was Head of TIM's Territorial Network Direction for the Central Northern region. From 1998 to 2001, he worked for Telecom Italia Mobile as Manager of Exercise Line in Network Area. From 2001 to 2002, he served as a Technical Director for Amena Retevisióni Movil, a TIM subsidiary located in Spain. From 2002 until 2004, he was responsible for the International Network within the Network function of Telecom Italia Mobile. He had the task of contributing to the homogenization of the technological choices made by the subsidiary companies. From 2004 to 2006, he assumed responsibility for Quality Network in Technology within the Network Operations Function at TIM. In 2006, became Head of Development for fixed and mobile. In 13 February 2008, following the re-organization of the Technology Department, he was appointed Head of Delivery Operations Services. On September 17, 2009, Mr. Ferigo was appointed Head of Operations Governance and in May 6, 2011 he was appointed Head of Engineering & Access Network Development. Since December 2014, he has served as Head of Network Development & Operations Department at TIM.

**Lorenzo Forina:** Mr. Forina was born in Genova, in 1973. Since July 2016, Mr. Forina has been Domestic Business Division Director of TIM. Mr Forina graduated from the University of Genova with a degree in Mechanical Engineering, with maximum marks. Mr Forina obtained a Masters degree in Business Administration at the INSEAD (Europe Campus) of Fontainebleau, in France. From 1997 to 1998, has was a Technical Engineer for D Appolonia. From January until April 1998, he was a Consultant of Value Partner to Milano. From April 1998 until March 2013, he was a Partner of McKinsey and Company. From April 2013 until July 2016, Mr. Forina served as Chief Marketing Officer of TIM's Consumer Division.

**Francesco Micheli:** Mr. Micheli was born in Rome, in 1946. He is Head of Special Group Projects for TIM S.p.A., reporting directly to Chief Executive Officer, with responsibility for Cost Management. He is also Interim Head of Human Resources & Organizational Development. Mr. Micheli received a Sociology degree, with honors, from the University Studi La Sapienza in Rome. From 1965 to 1975, he was Head of Industrial Relations and Personnel Director for Technicolor S.p.A. From 1976 until 1986, Mr. Micheli was Personnel Director and Director of the General Affairs of Tirrena Insurance. From 1986 until 1991, he was Director of Human Resources and Organization for Gucci S.p.A. From 1993 to 2003, he held various positions in the human resources departments of various major companies. From 2007 to 2011, Mr. Micheli was appointed General Manager responsible for Cost Management and

Head of Banca dei Territori within the Intesa SanPaolo Group. From 2012 to 2014, he served as Chief Operating Officer of Intesa Sanpaolo Group, Managing Director and General Manager of Intesa Group Service and a member of the Board of Directors. From 2015 to 2016, he was a consultant for private equity firms operating in the mergers and acquisitions, banking and insurance sectors.

**Cristoforo Morandini:** Mr. Morandini was born in Varese, in 1962. He has been Chief of Regulatory Affairs and Equivalence at TIM since November 2015. After graduating from the Bocconi University in Milan with a degree in Economics and Social Sciences, Mr Morandini began his professional career in academic research on technological innovation and internationalization. In 1998, he participated in the founding of Between, a consultancy company specialized in telecommunications, as the head of the strategic consultancy and regulatory analysis area. As the creator and coordinator of the Osservatorio Banda Larga (Broadband Observatory), he carried out research and

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consultancy for major public and private enterprises regarding technology, regulations and the market for the electronic communications sector, he also took part in primary extraordinary transactions as a technical-economic advisor. He was an Partner of Ernst & Young in the Telecommunications Media and Technology sector.

**Agostino Nuzzolo:** Mr. Nuzzolo was born in Caserta, in 1968. He has been Head of TIM's Legal Affairs and General Counsel of TIM since January 2017 and Secretary to the Board of Directors since February 2017. Mr. Nuzzolo holds degree in Economics, cum laude, from the University of Bergamo, a law degree from the University of Milan and a graduate degree in Scienze della Sicurezza Economico-finanziaria from the University of Tor Vergata. In 2003, he obtained a Post-University Degree in Corporate Taxation, Scuola Polizia Tributaria Guardia di Finanza in cooperation with Bocconi University, Milan and admission to the bar (Italian Attorney). From July 1986 until May 2006, he served as an officer cadet at the Military Academy of the Guardia di Finanza. During his career, he was in charge of managing and supervising daily activities and inspections in connection with combating tax and finance criminal activities as well as training of military cadets and other personnel in the Academy, assigned to both national and international units and operations. In his last appointment, he was served as Lieutenant Colonel, Head of Analysis and Studies within the Commanding General Office in Rome. He was also a member of the OECD commission (jointly Italy and US) in charge of verifying the effective implementation in Japan of the OECD Convention against Corruption (February-April 2006). From May 2006 to May 2008, he served as Tax Manager of Italcementi Group, directly reporting to the Administration & Control Director. From May 2008 to September 2014, he served as Legal, Tax and Compliance Director of Italcementi Group, directly reporting to the CEO. From February 2016 to June 2016, he held the office of HR, Organization and Information Technology Director (interim and in addition to the General Counsel position) of Italcementi Group, directly reporting to the CEO. From July 2016 to January 2017. Mr. Nuzzolo was General Counsel and Operational Director of Italmobiliare SpA, an investment holding company with the responsibility of coordinating all non-financial activities (legal, corporate affairs, tax, HR and general services). He also served as secretary to the Board. Mr. Nuzzolo was been an Adjunct Professor of International Taxation at the University of Bologna (School of Economics, Management and Statistics) from 2013 to 2016 and an adjunct professor in International Taxation at University of Roma Tre during the 2010-2011 academic year.

**Piergiorgio Peluso:** Mr. Peluso was born in Rome in 1968. Since September 26, 2012, he has been Head of Administration, Finance and Control at TIM and, since April 18, 2014, Manager Responsible for Preparing the Company's Financial Reports. Since April 15, 2016, Mr. Peluso has been Head of TIM's Business Support Office. After graduating with a degree in Economic and Social Sciences from the Università Commerciale Luigi Bocconi in 1992, with a specialization in Finance, Mr. Peluso was an accountant at Arthur Andersen & Co until 1994. Following a period at Mediobanca as Senior Financial Analyst (1994-1998) and with Credit Suisse First Boston as Vice President of Financial Institutions Group (1998-2000) and Mergers & Acquisitions Group (2000-2001), he joined Medio Credito Centrale S.p.A. (Capitalia Group) as Central Director Advisory Area in 2002. He retained this position until 2005, when he was appointed Central Director at Capitalia S.p.A. From 2007 to 2009, following the merger of Capitalia S.p.A. and UniCredit Group S.p.A., he was Head of Investment Banking Italy at UniCredit Group S.p.A. In 2009, he was appointed CEO of UniCredit Corporate Banking S.p.A. In 2010, following the merger of UniCredit Corporate Banking S.p.A. with UniCredit S.p.A., he was appointed Head of Corporate & Investment Banking Italy, UniCredit Group. From 2011 to September 2012, he was Managing Director of Fondiaria SAI S.p.A.. Mr. Peluso has been Director of Banco di Sicilia S.p.A., Edison S.p.A., Gemina S.p.A., Aeroporti di Roma S.p.A. and Milano Assicurazioni S.p.A. He is currently a Director and member of the control and risk committee of TIM Participações S.A., of Fondazione TIM, of Inwit S.p.A., of Flash Fiber S.r.l. and Telenergia S.r.l. (where he is also Chairman).



\* \* \*

In February 2016, the District Court of Milan issued an indictment against Mr. Piergiorgio Peluso, and 11 other individuals in connection with an investigation stemming from the bankruptcy of Imco S.p.A. ( **Imco** ) in 2012.

The principal allegation against Mr. Peluso is that, as CEO of UniCredit Corporate Banking S.p.A. ( **UniCredit** ) (the position he held before joining TIM in September 2012), he approved a complex restructuring transaction, which had, according with the allegation, the effect of decreasing the net asset value of Imco. The trial in this matter is scheduled to begin in June 2017.

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On May 20, 2015, the Shareholders Meeting appointed the present Statutory Board of Auditors, that will remain in office until approval of the 2017 financial statements. Based on the slates submitted by the shareholders, five Acting auditors and four alternate Auditors have been appointed.

The Shareholders Meeting also appointed Auditor Roberto Capone as Chairman of the Board of Statutory Auditors.

The following table lists the members of the Telecom Italia Board of Statutory Auditors as of April 7, 2017.

<b>Name</b>	<b>Position</b>	<b>Appointed</b>
Roberto CAPONE(1)	Chairman	2015
Vincenzo CARIELLO(1)	Acting Auditor	2015
Paola MAIORANA	Acting Auditor	2015
Gianluca PONZELLINI	Acting Auditor	2015
Ugo ROCK	Acting Auditor	2015
Francesco Di CARLO	Alternate Auditor	2015
Gabriella CHERSICLA	Alternate Auditor	2015
Piera VITALI(1)	Alternate Auditor	2015
Riccardo SCHIOPPO(1)	Alternate Auditor	2015

(1) Elected by minority shareholders.

The positions held by the members of the Board of Statutory Auditors in other listed companies are shown below:

Roberto Capone

Chairman of the Board of Auditors of Bonifiche Ferraresi.

Gianluca Ponzellini

Statutory Auditors of De Longhi S.p.A.

For a detailed description of Telecom Italia's corporate governance, including activities and responsibilities of the Board of Auditors (acting as Audit Committee of the Company) and the mechanics for its appointment, see Item 10 Additional Information 10.1 Corporate Governance .

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**External Auditors**

**6.4 EXTERNAL AUDITORS**

The audit of Italian issuers and their groups is governed by legislative decrees on statutory audits of annual accounts and consolidated accounts and, since January 1, 2017, by European regulation. In particular, such legislative decrees and European regulation fix the duration of audit engagements at nine years and prohibit the renewal or the re-engagement unless at least three years (four years since January 1, 2017) have elapsed from the date of termination of previous assignment.

The Shareholders Meeting held on April 29, 2010 appointed PricewaterhouseCoopers S.p.A. as TIM's independent auditors for the nine-year period 2010-2018 beginning with the financial year ended December 31, 2010.

Italian audit principles require that, in case of corporate groups, the audit firm of TIM should carry out the audit of the group's most important entities in terms of the nature of operations, in such a way that it can act as the main group audit firm and express a professional evaluation on the financial statements in their entirety. In addition, the Guidelines for the Appointment of external Auditors (the **Group Procedure**), which are currently being revised following the new regulatory framework, issued by TIM in March 2010 in view of the engagement of PricewaterhouseCoopers S.p.A. for the 2010-2018 period, provides that the auditor of TIM is the principal auditor of the entire group headed by TIM and consequently is the auditor to be preferred in the conferral of appointments by subsidiaries for mandatory auditing.

**Table of Contents****Item 6. Directors, Senior Management and Employees****Employees****6.5 EMPLOYEES****6.5.1 EMPLOYEES AND CHANGES IN THE TIM GROUP**

The number of Group employees at December 31, 2016 and 2015 was the following:

	As of December 31,		
	2016	2015	Changes
	(units)		
Employees Italy	51,122	52,554	(1,432)
Employees Foreign	10,103	13,310	(3,207)
<b>Total Employees at payroll</b>	<b>61,225</b>	<b>65,864</b>	<b>(4,639)</b>
Employees with temporary work contracts	4	3	1
<b>Total Employees</b>	<b>61,229</b>	<b>65,867</b>	<b>(4,638)</b>
Employees allocated to non-current assets held for sale		16,228	(16,228)
<b>Total</b>	<b>61,229</b>	<b>82,095</b>	<b>(20,866)</b>

The decrease in workforce (excluding employees with temporary work contracts and employees allocated to non-current assets held for sale) of 4,639 units compared to December 31, 2015, is mainly the result of the following events that occurred in 2016:

- workforce turnover of 4,663 units; and
  - the inclusion in the scope of consolidation of Noverca (24 units).
- Workforce turnover is detailed below by each Business Unit:

	Hirings	Terminations	Changes
	(units)		
Domestic	628	2,082	(1,454)
Brazil	1,920	5,113	(3,193)
Other Operations	39	55	(16)
<b>Turnover</b>	<b>2,587</b>	<b>7,250</b>	<b>(4,663)</b>

*TIM S.p.A.*

	As of December 31,		
	2016	2015	Changes
	(units)		
<b>Personnel on payroll (*)</b>	<b>45,907</b>	<b>44,171</b>	<b>1,736</b>

(\*) As of December 31, 2016, included 3,234 employees of Telecom Italia Information Technology, merged into TIM S.p.A.

***Tim Brasil group***

	As of December 31,		
	2016	2015	Changes
	(units)		
<b>Tim Brasil group Total</b>	<b>9,849</b>	<b>13,042</b>	<b>(3,193)</b>

## 6.5.2 INDUSTRIAL RELATIONS

### TIM S.p.A.

The first half of 2016 was characterized by numerous meetings with trade union parties, from various company departments.

During these meetings, the Company and trade union representatives agreed on the introduction of new work shifts for workers in the Fraud Operations area, which will contribute to better service coverage and better fulfilment of customer needs.

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**Item 6. Directors, Senior Management and Employees**

**Employees**

Significant discussions with the trade union parties also concerned Company departments in charge of supervising network platforms and services, as well as technical services, in connection with establishing hours of operation in line with the organizational changes and the desire to offer better services and quality to customers.

More specifically, for the Network department, agreements were reached with respect to the shifts of the newly-established Single Front End . The Single Front End will concentrate Network department activities, which were previously covered by several territorial units, in just the two poles, in Rome and Milan.

Moreover, both nationally and locally, specific agreements have been signed to allow certain staff to take a day's paid leave as an alternative to the payment awarded under their contract for national holidays and patron saint days falling on a Sunday in 2016.

In June, the Company and trade union organizations signed a specific protocol, renewing the structure of the TIM Industrial Relations model, in order to further optimize discussions in the area of information, consultation and negotiation, both at the national and local levels.

In line with the relations model developed over time, aimed at seeking dialogue and a constructive comparison of ideas, the importance of the Company office has been confirmed, as the perfect place within which to identify solutions able to accompany the organizational evolution processes, including through a greater involvement of local representatives.

The unitary trade union representatives, recently re-elected, are present in a capillary fashion throughout all regions of Italy. The new protocol creates a framework for the further development of relations on a local level, seeking suitable opportunities for a decentralized discussion in order to better grasp and combine, in respect of the reciprocal roles, the specific needs and opportunities marking the various territorial contexts.

In full compliance with current legal provisions, the Company carried out the required procedure with the relevant union representatives for the merger by incorporation of Telecom Italia Information Technology S.r.l. in TIM S.p.A., which was completed positively with an agreement between the parties.

The merger is intended to maximize the organizational efficiency of the TIM Group, by simplifying its structure and the related processes, with a resulting reduction of administrative costs and development of the traditional skills of IT resources.

In July, TIM and Federmanager RSA Dirigenti signed an agreement for the management of 170 surplus executive staff, providing for them to leave the Company by December 31, 2018.

The people impacted are mainly those who have gained or will have gained entitlement to any form of retirement pension by the end of 2018, or pre-retirement based on the Fornero law.

The redundancy plan was required in order to reduce costs while achieving a generational change as part of the radical reorganisation and simplification process launched by the company.

Establishing the right quality and quantity of executive staff is essential and is a precondition for future internal managerial resource enhancement and development paths.

The parties agreed to launch a joint procedure, pursuant to law 223/1991, to ensure that all the executives involved receive definite and uniform remuneration.

Furthermore, for the period of the agreement, as a waiver to the Employment Contract, the Company has granted executives who have not reached retirement age, but who voluntarily sign up to the agreement, an incentive to leave that is commensurate with their seniority and other compensations.

With this agreement, the intention of TIM and Federmanager RSA has been to identify suitable measures to lessen the social impact of the necessary adjustment of the workforce.

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**Employees**

**Brazil**

The Company held several meetings with two national Federations (FENATTEL and FITTEL), which, together, represent 27 unions in the country, to negotiate the Collective Bargaining Agreement, related to social and financial labor aspects, including increases in benefits and wages, as well as negotiating the Profit Sharing Programme.



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**Item 6. Directors, Senior Management and Employees Compensation Of Directors, Officers and Members of the Board of Auditors**

**6.6 COMPENSATION OF DIRECTORS, OFFICERS AND MEMBERS OF THE BOARD OF AUDITORS**

**6.6.1 COMPENSATION OF DIRECTORS**

The General Shareholders Meeting held on April 16, 2014 set the maximum total annual remuneration for the Board of Directors, which will remain in office for a three-year term, until the approval of the 2016 financial statements, at up to 1.9 million euros, in accordance with article 2389, first paragraph, of the Italian Civil Code. This amount is to be divided amongst the directors in accordance with the resolutions adopted by the Board itself on this point. The Shareholders Meeting held on December 15, 2015, approved an increase of the overall remuneration of the Board of Directors up to 2,484,615 euros, in connection with the appointment of four additional Directors.

The above mentioned overall amount is distributed as follows (gross amounts on a yearly basis):

- 110,000 euros to be paid to each director in office (excluding the Chairman of the Board and the CEO);
- an additional 45,000 euros to be paid to each member of the Control and Risk Committee;
- an additional 40,000 euros to be paid to each member of the Nomination and Remuneration Committee;
- an additional 20,000 euros to be paid to the Chairman of each Control and Risk Committee and Nomination and Remuneration Committee;
- an additional 45,000 euros to be paid to Director Calvosa, who is assigned the role of link between the Board and the control functions which report directly to the Board;
- an additional 25,000 euros to be paid to each member of the Strategic Committee;
- an additional 15,000 euros to be paid to the Chairman of Strategic Committee.

The total compensation due by TIM and by the TIM Group subsidiaries in 2016 to the members of the Board of Directors of TIM was 19.7 million euros.

Following the renewal of the Board of Directors (Shareholders Meeting of April 16, 2014) the remuneration package of the Chairman (Mr. Recchi, who is not an employee of the Company) was initially agreed by contract as follows:

- fixed annual remuneration of 700,000 euros gross for his position as Chairman of the Board;

- variable remuneration linked to annual performance objectives decided by the Board, with a target value of 200,000 euros and a range of between 50% and 150%, depending on the level of achievement of the targets assigned;
- benefits similar to those granted to Group executives (company car, medical and accident insurance, complementary healthcare, complementary welfare). With specific reference to complementary welfare, provision was made for the Company to make an annual payment to the Company complementary welfare fund amounting to 10% of his fixed remuneration.

On April 27, 2016 the target value of the Chairman's variable remuneration was set at 700,000 euros.

In the event of early termination of the office as Director in the absence of just cause, at the initiative of the Company and/or if asked to resign by the Board of Directors, the Chairman shall have the right to receive the fixed fees established for the office otherwise due until the end of the mandate. Moreover, unless otherwise resolved by the Board of Directors, the Chairman shall also have the right to receive a variable amount, calculated on the remaining value in annual amounts (or fractions of annual amounts) based on the average of the amounts actually received, as variable short term fee, until the actual date of termination of the office as director.

The remuneration package of the Chief Executive Officer of the Company up to March 22, 2016 (Mr. Patuano, who was an employee of TIM) had been agreed by contract as follows:

- fixed annual remuneration of 1.4 million euros gross as the annual gross remuneration for his employment relationship with the Company;
- variable remuneration for the position of Chief Executive Officer linked to annual performance objectives, with a target value equal to his fixed annual remuneration and a range of between 50% and 150%, depending on the level of achievement of the targets assigned;

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- benefits similar to those granted to Group executives (company car, accident and medical insurance, complementary healthcare, complementary welfare).

When Mr. Patuano resigned on March 22, 2016, in line with the remuneration policy and the agreements in place, in addition to accrued remuneration, fixed and variable (the latter subject to claw back mechanisms), Mr. Patuano was granted an additional 1,235,000 euros gross with respect to termination of the directorship and 4,765,000 euros gross with respect to termination of the employment contract, for an overall amount of 6,000,000 euros gross. As per the contractual regulation in force, the stock options already granted to Mr. Patuano expired, with no economic effect.

The remuneration package of the present Chief Executive Officer of the Company effective March 30, 2016 (Mr. Cattaneo, who is an employee of TIM) had been agreed by contract as follows:

- fixed annual remuneration of 1.4 million euros gross as the annual gross remuneration for his employment relationship with the Company;
- variable remuneration for the position of Chief Executive Officer linked to annual performance objectives, with a target value equal to his fixed annual remuneration and a range of between 50% and 150%, depending on the level of achievement of the targets assigned;
- benefits similar to those granted to Group executives (company car, accident and medical insurance, complementary healthcare, complementary welfare).

In the event of early termination of the employment and directorship as a good leaver (namely, after revocation, dismissal or non-renewal as CEO for the 2017/2019 term in the absence of just cause, or resignation for just cause or for revocation or reduction of powers, or their extension to other directors or caused by changes in control, and any operation that produces the same substantial effect), an agreed amount shall be paid distinct from and in addition to the MBO and the stock option plans (or equivalent monetary measure) and the Special Award equal to the sum of the payment in lieu of notice, as specified in the collective employment agreement, and severance pay equal to 24 months salary, considering both the fixed gross annual remuneration and the mean of the amounts received or accrued as MBO in the preceding 36 months (or lesser period of duration of employment as Chief Executive Officer of the Company).

In addition, the present Chief Executive Officer of the Company, according to his remuneration package, was named as one of the beneficiaries of the Special Award. This provides for an annual bonus totaling a maximum of 5.5% of the difference between (i) the results achieved separately in each of the years 2016, 2017, 2018 and 2019 and (ii) the consolidated targets for EBITDA, Opex reduction and NFP (Net Financial Position) as defined in the 2016-2018 Industrial Plan, using for 2019 the same values as the plan for the 2018 financial year; 4% of the aforementioned difference will be reserved for the remuneration of the Chief Executive Officer, while the remaining maximum 1.5% will benefit other managers of the Company, to be identified by the Chief Executive Officer. The bonus (to an overall maximum of 55,000,000 euros) will be paid in 2020, 80% in equity and 20% in cash. In the event of early termination of Mr. Cattaneo as a good leaver, he will be paid any amounts accrued pursuant to the Special Award, if any, and the bonus he would be entitled to, according to a linear projection to December 31, 2019 of the average bonus already accrued.

The present Chief Executive Officer of the Company was also entitled, under his contract, to participate in the 2017/2019 Stock Option Plan or another long-term incentive plan at conditions no less favourable than those envisaged in the 2014/2016 Stock Option Plan, under which he may accrue a bonus the target value of which is equal to 100% (and up to a maximum of 150%) of the fixed remuneration for each year of the three-year period 2017-2019. Considering that this plan was not approved for 2017, the aforementioned plan will be replaced with another monetary incentive of equal financial content. The right to participate in the 2017/2019 Stock Option Plan (or equivalent) shall be maintained in the event of Mr. Cattaneo's early termination as a good leaver, before the end of the three-year term, with possible substitution with a monetary payment, of essentially equivalent financial content, if satisfaction in kind proves impossible. Mr. Cattaneo stated his intention to renounce receipt of the aforementioned form of remuneration, against devolution of the corresponding gross amount by the Company to categories of employees of the Group, to be proposed by Mr. Cattaneo himself.

\* \* \*

**Table of Contents****Annex 6. Directors, Senior Management and Employees Compensation Of Directors, Officers and Members of the Board of Audit**

The following table lists the Directors who served during 2016 and their respective compensation as of December 31, 2016, according to the disclosure format set forth by Consob, the Italian market regulator (Regulation for the implementation of Legislative Decree dated February 24, 1998, adopted by Consob under Resolution 11971 dated May 14, 1999 and subsequent amendments and additions):

Name and surname	Position	Period for which the position was held	Expiry of term of office	Remuneration for office				Total remuneration	Fair Value of equity	Compensation for loss of office or of termination of employment
				Fixed remuneration	Variable remuneration	Non-monetary benefits	Other remuneration			
Giuseppe Recchi (1)	Executive Chairman	1/1 12/31/2016	12/31/2016	700	792	80	1,572			
Marco Patuano (2)	Chief Executive Officer	1/1 3/22/2016	12/31/2016	550	2	10	562		6,000	
Flavio Cattaneo (3)	Director/Chief Executive Officer	1/1 12/31/2016	12/31/2016	1,032	4,222	2	1,869(*)	5,256	8,712	
Arnaud Roy de Puifontaine (4)	Director/Deputy Chairman	1/1 12/31/2016	12/31/2016	140	52			192		
Tarak Ben Ammar (5)	Director	1/1 12/31/2016	12/31/2016	110				110		
Davide Benello (6)	Director	1/1 12/31/2016	12/31/2016	110	71			181		
	Director		12/31/2016	155	65			220		

Lucia Calvosa (7)		1/1 12/31/2016									
Laura Cioli (8)	Director	1/1 12/31/2016	12/31/2016	110	56					166	
Francesca Cornelli (9)	Director	1/1 12/31/2016	12/31/2016	110	45					155	
Jean Paul Fitoussi (10)	Director	1/1 12/31/2016	12/31/2016	110	5					115	
Giorgina Gallo (11)	Director	1/1 12/31/2016	12/31/2016	110	45					155	
Félicité Herzog (12)	Director	1/1 12/31/2016	12/31/2016	110	39					149	
Denise Kingsmill (13)	Director	1/1 12/31/2016	12/31/2016	110	18					128	
Luca Marzotto (14)	Director	1/1 12/31/2016	12/31/2016	110	40					150	
Hervé Philippe (15)	Director	1/1 12/31/2016	12/31/2016	110						110	
Stephane Roussel (16)	Director	1/1 12/31/2016	12/31/2016	110	35					145	
Giorgio Valerio (17)	Director	1/1 12/31/2016	12/31/2016	110	66					176	
<b>Total</b>				<b>3,897</b>	<b>537</b>	<b>5,016</b>	<b>92</b>	<b>1,869</b>	<b>11,411</b>	<b>8,712</b>	<b>6,000</b>

(\* ) The amount is subject to the conditions of the Special Award and payment is deferred to 2020.

**(1) Giuseppe Recchi Executive Chairman of the Board of Directors**

col. 1 This amount includes the fixed compensation, pursuant to article 2389, subsection 3, of the Italian Civil Code, resolved by the Board of Directors;

col. 3 The amount, pursuant to article 2389, paragraph 3, of the Civil Code, refers to the bonus for the financial year for objectives achieved in the year itself (791,000 euros), as well as reimbursements for membership of clubs and associations (1,000 euros).

**(2) Marco Patuano Former Chief Executive Officer**

col. 1 The amount includes the remuneration for work as employee (321,000 euros), compensation for travel expenses (1,000 euros) and payments for accrued holiday pay (228,000 euros);

col. 3 The amount, relating to employment, refers to reimbursements for membership of clubs and associations (1,000 euros) as well as miscellaneous/taxed reimbursements (1,000 euros);

col. 8 For the severance pay refer to the previous 2015 Annual Report.

**Table of Contents****Item 6. Directors, Senior Management and Employees Compensation Of Directors, Officers and Members of the Board of Audit****(3) Flavio Cattaneo Director/Chief Executive Officer**

col. 1 This amount includes the fixed compensation (pursuant to article 2389, subsection 1, of the Italian Civil Code) received in the period 1/1 3/29/2016 as a member of the Board of Directors (27,000 euros), remuneration for work as an employee (1,003,000 euros) and compensation for travel expenses (2,000 euros) set forth by the collective agreements for industrial company managers in the period in which he held the office of Chief Executive Officer 3/30 12/31/2016;

col. 3 The amount, pursuant to article 2389, subsection 3, of the Italian Civil Code, refers to the bonus for the financial year for objectives achieved in the year itself (1,720,000 euros), the sign-up bonus (2,500,000 euros) as well as reimbursements for membership of clubs and associations (2,000 euros);

col. 5 The amount refers to the cash component (20%) of the Special Award 2016 annuity the payment of which will occur in 2020 after the Board of Directors approval of the 2019 Consolidated Financial statements if certain conditions are met (for further details please see the Note Equity compensation Plans of the Notes to the 2016 Consolidated Financial Statements included elsewhere in this Annual Report);

col. 7 The amount refers to the equity component (80%) of the Special Award 2016 annuity (8,422,000 euros corresponding to the amount charged to the income statement; while the actual award for the year 2016 is equal to 9,584,453 TIM ordinary shares the delivery of which will occur in 2020 if certain conditions are met - for further details please see the Note Equity compensation Plans of the Notes to the 2016 Consolidated Financial Statements included elsewhere in this Annual Report). The amount includes also the equity component relating to the 2014/2016 Stock Option Plan, only accrued for the 2016 financial year (290,000 euros).

**(4) Arnaud Roy de Puyfontaine Director/Deputy Chairman**

col. 1 This amount refers to the compensation received as member of the Board of Directors (110,000 euros) and the accrued income received as compensation for the office of Deputy Chairman for the period 4/27-12/31/2016 (30,000 euros);

col. 2 This amount refers to the accrued income received as a compensation for the role of member of the Nomination and Remuneration Committee for the period 2/15-12/31/2016 (35,000 euros), and accrued income received as a compensation for the role of member and Chairman of the Strategic Committee for the period 7/26-12/31/2016 (17,000 euros). The compensation for the office of Chair of the Strategy Committee is due for the period 9/30 (appointment date) to 12/31/2016 and would have amounted to 3,813.00 euros. The difference will be recovered with the payment of compensation relating to the first quarter of 2017.

**(5) Tarak Ben Ammar Director**

col. 1 This amount refers to the compensation received as member of the Board of Directors.

**(6) Davide Benello Director**



col. 1 This amount refers to the compensation received as member of the Board of Directors;

col. 2 This amount refers to the compensation received as member of the Nomination and Remuneration Committee (40,000 euros) and as Chairman of the Nomination and Remuneration Committee (20,000 euros) and as member of the Strategic Committee for the period 7/26-12/31/2016 (11,000 euros).

**(7) Lucia Calvosa Director**

col. 1 This amount refers to the compensation received as member of the Board of Directors (110,000 euros) and as link between the Board of Directors and the corporate control departments which report directly to the Board (45,000 euros);

col. 2 This amount refers to the compensation received as member of the Control and Risk Committee (45,000 euros) and Chairman of the Control and Risk Committee (20,000 euros).

**(8) Laura Cioli Director**

col. 1 This amount refers to the compensation received as member of the Board of Directors;

col. 2 This amount refers to the compensation received as member of the Control and Risk Committee (45,000 euros), as member of Strategic Committee for the period 7/26-12/31/2016 (11,000 euros).

**(9) Francesca Cornelli Director**

col. 1 This amount refers to the compensation received as member of the Board of Directors;

col. 2 This amount refers to the compensation received as member of the Control and Risk Committee.

**(10) Jean Paul Fitoussi Director**

col. 1 This amount refers to the compensation received as member of the Board of Directors;

col. 2 This amount refers to the accrued income received as compensation for the role of member of the Nomination and Remuneration Committee for the period 1/1-2/15/2016.

**(11) Giorgina Gallo Director**

col. 1 This amount refers to the compensation received as member of the Board of Directors;

col. 2 This amount refers to the compensation received as member of the Control and Risk Committee.

**(12) Félicité Herzog Director**

col. 1 This amount refers to the compensation received as member of the Board of Directors;

col. 2 This amount refers to the accrued income received as compensation for the role of member of the Nomination and Remuneration Committee for the period 2/15-12/31/2016.

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**Item 6. Directors, Senior Management and Employees Compensation Of Directors, Officers and Members of the Board of Audit**

**(13) Denise Kingsmill Director**

col. 1 This amount refers to the compensation received as member of the Board of Directors;

col. 2 This amount refers to the accrued income received as compensation for the role of member of the Nomination and Remuneration Committee for the period 1/1-6/15/2016.

**(14) Luca Marzotto Director**

col. 1 This amount refers to the compensation received as member of the Board of Directors;

col. 2 This amount refers to the compensation received as member of the Nomination and Remuneration Committee.

**(15) Hervé Philippe Director**

col. 1 This amount refers to the compensation received as member of the Board of Directors;

**(16) Stephane Roussel Director**

col. 1 This amount refers to the compensation received as member of the Board of Directors;

col. 2 This amount refers to the accrued income received as compensation for the role of member of the Nomination and Remuneration Committee for the period 2/15-12/31/2016.

**(17) Giorgio Valerio Director**

col. 1 This amount refers to the compensation received as member of the Board of Directors;

col. 2 This amount refers to the compensation received as member of the Control and Risk Committee (45,000 euros), and to the accrued income received as compensation for the role of member of the Nomination and Remuneration Committee for the period 6/20-12/31/2016 (21,000 euros).

Applicable Italian law requires disclosure of individual compensation in the form of stock options for members of the Board of Directors.

**Options assigned in previous financial years**

**Options assigned during the financial year**

**Options exercised during the financial year**

**Options exercised during financial year**

	Number of financial instruments	Strike price	Possible exercise period (from to)	Number of financial instruments	Strike price	Possible exercise period (from to)	Fair value on assignment date (in euros)	Date of assignment	Market price on assignment	Number of financial instruments	Strike price	Market price	Number of financial instruments
Stock Option Plan 2014	20,106,382	0.94	2017 / 2019										20,106,382
Stock Option Plan 2014				6,702,127	0.99	2017-2020	723,830.00	4/26/2016	0.866				5,800,000

(\*) The options that expired during the year refer to the loss of rights resulting from transfers and the level of achievement of the objectives.

For further details, please see Note Equity compensation plans of the Notes to the Consolidated Financial Statements, included elsewhere herein.

### 6.6.2 Compensation of Executive Officers

The total compensation (including deferred compensation related to the Special Award) due to the Company's executive officers by the Company or by any of the Company's subsidiaries in 2016 (including the Chief Executive Officer and the Executive Chairman) was 36.1 million euros.

In case of severance, the settlement set out in law, in the Collective Employment Agreement and in supplementary company agreement apply.

There are no general non-competition policies for executive officers with strategic responsibilities.

Applicable Italian law requires disclosure of individual compensation in the form of stock options for General Managers and, in the aggregate and divided by plan, the stock options granted by TIM S.p.A. to Executive Officers as a group.

The specific provisions and the information relating to the current Chief Executive Officer (Mr. Flavio Cattaneo), who is an employee of the Company, are described under 6.6.1 Compensation of Directors.

**Table of Contents****Item 6. Directors, Senior Management and Employees Compensation Of Directors, Officers and Members of the Board of Audit**

The following tables have been prepared according to the format required by the Regulation for the implementation of Legislative Decree dated February 24, 1998, adopted by Consob under Resolution 11971 dated May 14, 1999 and subsequent amendments and additions.

Assigned in previous financial years	Options assigned during the financial year						Options exercised during the financial year			
	Possible exercise period (from to)	Number of financial instruments	Strike price	Possible exercise period (from to)	Fair value on assignment date (in euros)	Date of assignment	Market price on assignment	Number of financial instruments	Strike price	Market price
<i>Up to the financial statements</i>										
0.94	2017 / 2020	586,956	1.15	2017 / 2020	87,652	04/01/2016	1.127			
<i>Associates</i>										
R\$ 8.1349(1)	2014 / 2019									
R\$ 13.4184(1)	2015 / 2020									
R\$ 8.4526(1)	2016 / 2021									
		948,276	R\$ 8.0977(1)	2017/ 2022	593,796 (3)(4)	11/08/2016	8.0977(5)			

\* The options that expired during the year refer to the loss of rights resulting from transfers and the level of achievement of the objectives.

(1) The strike price can be corrected in relation to the conditions laid down in the plan.

(2) Amounts relating to local Stock Option Plans have been converted into euros at the average exchange rate in 2016, at 06/30/2016 (4.13001 Real/ €).

(3)

Amounts relating to local Stock Option Plans have been converted into euros at the average exchange rate in 2016, at 12/31/2016 (Reais/ 3.85935).

(4) Fair Value at allocation date for each option equal to 2.4167 Reais.

(5) The market price (same value as the strike price) is calculated on the basis of the share price weighted for the volume of trading in the 30 days prior to 09/29 of each year.

### 6.6.3 COMPENSATION OF MEMBERS OF THE BOARD OF AUDITORS

The General Shareholders Meeting of May 20, 2015 (which appointed the current Board of Auditors) authorized annual compensation of 95,000 euros for each Auditor and 135,000 euros for the Chairman of the Board of Auditors. Such compensation took into account the role of Board of Statutory Auditors acting as Supervisory Panel established under Legislative Decree 231/2001.

The total compensation paid by the Company or by any of the TIM Group subsidiaries in 2016 to the members of the Board of Auditors was approximately 515 thousand euros.

Individuals  Name	Description of the position  Position held	Period during which position was held	Office Compensation expiry	Compensation Bonuses Non and Other Other			Total
				base	benefits	compensation	
				(thousands of euros)			
Roberto CAPONE(1)	Chairman	1/1-12/31/2016	12/31/2017	135			135
Vincenzo CARIELLO(2)	Acting Auditor	1/1-12/31/2016	12/31/2017	95			95
Paola MAIORANA(3)	Acting Auditor	1/1-12/31/2016	12/31/2017	95			95
Gianluca PONZELLINI(4)	Acting Auditor	1/1-12/31/2016	12/31/2017	95			95
Ugo ROCK(5)	Acting Auditor	1/1-12/31/2016	12/31/2017	95			95
<b>Total</b>				<b>515</b>			<b>515</b>

#### (1) Roberto Capone Chairman of the Board of Statutory Auditors

This amount refers to the compensation received as Chairman of the Board of Statutory Auditors.

#### (2) Vincenzo Cariello Acting Auditor

This amount refers to the compensation received as Acting Auditor.

#### (3) Paola Maiorana Acting Auditor

This amount refers to the compensation received as Acting Auditor.



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**Item 6. Directors, Senior Management and Employees Compensation Of Directors, Officers and Members of the Board of Audit**

**(4) Gianluca Ponzellini Acting Auditor**

This amount refers to the compensation received as Acting Auditor.

**(5) Ugo Rock Acting Auditor**

This amount refers to the compensation received as Acting Auditor.



**Table of Contents****Item 6. Directors, Senior Management and Employees      Options To Purchase Securities From Registrant****6.7    OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT**

At December 31, 2016, the outstanding equity compensation plans of the Telecom Italia Group were as follows.

***Telecom Italia stock option plans***

The Shareholders' Meeting of the Company on April 16, 2014 approved the **Stock Option Plan 2014-2016** that was made effective following the resolution of the Board of Directors on June 26, 2014.

The beneficiaries of the Plan include the Chief Executive Officer, Top Management (including Executive Officers) and a selected part of the Management of the TIM Group. The Plan covered the three-year period 2014-2016, with a maximum limit of 196 million Ordinary Shares available for issue. Each beneficiary, upon achieving the target level of his/her performance objectives, was to be awarded a number of exercisable options, with an exercise period of three years.

The exercise price was initially set at 0.94 euros per option (strike price). When allocations were made at a later stage, the strike price was the higher of the price established upon initial allocation and the average of the official market price in the month prior to the additional allocation.

On March 23, 2017 the Board of Directors determined the actual level of achievement of the relevant performance criteria (2014-2016 Adjusted Free Cash Flow: not met; positioning of TIM's in 8th place out of 11 in the TSR ranking of peers). The Board also acknowledged the number of subsequently accrued exercisable options amounted to 15,280,446 options and approved a corresponding capital increase of up to 15,280,446 new Ordinary Shares in order to serve their exercise.

***Tim Participações stock option plans***

In particular:

- **2011-2013 Plan.** The incentive plan for managers in key positions at Tim Participações and its subsidiaries was evaluated on the basis of two performance objectives. The vesting period was three years (a third per year) and the validity of the options is six years;
- **2014-2016 Plan.** The incentive plan for managers in key positions at Tim Participações and its subsidiaries was approved by the shareholders' meeting on April 10, 2014. The exercise of the options is not subjected to specific performance objectives. The vesting period was three years (a third per year) and the validity of the options is six years.

For further details, see *Note Equity compensation plans* of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.



**Table of Contents****Item 7. Major Shareholders and Related-Party Transactions****Major Shareholders****Item 7. MAJOR SHAREHOLDERS AND RELATED-PARTY TRANSACTIONS****7.1 MAJOR SHAREHOLDERS**

At December 31, 2016, according to the shareholders register and other information in the Company's possession, the parties which held shares with voting rights, directly or indirectly, in excess of 3% of the ordinary share capital of TIM were the following:

<b>Major Shareholders</b>	<b>Type of ownership</b>	<b>As of December 31, 2016</b>	
		<b>No. Ordinary Shares</b>	<b>% of ordinary share capital</b>
Vivendi S.A. (*)	(direct)	3,640,109,990	23.94

(\*) Shareholding determined following receipt of a communication from Vivendi S.A. in compliance with art. 152 octies, paragraph 7, of the Consob Issuer's Regulations.

BlackRock Inc. notified an indirect holding as of November 15, 2016, as an asset management company, of a total number of 471,497,870 Ordinary Shares, which at December 31, 2016 was equal to 3.10% of TIM's Ordinary Shares.

At December 31, 2016, TIM held 37,672,014 of its own Ordinary Shares, while the subsidiary Telecom Italia Finance S.A. held another 126,082,374 Ordinary Shares, for a total of 1.08% of capital with voting rights.

As of April 7, 2017, the above mentioned position is the following:

	<b>Type of ownership</b>	<b>As of April 7, 2017</b>	
		<b>No. Ordinary Shares</b>	<b>% of ordinary share capital</b>
Vivendi S.A. (*)	(direct)	3,640,109,990	23.94

(\*) Shareholding determined following receipt of communication from Vivendi S.A. in compliance with art. 152 octies, paragraph 7, of the Consob Issuer's Regulations.

BlackRock Inc.'s indirect holding of a total number of 471,497,870 Ordinary Shares (as indicated above), was at April 7, 2017 equal to 3.10% of TIM's Ordinary Shares.

For more details about the significant changes in the percentage of ownership held by major shareholders, please see Item 4. Information on the TIM Group 4.1 Business 4.1.1 Background .

### **7.1.1 SHAREHOLDERS AGREEMENTS**

The information contained herein regarding shareholders' agreements has been derived from publicly available information filed by the parties involved with regulatory authorities. So far as TIM is aware, no facts have been omitted herein which would render the information misleading. No further or other responsibility in respect of such information is accepted by TIM.

Effective June 17, 2015, the shareholder agreement in place between the shareholders of Telco S.p.A. was dissolved, as disclosed by public notices in accordance with the applicable regulations. As a result, there are no longer any shareholder agreements relating to TIM pursuant to Article 122 of Italian Legislative Decree 58/1998.

**Table of Contents****Item 7. Major Shareholders and Related-Party Transactions****Major Shareholders****7.1.2 SHAREHOLDERS OWNERSHIP****v BOARD OF DIRECTORS**

In accordance with applicable Italian law, the following table shows the investments held in TIM S.p.A. and in the related subsidiaries by all the individuals who, during 2016 or a part of that year, have held the post of director in TIM S.p.A.

Name	Company	Class of shares	Number of shares held at the end of 2015 (or at the date of appointment)	Number of shares purchased in 2016	Number of shares sold in 2016	Number of shares held at the end of 2016 (or as of the date on which individual left post, if before)
Giuseppe RECCHI	TIM S.p.A.	Ordinary	320,000	680,000		1,000,000
Marco PATUANO	TIM S.p.A.	Ordinary	70,000			70,000
		Savings	30,000			30,000
Flavio CATTANEO	TIM S.p.A.	Ordinary		1,500,000		1,500,000
Hervé PHILIPPE	TIM S.p.A.	Ordinary		12,500		12,500
Luca MARZOTTO	TIM S.p.A.	Savings	200,798			200,798

**v BOARD OF AUDITORS**

No individuals who, during 2016 or a part of that year, have held the post of statutory auditor in TIM S.p.A. hold investments in TIM S.p.A. and in the related subsidiaries.

**v EXECUTIVE OFFICERS**

In accordance with applicable Italian law, the following table shows the investments held in TIM S.p.A. and in the related subsidiaries by all the individuals who, during 2016 or a part of that year, have held the post of executive officers in TIM S.p.A.

Company	Class of shares	Number of shares held at the end of	Number of shares purchased in 2016	Number of shares sold in 2016	Number of shares held at the end of 2016
---------	-----------------	-------------------------------------	------------------------------------	-------------------------------	--

		<b>2015</b> <b>(or at the date</b> <b>of</b> <b>appointment)</b>		<b>(or as of the</b> <b>date on which</b> <b>individual left post, if</b> <b>before)</b>
TIM S.p.A.(1)	Ordinary	54,245	30,000	84,245
Tim Participacoes	Ordinary	11,310		11,310

(1) Of which 3,460 shares held indirectly.

\* \* \*

As of April 7, 2017 no member of the Board of Directors, Board of Auditors or Executive Officers beneficially owned more than 1% of the Ordinary Shares or Savings Shares.

### **7.1.3 CONTINUING RELATIONSHIP WITH THE ITALIAN STATE**

The Italian Government is in a position to exercise special powers with respect to TIM.

In 2012 Decree law 21/2012, setting out Regulations on special powers over corporate ownership in the defense and national security sectors, as well as for activities of strategic relevance in the energy, transport and communications sectors was adopted and subsequently converted with amendments in law 56/2012.

The regulations for the identification of assets of strategic importance in the communications sector (Presidential Decree no. 85/2014) was published in the Official Gazette of June 6, 2014 and identified the procedures to activate special powers (Presidential Decree no. 86/2014).

As a result:

- The Italian Government has the authority to impose conditions and potentially oppose the purchase, by non-EU entities, of controlling shareholdings in the Company. For non-EU entities, any right to purchase will be permitted solely on condition of reciprocity with the purchaser's home jurisdiction;
- until expiration of the period for the imposition of conditions or the exercise of the power of opposition, the voting rights attached to the shares whose transfer involves the transfer of control, are suspended. The same

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**Item 7. Major Shareholders and Related-Party Transactions**

**Major Shareholders**

rights are suspended in the event of any default or breach of conditions imposed to the buyer, throughout the period in which the breach or violation continues. The resolutions adopted with the vote of such shares or units, as well as the resolutions or acts adopted in violation or breach of the conditions imposed, are null;

· the Italian Government has veto power (even in the form of imposing requirements or conditions) over any resolution, act or transaction that has the effect of modifying the ownership, control, or the availability of the same strategic assets or change their use, including resolutions of merger, demerger, transfer of the registered office abroad, transferring the company or business units which contain the strategic assets or their assignment by way of guarantee, amendment to company's bylaws purpose, company dissolution or amendment in bylaws provisions relating to limitations on voting rights. The resolutions or acts adopted in violation of these requirements are void. The Italian Government may also order the company and any other party to restore the previous situation at their own expense.

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**Item 7. Major Shareholders and Related-Party Transactions**

**Related-Party Transactions**

**7.2 RELATED-PARTY TRANSACTIONS**

In 2016, there were no major transactions with related parties. In addition, there were no changes or developments with respect to the related party transactions described in the 2015 Form 20-F that had a significant effect on the financial position or on the results of the TIM Group in 2016.

Related party transactions, when not dictated by specific laws, were usually conducted with similar terms than provided to third parties. Furthermore, the transactions were subject to an internal procedure which establishes the procedures and timing for verification and monitoring.

For further information on related party transactions please see Note Related party transactions of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.



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**Item 8. Financial Information**

**Historical Financial Statements**

**Item 8. FINANCIAL INFORMATION**

**8.1 HISTORICAL FINANCIAL STATEMENTS**

See Items 18 and 19 for a list of financial statements and other financial information filed with this report.

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**Item 8. Financial Information**

**Legal Proceedings**

**8.2 LEGAL PROCEEDINGS**

We are continuously involved in disputes and litigation with regulators, competitors and other parties.

For further details, please see Note Contingent liabilities, other information, commitments and guarantees to the Consolidated Financial Statements included elsewhere in this Annual Report.

**Table of Contents****Item 9. Listing****Trading Of TIM Ordinary Shares And Savings Shares****Item 9. LISTING****9.1 TRADING OF TIM ORDINARY SHARES AND SAVINGS SHARES**

The principal trading market for the Ordinary Shares and the Savings Shares is Mercato Telematico Azionario or ( **Telematico** ), an automated screen trading system managed by Borsa Italiana (See 9.2 Securities Trading in Italy ).

Ordinary and Savings Share ADSs, each representing respectively ten Ordinary Shares and ten Savings Shares have been listed on the NYSE since August 4, 2003. JPMorgan Chase Bank is the Company's Depository issuing ADRs evidencing the Ordinary Share ADSs and the Savings Share ADSs.

The table below sets forth, for the periods indicated, reported high and low official prices of the Ordinary Shares on Telematico and high and low closing prices of Ordinary Share ADSs on the NYSE from the First Quarter of 2012.

	Telematico		NYSE	
	High	Low	High	Low
	( )		(U.S.\$)	
<b>2012:</b>				
First Quarter	0.923	0.772	12.300	10.170
Second Quarter	0.892	0.663	11.980	8.200
Third Quarter	0.847	0.618	10.990	7.370
Fourth Quarter	0.801	0.671	10.480	8.430
<b>2013:</b>				
First Quarter	0.765	0.547	10.160	7.050
Second Quarter	0.665	0.515	8.600	6.660
Third Quarter	0.615	0.475	8.200	6.280
Fourth Quarter	0.748	0.613	10.300	8.230
<b>2014:</b>				
First Quarter	0.875	0.712	12.010	9.550
Second Quarter	1.000	0.821	13.410	11.280
Third Quarter	0.936	0.807	12.550	10.710
Fourth Quarter	0.954	0.763	11.710	9.730
<b>2015:</b>				
First Quarter	1.135	0.859	12.130	10.070
Second Quarter	1.191	1.030	13.410	11.440
Third Quarter	1.263	1.062	13.640	11.920
Fourth Quarter	1.294	1.019	14.030	10.080
<b>2016:</b>				
First Quarter	1.142	0.831	12.330	9.090
Second Quarter	0.917	0.685	10.300	7.360
Third Quarter	0.882	0.642	9.190	6.960
Fourth Quarter	0.873	0.677	9.110	7.160
<b>2017:</b>				

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January	0.858	0.786	9.100	8.400
February	0.838	0.758	8.990	7.960
March	0.851	0.771	9.220	8.060
April (through April 7, 2017)	0.834	0.809	8.880	8.570

Source: Bloomberg data

At the close of business on April 7, 2017 there were 18,684,953 Ordinary Share ADSs outstanding held by 114 registered holders. One of the registered holders is the Depository Trust Company ( **DTC** ) which holds 18,679,270 Ordinary Share ADSs on behalf of beneficial holders.

**Table of Contents****Item 9. Listing****Trading Of TIM Ordinary Shares And Savings Shares**

The table below sets forth, for the periods indicated, reported high and low official prices of the Savings Shares on Telematico and high and low closing prices of the Savings Share ADSs on the NYSE from the First Quarter of 2012.

	Telematico		NYSE	
	High	Low	High	Low
	( )		(U.S.\$)	
<b>2012:</b>				
First Quarter	0.752	0.634	9.930	8.420
Second Quarter	0.744	0.543	9.950	6.690
Third Quarter	0.699	0.522	9.040	6.210
Fourth Quarter	0.695	0.581	8.960	7.390
<b>2013:</b>				
First Quarter	0.654	7.050	8.640	6.040
Second Quarter	0.551	0.418	7.180	5.400
Third Quarter	0.487	0.378	6.560	4.940
Fourth Quarter	0.586	0.489	7.920	6.550
<b>2014:</b>				
First Quarter	0.661	0.545	9.360	7.650
Second Quarter	0.784	0.633	10.530	8.630
Third Quarter	0.740	0.651	9.740	8.650
Fourth Quarter	0.751	0.599	9.210	7.710
<b>2015:</b>				
First Quarter	0.904	0.683	9.830	8.000
Second Quarter	0.943	0.833	10.620	9.210
Third Quarter	0.998	0.867	11.000	9.740
Fourth Quarter	1.098	0.850	11.567	9.710
<b>2016</b>				
First Quarter	0.919	0.668	9.900	7.410
Second Quarter	0.747	0.552	8.600	5.870
Third Quarter	0.661	0.513	7.480	5.710
Fourth Quarter	0.710	0.551	7.430	5.890
<b>2017</b>				
January	0.699	0.653	7.580	6.940
February	0.690	0.622	7.350	6.470
March	0.688	0.631	7.450	6.470
April (through April 7, 2017)	0.670	0.658	7.080	6.960

Source: Bloomberg data

At the close of business on April 7, 2017 there were 8,000,715 Savings Share ADSs outstanding held by 15 registered holders. One of the registered holders is the Depository Trust Company ( **DTC** ) which holds 7,997,774 Savings Share ADSs on behalf of beneficial holders.

Fluctuations between the Euro and the U.S. dollar will affect the dollar equivalent of the price of the Ordinary Share and the Savings Shares on Telematico and the price of the Ordinary Share ADSs and the Savings Share ADSs on the New York Stock Exchange.

On March 31, 2017 the Noon Buying Rate for the Euro was U.S.\$ 1.0698 = 1.00.

**Table of Contents****Item 9. Listing****Securities Trading In Italy****9.2 SECURITIES TRADING IN ITALY**

Italian equity securities are traded on the regulated electronic stock market Mercato Telematico Azionario or MTA ( **Telematico** ), which operates under the control of the Commissione Nazionale per le Società e la Borsa (the National Commission for Companies and the Stock Exchange or **Consob** ), the public authority in charge of regulating the securities markets and all public offerings of securities in Italy in order to ensure the transparency and regularity of trading and protect investors.

Telematico is managed by Borsa Italiana, a joint stock company part of the London Stock Exchange Group, responsible for the organization and management of the Italian stock exchange.

Securities transactions on Telematico are settled on a cash basis. Cash transactions are settled on the second trading day following the trading date. Borsa Italiana publishes information on transactions in each listed security, including the volume traded and the high and low prices of the day. No last price is reported, but an official price calculated as a weighted average price of all trades performed during the trading day and a reference price as for the closing auction price. The Bank of Italy, in accordance with Consob, regulates the governing of the clearing system that is currently performed in Italy on an exclusive basis by Monte Titoli (a centralized securities clearing system owned by certain major Italian banks and financial institutions).

For the purposes of the automatic control of the regularity of trading on MTA, the following price variation limits shall apply to contracts concluded on shares making up the FTSE MIB, effective July 1, 2013: (i)  $\pm 5.0\%$  (or such other amount established by Borsa Italiana in the Guide to the Parameters for trading on the regulated markets organized and managed by Borsa Italiana) with respect to the static price (the static price shall be the previous day's reference price, in the opening auction, or the auction price, in the continuous trading phase); and (ii)  $\pm 3.5\%$  (or such other amount established by Borsa Italiana in the Guide to the Parameters ) with respect to the dynamic price (the price of the last contract concluded during the continuous trading phase). Where the price of a contract that is being concluded exceeds one of the price variation limits referred to above, trading in that security will be automatically suspended and a volatility auction phase begun for a certain period of time. Furthermore Borsa Italiana has the authority to suspend trading in any security in response to extreme price fluctuations or for other reasons. The most liquid shares traded on Telematico, including the TIM ordinary shares, are traded on Mercato After Hours , an automated screen trading system managed by Borsa Italiana. Mercato After Hours operates, from 6.00 p.m. to 8.30 p.m.

The FTSE MIB Index is the primary benchmark index for the Italian equity market. Capturing approximately 80% of the domestic market capitalization, the FTSE MIB Index measures the performance of the 40 most liquid and capitalized Italian shares and seeks to replicate the broad sector weights of the Italian stock market. The index is derived from the universe of stocks trading on Borsa Italiana's Telematico market.

The index is calculated in accordance with the Industry Classification Benchmark ( **ICB** ) where main sectors are: Oil & Gas, Constructions & Material, Industrials Goods and Services, Automobiles & Parts, Media, Telecommunications, Utilities, Banks, Technology, Insurance and Personal & Household Goods. Each FTSE MIB constituent is weighted by its free float capital, considering the effective number of shares tradable in the market. Index Constituents weights are capped at 15%; they are reviewed and their weights are rebalanced quarterly (March, June, September and December). The weighting structure can also be changed following extraordinary events (if the capital of a stock increases or other events).





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**Clearance And Settlement Of Telecom Italia Shares**

**9.3 CLEARANCE AND SETTLEMENT OF TELECOM ITALIA SHARES**

All financial instruments publicly traded on regulated markets including treasury bonds are dematerialized. Companies that issue financial instruments that are publicly traded on regulated markets must inform Monte Titoli, which opens an account in the name of each company in its register.

Beneficial owners of Ordinary Shares and Savings Shares must hold their interests through specific deposit accounts with any participant having an account with Monte Titoli. The beneficial owners of Ordinary Shares and Savings Shares held with Monte Titoli may transfer their shares, collect dividends, create liens and exercise other rights with respect to those Ordinary Shares and Savings Shares through such accounts and may no longer obtain physical delivery of share certificates in respect of their Ordinary Shares and Savings Shares. All new issues of Ordinary Shares and Savings Shares and all other transactions involving Ordinary Shares and Savings Shares must be settled electronically in book-entry form.

Ordinary Shares and Savings Shares are accepted for clearance through Euroclear and Clearstream. Holders of shares may elect to hold such Ordinary Shares and Savings Shares through Euroclear or Clearstream (outside the United States).

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The Company's corporate governance system is made up of a series of principles, rules and procedures drawn from applicable laws and regulations and from international best practices. The system, designed and organized bearing in mind the principles formulated by the Committee for Corporate Governance of Borsa Italiana, has been implemented with the adoption of codes, regulations and policies covering the activity of all the organizational and operational components of the Company. Most of these documents are available in English on the Internet at [www.telecomitalia.com](http://www.telecomitalia.com) under Governance .

According to applicable Italian law, listed issuers shall annually disclose information on their compliance with codes of conduct issued by regulated stock exchange companies (such as the aforementioned Corporate Governance Code by Borsa Italiana) or by trade associations.

**v CHANGES IN THE REGULATORY FRAMEWORK**

The EU Market Abuse Regulation (MAR), which became effective on July 3, 2016 and replaced the previous Market Abuse Directive. As MAR is an EU regulation, rather than a directive, no corresponding local legislation is necessary. The aim of MAR is to expand and develop existing market abuse regulations and establish a more uniform regime across all member states in order to reduce complexity and offer greater legal certainty. While much of the content under MAR is similar to previous requirements, MAR extends its scope in terms of the markets and products to which it applies, and introduces more stringent procedural regulations.

**v CODE OF ETHICS AND CONDUCT**

The Code of Ethics and Conduct (the **Code of Ethics** ) of the TIM Group specifies the principles to be respected in relations with all principal stakeholders of the Company: shareholders, financial markets, customers, local communities and employees.

The Code of Ethics was designed on the basis of generally accepted ethical principles and in accordance with the highest international standards, taking into account the principles of Section 406 of the Sarbanes Oxley Act.

As with all of the Company's corporate governance codes and principles, the Code of Ethics is updated in order to ensure conformity with developments in applicable laws and market regulations, while taking into account national and international best practices. The Code of Ethics was last updated on October 3, 2013.

For further details, please see Item 16B. Code of Ethics and Conduct .

v **BOARD OF DIRECTORS**

The Company's system of corporate governance is centered around the Board of Directors. The Corporate Governance Principles (the **Principles**) of TIM supplement the applicable rules concerning the tasks and functioning of the Board of Directors and all the directors are required to comply with the Corporate Governance Principles.

Such Principles have been adopted by the Board of Directors and only serve as a self-regulatory measure. The Principles can be amended through resolutions adopted by the Board and promptly disclosed to the market. The present version of the Principles was approved on July 26, 2016.

Since 2005, TIM's directors have carried out an annual Board performance evaluation.

***Role and tasks***

In accordance with the Italian Stock Exchange Code (by which TIM fully abides) the Board of Directors plays an active role both in the strategic guidance of the Company and in the control of operations, with the power to

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formulate strategy and responsibility for intervening directly in decisions having the greatest impact on the activity of the Company and the Group. The Board of Directors shall, in particular, have overall responsibility for the internal control and risk management system, including the definition of the nature and level of risk consistent with the specific strategic objectives of the business.

Pursuant to the Company's Principles, the following matters are deemed to have a notable effect on the business of the Company and the Group, and as such are subject to resolutions of the board:

- agreements with competitors which, in light of the subject, commitments, conditions, or limits that they may entail, have long-term effects on the freedom of strategic business decisions;
- investments and disinvestments exceeding 250 million euros and purchases or sales of shareholdings, or businesses or business units that are of strategic significance to the overall framework of the business; transactions that, in their execution or upon their completion, can result in commitments and/or purchases and/or sales of this nature and scale;
- the acceptance of loans for amounts exceeding 500 million euros and the granting of loans and guarantees in favor of non-subsidiary companies for amounts exceeding 250 million euros; transactions that, in their execution or upon their completion, can create commitments and/or deeds of this nature and scale;
- the above transactions, to be performed by unlisted subsidiaries of the Group, excluding those controlled by listed subsidiaries;
- the listing and delisting of financial instruments issued by the Company or Group companies in regulated markets inside or outside Europe; and
- instructions to be given to listed subsidiaries (and their subsidiaries), when the Parent Company exercises its management and coordination activity for the performance of transactions with the characteristics indicated above.

Since 2002, the Company has adopted guidelines for carrying out transactions with related parties in order to ensure both procedural and substantial fairness and transparency.

On November 4, 2010, the Board of Directors introduced the set of procedures currently in force, which have been amended as of March 17, 2016. In addition to related parties, as defined by Consob regulation No. 17221 of March 12, 2010 and IAS 24, these procedures also apply to participants in shareholders' agreements that involve the candidacy of TIM Directors, in the case of a majority slate. The procedures classify the transactions in different categories and, according to this classification, different assessment and approval procedures are applied, if these transactions are to be carried out with related parties.

For information on the subject of related-party transactions, see Item 7. Major Shareholders and Related-Party Transactions 7.2 Related-Party Transactions .

As part of its function of monitoring and guiding the performance of operations, the Board of Directors assesses the adequacy of the organizational, administrative and accounting structures of the Company on the basis of information made available by management and, with specific reference to the adequacy of the internal control system, in light of the results of the investigations made by the Control and Risk Committee.

The internal control and risk management system is organized and operates according to the principles and criteria set out in the Italian Stock Exchange Code. It is an integral part of the general organizational structure of the Company and the Group, and involves several components that act in a coordinated way according to their respective responsibilities the responsibility of the Board of Directors to direct and provide strategic oversight, the responsibility of the Executive Directors and management to monitor and manage, the responsibility of the Control and Risk Committee and the Head of the Audit Department to overview and provide support to the Board of Directors, and the supervisory responsibilities of the Board of Statutory Auditors.

The Board of Directors, insofar as it is responsible for the internal control and risk management system, defines the guidelines of the system and verifies its adequacy, effectiveness and proper functioning, so that the main corporate risks (including, among others, operational, compliance-related, economic and financial risks) are properly identified and managed over time.

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The establishment and maintenance of the internal control system are assigned to the Executive Directors (currently, the Chairman Giuseppe Recchi and the Chief Executive Officer Flavio Cattaneo), and to the Manager in charge of preparing the Company's financial report for his area of responsibility (such position is held by the Head of Administration, Finance and Control, Piergiorgio Peluso), so as to ensure the overall adequacy of the system and its functionality, in a risk-based perspective, which is also taken into account in determining the agenda for the Board's proceedings.

The Internal Audit Manager, the Group Compliance Officer and the IT & Security Compliance Department Manager report directly to the full Board; the role of link between the Board of Directors and said control structures is presently assigned to non-executive Director Lucia Calvosa who is the Chairwoman of the Control and Risk Committee.

The assessment of the performance of operations is based on a continuous flow of information coordinated by the Chairman of the Board of Directors and directed towards the non-executive directors and the members of the Board of Statutory Auditors. Assessments are made, notably, with a comparison of the results achieved with those budgeted during the examination of the financial reports.

***Meetings***

The Board of Directors held 14 meetings in 2016.

As of April 7, 2017, 2 meetings have been held.

When board meetings are to be held, documentation permitting effective participation in the proceedings is provided well in advance, subject to circumstances of the case (as a rule, the Friday preceding the day on which the meeting is to be held, which is normally a Thursday), to enable informed participation in the meetings. When required by the subjects discussed, representatives of the Company management or external consultants are invited to take part, who ensure the necessary technical and professional support.

***Appointment of Directors***

As noted above, TIM's bylaws (Article 9) provide for the Board of Directors to be elected by the Shareholders' Meeting through a slate system, which is presently mandatory under Italian law.

The slate system is designed to ensure the presence on the Board of Directors of persons drawn from slates presented by minority shareholders. Shareholders who together hold at least 0.5% of the ordinary share capital can put forward slates of candidates. The slates and the accompanying documentation (such as the curricula vitae of the candidates) must be filed at the Company's registered office at least 25 days and made available to the public at least 21 days before the date scheduled for the shareholders' meeting. Consob requires the Company to make the slates and the relevant information available to the public at its registered office, at Borsa Italiana and on its website [www.telecomitalia.com](http://www.telecomitalia.com). According to TIM's bylaws, slates of candidates can be put forward also by the outgoing Board of Directors. The Board of Directors is elected as follows:

two thirds of the directors to be elected are chosen from the slate that obtains the simple majority of the votes cast by the shareholders, in the order in which they are listed on the slate; in the event of a fractional number, it is rounded down to the nearest whole number;

- the remaining directors are chosen from the remaining slates. To that end, the votes obtained by the various slates are divided successively by whole numbers from one up to the number of directors to be appointed and the results (quotients) obtained are assigned to the candidates on each slate in the order specified thereon. On the basis of the quotients assigned, the candidates on the various slates are arranged in a single decreasing ranking. Those who have obtained the highest quotients are elected.

At least half of the directors chosen from each slate (with rounding up) must be independent, as per applicable requirements. If necessary, the last names elected from a slate that do not fulfill these requirements will be replaced, in order, by the first of those not elected from the same slate who fulfill said requirements. In the absence of a sufficient number of independent candidates in a slate, the Shareholders Meeting shall complete the board with the legal majorities, ensuring that the requirement is fulfilled.

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All slates that present three or more candidates must have a gender ratio of at least 1:3 among the candidates. If the vote on the slates does not fulfill this diversity requirement in the composition of the Board, the appointment of the last of the persons elected from the majority slate who are of the more represented gender is forfeited, and they are replaced with the first unelected candidates of the less represented gender on the same slate, in the number needed to ensure the prescribed gender balance. In any case, if the slate mechanism fails, the Shareholders Meeting retains the right to appoint directors by a subsequent vote, applying the legal majorities, so that the gender diversity requirement is ensured in the composition of the Board.

With respect to the current composition of the Board, see above Item 6 Directors, Senior Management and Employees . See also: Risks associated with TIM s ownership chain under Item 3. Key Information 3.1 Risk Factors .

***Composition***

According to the bylaws, the shareholders meeting decides the exact number of Board members within a minimum and a maximum number (from 7 to 19). Directors may serve for a maximum term of three years, they may be re-elected and there is no statutory age limit for eligibility. There are no provisions in Italian law that set age or shareholding requirements for directors qualification. There are no provisions in the TIM bylaws relating to the retirement of a director under an age or tenure limit requirement.

If during the term of the Board of Directors, one or more directors cease to hold such position for any reason, the Board of Directors may appoint replacements by a resolution approved by the Board of Auditors. The directors so appointed remain in office until the next Shareholders Meeting. The replacements finally appointed by the Shareholders Meeting will remain in office for the same term as the other members already in office at the time of their appointments. In the event of replacement of an independent board member, the Nomination and Remuneration Committee is responsible for proposing a candidate.

Article 3 of the Company s Corporate Governance Principles establishes a cap on the maximum number of positions that TIM directors may hold in management and control bodies of other companies. The general rule is that the position of TIM director is not compatible with directorships or auditorships in more than five companies, other than TIM subsidiaries or affiliates, when such companies:

- are listed and included in the FTSE/MIB index; and/or
- operate prevalently in the financial sector on a public basis; and/or
- engage in banking or insurance.

A TIM directorship is considered incompatible with holding more than three executive positions in companies of the types specified above. The Board of Directors may nonetheless permit exceptions to these rules, subject to such exceptions being made public. If a Director holds office in more than one company belonging to the same Group, only one office held within that Group is taken into account for purposes of calculating the number of offices.



***Impact of Shareholders' Agreements on the Nomination of TIM Group's Companies Boards***

Effective June 17, 2015, the shareholder agreement in place between the shareholders of Telco S.p.A. was dissolved, as disclosed by public notices in accordance with the applicable regulations. As a result, there are no longer any shareholder agreements for TIM pursuant to Article 122 of Italian Legislative Decree 58/1998.

See Item 7. Major Shareholders and Related-Party Transactions Item 7.1.1. The Shareholders' Agreements .

***Independent Directors***

At least two members of the Board of Directors must satisfy the independence requirements set forth by the Consolidated Law on Finance for the members of the Board of Auditors (but see above the independence quota to be met by candidates chosen from each single slate). Moreover, Article 3 of the Corporate Governance Principles incorporate by reference the independence criteria set out in the Borsa Italiana's Corporate Governance Code.

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To qualify as independent under Borsa Italiana's Corporate Governance Code and the Company's Corporate Governance Principles, TIM directors must not maintain, nor have recently maintained, directly or indirectly any business relationships with the issuer or persons linked to the issuer (Group companies, executive directors or members of their families), of such a significance as to influence their autonomous judgment, and should not be in a position to influence the Company as a consequence of the shares they hold or their participation in shareholders agreements. Specific presumptions are listed in Borsa Italiana's Corporate Governance Code.

The Board of Directors verifies the independence requirements at the first meeting after the appointment of the Board and subsequently once a year. On the basis of the declarations made by the interested parties and verified by the Board of Directors, at present 9, out of the 16 directors are considered independent, according to the criteria set forth by the Consolidated Law on Finance as well as the criteria set forth by Borsa Italiana Code: Lucia Calvosa, Davide Benello, Francesca Cornelli, Denise Kingsmill, Giorgina Gallo, Laura Cioli, Giorgio Valerio, Luca Marzotto and Felicitè Herzog. In addition, Jean Paul Fitoussi qualifies as independent pursuant to the independence requirements set forth by the Consolidated Law on Finance for the members of the Board of Auditors. The Board of Auditors verified the correct application of the principles adopted by the Board to evaluate the independence of directors. See Item 16G. Corporate Governance 16.1. Differences in TIM's Corporate Governance and New York Stock Exchange Corporate Governance Practices .

***Executive Directors and Activities of the Board***

The authority to grant delegated powers to directors and revoke such mandates is reserved to the Board of Directors, which also establishes their objects, limits, manner of exercise and the intervals of not more than three months at which persons with delegated powers must report on their activity, the general results of operations, and the transactions of greatest economic, financial or balance sheet significance concluded by the Company or its subsidiaries.

The Chief Executive Officer has been assigned responsibility for the overall management of the Company and the Group (including responsibility for defining, proposing to the Board of Directors and then implementing and developing the strategic, industrial and financial plans) and all the organizational responsibilities to ensure the management and development of business.

Currently, in addition to serving as the legal representative, the Chairman's roles with respect to the Company and the Group include general guidance and overview in the development and implementation of strategy, industrial and financial plans, development of guidelines, supervision over organizational structures and economic and financial progress, and representation in external dealings with the Authorities, institutions and Investors.

There are no other TIM executive directors. As of April 7, 2017, TIM's non-executive directors are: Lucia Calvosa, Davide Benello, Francesca Cornelli, Denise Kingsmill, Giorgina Gallo, Laura Cioli, Giorgio Valerio, Luca Marzotto, Tarak Ben Ammar, Jean Paul Fitoussi Felicitè Herzog, Arnaud Roy de Puyfontaine, Stéphane Roussel and Hervé Philippe.

On a voluntary basis, on February 6, 2014, the Board of Directors approved a Procedure for the management of any extraordinary transaction regarding TIM's holding in the TIM Brasil group companies. The Procedure regulated the investigation and decision-making process for any transaction that could result in the transfer to entities outside the TIM Group of all or part of its holdings in the TIM Brasil Group, or of assets of the related businesses or branches of business exceeding 2 billion euros; it was cancelled by the Board of Directors on March 23, 2017.

***Internal Committees***

According to article 13 of the Bylaws, the Board may set up committees from among its members charged with giving advice and making proposals and shall establish their powers and duties. The Corporate Governance Principles provide for three Committees: the Nomination and Remuneration Committee, the Control and Risk Committee and the Strategic Committee.

With regard to the composition, both the Control and Risk Committee and the Nomination and Remuneration Committee are composed of non-executive directors the majority of which are required to be independent

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directors, including at least one drawn from a minority list; the Strategic Committee is composed of the Chair of the Board of Directors and the Chief Executive Officer (who ensure its coordination with the management of the Group), as well as non-executive directors with expertise in technology, organizational strategies and corporate finance.

***Control and Risk Committee***

According to the Italian Stock Exchange Code, the Committee shall:

- evaluate together with the person responsible for the preparation of the corporate financial documents, after hearing the external auditors and the Board of statutory auditors, the correct application of the accounting principles and, in the case of groups, their consistency for the purpose of the preparation of the consolidated financial statements;
- express opinions on specific aspects relating to the identification of the main risks for the company;
- review the periodic reports evaluating the internal control and risk management system, as well as those reports of the internal audit function that are particularly significant;
- monitor the independence, adequacy, efficiency and effectiveness of the internal audit function;
- request that the internal audit function review specific operational areas, giving simultaneous notice to the chairman of the Board of Statutory Auditors; and
- report to the Board of Directors, at least every six months, on the occasion of the approval of the annual and half-year financial report, on the activity carried out, as well as on the adequacy of the internal control and risk management system.

In addition, according to TIM's Principles and Control, it shall also:

- provide high-level supervision related to corporate social responsibility, monitoring the consistency of the actions performed with the principles laid down by the Code of Ethics of the Group and the values of TIM;
- monitor observance of the Company's corporate governance rules, the evolution of rules and best practice in the field of controls, corporate governance and corporate social responsibility, also with a view to proposing updates to the internal practices and rules of the Company and the Group;

- opine on qualified transactions with related parties, according to the specific procedure; and
- perform any additional tasks assigned by the Board of Directors.

On June 26, 2014 the Board of Directors approved a set of rules governing the activity of the Committee.

### ***Nomination and Remuneration Committee***

According to the Italian Stock Exchange Code, the Committee shall:

- periodically evaluate the adequacy, overall consistency and actual application of the policy for the remuneration of directors and key management personnel, also on the basis of the information provided by the managing directors; it shall formulate proposals to the Board of Directors in that regard;
- submit proposals or issue opinions to the Board of Directors for the remuneration of executive directors and other directors who cover particular offices as well as for the identification of performance objectives related to the variable component of that remuneration; monitor the implementation of decisions adopted by the Board of Directors and verify, in particular, the actual achievement of performance objectives;
- express opinions to the Board of Directors regarding its size and composition and express recommendations with regard to the professional skills necessary within the Board, limit to the accumulation of offices and derogations from the prohibition of competition pursuant to Article 2390 of the Italian Civil Code; and
- submit to the Board of Directors candidates for director's office in case of co-optation, should the replacement of independent directors be necessary.

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In addition, according to the Company's Corporate Governance Principles, it shall also:

- oversee the succession plan for Executive Directors, and monitor the updating of the company management replacement lists, prepared by the Executive Directors;
- establish the procedure for the annual evaluation of the Board of Directors;
- propose the criteria for allocating the total annual compensation established by the Shareholders' Meeting for the whole Board of Directors; and
- perform other duties assigned to it by the Board of Directors.

On June 26, 2014, the Board of Directors approved a set of rules governing the activity of the Committee.

For more information concerning the remuneration of directors and top management see Item 6. Directors, Senior Management and Employees' 6.6 Compensation of Directors, Officers and Members of the Board of Auditors' .

***Strategic Committee***

On July 26, 2016 the Board of Directors created and set up the Strategic Committee, which is governed in its entirety by the Company's Corporate Governance Principles.

According to them, it shall:

- assure support on matters of strategic importance;
- at the request of the Chairman of the Board of Directors and the Chief Executive Officer, and in coordination with the prerogatives of their respective offices and powers, carry out preliminary assessments on the strategic choices of the Group;
- provide opinions and formulate recommendations on strategic plan proposals to bring to the Board of Directors.

On July 26, 2016, the Board of Directors approved a set of rules governing the activity of the Committee, too.

**Internal Control System**

The internal control system is a set of rules, procedures and organizational structures that, through a process of identifying, measuring, managing and monitoring the main risks, allows the sound and fair operation of the company

in line with the pre-established objectives. As such this process is aimed at pursuing the values of both procedural and substantial fairness, transparency and accountability, which are considered key factors for managing TIM's business, in compliance with the Code of Conduct and Ethics of the Group and the Company's Corporate Governance Principles. This process, constantly monitored with a view to progressive improvement, is intended to ensure, in particular, the efficiency of company operations and entrepreneurial conduct, its transparency and verifiability, the reliability of information and management and accounting data, and compliance with applicable laws and regulations as well as the safeguarding of company integrity and its assets, in order to prevent fraud against the Company and the financial markets.

The Board of Directors, insofar as it is responsible for the internal control system, sets the guidelines, verifying its adequacy, effectiveness and proper functioning, so that the main company risks (operational, compliance-related, economic and financial) are properly identified and managed over time.

In the exercise of its responsibility for the internal control system the Board benefits from the activities of the Control and Risk Committee, but also of the Head of the Internal Audit Department, a manager who is given an adequate level of independence and means suitable to perform this duty. The Head of the Audit Department assesses the adequacy, full functioning and effectiveness of the control and risk management system and consequently proposes corrective measures in case of anomalies and malfunctions.

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In particular, in accordance with the provisions of the Corporate Governance Code of Borsa Italiana, the Head of the Audit Department:

- a) verifies, both on a continuous basis and in relation to special needs, in conformity with international standards, the adequacy and effective functioning of the internal control and risk management system, through an audit plan approved by the Board of Directors, based on a structured analysis and ranking of the main risks;
- b) is not responsible for any operational area and reports directly to the Board of Directors;
- c) has direct access to all information useful for the performance of his or her duties;
- d) drafts periodic reports containing information on his or her own activity, and on the risk management process, as well as about compliance with the plans defined to mitigate these risks. Such periodic reports contain an evaluation of the adequacy of the internal control and risk management system;
- e) prepares timely reports on particularly significant events;
- f) submits the reports referred to in points (d) and (e) above to the Chairs of the Board of Statutory Auditors, Control and Risk Committee as well as to the Chair of the Board of Directors and the Chief Executive Officer in relation to the power assigned to them for Internal Control Issues;
- g) tests the reliability of the information systems, including the accounting system, as part of the audit plan; and
- h) reports on his or her work to the Director delegated for this purpose, the Control and risk Committee and, through the latter, to the Board of Directors, as well as the Board of Statutory Auditors. In particular, he or she reports on how risk is managed, as well as on compliance with established plans for risk containment, and expresses his or her assessment on the suitability of the internal control system for achieving an acceptable overall risk profile.

The Head of the Audit Department also has a role in ensuring respect of the principles and values expressed in the Code of Ethics and Conduct, by handling reports from employees, collaborators, consultants, employers and third parties in business relationships with the Group on violations of laws or regulations, of the Code itself, and of internal procedures, as well as irregularities or negligence (including accounting), and promoting the most appropriate resulting initiatives, including the proposal to impose sanctions.

The oversight role of the Head of Internal Audit is directed towards expressing an assessment in terms of reasonable certainty about the capacity of the internal control system to impact on the actual achievement of the objectives assigned to individual company structures (effectiveness profile), taking account of the rational use of resources for



their realization (efficiency profile) in the light of the (qualitative/quantitative) risk factors present and the probability of their affecting the achievement of those objectives.

The TIM Group has adopted an Enterprise Risk Management (ERM) process which enables risks to be identified, assessed and managed in a homogeneous way within the Group companies, highlighting potential synergies between the players involved in the assessment of the Internal Control System. There is particular focus on the relationship between the ERM process and the business planning process, particularly in proposing the acceptable level of risk for the Group (Risk Appetite), as well as its distribution in levels of acceptable deviation on the principal corporate objectives (Risk Tolerance).

The process is directed by the ERM Steering Committee. The Steering Committee assures governance of Group risk management, aimed at guaranteeing the operational continuity of the business, monitoring the effectiveness of the measures adopted. The ERM process is designed to identify potential events that may impact on business activity, to manage the risk within acceptable limits and to provide reasonable assurance of the achievement of the corporate objectives.

The Company's internal control system is completed according to the 231 Organizational Model, which provides a model of organization and management adopted pursuant to Italian Legislative Decree no. 231/2001, and is aimed at preventing violations that can result in liability for the Company. The Organizational Model also constitutes an integral component of the reference compliance program for the application of anti-corruption

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legislation such as for example the FCPA and the UK Bribery Act. In this context, a foreign version of the Organizational Model has been defined for adoption by the non-Italian subsidiaries, also taking account of the possible application of similar regulations at local level.

Monitoring of the functioning and compliance with the model as from May 2012 is performed by the Board of Statutory Auditors (supported in its activities by appropriate offices within the Company) which oversees the operation and observance of the Organizational Model and reports to the Board of Directors the checks it has undertaken and their outcome.

The 231 Organizational Model is subject to continuing improvement. Some revisions are made necessary by changes in the law, while others are proposed when deemed appropriate in the light of the results of the model's application. The amendments are drafted by a managerial committee called Steering Committee 231, briefed by the Board of Statutory Auditors acting as Supervisory Panel and approved by the Board of Directors when of a significant nature.

**Board of Auditors*****Tasks and role***

The Board of Auditors verifies compliance with the law and the Bylaws and verifies adherence to the best administration principles, the adequacy and reliability of corporate structures, internal audit procedures and accounting system, and the adequacy of instructions given by the Company to its subsidiaries. The Board of Auditors must receive timely disclosures, at least quarterly, from the Board of Directors about the company's business and significant transactions performed by the company and its subsidiaries, including related parties transactions. Statutory Auditors must inform Consob of any irregularity they detect in the course of their duties and are required to attend Shareholders' Meetings, Board of Directors meetings and Executive Committee meetings.

In addition to that, under the provisions of Legislative Decree 231/2001, Supervisory Panel functions have been granted to the Board of Auditors.

During 2016, there were 50 meetings of the Board of Statutory Auditors, nine of which were held jointly with the Control and Risk Committee. In addition, its members participated in the meetings of the Board of Directors and periodically received the reports from the executive directors, as provided in the above mentioned procedure.

***Appointment***

TIM's Board of Auditors is composed of five regular auditors, and four alternate auditors. The Board of Auditors is appointed by the Shareholders' Meeting through the slate system under the same procedure used for the election of the Board of Directors. Three regular auditors and two alternate auditor are drawn from the so called majority slate (that is the slate that obtained the simple majority of the votes cast by the shareholders), two regular auditors and two alternate auditors are taken from the other slates, so called minority slates.

All slates that present three or more candidates shall have a gender ratio of at least 1:3 among the candidates. If the vote on the slates does not fulfill the diversity requirement in the composition of the Board, the appointment of the last of the persons elected from the majority slate who are of the more represented gender is forfeited, and they are replaced with the first unelected candidates of the less represented gender on the same slate, in the number needed to

ensure the prescribed gender balance. In any case, if the slate mechanism fails, the Shareholders Meeting retains the right to appoint auditors by a subsequent vote, applying the legal majorities, so that the gender diversity requirement is ensured in the composition of the Board.

Pursuant to applicable Italian law, the Chairman of the Board of Auditors is appointed by the shareholders meeting from among the auditors elected from a minority slate .

Auditors serve for a three-year term, may be reappointed and may be removed from their office for just cause and upon a resolution approved by the competent court.

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As described above, the Board of Auditors plays a key role in the Company's system of corporate governance.

More specifically, according to Rule 10A-3 under the 1934 Act and NYSE listing standards, the Board of Auditors has been identified to act as TIM's Audit Committee. The Board of Auditors meets the requirements of the general exemption contained in Rule 10A-3(c)(3):

- the Board of Auditors is established pursuant to applicable Italian law and TIM's Bylaws;
- under Italian legal requirements, the Board of Auditors is separate from the Board of Directors;
- the Board of Auditors is not elected by the management of the Company and no executive officer is a member of the Board of Auditors;
- all of the members of the Board of Auditors meet specific independence requirements from the Company and its Group, the management and the auditing firm, as set forth by Italian legal provisions;
- the Board of Auditors, in accordance with and to the extent permitted by Italian law, is responsible for the appointment, retention (via proposal to the shareholders' meeting) and oversight of the work of the Company's external auditors engaged for the purpose of issuing the audit report on the annual financial statements;
- the Board of Auditors is authorized to engage independent counsel and other advisers, as it deems appropriate; and
- the Board of Auditors has adopted a complaints procedure in accordance with Rule 10A-3 of the 1934 Act.

In view of its responsibilities under Italian law and the obligations deriving from US law, the Board of Auditors adopted a complaints procedure for receiving, retaining and treating the reports it receives. Such reports can be of the following kinds:

- statements of violations submitted by shareholders concerning matters deemed to be improper;

complaints by any person, thus including non-shareholders, concerning alleged irregularities, improper facts or, more generally, any problem or issue deemed to merit investigation by the control body;

- complaints specifically regarding accounting, internal accounting controls, or auditing matters; and
- confidential, possibly anonymous submissions of concerns by employees of the Company or the Group regarding questionable accounting or auditing matters.

A short description of how such reports are to be submitted to the Board of Auditors/Audit Committee is available on the Company's website under Governance .

## **Shareholders Meetings**

### *Meetings of Ordinary Shareholders*

Holders of Ordinary Shares are entitled to attend and vote at ordinary and extraordinary shareholders meetings. At any Shareholders Meeting, each holder is entitled to cast one vote for each Ordinary Share held. Votes may be cast personally or by proxy. According to the bylaws, the issuer may designate, for each Shareholders Meeting, one or more representatives on whom those entitled to vote may confer a proxy free of charge. The person so designated, and the necessary operating instructions, shall be stated in the notice calling the meeting. Holders of Ordinary Shares can also vote by mail or through a proprietary, web based platform, if so specified in the notice of the specific meeting and in the ways specified therein.

Shareholders Meetings are called by the Company's Board of Directors when required by law or the shareholders or deemed necessary.

Shareholders Meetings must be convened at least once a year. At these ordinary meetings, holders of Ordinary Shares (i) approve the annual accounts, (ii) appoint/revoke directors and auditors and determine their remuneration, when necessary, (iii) vote on other issues defined in the Bylaws, if any, (iv) authorize the

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completion of the transactions by the directors, if and when the Bylaws call for such previous authorization, it being understood that directors remain directly responsible for the transactions accomplished, and (v) adopt rules of procedure for the shareholders meetings (Meeting Regulations).

It is mandatory for issuers to publish their annual report within 120 days of the close of their fiscal year; if the bylaws so provide (and this is the case in TIM), the approval by the annual general meeting can follow, but, in any event, the annual general meeting must take place no later than 180 days after the end of the fiscal year.

Extraordinary Shareholders Meetings may be called to pass upon proposed amendments to the Bylaws, capital increases, mergers, dissolutions, issuance of convertible debentures (which can also be delegated to the Board of Directors), appointment of receivers and similar extraordinary actions.

As a rule, shareholders are informed of all Shareholders Meetings to be held by publication of a notice at least 30 days (40 days in case of Shareholders Meetings convened to appoint corporate bodies) before the date fixed for the meeting. The notice must be published, either in full or in extract form, in at least one national daily newspaper, posted on the issuer's internet site and filed with the Italian Stock Exchange and Consob. TIM's bylaws allow the Shareholders Meeting to be called either in a single call or with up to two meeting dates for an ordinary Shareholders Meeting and up to three meeting dates for an extraordinary Shareholders Meeting. When the meeting is convened in a single call, the quorums of second calls of ordinary Shareholders Meeting and third calls of extraordinary Shareholders Meeting, as the case may be, apply.

An ordinary Shareholders Meeting is duly constituted on first call with the attendance of at least 50% of the outstanding Ordinary Shares, while on second call there is no quorum requirement. In either case, resolutions are approved by holders of the majority of the Ordinary Shares represented at the meeting.

Extraordinary Shareholders Meetings are duly constituted with the attendance of shareholders representing at least one-half or more than one-third or at least one-fifth of the company's ordinary share capital, on the first call, second call and third call, respectively. The favorable vote of at least two-thirds of the Ordinary Shares represented at the meeting is necessary for the resolution approval.

To attend and vote at any Shareholders Meeting, holding of shares on the record date (statutorily set at seven trading days before the meeting) is the sole requirement, but to certify that an ad hoc communication by the authorized intermediary must have been received by the Company.

Special arrangements with the Depositary may be required for the beneficial owner of ADRs representing ADSs to attend Shareholders Meetings and exercise voting rights with respect to underlying Ordinary Shares. See 10.5 Description of American Depositary Receipts Voting of Deposited Securities .

Votes cast in the Shareholders Meeting are open, as the minutes of the meeting are required to evidence how attending shareholders voted.

Shareholders may attend the meeting by proxy using a power of attorney. There is no limit to the number of shareholders any one proxy can represent. A proxy may be appointed only for one single meeting (including, however, the first, second and in case of extraordinary meetings third call) and may be substituted by the person expressly indicated in the form or, if the proxy is so authorized, by the substitute the proxy appoints.

Votes by proxy may be solicited and collected for the shareholders' meetings of listed companies. Proxy solicitation provisions allow individuals (and even the issuer), to promote the soliciting of votes by proxy at shareholders' meetings. There is no ownership requirement to this end. Proxy solicitation is subject to specific rules and disclosure requirements set forth by Consob.

In addition, shareholders' associations composed of at least 50 people, each with no more than 0.1% voting share capital, may collect proxies among their group, without any specific disclosure requirement. In order to facilitate such operation among employee shareholders, the Bylaws provides that special measures will be made available to such shareholders' associations in order to facilitate dissemination of information about solicitation and proxy collection operations.

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Ordinary Shareholders may also vote by mail. The vote by mail cannot be cast by proxy. The system is essentially based on the following principles: (a) the notice calling the shareholders meetings must specify that shareholders can vote by mail and must describe the procedures they have to follow; (b) shareholders wishing to vote by mail (to be duly entitled to vote through timely communication to the issuer, as described above) must send the company a special form (so called ballot) made available for such purpose by the issuer, which has to comply with specific Consob requirements; (c) votes cast by mail must be delivered to the company at least on the day before the Shareholders Meeting takes place; and, finally, (d) votes cast by mail remain valid for the second and third calls of the meeting and can be revoked by a written declaration until the day before the meeting, or directly in the meeting through an ad-hoc statement by the interested party.

The Company's bylaws provide that, if the notice of the meeting specifies it and in the ways described therein, Ordinary Shareholders may also vote electronically, in advance of the meeting.

The shareholders meetings shall be called when requested by shareholders representing at least 5% of a company's share capital. In case the directors or in their place the statutory auditors don't call the Shareholders Meeting, the Court orders with a decree the call of the Shareholders Meeting, after having heard the directors and statutory auditors, if the refusal is unjustified. Shareholders are not allowed to present requests on topics upon which the Shareholders Meeting resolves, pursuant to Italian law, on directors' proposal or on a project basis only.

Shareholders representing at least 2.5% of the share capital may request, within ten days of the publication of the notice convening the meeting, additions to the agenda of the shareholders meeting or presentation to the shareholders meeting of alternative proposals for resolution on items already on the agenda. Added items and alternative proposed resolutions on items already on the agenda, have to be disclosed in the same ways as the notice calling the meeting, at least fifteen days prior to the date scheduled for the shareholders meeting. Additions to the agenda and/or alternative proposed resolutions cannot be submitted for matters on which the shareholders meeting is required by law to resolve on proposals put forward by the directors or on the basis of a plan or report by the Board of Directors.

The Shareholders Meeting on May 6, 2004 adopted a set of Rules of Proceeding, which apply to both Ordinary and Extraordinary meetings, which were amended by the shareholders Meeting of April 12, 2011. The current version of the Rules is posted on the Company's website under Governance .

***Meetings of Savings Shareholders***

Although holders of Savings Shares are not entitled to vote in meetings of holders of Ordinary Shares, they are entitled to attend special meetings of holders of Savings Shares ( **Special Meetings** ) and to appoint a joint representative (the **Joint Representative** ) to represent them, with respect to the Company.

The Joint Representative, who is appointed by the Special Meeting or, in default, by the Court, is entitled (i) to inspect certain corporate books of the Company, (ii) to attend the Shareholders Meetings and (iii) to challenge in court the resolutions adopted by such meetings. The Joint Representative is appointed for a maximum three-year term and, according to the Bylaws, is kept informed by the Company regarding corporate events that can affect the price trend of Savings Shares. The Savings Shareholders Meeting held on June 16, 2016 confirmed Mr. Dario Trevisan as joint Representative for a three year period which will expire with the Ordinary Shareholders Meeting to be convened for approval of the Company's financial statements for the year 2018.



Special Meetings of Savings Shareholders may be called when deemed necessary or upon request by Savings Shareholders representing at least 1% of the outstanding Savings Shares either by the Joint Representative or by the Company's Board of Directors in order to (a) appoint and revoke the Joint Representative, (b) approve the resolutions of the Shareholders Meetings that may affect the rights of Savings Shares, (c) set up an expense fund for the coverage of costs incurred in protecting rights of the Savings Shareholders, (d) negotiate possible disputes with the Company; and (e) resolve other issues relating to their position as holders of Savings Shares. To adopt resolutions related to (a), (c) and (e) above, a favorable vote of at least 20% of the Savings Shares is required at Special Meetings held on the first call, a favorable vote of at least 10% is required at Special Meetings held on the second call, and a favorable vote of at least a majority of the Savings Shares present is required at Special Meetings held on the third call. To adopt resolutions related to (b) and (d) above, a favorable vote of at least 20% of the Savings Shares is required at all calls of the Special Meetings.

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To attend a vote at any Special Meeting, holding of Savings Shares on the record date (statutorily set at seven trading days before the meeting) is the sole requirement, but to certify that, an ad hoc communication by an authorized intermediary must have been received by the Company. Special arrangements with the Depositary may be required for the beneficial owner of ADRs representing Savings Share ADSs to attend Special Meetings and exercise voting rights with respect to underlying Savings Shares. See 10.5 Description of American Depositary Receipts Voting of Deposited Securities .

**Disclosure**

Transparent relations with the financial markets, and the provision of accurate information are paramount for the TIM Group.

A specific procedure (posted on the Company's website under Governance ) covers the handling including the public disclosure of inside information concerning TIM, its unlisted subsidiaries and listed financial instruments, and is addressed to all the members of the governing bodies, employees and outside consultants of Group companies who have potential access to inside information. It also applies as an instruction to all subsidiaries for the purpose of promptly obtaining the necessary information for timely and correct compliance with public disclosure requirements.

After MAR came into force in July 2016, the Board of Directors, on 3 February 2017, notwithstanding the non-completion/non-adaptation of the Italian regulatory framework, approved the replacement of the aforementioned Procedure and its replacement with a new inside information and insider dealing procedure, currently being deployed. It remains understood that further changes may be made by the legislative bodies and/or Consob, which could require its modification (including in the short term).

The new procedure:

- provides rules for the identification of inside information (defining criteria and responsibilities/processes);
- sets out the obligations and prohibitions deriving from access to inside information, or from the possibility of generating such information;
- provides rules for the phase of public disclosure (and delay in disclosure ) of inside information, setting out the roles and responsibilities of the various subjects involved;
- describes the ways in which the obligation to draw up lists of people who have access to inside information may be complied with;
- provides a series of operational references, principles of application and criteria for interpretation on the topic of insider dealing and the closed period;

- sets out the legal penalty regime that applies in case of non-compliance with the relevant law, as well as the contractual responsibility aspects of breaching this regime (and its possible consequences).

Once in operation, the procedure will become available on the Company's website.

With reference to the preparation of the financial statements for 2016, the procedures for the Preparation of the TIM 2016 annual report for Italian purposes and TIM 2016 Form 20-F provide for specific mechanisms of upward attestation by the people in charge of the various corporate structures involved in the process of gathering and handling data and drafting the document. This is aimed at giving adequate assurance and support to the senior officers, the Board of Auditors, the Control and Risk Committee and the Board of Directors as a whole in fulfilling their responsibility for oversight of the accuracy and timeliness of required disclosures.

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**Table of Contents****Item 10. Additional Information      Exchange Controls And Other Limitations Affecting Security Holders****10.2 EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS****Foreign Investment and Exchange Control Regulations in Italy**

There are no exchange controls in Italy. Residents of Italy may hold foreign currency and foreign securities of any kind, within and outside Italy. Non-residents may invest in Italian securities and may export cash, instruments of credit and securities, in both foreign currency and euro, representing interest, dividends, other asset distributions and the proceeds of dispositions without restriction other than those outlined below. There are no limitations on the right of non-resident or foreign beneficial owners to vote their Shares except as provided for all TIM shareholders by law. See 10.4 Description of Capital Stock Limitations on Voting and Shareholdings .

Reporting and record-keeping requirements are contained in Italian legislation which implements an EU Directive regarding the free movement of capital. Such legislation requires that transfers of cash or bearer bank or postal passbooks or bearer instruments in euro or in foreign currency, effected for whatsoever reason between different parties, shall be carried out by means of credit institutions and any other authorized intermediaries when the total amount of the value to be transferred is equal to or more than 1,000.00 euros. However, with respect to some types of cash payment, the threshold has been raised to 3,000.00 euros by the Budget Law for 2016 (Law n. 208 of December 28, 2015). The threshold referred to above also applies when there is reason to believe that several transactions, effected at different times within a certain period of time, constitute part of a single transaction, even if individually below the threshold amount specified. Whenever the execution of such transactions leads to belief that there are irregularities in their performance, such transactions shall be reported in writing to the Italian Central Bank which shall carry out necessary checks. Credit institutions and other intermediaries effecting such transactions on behalf of residents or non-residents of Italy are required to maintain records of such transactions for ten years, which may be inspected at any time by Italian authorities. Non-compliance with the above may result, among others, in administrative fines or, criminal penalties if the transactions fall within a case ruled by the criminal code. Certain additional procedural requirements are imposed for tax reasons. Non-corporate residents (i.e., individuals, non-commercial partnerships and non-commercial entities) which are resident of Italy for tax purposes and which in the course of the fiscal year hold (or are beneficial owners, as defined for anti-money laundering purposes, of) investments abroad or have financial activities abroad must, in certain circumstances, disclose such investments or financial activities regardless of the value of such assets (in contrast, for assets held up to December 31, 2012, the disclosure must be done only if such financial assets held abroad at the end of the fiscal year exceeded 10,000.00 euros). Particularly, non-corporate residents must report on their income tax returns the level of the investments or financial activities held abroad during the tax period, regardless of the total value of the same. This requirement applies even if the taxpayer during the tax period has totally divested such assets. Moreover, compared with the past years, non-corporate residents are no longer (starting from the tax returns to be filed for fiscal year 2013), required to provide details in their income tax returns about transfers to, from, within and between foreign countries in connection with such assets during the fiscal year. No disclosure requirements exist for investments and financial activities under management or administration entrusted to Italian resident intermediaries and for contracts concluded through their intervention, provided that the cash flows and the income derived from such activities and contracts have been subject to Italian withholding or substitute tax by intermediaries themselves. No income tax return is required in respect of foreign investments and foreign income-earning assets that are exempt from income tax or subject to withholding tax in Italy. For corporate residents there is no requirement for such a declaration because their financial statements (on the basis of which their income tax returns are prepared) already contain the information.

There can be no assurance that the present regulatory environment in or outside Italy will endure or that particular policies presently in effect will be maintained, although Italy is required to maintain certain regulations and policies by virtue of its membership in the EU and other international organizations and its adherence to various bilateral and multilateral international agreements.

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**Item 10. Additional Information**

**Description of Bylaws**

**10.3 DESCRIPTION OF BYLAWS**

***Object***

TIM's corporate purpose is described in Article 3 of the Bylaws and consists of the following activities:

- to install and operate fixed or mobile equipment and installations for the purpose of providing and operating telecommunications services and to carry out the activities directly or indirectly related thereto;
- to hold interests in other businesses falling within the scope of the above stated corporate object or otherwise related thereto; and
- to control and provide the strategic, technical, administrative and financial coordination, overseeing and managing the financial activities of controlled companies and businesses, and carrying out all transactions related thereto.

***Directors***

There are no provisions in the Bylaws relating to: (1) the power of a director to vote on a proposal in which such director is materially interested, (2) the power of a director to (in the absence of an independent quorum) vote compensation to himself or any member of its body, (3) the power of a director to borrow money from the Company, (4) the retirement of a director under an age limit requirement and (5) the number of shares required for director's qualification.

The Board of Directors grants specific positions to any of its members in compliance with the Bylaws of the company; such positions include, among others, those of Chairman, Deputy Chairman and Managing Director. According to Italian law the remuneration corresponding to such positions is then defined by the Board of Directors in its discretion, after acknowledging the opinion of the Board of Auditors.

There are no provisions in Italian law that govern the issue of directors borrowing money from the company and that set age or shareholding requirements for director's qualification. According to Italian law, in case of an interest of directors in the transaction to be resolved upon by the Board, there are disclosure requirements, but abstention is not required.

**Table of Contents****Item 10. Additional Information****Description of Capital Stock****10.4 DESCRIPTION OF CAPITAL STOCK**

As of April 7, 2017, the subscribed and fully paid-up capital stock was equal to euros 11,677,002,855.10 divided into 15,203,122,583 Ordinary Shares and 6,027,791,699 Savings Shares, all without par value.

The Extraordinary Shareholders Meeting of May 20, 2015 approved the increase of the Company's share capital, with exclusion of the preferential subscription right pursuant to art. 2441, subsection 5 of the Italian Civil Code, of up to 2,000,000,000 euros (two billion), including any share premium, to service the conversion of the **2,000,000,000 1.125 per cent. Equity-Linked bonds due 2022**, through the issuance of ordinary shares of the Company with regular dividend entitlement, without prejudice to the fact that the final terms for subscription of the newly issued shares are established as March 26, 2022 and that if, as of that date, the share capital increase has not been fully subscribed, it will be increased by an amount equal to the subscriptions collected as of that date. No partial shares will be issued or delivered and no cash payment or adjustment will be made in lieu of said parts.

On March 23, 2017, the Board of Directors, by virtue of the powers granted by the Extraordinary Shareholders Meeting of April 16, 2014, resolved to increase the share capital by the maximum amount of 8,404,245.30 euros, by the issue of up to 15,280,446 new ordinary shares, with regular dividend entitlement, to be reserved to the assignees of 15,280,446 options under the scope of the 2014-2016 Stock Option Plan, with imputation to capital of the amount of 0.55 euros per share issued, at an issue price respectively of 0.94 euros, 0.99 euros, 1.01 euros or 1.15 euros, depending on when the respective options were assigned to each beneficiary, establishing that, if not fully subscribed by March 24, 2020, the share capital will be increased by an amount equal to the subscriptions collected as at that date.

In 2016, the share capital increased:

- on September 22, 2016, as a result of the issue of 360,100 ordinary shares following the conversion of 3 Telecom Italia Finance bonds of the bond issue **Guaranteed Subordinated Mandatory Convertible Bonds due 2016 convertible into ordinary shares of TIM S.p.A.** ;
- on November 15, 2016, as a result of the issue of 1,702,850,712 ordinary shares following the conversion of the remaining 12,997 Telecom Italia Finance bonds of the same afore-mentioned bond issue.

***Classes of shares***

According to Italian law, Savings Shares may not be issued for an amount which, including other preferred shares, if any, exceeds one-half of the Company's share capital.

Pursuant to TIM's Bylaws any reduction in share capital made for the purpose of absorbing losses is applied to the fraction of capital represented by the Ordinary Shares until they have been reduced to zero and only then is the fraction of capital represented by the Savings Shares reduced. If, as a consequence of capital reduction, the Savings Shares exceed half of the Company's share capital, such excess must be eliminated within the following two years.

***Form and Transfer***

The Dematerialization Decree provides for the dematerialization of financial instruments publicly traded on regulated markets, including shares.

As a result, Ordinary Shares and Savings Shares must be held with Monte Titoli. Most Italian banks, brokers and securities dealers have securities accounts as participants with Monte Titoli, and beneficial owners of Ordinary Shares and Savings Shares may hold their interests through special deposit accounts with any such participant. The beneficial owners of Ordinary Shares and Savings Shares held with Monte Titoli may transfer their Ordinary Shares, collect dividends and exercise other rights with respect to those shares through such accounts. Such shares held by Monte Titoli are transferred between beneficial owners by appropriate instructions being given to the relevant participants associated with Monte Titoli to debit the account with the bank of the vendor and to credit the account with the bank of the purchaser.



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Voting rights relating to Ordinary Shares and Savings Shares that have not been deposited with Monte Titoli may be exercised only by depositing them with an authorized intermediary. The Company may act as an intermediary for its own shares.

Each person owning a beneficial interest in Ordinary Shares and Savings Shares held through Euroclear or Clearstream must rely on the procedures of Euroclear or Clearstream, respectively, and of institutions that have accounts with Euroclear or Clearstream to exercise any rights of a holder of shares. Holders may request Euroclear or Clearstream to transfer their Ordinary Shares and Savings Shares to an account of such holder with a participant of Monte Titoli, in which case such holders may transfer their shares, collect dividends and exercise other shareholder rights through that participant. Any such transfer through that participant is not subject to Italian transfer tax if non-Italian parties are involved. See 10.6 Taxation .

***Dividend Rights***

Holders of Savings Shares are entitled each year to a distribution with respect to such year's net income in the amount up to 5% of 0.55 euros per share (so called privilege). If with respect to any year a lesser amount is paid, the entitlement to payment of the shortfall is carried over for two successive years. In the event that dividends are paid to holders of Ordinary Shares, holders of Savings Shares have a preferential right to receive a dividend per share that is higher by 2% of 0.55 euros per share than the dividend per Ordinary Share (so called enhancement).

In case the net income is insufficient, the Annual Ordinary Shareholders' meeting is allowed to satisfy both the aforementioned preferential rights (privilege and enhancement) by distributing reserves, when available.

***Subscription Rights***

New Ordinary Shares and/or Savings Shares may be issued pursuant to a resolution of holders of Ordinary Shares at any extraordinary Shareholders' Meeting.

Pursuant to Italian law, shareholders (including holders of Savings Shares) are entitled to subscribe for new issues of Ordinary Shares and/or Savings Shares, debentures convertible into Ordinary Shares and/or Savings Shares and rights to subscribe for Ordinary Shares and/or Savings Shares in proportion to their respective shareholdings.

Nevertheless, subject to certain conditions principally designed to prevent dilution of the rights of shareholders, subscription rights may be waived or limited by resolutions taken by the extraordinary Shareholders' Meeting. On the other hand, according to the Bylaws the subscription rights can be excluded by the extraordinary Shareholders' Meeting in the amount of 10% of the pre-existent share capital with no special quorum or disclosure requirement, on condition that the subscription price is equal to the shares market price and this is confirmed in the proper independent auditors' report.

Shareholders can adopt a resolution, at an extraordinary Shareholders' Meeting, to convert available reserves into additional share capital. In such case, either the fraction of capital represented by all outstanding shares is identically raised or the shares resulting from the increase in share capital are allocated to the shareholders in proportion to their ownership before the increase without further contribution or payment from the shareholder.

***Liquidation Rights***

Subject to the satisfaction of all other creditors, holders of Ordinary Shares are entitled to a distribution in liquidation.

Holders of Savings Shares and preferred shares, if any, are entitled to a preferred right to distribution from liquidation up to 0.55 euros per share. No liquidation dividend is payable to the holders of other classes of shares until such preferential right has been satisfied in full. Thereafter, in case of surplus assets, holders of all classes of shares rank equally in the distribution of such surplus assets. Shares rank pari passu among themselves in a liquidation.

**Table of Contents****Item 10. Additional Information****Description of Capital Stock*****Purchase of Ordinary Shares or Savings Shares by the Company***

The Company may purchase its own Ordinary Shares or Savings Shares subject to certain conditions and limitations. Such purchases must be authorized by a Shareholders Meeting and made only out of retained earnings or distributable reserves as shown on the most recent financial statements approved by the Shareholders Meeting. The fraction of capital represented by the Ordinary Shares or Savings Shares purchased by the Company, including the Ordinary Shares or Savings Shares, if any, held by the Company's subsidiaries, may not exceed 10% of the Company's share capital. The Company may purchase its own Ordinary Shares or Savings Shares:

- by means of a tender offer;
- on regulated markets in accordance with trading methods laid down in the market rules, that do not permit the direct matching of buy orders with predetermined sell orders;
- by means of the purchase and sale of derivative instruments traded on regulated markets that provide for the delivery of the underlying shares, provided the market rules lay down methods for the purchase and sale of such instruments that (i) do not permit the direct matching of buy orders with predetermined sell orders and (ii) ensure the easy participation of investors in the trading of such derivative instruments used for buybacks;
- by granting shareholders, in relation to the shares they hold, a put option to be exercised within a period established by the shareholders meeting authorizing the share purchase program.

Before entering into transactions aimed at the purchase of its own shares other than by means of a tender offer (which in Italy is governed by specific disclosure requirements), the Company must disclose to the public all the details of the share purchase program.

Ordinary Shares or Savings Shares purchased and held by the Company or one of its subsidiaries may be disposed of only pursuant to a resolution of the Company's or, if applicable, its subsidiary's shareholders meeting.

As a rule, neither the Company nor any company under its control may vote or subscribe for new Ordinary Shares or Savings Shares of the Company, but the shareholders meeting may authorize the exercise of subscription rights. If no such authorization is granted, the subscription rights accrue to the other holders so long as such Ordinary Shares or Savings Shares are held by the Company or a company under its control. The Ordinary Shares or the Savings Shares, as long as they are owned by the Company, are not entitled to receive dividends.

As of April 7, 2017, TIM owns 37,672,014 of its own Ordinary Shares, while the subsidiary Telecom Italia Finance S.A. holds another 126,082,374 Ordinary Shares, for a total of 1.08% of capital with voting rights.

***Reporting Requirements and Restrictions on Acquisitions of Shares***

Pursuant to Italian securities regulations any acquisition or sale of an interest in excess of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50%, 66.6%, 90% and in the voting shares of a listed company, must be notified to the listed company and to Consob within five trading days (defined as days on which Borsa Italiana is open) following the acquisition or sale. Consob must make such information public within three trading days from the notification.

For the purpose of the aforementioned disclosure obligations, shares of which a party is the principal, even if the voting rights are due or assigned to third parties or suspended, are considered as investments. Shares in relation to which a party is assigned or due voting rights are also considered investments where one of the following criteria or a combination of such, is met: (i) voting rights due as pledgee or usufructuary; (ii) voting rights due as depository or third party account holder, as long as this right can be exercised at discretion; (iii) voting rights due by virtue of power of attorney, as long as the right can be exercised at discretion with no specific instructions by the delegating party; (iv) voting rights due on the basis of an agreement envisaging the provisional, paid transfer of it.

The disclosure obligations envisaged above shall also apply to the treasury shares held directly or via subsidiary companies. In the event of shares subject to security lending or contango transactions, the disclosure obligation is both the lender or the contango payer's and the borrower or the contango broker's. For the same disclosure obligation, shall also be included both the shares owned by nominees, trustees or subsidiary companies and the shares of which the voting rights belong or are assigned to such persons.

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**Table of Contents****Item 10. Additional Information****Description of Capital Stock**

Shareholder agreements concerning the voting shares of a listed company must be notified to Consob, published in abridged form in the daily press and filed with the Company Register of the place where the company has its registered office if they provide for duties of consultation before voting, set limits on the transfer or provide for the purchase of the relevant shares, have as their object or effect the exercise of a dominant influence on the company, aim to encourage or frustrate a takeover bid or equity swap, including commitments relating to non-participation in a takeover bid. The same rule applies when the shareholder agreements concern the shares issued by a non-listed company that controls a listed company. The notification must include the share ownership of all parties filing it.

When listed companies change their share capital, they must notify Consob and Borsa Italiana of the amount of the share capital and the number and classes of shares into which it is divided. Consob and Borsa Italiana must make the information available to the public no later than the day following the notification. The notification shall be made no later than the day following the event causing such modification or the day following the filing of the amended Bylaws.

In accordance with Italian antitrust laws and regulations, the Antitrust Authority is required to prohibit acquisitions of sole or joint control over a company that would create or strengthen a dominant position in the domestic market or a significant part thereof. However, if the acquiring party and the company to be acquired operate in more than one Member State of the EU and exceed certain revenue thresholds, the antitrust approval of the acquisition falls within the exclusive jurisdiction of the European Commission. See Item 4. Information on the TIM Group 4.3 Regulation .

***Limitations on Voting and Shareholdings***

There are no limitations imposed by Italian law or by the Bylaws of TIM on the rights of non-residents of Italy or foreign persons to hold or vote the Ordinary Shares other than those limitations resulting from the special powers of the State, which apply equally to all owners of Ordinary Shares, Italian and foreign alike.

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Following the Merger, Olivetti as the surviving company changed its name to TIM S.p.A. , succeeded to the Exchange Act registration of Old TIM and became subject to the foreign private issuer reporting requirements of the Exchange Act. TIM completed the listing of its Ordinary Share American Depositary Shares and Savings Share American Depositary Shares on the New York Stock Exchange. TIM has entered into two Deposit Agreements among the Company, JPMorgan Chase Bank, as depositary, and the registered Holders from time to time of ADRs issued thereunder. The first such Deposit Agreement, dated as of July 17, 2003, provides for the deposit of Ordinary Shares in registered form, par value 0.55 euros each and the issuance of the Ordinary Share ADSs; the second such Deposit Agreement, also dated as of July 17, 2003 provides for the deposit of Savings Shares in registered form, par value 0.55 euros each and the issuance of the Savings Share ADSs. Because these agreements are otherwise substantially identical, such agreements (including all exhibits and amendments thereto) are referred to herein as the Deposit Agreement , deposited Shares as well as deposited Savings Shares are referred to as Shares , and the Ordinary Share ADSs or Savings Share ADSs, as the case may be, are referred to as the ADSs . The following is a summary of the material provisions of the Deposit Agreement. This summary does not purport to be complete and is qualified in its entirety by reference to the Deposit Agreement. Copies of the Deposit Agreement are available for inspection at the principal office of the Depositary in New York (the Principal New York Office ), which is presently located at 4 New York Plaza, New York, New York 10004. Terms used herein and not otherwise defined shall have the respective meanings set forth in the Deposit Agreement.

ADRs evidencing ADSs are issuable by the Depositary pursuant to the terms of the Deposit Agreement. Each ADS represents, as of the date hereof, the right to receive 10 Ordinary Shares (in the case of each Ordinary Share ADS) or 10 Savings Shares (in the case of each Savings Share ADS) in each case deposited under the Deposit Agreement (together with any additional Ordinary Shares deposited thereunder and all other securities, property and cash received and held thereunder at any time in respect of or in lieu of such deposited Ordinary Shares, the Deposited Securities ) with the Custodian, currently the Milan office of BNP Paribas (together with any successor or successors thereto, the Custodian ). An ADR may evidence any number of ADSs. Only persons in whose names ADRs are registered on the books of the Depositary will be treated by the Depositary and the Company as Holders.

**Deposit, Issuance, Transfer and Withdrawal**

In connection with the deposit of Ordinary Shares under the Deposit Agreement, the Depositary or the Custodian may require the following in form satisfactory to it: (a) a written order directing the Depositary to issue or execute and deliver to, or upon the written order of, the person or persons designated in such order an ADR or ADRs evidencing the number of ADSs representing such Deposited Securities (a Delivery Order ); (b) proper endorsements or duly executed instruments of transfer in respect of such Deposited Securities; and (c) instruments assigning to the Custodian or its nominee any distribution on or in respect of such Deposited Securities until the Ordinary Shares are registered in the name required by the Depositary or indemnity therefore. As soon as practicable after the Custodian receives Deposited Securities pursuant to any such deposit or pursuant to any distribution upon Deposited Securities or change affecting Deposited Securities, the Custodian shall present such Deposited Securities for registration of transfer into the name of the Custodian or its nominee, to the extent such registration is practicable, at the cost and expense of the person making such deposit (or for whose benefit such deposit is made) and shall obtain evidence satisfactory to it of such registration. Deposited Securities shall be held by the Custodian for the account and to the order of the Depositary at such place or places and in such manner as the Depositary shall determine. The Depositary agrees to instruct the Custodian to place all Ordinary Shares accepted for deposit into a segregated account separate

from any Ordinary Shares of the Company that may be held by such Custodian under any other depositary receipt facility relating to the Ordinary Shares. Deposited Securities may be delivered by the Custodian to any person only under the circumstances expressly contemplated in the Deposit Agreement. To the extent that the provisions of or governing the Shares make delivery of certificates therefore impracticable, Ordinary Shares may be deposited by such delivery thereof as the Depositary or the Custodian may reasonably accept, including, without limitation, by causing them to be credited to an account maintained by the Custodian for such purpose with the Company or an accredited intermediary, such as a bank, acting as a registrar for the Ordinary Shares, together with delivery of the documents, payments and Delivery Order referred to herein to the Custodian or the Depositary. Neither the Depositary nor the Custodian shall lend Deposited Securities.

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After any such deposit of Ordinary Shares, the Custodian shall notify the Depositary of such deposit and of the information contained in any related Delivery Order by letter, first class airmail postage prepaid, or, at the request, risk and expense of the person making the deposit, by cable, telex or facsimile transmission. After receiving such notice from the Custodian (or such other evidence as the Company may accept), the Depositary, subject to the Deposit Agreement, shall properly issue or execute and deliver, as the case may be at the transfer office of the Depositary (the Transfer Office), to or upon the order of any person named in such notice, an ADR or ADRs registered as requested and evidencing the aggregate ADSs to which such person is entitled. ADSs may be issued in certificated form or through the direct registration system utilized by the Depositary pursuant to which the Depositary may record the ownership of ADRs without the issuance of a certificate, which ownership shall be evidenced by periodic statements issued by the Depositary to the Holders entitled thereto.

Subject to the terms of the Deposit Agreement, the Depositary may so issue ADRs for delivery at the Transfer Office only against deposit with the Custodian of: (a) Ordinary Shares in form satisfactory to the Custodian; (b) rights to receive Ordinary Shares from the Company or any registrar, transfer agent, clearing agent or other entity recording Share ownership or transactions; or (c) other rights to receive Shares (until such Shares are actually deposited pursuant to (a) or (b) above, Pre-released ADRs) only if (i) Pre-released ADRs are fully collateralized (marked to market daily) with cash or U.S. government securities held by the Depositary for the benefit of Holders (but such collateral shall not constitute Deposited Securities), (ii) each recipient of Pre-released ADRs agrees in writing with the Depositary that such recipient (a) owns such Shares, (b) assigns all beneficial right, title and interest therein to the Depositary, (c) holds such Shares for the account of the Depositary and (d) will deliver such Shares to the Custodian as soon as practicable and promptly upon demand therefore and (iii) all Pre-released ADRs evidence not more than 20% of all ADSs (excluding those evidenced by Pre-released ADRs) provided; however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate. The Depositary may retain for its own account any earnings on collateral for Pre-released ADRs and its charges for issuance thereof. At the request, risk and expense of the person depositing Shares, the Depositary may accept deposits for forwarding to the Custodian and may deliver ADRs at a place other than its office. Shares or evidence of rights to receive Shares may be deposited through (x) electronic transfer of such Shares to the account maintained by the Custodian for such purpose at Monte Titoli S.p.A., (y) evidence satisfactory to the Custodian of irrevocable instructions to cause such Shares to be transferred to such account or (z) delivery of the certificates representing such Shares. If use of the Monte Titoli book-entry system in connection with the Shares is discontinued at any time for any reason, the Company shall make other book-entry arrangements (if any) that it determines, after consultation with the Depositary, are reasonable. Every person depositing Shares under the Deposit Agreement represents and warrants that such Shares are validly issued and outstanding, fully paid, non-assessable and free of pre-emptive rights, that the person making such deposit is duly authorized so to do and that such Shares (A) are not restricted securities as such term is defined in Rule 144 under the Securities Act of 1933 unless at the time of deposit they may be freely transferred in accordance with Rule 144(k) and may otherwise be offered and sold freely in the United States or (B) have been registered under the Securities Act of 1933. Such representations and warranties shall survive the deposit of Shares and issuance of ADRs.

Subject to the terms and conditions of the Deposit Agreement, upon surrender of (i) a certificated ADR in form satisfactory to the Depositary at the Transfer Office or (ii) proper instructions and documentation in the case of a Direct Registration ADR, the Holder is entitled to delivery at the Custodian's office of the Deposited Securities at the time represented by the ADSs evidenced thereby. At the request, risk and expense of the Holder of an ADR, the Depositary may deliver such Deposited Securities at such other place as may have been requested by the Holder.

**Distributions on Deposited Securities**



Subject to the terms and conditions of the Deposit Agreement, to the extent practicable, the Depositary will distribute to each Holder entitled thereto on the record date set by the Depositary therefore at such Holder's address shown on the ADR Register, in proportion to the number of Deposited Securities (on which the following distributions on Deposited Securities are received by the Custodian) represented by ADSs evidenced by such Holder's ADRs:

- *Cash.* Any U.S. dollars available to the Depositary resulting from a cash dividend or other cash distribution or authorized portion thereof ( Cash ), on an averaged, if possible, or other practicable basis, subject to

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appropriate adjustments for (i) taxes withheld, (ii) such distribution being impermissible or impracticable with respect to certain Holders, and (iii) deduction of the Depositary's expenses in (1) converting any foreign currency to U.S. dollars by sale or in such other manner as the Depositary may determine to the extent that it determines that such conversion may be made on a reasonable basis, (2) transferring foreign currency or U.S. dollars to the United States by such means as the Depositary may determine to the extent that it determines that such transfer may be made on a reasonable basis, (3) obtaining any approval or license of any governmental authority required for such conversion or transfer, which is obtainable at a reasonable cost and within a reasonable time and (4) making any sale by public or private means in any commercially reasonable manner.

- *Shares.* (i) Additional ADRs evidencing whole ADSs representing any Shares available to the Depositary resulting from a dividend or free distribution on Deposited Securities consisting of Shares (a Share Distribution ) and (ii) U.S. dollars available to it resulting from the net proceeds of sales of Shares received in a Share Distribution, which Shares would give rise to fractional ADSs if additional ADRs were issued therefore, as in the case of Cash.
- *Rights.* (i) *Warrants* or other instruments in the discretion of the Depositary after consultation with the Company, to the extent practicable, representing rights to acquire additional ADRs in respect of any rights to subscribe for additional Shares or rights of any nature available to the Depositary as a result of a distribution on Deposited Securities ( *Rights* ), to the extent that the Company timely furnishes to the Depositary evidence satisfactory to the Depositary that the Depositary may lawfully distribute the same (the Company has no obligation to so furnish such evidence), or (ii) to the extent the Company does not so furnish such evidence and sales of Rights are practicable, any U.S. dollars available to the Depositary from the net proceeds of sales of Rights as in the case of Cash, or (iii) to the extent the Company does not so furnish such evidence and such sales cannot practicably be accomplished by reason of the non-transferability of the Rights, limited markets therefore, their short duration or otherwise, nothing (and any Rights may lapse).
- *Other Distributions.* (i) Securities or property available to the Depositary resulting from any distribution on Deposited Securities other than Cash, Share Distributions and Rights ( *Other Distributions* ), by any means that the Depositary may deem equitable and practicable, or (ii) to the extent the Depositary deems distribution of such securities or property not to be equitable and practicable, any U.S. dollars available to the Depositary from the net proceeds of sales of Other Distributions as in the case of Cash. Such U.S. dollars available will be distributed by checks drawn on a bank in the United States for whole dollars and cents (any fractional cents being withheld without liability for interest and added to future Cash distributions).

To the extent that the Depositary determines in its discretion that any distribution is not practicable with respect to any Holder, the Depositary, after consultation with the Company, may make such distribution as it so deems practicable, including the distribution of foreign currency, securities or property (or appropriate documents evidencing the right to receive foreign currency, securities or property) or the retention thereof as Deposited Securities with respect to such Holder's ADRs (without liability for interest thereon or the investment thereof).

There can be no assurance that the Depositary will be able to effect any currency conversion or to sell or otherwise dispose of any distributed or offered property, subscription or other rights, Shares or other securities in a timely manner or at a specified rate or price, as the case may be.

**Disclosure of Interests**

To the extent that the provisions of or governing any Deposited Securities may require disclosure of or impose limits on beneficial or other ownership of Deposited Securities, other Shares and other securities and may provide for blocking transfer, voting or other rights to enforce such disclosure or limits, Holders and all persons holding ADRs agree to comply with all such disclosure requirements and ownership limitations and to cooperate with the Depositary in the Depositary's compliance with any Company instructions in respect thereof, and the Depositary will use reasonable efforts to comply with such Company instructions.

**Record Dates**

The Depositary shall, to the extent necessary, after consultation with the Company, if practicable, fix a record date (which shall be as near as practicable to any corresponding record date set by the Company) for the

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determination of the Holders who shall be entitled to receive any distribution on or in respect of Deposited Securities, to give instructions for the exercise of any voting rights, to receive any notice or to act in respect of other matters and only such Holders at the close of business on such record date shall be so entitled.

**Voting of Deposited Securities**

Upon receipt of notice of any meeting or solicitation of consents or proxies of holders of Shares the Depositary will, unless otherwise instructed by the Company, promptly thereafter, distribute to all Holders a notice containing (i) the information (or a summary thereof) included in any such notice received by the Depositary, including the agenda for the meeting, (ii) a statement that the Holders as of the close of business on a specified record date will be entitled, subject to applicable provisions of Italian law and of the Company's Certificate of Incorporation and Bylaws (any such provisions, if material, will be summarized in such notice), to instruct the Depositary as to the exercise of voting rights, if any (subject to compliance by such Holder with the requirements described below) pertaining to the number of Shares represented by their respective ADSs, (iii) if applicable, a statement as to the manner in which such Holders may request a proper communication to the issuer attesting that beneficial ownership of the related Shares is in the name of the Holders and therefore enabling them to exercise voting rights with respect to the Shares represented by their ADSs without the use of ADS proxy cards, (iv) if applicable, an ADS proxy card pursuant to which such Holder may appoint the Depositary (with power of substitution) as his or her proxy to vote at such meeting in accordance with the directions set out in such ADS proxy card, and (v) such other information, including any such modification to the foregoing procedures as agreed between the Depositary and the Company.

Upon receipt by the Depositary of a properly completed ADS proxy card, on or before the date set by the Depositary for such purpose, the Depositary will attempt, insofar as practicable and permitted under any applicable provisions of Italian law and the Company's Certificate of Incorporation and Bylaws, to vote or cause to be voted the Shares underlying such ADRs in accordance with any nondiscretionary instructions set forth in such ADS proxy card. The Depositary will not vote or attempt to exercise the right to vote that attaches to Shares underlying such ADRs other than in accordance with such instructions.

A Holder desiring to exercise voting rights with respect to the Shares represented by its ADSs without the use of an ADS proxy card may do so by (A) depositing its ADRs in a blocked account with the Depositary until the completion of such meeting and (B) instructing the Depositary to (x) furnish the Custodian with the name and address of such Holder, the number of ADSs represented by ADRs held by such Holder and any other information required in accordance with Italian law or the Company's Certificate of Incorporation and Bylaws, (y) notify the Custodian of such deposit, and (z) instruct the Custodian to issue a communication for such meeting, which gives notice to the Company of such Holder's intention to vote the Shares underlying its ADRs. By giving the instructions set forth under point (B) above, Holders will be deemed to have authorized the Custodian to prohibit any transfers of the related Shares for the blocked period.

A precondition for the issue of the communication for a specific meeting by the Custodian may be that beneficial ownership of the related Shares has been in the name of the Holder for a specific number of days prior to the date of the meeting according to applicable provisions (if any) of Italian laws and regulations and/or applicable provisions (if any) of the Company's Certificate of Incorporation and Bylaws.

Under Italian law, shareholders at shareholders' meetings may modify the resolutions presented for their approval by the Board of Directors. In such case Holders who have given prior instructions to vote on such resolutions, and whose

instructions do not provide for the case of amendments or additions to such resolutions, will be deemed to have elected to have abstained from voting on any such revised resolution.

When the Company makes its annual accounts available at its offices in connection with a general meeting of shareholders at which a vote will be taken on such accounts, the Company will deliver to the Depositary and the Custodian copies of such accounts. Until such meeting, the Depositary will make available copies of such accounts for inspection at the office of the Depositary in New York (the Transfer Office ), the office of the Custodian in Milan, Italy and any other designated transfer offices.

In the Deposit Agreement, the Depositary and the Company agree to use reasonable efforts to make and maintain arrangements (in addition to or in substitution of the arrangements described in this paragraph) to enable Holders to vote the Shares underlying their ADRs.

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The Deposit Agreement provides that the Depositary or its agent will keep books at its Transfer Office for the registration, registration of transfer, combination and split-up of ADRs, and, in the case of Direct Registration ADRs, shall include the Direct Registration System which at all reasonable times will be open for inspection by the Holders and the Company for the purpose of communicating with Holders in the interest of the business of the Company or a matter relating to the Deposit Agreement.

**Reports and Other Communications**

The Deposit Agreement, the provisions of or governing Deposited Securities and any written communications from the Company, which are both received by the Custodian or its nominee as a holder of Deposited Securities and made generally available to the holders of Deposited Securities, are available for inspection by Holders at the offices of the Depositary and the Custodian and at the Transfer Office. The Depositary will mail copies of such communications (or English translations or summaries thereof) to Holders when furnished by the Company.

On or before the first date on which the Company makes any communication generally available to holders of Deposited Securities or any securities regulatory authority or stock exchange, by publication or otherwise, the Company shall transmit to the Depositary a copy thereof in English or with an English translation or summary. The Company has delivered to the Depositary and the Custodian, a copy of all provisions of or governing the Shares (other than copies of Italian law) and any other Deposited Securities issued by the Company or any affiliate of the Company, if any, and, promptly upon any change thereto, the Company shall deliver to the Depositary and Custodian, a copy (in English or with an English translation) of such provisions (other than copies of Italian law) as so changed.

**Changes Affecting Deposited Securities**

Subject to the terms of the Deposit Agreement and the ADRs, the Depositary may, in its discretion, amend the ADRs or distribute additional or amended ADRs (with or without calling ADRs for exchange) or cash, securities or property on the record date set by the Depositary therefore to reflect any change in par value, split-up, consolidation, cancellation or other reclassification of Deposited Securities, any Share Distribution or Other Distribution not distributed to Holders or any cash, securities or property available to the Depositary in respect of Deposited Securities from (and the Depositary is hereby authorized to surrender any Deposited Securities to any person and to sell by public or private sale any property received in connection with) any recapitalization, reorganization, merger, consolidation, liquidation, receivership, bankruptcy or sale of all or substantially all the assets of the Company, and to the extent the Depositary does not so amend the ADRs or make a distribution to Holders to reflect any of the foregoing, or the net proceeds thereof, whatever cash, securities or property results from any of the foregoing shall constitute Deposited Securities and each ADS evidenced by ADRs shall automatically represent its pro rata interest in the Deposited Securities as then constituted.

**Amendment and Termination of Deposit Agreement**

The ADRs and the Deposit Agreement may be amended by the Company and the Depositary, provided that any amendment that imposes or increases any fees or charges (other than stock transfer or other taxes and other governmental charges, transfer or registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or that shall otherwise prejudice any substantial existing right of Holders, shall become effective 30

days after notice of such amendment shall have been given to the Holders. Every Holder of an ADR at the time any amendment to the Deposit Agreement so becomes effective shall be deemed, by continuing to hold such ADR, to consent and agree to such amendment and to be bound by the Deposit Agreement and the ADRs as amended thereby. In no event shall any amendment impair the right of the Holder of any ADR to surrender such ADR and receive the Deposited Securities represented thereby, except in order to comply with mandatory provisions of applicable law. Any amendments or supplements which (i) are reasonably necessary (as agreed by the Company and the Depositary) in order for (a) the ADSs to be registered on Form F-6 under the Securities Act of 1933 or (b) the ADSs or Shares to be traded solely in electronic book-entry form and (ii) do not in either such case impose or increase any fees or charges to be borne by Holders, shall be deemed not to prejudice any substantial rights of Holders. Notwithstanding the foregoing, if any governmental body should adopt new laws, rules or regulations which would require amendment or supplement of the Deposit Agreement or the form of ADR

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to ensure compliance therewith, the Company and the Depositary may amend or supplement the Deposit Agreement and the ADR at any time in accordance with such changed rules. Such amendment or supplement to the Deposit Agreement in such circumstances may become effective before a notice of such amendment or supplement is given to Holders or within any other period of time as required for compliance.

Upon any resignation of the Depositary which does not become effective during the earlier of (i) 90 days from the date of the Depositary shall have resigned as such and (ii) the date on which the Company shall have appointed a successor depositary or on any removal of the Depositary pursuant to the Deposit Agreement, the Depositary may, and shall at the written direction of the Company, terminate the Deposit Agreement and this ADR by mailing notice of such termination to the Holders at least 30 days prior to the date fixed in such notice for such termination. After the date so fixed for termination, the Depositary and its agents will perform no further acts under the Deposit Agreement and this ADR, except to receive and hold (or sell) distributions on Deposited Securities and deliver Deposited Securities being withdrawn. As soon as practicable after the expiration of six months from the date so fixed for termination, the Depositary shall sell the Deposited Securities and shall thereafter (as long as it may lawfully do so) hold in a segregated account the net proceeds of such sales, together with any other cash then held by it under the Deposit Agreement, without liability for interest, in trust for the pro rata benefit of the Holders of ADRs not theretofore surrendered. After making such sale, the Depositary shall be discharged from all obligations in respect of the Deposit Agreement and this ADR, except to account for such net proceeds and other cash. After the date so fixed for termination, the Company shall be discharged from all obligations under the Deposit Agreement except for its obligations to the Depositary and its agents.

**Charges of Depositary**

The Depositary may charge each person to whom ADSs are issued against deposits of Shares, including deposits in respect of Share Distributions, Rights and Other Distributions, and each person surrendering ADSs for withdrawal of Deposited Securities, U.S.\$5.00 for each 100 ADSs (or portion thereof) delivered or surrendered. The Depositary may sell (by public or private sale) sufficient securities and property received in respect of Share Distributions, Rights and Other Distributions prior to such deposit to pay such charge. In addition, the Depositary may charge Holders, a fee for the distribution of securities, such fee being in an amount equal to the fee for the execution and delivery of ADSs referred to above which would have been charged as a result of the deposit of such securities (for purposes hereof treating all such securities as if they were Shares) but which securities or the net cash proceeds from the sale thereof are instead distributed by the Depositary to Holders entitled thereto. The Company will pay all other charges and expenses of the Depositary and any agent of the Depositary (except the Custodian) pursuant to agreements from time to time between the Company and the Depositary, except (i) stock transfer or other taxes and other governmental charges (which are payable by Holders or persons depositing Shares), (ii) cable, telex and facsimile transmission and delivery charges incurred at the request of persons depositing, or Holders delivering Shares, ADRs or Deposited Securities (which are payable by such persons or Holders), (iii) transfer or registration fees for the registration of transfer of Deposited Securities on any applicable register in connection with the deposit or withdrawal of Deposited Securities (which are payable by persons depositing Shares or Holders withdrawing Deposited Securities; there are no such fees in respect of the Shares as of the date of the Deposit Agreement), (iv) expenses of the Depositary in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency) and (v) such fees and expenses as are incurred by the Depositary (including without limitation expenses incurred on behalf of Holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in delivery of Deposited Securities or otherwise in connection with the Depositary's or its Custodian's compliance with applicable law, rule or regulation (see Item 12D. American Depositary Shares).



**Liability of Holders for Taxes**

If any tax or other governmental charge shall become payable by or on behalf of the Custodian or the Depositary with respect to an ADR, any Deposited Securities represented by the ADSs evidenced thereby or any distribution thereon, such tax or other governmental charge shall be paid by the Holder thereof to the Depositary. The Depositary may refuse to effect any registration, registration of transfer, split-up or combination or, only for those reasons set forth in General Instruction I.A.(1) of Form F-6 under the Securities Act, any withdrawal of Deposited Securities until such payment is made. The Depositary may also deduct from any distributions on or in respect of Deposited Securities, or may sell by public or private sale for the account of the respective Holder any part or all

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of such Deposited Securities (after attempting by reasonable means to notify the Holder thereof prior to such sale), and may apply such deduction or the proceeds of any such sale in payment of such tax or other governmental charge, the respective Holder remaining liable for any deficiency, and shall reduce the number of ADSs evidenced thereby to reflect any such sales of Shares.

In connection with any distribution to Holders, the Company or its agents will remit to the appropriate governmental authority or agency all amounts (if any) required to be withheld and owing to such authority or agency by the Company or its agents; and the Depositary and the Custodian will remit to the appropriate governmental authority or agency all amounts (if any) required to be withheld by the Depositary or the Custodian. The Depositary shall forward to the Company or its agent such information from its records as the Company may request to enable the Company or its agent to file necessary reports with governmental authorities or agencies. If the Depositary determines that any distribution in property other than cash (including Shares or rights) on Deposited Securities is subject to any tax that the Depositary or the Custodian is obligated to withhold, the Depositary may dispose of all or a portion of such property in such amounts and in such manner as the Depositary deems necessary and practicable to pay such taxes, by public or private sale, and the Depositary shall distribute the net proceeds of any such sale or the balance of any such property after deduction of such taxes to the Holders entitled thereto.

The Depositary and the Company agree to use reasonable efforts to make and maintain arrangements (in addition to or in substitution of the arrangements described herein) to enable persons that are considered United States residents for purposes of applicable law to receive any rebates, tax credits or other benefits (pursuant to treaty or otherwise) relating to distributions on the ADSs to which such persons are entitled. Notwithstanding the above, the Company may, by written notice to the Depositary, modify or withdraw the procedures described in this paragraph (including by ceasing to pay to the Depositary any amounts in respect of refunds of Italian withholding taxes), to the extent the Company determines that its participation in the refund process is no longer lawful or practical.

See 10.6 Taxation for additional information on tax issues relating to ADRs.

**General Limitations**

The Depositary, the Company, their agents and each of them shall: (a) incur no liability (i) if any present or future law, regulation, the provisions of or governing any Deposited Securities, act of God, war or other circumstance beyond its control shall prevent, delay or subject to any civil or criminal penalty any act which the Deposit Agreement or this ADR provides shall be done or performed by it, or (ii) by reason of any exercise or failure to exercise any discretion given it in the Deposit Agreement or this ADR; (b) assume no liability except to perform its obligations to the extent they are specifically set forth in this ADR and the Deposit Agreement without gross negligence or bad faith; (c) in the case of the Depositary and its agents, be under no obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Securities or this ADR; (d) in the case of the Company and its agents hereunder be under no obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Securities or this ADR, which in its opinion may involve it in expense or liability, unless indemnity satisfactory to it against all expense (including fees and disbursements of counsel) and liability be furnished as often as may be required; or (e) not be liable for any action or inaction by it in reliance upon the advice of or information from legal counsel, accountants, any person presenting Shares for deposit, any Holder, or any other person believed by it in good faith to be competent to give such advice or information. The Depositary, its agents and the Company may rely and shall be protected in acting upon any written notice, request, direction or other document believed by them in good faith to be genuine and to have been signed or presented by the proper party or parties. The

Depository and its agents will not be responsible for any failure to carry out any instructions to vote any of the Deposited Securities (provided that such act or omission to act is in good faith), for the manner in which any such vote is cast or for the effect of any such vote. The Depository and its agents may own and deal in any class of securities of the Company and its affiliates and in ADRs. Neither the Company, the Depository nor any of their respective agents shall be liable to Holders or beneficial owners of interests in ADSs for any indirect, special, punitive or consequential damages.

Prior to the issue, registration, registration of transfer, split-up or combination of any ADR, the delivery of any distribution in respect thereof, or, subject to the last sentence of this paragraph, the withdrawal of any Deposited

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Securities, and from time to time, in the case of clause (b)(ii) of this paragraph, the Company, the Depositary or the Custodian may require: (a) payment with respect thereto of (i) any stock transfer or other tax or other governmental charge, (ii) any stock transfer or registration fees in effect for the registration of transfers of Shares or other Deposited Securities upon any applicable register and (iii) any applicable charges; (b) the production of proof satisfactory to it of (i) the identity and genuineness of any signature and (ii) such other information, including without limitation, information as to citizenship, residence, exchange control approval, beneficial ownership of any securities, compliance with applicable law, regulations, provisions of or governing Deposited Securities and terms of the Deposit Agreement and the ADRs, as it may deem necessary or proper; and (c) compliance with such regulations as the Depositary may establish consistent with the Deposit Agreement. The Depositary shall provide to the Company, promptly upon its written request, copies of any such proofs of citizenship or residence or other information referred to in (b) above so requested. The issuance of ADRs, the acceptance of deposits of Shares, the registration, registration of transfer, split-up or combination of ADRs or, subject to the last sentence of this paragraph, the withdrawal of Deposited Securities may be suspended, generally or in particular instances, when the ADR register or any register for Deposited Securities is closed or when any such action is deemed necessary or advisable by the Depositary or the Company. Notwithstanding any other provision of the Deposit Agreement or the ADRs, the withdrawal of Deposited Securities may be restricted only for the reasons set forth in General Instruction I.A.(1) of Form F-6 (as such instructions may be amended from time to time) under the Securities Act.

**Governing Law**

The Deposit Agreement is governed by and shall be construed in accordance with the laws of the State of New York.

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Unless otherwise indicated herein, for purposes of the following discussion regarding taxation, the Ordinary Shares and the Savings Shares are collectively referred to as the TIM Shares .

**10.6.1 ITALIAN TAXATION**

The following is a summary of material Italian tax consequences of the ownership and disposition of Ordinary Shares, Savings Shares or ADSs as at the date hereof. It does not purport to be a complete analysis of all potential tax matters relevant to a decision to hold Ordinary Shares, Savings Shares or ADSs. Therefore, this summary is provided for general information only and it is based upon Italian tax laws in effect as of the date of this document. Consequently, be aware that such laws may change anytime in the course of the year. You should consult your own tax advisors as to matters of Italian tax law. For purposes of Italian law and the Italian - US Income Tax Convention which went into effect on January 1, 2010 (the **Treaty** ), holders of ADSs which are evidenced by ADRs will be treated as holders of the underlying Ordinary Shares or Savings Shares, as the case may be.

***Income Tax***

As a general principle, non-resident taxpayers are liable for Italian income tax with respect to income which is treated as arising in Italy, unless such income is subject to a final withholding tax deducted by the payer of the income.

Payments of dividends, either to holders of Ordinary Shares and applicable ADSs or to holders of Savings Shares and applicable ADSs, who are not Italian residents and do not have a permanent establishment in Italy to which dividends are connected are subject to a final withholding tax at a rate of 26 percent (the rate was increased from 20 to 26 percent by Law Decree no. 66 of April 24, 2014, converted with amendments into Law No. 89 of June 23, 2014 and applies on dividends paid from July 1, 2014 onwards, even in case the relevant distribution resolution was adopted before the above mentioned date). The obligation to withhold such tax is imposed on the resident company or the authorized intermediary paying the dividends, as applicable.

All shares of Italian listed companies have to be registered in a centralized deposit system managed by Monte Titoli. With respect to dividends paid in connection with shares held in the centralized deposit system, such as TIM Shares, instead of the withholding tax mentioned above, a substitute income tax will apply at the same tax rate as the above-mentioned withholding tax. This substitute income tax is levied by, and under the responsibility of, the Italian authorized intermediaries participating in the Monte Titoli system and with whom the securities are deposited and also by non-Italian authorized intermediaries participating, directly or through a non-Italian centralized deposit system, in the Monte Titoli system. With respect to any dividends paid within the above mentioned centralized deposit system, TIM assumes no responsibility for the withholding of tax at the source (and application of tax treaties, as discussed below) as such responsibility lies entirely on the Italian authorized intermediaries with whom the securities are deposited.

Non-resident holders of Ordinary Shares and applicable ADSs have the right to recover within 48 months from the date of payment of the Italian substitute income tax, up to eleven- twenty-sixth (11/26) of such 26 percent substitute tax on their dividend income, upon providing adequate evidence (by documentation issued by the tax authorities of their country of residence) that they have paid a corresponding final income tax in such home country on the same dividend income.

These refunds are normally subject to extensive delays. In addition, these refunds are an alternative to seeking any relief from double taxation under an income tax treaty, including the Treaty.

U.S. resident beneficial owners of Shares (either Ordinary or Savings Shares) and related ADSs may be entitled to a reduced tax rate on their dividends under the Treaty. Where: (i) a U.S. resident owner qualifies for the benefits of the Treaty and meets all the requirements pursuant the Treaty provision dealing with limitation on benefits, (ii) the U.S. resident owner is the actual beneficial owner of the dividend income, (iii) the dividends paid are not connected with a permanent establishment in Italy through which the U.S. resident owner carries out a business or with a fixed base in Italy through which the U.S. resident owner performs independent personal services, the

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Treaty generally provides that Italian taxes cannot exceed 15 percent of the gross amount of the dividend (this 15 percent rate may be reduced to 5 percent when the beneficial owner of the dividends is a U.S. company which has owned at least 25 percent of the voting stock of the company paying the dividends for a 12-month period ending on the date the dividend is declared).

The withholding agent (i.e., the authorized intermediary/Depository) may apply the Treaty rate directly if the recipient, as the beneficial owner of TIM Shares or ADSs provides, before the dividend is paid (in accordance with the relevant instructions about timing and modalities generally provided for by the Depository), the intermediary with which the shares are deposited and which participates in the Monte Titoli system with the following documentation:

- (i) a residency certificate that must be validated by the tax authorities in the holder's country of residence. In the case of a U.S. holder, a certification (Form 6166) issued by the U.S. Internal Revenue Service that states that the beneficial owner is a U.S. resident for tax purposes. The certification is valid until March 31 of the year following the submission; and
- (ii) a declaration by the recipient containing all the data identifying such person as the beneficial owner and establishing the existence of all the conditions necessary for the application of the Treaty, including a statement that it does not have a permanent establishment in Italy to which the dividend payment is attributable.

The processing of requests for certification by the U.S. Internal Revenue Service may take a substantial period of time. Accordingly, in order to be eligible for the procedure described below, eligible ADS holders should begin the process of obtaining Form 6166 as soon as possible after receiving instructions from the Depository on how to claim the reduced rate provided by the Treaty.

The Depository's instructions, which will be sent to all ADS holders before the dividend payment date, will specify certain deadlines for delivering to the Depository any documentation required to obtain the reduced rate provided by the Treaty, including the certification that the eligible ADS holders must obtain from the U.S. Internal Revenue Service. In the case of ADSs held through a broker or other financial intermediary, the required documentation should be delivered to such financial intermediary for transmission to the Depository. In all other cases, the eligible ADS holders should deliver the required documentation directly to the Depository.

If the holder of TIM Shares or ADSs does not provide the relevant documentation in order to obtain the reduced rate provided by the Treaty at the time the dividend is paid, the holder must pay the substitute income tax at the rate set forth by Italian domestic law. In this case, the recipient can apply for a refund equal to the difference between the Italian domestic rate and the Treaty rate directly from the Italian tax authorities by filing the relevant documentation within 48 months from the date of payment. Extensive delays have been encountered by U.S. residents seeking payments directly from the Italian authorities.

In the case of dividends paid to a U.S. partnership, the reduction of the tax rate under the Treaty is only available to the extent such dividends are subject to U.S. tax in the hands of the partners.

***Capital Gains Tax***

Under Italian law, capital gains tax ( **CGT** ) is levied on capital gains realized by non-residents from the disposal of shares in companies resident in Italy for tax purposes even if those shares are held outside of Italy. However, capital gains realized by non-resident holders on the sale of non-qualified shareholdings (as defined below) in companies whose shares or ADSs are listed on a stock exchange and resident in Italy for tax purposes (as is the case for TIM) are not subject to CGT.

A qualified shareholding consists of securities (except for Savings Shares and applicable ADSs) that: (i) entitle the holder to exercise more than 2 percent of the voting rights of a company with shares listed on a stock exchange (TIM is such a company) in the ordinary meeting of the shareholders; or (ii) represent more than 5 percent of the share capital of a company with shares listed on a stock exchange (TIM is such a company). A non-qualified shareholding is any shareholding that does not meet the above mentioned requirements to be qualified as a qualified shareholding .



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The relevant percentage is calculated taking into account the shareholdings sold during the prior 12-month period (the period starting from the day on which the taxpayer holds shareholding higher than the abovementioned percentages of 2 or 5 percent).

Pursuant to the Treaty, a U.S. resident will not be subject to Italian CGT on a sale of qualified shareholdings unless the TIM Shares or ADSs form part of the business property of a permanent establishment of the holder in Italy or pertain to a fixed base available to a holder in Italy for the purpose of performing independent personal services. U.S. residents who sell TIM Shares or ADSs may be required to produce appropriate documentation establishing that the above mentioned conditions of non-taxability pursuant to the Treaty provisions have been satisfied if CGT would otherwise be applicable.

***Inheritance and Gift Tax***

The transfers of any valuable asset (including Ordinary Shares, Savings Shares and ADSs) as a result of death or donation (or other transfers for no consideration) and the creation of liens on such assets for a specific purpose are taxed as follows:

- (i) transfers in favor of the spouse and of direct descendants or ascendants are subject to an inheritance and gift tax applied at a rate of 4 percent on the value of the inheritance or the gift exceeding 1,000,000 euros (per beneficiary);
- (ii) transfers in favor of brothers and sisters are subject to an inheritance and gift tax applied at a rate of 6 percent on the value of the inheritance or the gift exceeding 100,000 euros (per beneficiary);
- (iii) transfers in favor of all other relatives up to the fourth degree or relatives-in-law up to the third degree, are subject to an inheritance and gift tax applied at a rate of 6 percent on the entire value of the inheritance or the gift;
- (iv) any other transfer is subject to an inheritance and gift tax applied at a rate of 8 percent on the entire value of the inheritance or the gift.

If the beneficiary of any such transfer is a disabled individual, whose handicap is recognized pursuant to Law No. 104 of February 5, 1992, the tax is applied only on the value of the assets (including the Shares) received in excess of 1,500,000 euros at the rates illustrated above, depending on the type of relationship existing between the deceased or donor and the beneficiary.

With respect to listed shares, the value for inheritance and gift tax purposes is the average stock exchange price of the last quarter preceding the date of the succession or of the gift (increased by the interest accrued during the meanwhile). With respect to unlisted shares, the value is determined proportionally to the equity resulting from the last approved balance sheet of the company.

For non-residents, Italian Inheritance and Gift tax applied only with respect to assets and rights existing in the Italian territory. Shares in companies that have their registered office, the seat of the administration or the main object in Italy are considered as existing in the Italian territory.

No gift tax convention is currently in place between Italy and the United States.

***Registration Tax***

Transfer of shares, bonds and similar securities based on contracts executed in Italy are subject to registration tax as follows: (i) public deeds and notarized deeds are subject to a lump-sum registration tax of 200 euros at the time of the execution; (ii) private deeds are subject to registration tax, at the same lump-sum, only in case of use or voluntary registration. This tax is also payable where a contract executed abroad or with different formalities is presented to an Italian registration office or an Italian court.

***Stamp taxes and duties***

Stamp duties ( imposta di bollo ) are levied on certain documents, contracts and registers (e.g., bank checks, statements of accounts, bills, written contracts, judicial acts, accountancy books), as regulated by DPR 642/1972. The tax is usually a nominal lump sum and, in exceptional cases, it may be levied as a percentage of the value mentioned in the document.

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Any report to clients by an Italian resident intermediary with reference to financial instruments and products (including those held abroad through an Italian resident intermediary) is subject to an annual stamp duty of 0.2 percent (0.15 percent in 2013). The rate is applied on the market value or where no market value is available on the nominal value or the redemption amount of any financial product or financial instruments (including the TIM shares or ADSs). The provision setting a minimum threshold of 34.20 euros was abolished on December 31, 2013. For taxpayers other than individuals, this stamp duty is capped at 14,000 euros (in 2013, the cap was 4,500 euros).

It is assumed that intermediaries send periodic communications to clients at least once a year, even if the Italian intermediary is not required to prepare and send such communications. In this case, stamp duties must be applied at December 31 of each year and, in any case, at the expiration of the relationship between intermediary and client.

***Tax on financial transactions*****1. Shares and other equity instrument transactions**

The Italian Financial Transactions TAX ( **FTT** ) was introduced by Law No. 228 as of December 24, 2012. Detailed regulations of such tax were provided by the Decree of the Ministry of Economy and Finance as of February 21, 2013. In accordance with the relevant provisions, starting from March 1, 2013 the FTT is levied to:

- a) transfers of ownership of shares and certain participating financial instruments which have been issued by companies that have their registered office in Italy, regardless of the place of residence of the parties involved and of the place where the contract has been executed; and
- b) transfers of ownership of securities (such as ADSs) representing equity investments referred to in point a) above, irrespective of the country of residence of the issuer of these securities.

Therefore, the relevant tax criterion for applying FTT is the place of residence (i.e., the place of the registered office) of the issuer of the shares and of the participating financial instruments. In contrast, the place of the execution of the relevant transfers and the residence of the contractual parties involved is not relevant in defining taxed transactions. Accordingly, transfers performed outside Italian territory through foreign intermediaries, are also subject to tax in Italy, to the extent they refer to shares, or participating financial instruments issued by companies registered in Italy (or securities representing such equity investments). So, with reference to the transfer of ADSs, the place of residence of the Depository is not relevant. Instead the country of residence of TIM, as issuer of the shares, is relevant.

The taxable base is the net daily balance of the transactions calculated on the same security and executed by the same persons, or the consideration paid.

The tax is determined proportionally by applying a percentage rate to the value of the counter value of the transaction that varies in relation to the market on which the transaction is carried out. The standard FTT rate is:

0.20 percent (exceptionally increased to 0.22 percent only for 2013) for over-the-counter transactions;  
and

0.10 percent (exceptionally increased to 0.12 percent only for 2013) for transactions executed on regulated markets or in multilateral trading facilities established in (i) an EU Member State, (ii) in an EEA country that is included in the white list, or (iii) subject to certain conditions, in a non-EEA jurisdiction that is included in the white list.

The FTT is due by the person to whom the ownership of the shares, the financial participating instruments and the securities representing equity investments (such as ADSs) is transferred. The tax is either (i) levied by the financial intermediary (e.g. banks, trusts, investment companies) or the notary directly involved in the execution of the transfer, if any, or (ii) paid directly by the transferee, by the 16th day of the month following the execution of the respective transaction. Where more than one intermediary are involved in the execution of the transfer, the tax must be levied by the intermediary who receives the order to execute the transaction directly from the transferee.

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Non-Italian intermediaries and other non-resident persons involved in the transaction must comply with the obligations deriving from the application of such tax through their Italian permanent establishment, if any; in absence of a permanent establishment in Italy, non-residents may appoint a tax representative in order to comply with all the relevant tax obligations. In cases other than the above (i.e., where an intermediary is not interposed in a taxable transaction), the obligations, including the payment of the tax, must be fulfilled directly by the non-resident transferee.

Non-residents involved in a financial transaction are deemed to be the purchasers or the final counterparty of the execution order, if established in a State which does not fulfill the exchange of information requirements. On October 26, 2016, the Italian Tax Authorities (ITA) issued Protocol No. 178754, updating the list of uncooperative countries for FTT purposes.

Moreover, on January 4, 2017 ITA approved a new FTT annual return form and related instructions to be used from February 1, 2017, replacing the previous one approved on December 27, 2013. The FTT return must be electronically filed by March 31 of each year (with reference to FTT paid over the previous year; for FTT return related to year 2016 only, the term has been exceptionally postponed from March 31 to May 31), but no return needs to be filed if the FTT paid does not exceed 50 euros. Non-residents may file the FTT return through their Italian permanent establishment or through an appointed tax representative. Non-residents who don't have a permanent establishment or a tax representative in Italy can submit the FTT return, electronically or, directly by registered mail or other equivalent means. The form and related instructions are available on the ITA website ( [www.agenziaentrate.gov.it](http://www.agenziaentrate.gov.it) or [www.finanze.gov.it](http://www.finanze.gov.it) ).

It should be noted that Italian FTT could be significantly amended in the light of the possible approval of the EU FTT Directive proposal.

**10.6.2 UNITED STATES FEDERAL INCOME TAXATION**

The following is a description of material U.S. federal income tax consequences to the U.S. Holders described below of owning and disposing of TIM Shares or ADSs representing TIM Shares, but it does not purport to be a comprehensive description of all tax considerations that may be relevant to a particular person's decision to hold the securities. This discussion applies only to a U.S. Holder that holds TIM Shares or ADSs as capital assets for U.S. federal income tax purposes. In addition, it does not describe all of the tax consequences that may be relevant in light of the U.S. Holder's particular circumstances, including alternative minimum tax consequences and the potential application of the provisions of the Internal Revenue Code of 1986, as amended (the **Code**) known as the Medicare contribution tax, and tax consequences applicable to U.S. Holders subject to special treatment, such as:

- certain financial institutions;
- dealers or traders in securities who use a mark-to-market method of tax accounting;

- persons holding TIM Shares or ADSs as part of a hedging transaction, straddle, wash sale, conversion transaction or integrated transaction or persons entering into a constructive sale with respect to the TIM Shares or ADSs;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- entities classified as partnerships for U.S. federal income tax purposes;
- tax-exempt entities, individual retirement accounts or Roth IRAs ;
- persons that own or are deemed to own ten percent or more of the voting stock of TIM;
- persons who acquired TIM Shares or ADSs pursuant to the exercise of an employee stock option or otherwise as compensation; or
- persons holding TIM Shares in connection with a trade or business conducted outside of the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds TIM Shares or ADSs, the U.S. federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. Partnerships holding TIM Shares or ADSs and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of holding and disposing of the TIM Shares or ADSs.

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This discussion is based on the Code, administrative pronouncements, judicial decisions, final, temporary and proposed Treasury regulations, and the Treaty, all as of the date hereof, any of which is subject to change, possibly with retroactive effect. It is also based in part on representations by the Depositary and assumes that each obligation under the Deposit Agreement and any related agreement will be performed in accordance with its terms.

A U.S. Holder is a person who, for U.S. federal income tax purposes, is a beneficial owner of TIM Shares or ADSs who is eligible for the benefits of the Treaty and is:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

In general, a U.S. Holder who owns ADSs will be treated as the owner of the underlying Ordinary Shares or Saving Shares, as the case may be, represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if a U.S. Holder exchanges ADSs for the underlying Ordinary Shares or Saving Shares, as the case may be, represented by those ADSs.

The U.S. Treasury has expressed concern that parties to whom American depositary shares are released before shares are delivered to the depositary ( pre-release ), or intermediaries in the chain of ownership between holders and the issuer of the security underlying the American depositary shares, may be taking actions that are inconsistent with the claiming of foreign tax credits by holders of American depositary shares. These actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the creditability of Italian taxes, and the availability of the reduced tax rate for dividends received by certain non-corporate U.S. Holders, each described below, could be affected by actions taken by such parties or intermediaries.

U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and foreign tax consequences of owning and disposing of TIM Shares or ADSs in their particular circumstances.

This discussion assumes that TIM has not been, and will not become, a passive foreign investment company, as described below.

***Taxation of distributions***

Distributions made with respect to the TIM Shares or ADSs (other than certain pro rata distributions of TIM Shares or ADSs), including any Italian tax withheld, will generally constitute foreign-source dividend income for U.S. federal income tax purposes to the extent such distributions are made from TIM's current or accumulated earnings and profits, as determined in accordance with U.S. federal income tax principles. Because TIM does not maintain calculations of earnings and profits under U.S. federal income tax principles, it is expected that distributions will generally be

reported to U.S. Holders as dividends. If you are a non-corporate U.S. Holder, subject to applicable limitations that vary depending on your particular circumstances and the discussion above regarding concerns expressed by the U.S. Treasury, dividends paid to you may be taxable at the favorable rates applicable to long-term capital gains. Non-corporate U.S. Holders should consult their own tax advisers regarding the availability of the reduced tax rate on dividends. If you are a corporate U.S. Holder you will not be entitled to claim a dividends-received deduction for dividends paid on the TIM Shares or ADSs. The amount of any cash distribution paid in euros, including the amount of any Italian tax withheld, will be included in your income in an amount equal to the U.S. dollar value of such euros on the date of receipt by the Depositary, in the case of U.S. Holders of ADSs, or by the U.S. Holder, in the case of U.S. Holders of TIM Shares, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. You may have foreign currency gain or loss if the amount of such dividend is converted into U.S. dollars after the date of its receipt. Gain or loss, if any, recognized on the sale or other disposition of such euros will be U.S.-source ordinary income or loss. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution.



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Subject to certain limitations and restrictions and the discussion above regarding concerns expressed by the U.S. Treasury, Italian taxes withheld from distributions on TIM Shares or ADSs at a rate not in excess of that applicable under the Treaty will be eligible for credit against a U.S. Holder's U.S. federal income tax liability. Italian taxes withheld in excess of the rate applicable under the Treaty will generally not be eligible for credit against a U.S. Holder's U.S. federal income tax liability (See Section 10.6.1 Italian Taxation Income Tax for a discussion of how to obtain the Treaty withholding rate). Instead of claiming a credit, you may, at your election, deduct such Italian taxes in computing your taxable income, subject to generally applicable limitations under U.S. law. An election to deduct foreign taxes instead of claiming foreign tax credits applies to all taxes paid or accrued in the taxable year to foreign countries and possessions of the United States. You should consult your tax adviser concerning the foreign tax credit implications of the payment of any Italian withholding taxes.

***Taxation of capital gains***

A U.S. Holder will generally recognize U.S.-source capital gain or loss on the sale or other disposition of TIM Shares or ADSs, which will be long-term capital gain or loss if the U.S. Holder held the TIM Shares or ADSs for more than one year. The amount of gain or loss will be equal to the difference between the gross amount realized and the U.S. Holder's adjusted tax basis in the TIM Shares or ADSs, in each case as determined in U.S. dollars. U.S. Holders should consult their own tax advisers about the treatment of capital gains, which may be taxed at lower rates than ordinary income for non-corporate taxpayers, and capital losses, the deductibility of which may be limited.

***Passive Foreign Investment Company Rules***

TIM believes that it was not a passive foreign investment company ( **PFIC** ) for U.S. federal income tax purposes for 2016. However, since PFIC status depends upon the composition of TIM's income and assets and the market value of TIM's assets (including, among others, less than 25 percent owned equity investments) from time to time, there can be no assurance that TIM will not be a PFIC for any taxable year. If TIM were a PFIC for any taxable year during which a U.S. Holder held TIM Shares or ADSs, certain adverse tax consequences could apply to the U.S. Holder.

***Information Reporting and Backup Withholding***

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting, and may be subject to backup withholding, unless (i) the U.S. Holder is an exempt recipient or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding.

The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

Certain U.S. Holders who are individuals or entities closely-held by individuals may be required to report information relating to securities of non-U.S. companies, or accounts through which they are held, subject to certain exceptions (including an exception for securities held in accounts maintained by U.S. financial institutions). U.S. Holders should consult their tax advisers regarding the effect, if any, of these rules on their ownership or disposition of TIM Shares or ADSs.



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**Item 10. Additional Information**

**Documents On Display**

**10.7 DOCUMENTS ON DISPLAY**

We file Annual Reports on Form 20-F and furnish periodic reports on Form 6-K to the SEC. You may read and copy any of these reports at the SEC's public reference room in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public from commercial document retrieval services. Some of our SEC filings are also available at the website maintained by the SEC at the website [www.sec.gov](http://www.sec.gov).

Our ADSs are listed on the New York Stock Exchange under the symbol "TIM". You may inspect any periodic reports and other information filed with or furnished to the SEC by us at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

As a foreign private issuer, we are exempt from the rules under the Exchange Act which prescribe the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We are subject to the informational requirements of the Italian securities commission and the Italian stock exchange, and we file reports and other information relating to our business, financial condition and other matters with the Italian securities commission, the Italian stock exchange and with the regulated storage system IInfo. You may read such reports, statements and other information, including the annual, semi-annual and quarterly financial statements, at the website [www.IInfo.it](http://www.IInfo.it). Some of our Italian securities commission filings are also available at the website maintained by the Italian securities commission at the website [www.consob.it](http://www.consob.it).

As described elsewhere in this Annual Report, certain reports, statements and presentations related to TIM can be found on our website at [www.telecomitalia.com](http://www.telecomitalia.com).

We have appointed JPMorgan Chase Bank, N.A. to act as depositary for our ADSs. JPMorgan Chase Bank will, as provided in the deposit agreement, arrange for the mailing of summaries in English of such reports and communications to all record holders of our ADSs. Any record holder of our ADSs may read such reports and communications or summaries thereof at JPMorgan Chase Bank's office located at 4 New York Plaza, New York, New York 10004.

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**Item 11. Quantitative And Qualitative Disclosures About Market Risks**

**Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

With regard to the quantitative and qualitative disclosures about market risks, please see the Note Financial Risk Management of the Notes to the Consolidated Financial Statements included elsewhere herein, which provides:

- the objectives and the policies for the management of the financial risks of TIM Group, and
- the sensitivity analyses of the market risks we are exposed to.

The above mentioned Note should be read in conjunction with the Note Accounting Policies , Note Derivatives and Note Supplementary Disclosures on Financial Instruments of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report, which provide other information relating to financial instruments.

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**Item 12. Description Of Securities Other Than Equity Securities**

**Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

**Item 12A. DEBT SECURITIES**

Not applicable.

**Item 12B. WARRANTS AND RIGHTS**

Not applicable.

**Item 12C. OTHER SECURITIES**

Not applicable.

**Item 12D. AMERICAN DEPOSITARY SHARES**

***Description of fees and charges paid by ADR Holders***

As provided for in the American Depositary Receipt included as Exhibit A to the Deposit Agreement between JP Morgan Chase Bank, as depositary (the **Depositary**), TIM S.p.A. and Holders of American Depositary Receipts dated as of July 17, 2003, holders of American Depositary Shares may be charged, directly or indirectly, the following amounts in relation to the ownership of depositary receipts held in the Company's ADR Program, which amounts are payable to the Depositary.

**Table of Contents****Item 12. Description Of Securities Other Than Equity Securities**

<b>Category of Service</b>	<b>Depository Actions</b>	<b>Associated Fee</b>
a) Deposit of underlying shares or surrender of ADRs	Each person to whom ADSs are issued against deposits of shares, including deposits in respect of share distributions, rights and other distributions.(1)	US\$5.00 for each 100 ADSs (or portion thereof) delivered or surrendered.
b) Cash dividends or distributions	Each person surrendering ADRs for the withdrawal of deposited securities. Distribution of cash resulting from a cash dividend or other cash distribution.	Subject to deduction of Depository's expenses in (i) converting foreign currency to U.S. dollars by sale or such other manner considered reasonable by the Depository (ii) transferring the foreign currency or US dollars to the United States and (iii) obtaining any license or approval of any governmental authority required for such conversion or transfer.
c) Distribution of securities	Distribution of securities (the fee being an amount equal to the fees for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities).	U.S.\$5.00 for each 100 ADSs (or portion thereof) delivered or surrendered.
d) Expenses of the Depository	Expenses incurred on behalf of Holders in connection with: <ul style="list-style-type: none"> <li>i) Stock transfer or other taxes and other governmental charges.</li> <li>ii) Cable, telex and facsimile transmission and delivery.</li> <li>iii) Expenses of the Depository in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency).</li> <li>iv) Such fees and expenses as are</li> </ul>	As necessary. U.S.\$20.00 per transaction. As necessary. As necessary.

incurred by the Depositary (including without limitation expenses incurred on behalf of Holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in delivery of deposited securities or otherwise in connection with the Depositary's or its Custodian's compliance with applicable law, rule or regulation.

(1) The Depositary may sell (by public or private sale) sufficient securities and property received in respect of such share distributions, rights and other distributions prior to such deposit to cover such charge.

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**Item 12. Description Of Securities Other Than Equity Securities**

***Direct and indirect payments made by JP Morgan Chase Bank to TIM in relation to the Company's ADR program***

JP Morgan Chase Bank, as Depositary, has agreed to reimburse the Company for reasonable expenses incurred related to the Company's ADR Program including legal fees, investor relations servicing, investor relations presentations, broker reimbursements, ADR related advertising and public relations, accountant's fees and other bona fide third party expenses.

In 2016 the Depositary reimbursed the Company in the amount of US\$710,000, all of which was used to cover audit fees incurred in connection with the Audit of the Consolidated Financial Statements included in the 2014 and 2015 Form 20-F.

As part of its service to the Company, J.P. Morgan has agreed to cover the standard costs associated with the administration of the ADR Program. Such costs include fees and expenses related to (1) general services (administration of the ADR Program, administration of ADR holders' accounts, maintenance of the ADR registry and other general services), services related to distribution of dividends and other cash distributions and tax and regulatory compliance services; (2) services related to the annual meeting; and (3) services to investor relations such as market updates, quarterly newsletters and market research.



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**Item 13. Defaults, Dividend Arrearages And Delinquencies**

**PART II**

**Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Not applicable.

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**Item 14. Material Modification to the Rights Of Security Holders And Use Of Proceeds**

**Item 14. MATERIAL MODIFICATION TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not applicable.

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**Item 15. Controls And Procedures**

**Disclosure Controls And Procedures**

**Management's Annual Report On Internal**

**Control Over Financial Reporting**

**Item 15. CONTROLS AND PROCEDURES**

**15.1. DISCLOSURE CONTROLS AND PROCEDURES**

The Company, under the supervision of the Chief Executive Officer and of the Head of Administration, Finance and Control, according to the Company's 404 Process guidelines (revised also to meet the reporting requirements set forth by article 154-bis of the Italian Legislative Decree 58/1998; the aforementioned Italian rule provides for a special report broadly corresponding in scope to the certifications and the management's report on internal control over financial reporting required by the Sarbanes Oxley Act) performed an evaluation of the effectiveness of the Company's disclosure controls and procedures as of December 31, 2016. The Company's management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which by their nature can provide only reasonable assurance regarding management's control objectives. Based on this evaluation, the Company's Chief Executive Officer and the Company's Head of Administration, Finance and Control concluded that the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) are effective at the reasonable assurance level.

**15.2. MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the Company's Chief Executive Officer and the Company's Head of Administration, Finance and Control and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures for the company are being made only in accordance with authorizations of management and directors of the company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2016. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ( **COSO** ) in *Internal Control-Integrated Framework-2013*.

Based on management's assessment, management has concluded that, as of December 31, 2016, the Company's internal control over financial reporting is effective based on those criteria.

PricewaterhouseCoopers S.p.A., the independent registered public accounting firm that audited the consolidated financial statements included in this annual report, has audited the effectiveness of internal control over financial reporting as of December 31, 2016. Their attestation report on internal control over financial reporting is included herein.

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**Item 15. Controls And Procedures**

**Changes In Internal Control Over Financial Reporting**

**15.3. CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There has been no change in the Company's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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**Item 16A. Audit Committee Financial Expert**

**Item 16B. Code Of Ethics And Conduct**

**Item 16. [RESERVED]**

**Item 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

The Board of Auditors in office as of April 7, 2016 determined that each of its members is an audit committee financial expert as defined in Item 16A of Form 20-F. For the names of the members of the Board of Auditors, see Item 6 Directors, Senior Management and Employees 6.3 Board of Auditors .

**Item 16B. CODE OF ETHICS AND CONDUCT**

On March 23, 2004, TIM adopted its Code of Ethics and Conduct which applies among the others - to the Chief Executive Officer and the Chief Financial Officer, as well as to all the Group's employees in and outside Italy; the suppliers of the Company are required to accept and apply it, too. The Code of Ethics and Conduct has subsequently been amended from time to time by the Board of Directors, which acted on the basis of opinions by the Control and Risk Committee and the Board of Statutory Auditors, in order to conform it to the developments in the applicable law and market regulations, taking into account national and international best practices. The Code of Ethics and Conduct in force is available on TIM's website at [www.telecomitalia.com](http://www.telecomitalia.com). See also under Item 16G. Corporate Governance 16.1.1 Differences in TIM's Corporate Governance and New York Stock Exchange Corporate Governance Practices and Item 10 Additional Information 10.1 Corporate Governance .

**Table of Contents****Item 16C. Principal Accountant Fees And Services****Item 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

For the year ended December 31, 2016, PricewaterhouseCoopers S.p.A. served as TIM's independent auditor.

PricewaterhouseCoopers means PricewaterhouseCoopers S.p.A., the auditor of the Company, as well as all the Italian and foreign entities belonging to the PricewaterhouseCoopers network.

The following table sets forth the aggregate fees for professional services and other services rendered by PricewaterhouseCoopers in 2016 and in 2015.

Type of Fees	Fiscal year ended December 31,	
	2016	2015
	(thousands of euros)	
Audit Fees(1)	6,718	11,737
Audit-related Fees(2)	93	145
Tax Fees(3)		131
<b>Total(*)</b>	<b>6,811</b>	<b>12,013</b>

(1) Audit fees consist of fees billed for professional services in connection with TIM's annual financial statements, reviews of interim financial statements as well as comfort letters issued in relation to capital market transactions, agreed upon procedures for certain financial statement areas, included those required for some transactions by regulations in Italy and abroad, and technical accounting consultations.

(2) Audit-related fees consist of fees billed for professional services rendered in connection with assurance and related services not included under Audit Fees.

(3) In 2015 tax fees refer to Sofora Telecom Argentina group and consist of fees billed for professional services rendered for tax compliance and tax advice.

(\*) Total aggregate fees for professional services and other services rendered by PricewaterhouseCoopers don't include 0.6 million euros (1.1 million euros in 2015) incurred by the TIM Brasil group for the review by the PricewaterhouseCoopers Network of the service quality imposed by the Brazilian Authority ANATEL.

The Board of Auditors (also in its role as TIM's Audit Committee), in accordance with and to the extent permitted by applicable Italian law, is responsible for the appointment, retention and oversight of the work of the Company's external auditors engaged for the purpose of issuing the audit report on the annual financial statements. In accordance

with Italian law and, since January 1, 2017, with European regulation, the Board of Auditors makes a reasoned proposal to the Shareholders Meeting which appoints the external auditors and determines their compensation.

In March 2010, TIM, together with its Board of Auditors, adopted the Guidelines for the Appointment of Auditors (the **Group Procedure**) which are currently being revised following the new regulatory framework. Such procedure became effective concurrently with the appointment of PricewaterhouseCoopers S.p.A. as TIM's primary independent auditors.

The above mentioned Group Procedure provides instructions, among other things, for the following:

- appointment to audit the Company's financial statements: the appointment is authorized by TIM's shareholders meeting, acting on a reasoned proposal from the Board of Auditors;
- additional appointments: the pre-approval, by TIM's Board of Auditors, of certain audit and permissible non-audit services to be provided by the external auditors (and associated persons) and the prohibition for certain services. An approval is not granted if the service falls within a category of services not permitted by current law or if it is inconsistent with maintaining auditor independence.

According to the Group Procedure, the TIM Board of Auditors pre-approved the following audit and permitted non-audit services.



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**Item 16C. Principal Accountant Fees And Services**

**Audit Services:**

- audit of the financial statements and reporting packages for consolidation of TIM's subsidiaries;
- review of the working papers of another auditor when necessary for the audit of the financial reports of TIM or companies it controls;
- verification services for the issue of consent letters;
- audit of financial statements and/or balance sheets to be published in prospectuses and information documents, offering memoranda and the like;
- accounting assistance and advice, including in relation to requests coming from CONSOB, the United States Securities and Exchange Commission and similar authorities;
- audit/verification services in connection with the awarding of grants/loans or obtaining specific tax or social security contribution treatment;
- verification of the conformity of so-called sustainability and social reports;
- issue of comfort letters in relation to the implementation of extraordinary corporate actions;
- reports and opinions requested under law from the Appointed Auditor;
- attestations to participate in competitive tenders organized by (national or supranational) governmental bodies.

**Permitted Non-audit Services:**

- agreed procedures for aspects of regulatory accounting;
- accounting due diligence procedures for companies to be sold or acquired.

The Board of Auditors has the right to establish guidelines and qualitative and quantitative criteria regarding the appointment of auditors to provide various services both audit and non-audit services, valid for the entire Group, which it did by requiring the introduction, from January 1, 2012, of an operative procedure which provides for prior examination by the Board of Auditors (even for pre-approved appointments and services) if certain qualitative conditions or when specific quantitative thresholds are exceeded. The Board of Auditors also stated that it will endorse the corresponding determinations adopted by the audit committees of the SEC-registered subsidiary companies, provided that they are made on the basis of rules compliant with the applicable regulations including United States regulations and in conformity with the Group Guidelines in the matter.

Furthermore, in accordance with the Group Procedure above, the Manager responsible for preparing the Company's financial reports (who acts under the supervision of the TIM Board of Auditors) sends, on a quarterly basis, to the Board of Auditors and the Control and Risk Committee, the information gathered on any Additional Appointments awarded and services provided. In relation to the above-mentioned appointments, the Board of Auditors and the Control and Risk Committee may have any verifications of compliance deemed necessary carried out by the Internal Control Manager.

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**Item 16D. Exemptions From The listing Standards For Audit Committees**

**Item 16E. Repurchases Of Equity Securities**

**Item 16F. Change In Registrant s Certifying Accountant**

**Item 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Please see Item 10. Additional Information 10.1. Corporate Governance .

**Item 16E. REPURCHASES OF EQUITY SECURITIES**

From January 1, 2016, to December 31, 2016, no purchases of Ordinary Shares or Savings Shares were made by or on behalf of TIM or any affiliated company.

**Item 16F. CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANT**

Not applicable.

**Table of Contents****Item 16G. Corporate Governance****Differences In Tim s Corporate Governance And****New York Stock Exchange Corporate Governance Practices****Item 16G. CORPORATE GOVERNANCE****16G.1 DIFFERENCES IN TIM S CORPORATE GOVERNANCE AND NEW YORK STOCK EXCHANGE CORPORATE GOVERNANCE PRACTICES**

We believe the following to be the significant differences between our corporate governance practices and NYSE corporate governance rules applicable to US companies.

*Independent Directors.* Under NYSE listing rules applicable to US companies, independent directors must comprise a majority of the board of directors.

Article 147-ter of the Italian Consolidated Law on Finance requires boards, with more than seven members, to have at least two directors who meet the criteria set forth by Article 148 for the independence of the members of the Board of Statutory Auditors; in addition the Borsa Italiana Corporate Governance Code requires Boards of Directors to have an adequate number of independent members, and defines the criteria to be applied in determining independence. TIM s Corporate Governance Principles incorporate by reference the same independence criteria set forth by the Borsa Italiana Code. Presently 9 out of 16 members of the TIM Board qualify as independent, as they meet both the requirements set forth by Article 148, and the criteria set forth by the Borsa Italiana Corporate Governance Code.

*Non-management Directors Meeting.* Pursuant to NYSE listing standards, non-management directors must meet on a regular basis without management present and independent directors must meet separately at least once per year. Borsa Italiana s Corporate Governance Code requires independent directors to meet at least once a year without management present.

TIM s Corporate Governance Principles establish the position of Lead Independent Director. The position is intended to provide a point of reference and coordination for the needs and inputs of the independent directors and is entrusted with the power to call special meetings of independent members (Independent Directors Executive Sessions) to discuss, separately from the management, issues related to the working of the Board and the management of the business. In 2016 a total of 3 such sessions were held. The Lead Independent Director may use the Company s support functions in performing his tasks. As of April 7, 2017 the position is held by Giorgio Valerio. For further details, see also 10.1 Corporate Governance General Board of Directors Executive Directors and Activities of the Board .

*Board of Directors Internal Committees.* According to NYSE listing standards, US companies listed on the NYSE are required to have a Nominating/Corporate Governance Committee, a Compensation Committee and an Audit Committee. Also according to Borsa Italiana s Corporate Governance Code, the Board of Directors shall establish among its members a Nominating Committee (made up, for the majority, of independent directors) a Remuneration Committee (made up of independent directors or of non-executive directors, the majority of which are to be independent) and a Control and Risk Committee (made up of independent directors or non-executive directors, the majority of which are to be independent).

TIM Board specifically established a Nomination and Remuneration Committee (thus combining responsibilities and roles of the Nominating Committee and the Remuneration Committee) and a Control and Risk Committee.

*Nominating/Corporate Governance Committee.* Under NYSE standards, the nominating/corporate governance committee is composed entirely of independent directors. In addition to identifying individuals qualified to become board members, this committee must develop and recommend to the board a set of corporate governance principles. Pursuant to NYSE standards, this committee should also adopt a written charter.

Article 9 of TIM's bylaws provides for the members of the Board of Directors to be elected using the slate system, which permits shareholders, who, alone or together, hold shares representing at least 0.5% of the share capital, to put forward slates of nominees for the appointment as directors: the system is intended to ensure the presence on the Board of persons designated by minority shareholders. Thus, the Company's view is that using the slate system meets the needs otherwise served by the creation of a Nominating Committee.

On the other hand, the Nomination and Remuneration Committee (made up of non-executive directors only, a majority of whom must be independent, one of them chosen from a minority slate), among other activities, is in charge of submitting to the Board of Directors candidates for appointment as director in case of co-optation,

**Table of Contents****Item 16G. Corporate Governance****Differences In Tim s Corporate Governance And****New York Stock Exchange Corporate Governance Practices**

should the replacement of independent directors be necessary. In addition TIM has a Control and Risk Committee (made up of non-executive directors only, a majority of whom must be independent, one of them chosen from a minority slate) which, among other activities, actively participates and assists in developing and implementing the corporate governance procedures adopted by TIM.

For further details, see also 10.1 Corporate Governance General Board of Directors Internal Committees .

*Remuneration Committee.* Under NYSE standards, the Remuneration Committee is composed entirely of independent directors. In addition to the review and approval of corporate goals relevant to CEO compensation and evaluation of the CEO performance in light of those given, this committee must determine and approve the CEO s compensation and make recommendations to the Board of Directors with respect to non-CEO compensation, incentive-compensation plans and equity-based plans.

TIM has a Nomination and Remuneration Committee, made up of non-executive directors only, a majority of whom are independent (one of them chosen from a minority slate). Pursuant to the Company s Corporate Governance Principles, the Remuneration Committee shall, among other things:

- (1) oversee the succession plan for Executive Directors, and monitor the updating of the company management replacement lists, prepared by the Executive directors;
- (2) establish the procedure for the annual evaluation of the Board of Directors;
- (3) propose the criteria for allocating the total annual compensation established by the Shareholders Meeting for the whole Board of Directors;
- (4) perform other duties assigned to it by the Board of Directors;
- (5) express opinions to the Board of Directors regarding its size and composition and express recommendations with regard to the professional skills necessary within the Board;
- (6) submit the Board of Directors candidates for directors offices in case of cooptation, should the replacement of independent directors be necessary;
- (7) periodically evaluate the adequacy, overall consistency and actual application of the policy for the remuneration of directors and key management personnel, on the basis of the information provided by the managing directors;

it shall formulate proposals to the Board of Directors in that regard;

- (8) submit proposals or issue opinions to the Board of Directors for the remuneration of executive directors and other directors who cover particular offices as well as for the identification of performance objectives related to the variable component of that remuneration; it shall monitor the implementation of decisions adopted by the Board of Directors and verify, in particular, the actual achievement of performance objectives.

According to the procedure for transactions with the Company's related parties, adopted by board resolution of November 4, 2010 and subsequently amended (available on the [www.telecomitalia.com](http://www.telecomitalia.com) website, Governance section Governance System channel), in case of resolutions regarding the remuneration of directors and executive officers with strategic responsibilities the tasks assigned to the board committee by the TIM procedure are in this case performed by the Nomination and Remuneration Committee.

For further details, see also 10.1 Corporate Governance General Board of Directors Internal Committees .

*Audit Committee.* US companies listed on the NYSE are required to establish an Audit Committee that satisfies the requirements of Rule 10A-3 under the 1934 Act.

The Board of Auditors, as permitted by Rule 10A-3, is performing the corresponding functions for TIM, which therefore is exempted from the requirement to have a separate audit committee.

A Rule 303A written affirmation to this end was submitted to the NYSE on April 26, 2016. For further details, see also 10.1 Corporate Governance General Board of Directors and 10.1 Corporate Governance General Board of Auditors.

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**Corporate Governance**

**Mine Safety Disclosure      Differences In Tim s Corporate Governance And New York Stock Exchange Corporate Governan**

*Adoption and Disclosure of Corporate Governance Guidelines.* US companies listed on the NYSE are required to adopt and disclose corporate governance guidelines.

Such disclosures are included in this Form 20-F and English translations of the TIM Group s corporate governance policies can be found on TIM s website: [www.telecomitalia.com](http://www.telecomitalia.com) under Governance .

*Code of business conduct and ethics.* NYSE listing standards require US companies to adopt a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. The code should provide for the reporting of violations of its provisions or of laws and regulations.

TIM has adopted such a Code. See also under 16B. Code of Ethics and Conduct .

*Annual Certification by The Chief Executive Officer.* A chief executive officer of a US company listed on the NYSE must annually certify that he or she is not aware of any violation by the company of NYSE corporate governance standards.

In accordance with NYSE listing rules applicable to foreign private issuers, TIM submitted its foreign private issuer annual written affirmation on April 26, 2016.

**Item 16H. MINE SAFETY DISCLOSURE**

Not applicable.



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**Item 17. Financial Statements**

**PART III**

**Item 17. FINANCIAL STATEMENTS**

Not applicable.

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**Table of Contents****Item 18. Financial Statements****Item 19. Financial Statements and Exhibits****Item 18. FINANCIAL STATEMENTS**

Reference is made to Item 19 for a list of all financial statements filed as part of this Annual Report.

**Item 19. FINANCIAL STATEMENTS AND EXHIBITS***(a) Financial Statements*

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*(b) Exhibits*

1.1 Bylaws of the Company.

2.1 Deposit Agreements.

(a) Deposit Agreement dated as of July 17, 2003, as amended, among the Company, JPMorgan Chase Bank, as Depositary and the holders from time to time of American Depositary Receipts representing Ordinary Shares of the Company.(1)

(b) Deposit Agreement dated as of July 17, 2003, as amended, among the Company, JPMorgan Chase Bank, as Depositary and the holders from time to time of American depositary Receipts representing Savings shares of the Company.(2)

2.2 Trust deed dated January 23, 2004, between TIM (as Issuer and Guarantor), Telecom Italia Finance (as Issuer) and J.P. Morgan Corporate Trustee Services Limited relating to a 10 billion euros Medium Term Note Program. We hereby agree to furnish to the Commission, upon its request, a copy of any instrument defining the rights of holders of our long-term debt or that of our subsidiaries for which consolidated or unconsolidated financial statements are required to be filed.(3)

4.1 Public Telecommunications Authorization.(4)

(a) Decision No. 820/00/CONS of 11.22.2000. General Authorization, former individual license for installation and supply of public telecommunications network and for the provision to the public of a voice telephony service (*modifications to the concessions and annexed conventions, ex SIP, Iritel and Italcable*).

#### 4.2 Stock Option Plans

(a) 2014-2016 Stock Option Plan. (5)

7.1 Statement explaining computation of ratio of Earnings to fixed charges under IFRS.

8.1 List of Subsidiaries.(6)

12(a) Certification by the Chief Executive Officer of TIM S.p.A.

12(b) Certification by the Head of Administration, Finance and Control of TIM S.p.A.

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**Item 19. Financial Statements and Exhibits**

13.1 Section 906 Certification submitted for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code.

- (1) Incorporated by reference to exhibit (a) filed with Olivetti's Registration Statement on Form F-6 filed with the SEC on July 18, 2003 (File No. 333-107144).
- (2) Incorporated by reference to exhibit (a) filed with Olivetti's Registration Statement on Form F-6 filed with the SEC on July 18, 2003 (File No. 333-107142).
- (3) Incorporated by reference to the Exhibits filed with the Company's Annual Report on Form 20-F on June 10, 2004 (File No. 001-13882).
- (4) Incorporated by reference to the Exhibits filed with the Company's Annual Report on Form 20-F/A on June 29, 2001 (File No. 001-13882).
- (5) Incorporated by reference to the Exhibits filed with the Company's Annual Report on Form 20-F on April 15, 2015 (File No. 001-13882).
- (6) Please see Note List of Companies of the TIM Group of the Notes to the Consolidated Financial Statements included elsewhere herein.

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**Item 19. Financial Statements and Exhibits**

**SIGNATURE**

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all the requirements for filing on Form 20-F and has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

**TIM S.p.A**

**By:** /s/ FLAVIO CATTANEO  
**Name:** **Flavio Cattaneo**  
**Title:** **Chief Executive Officer**

Dated April 12, 2017

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**Table of Contents****Consolidated Financial Statements****Report Of Independent Registered Public Accounting Firm****REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders of TIM SpA

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of income, comprehensive income, changes in equity and cash flows present fairly, in all material respects, the financial position of TIM SpA and its subsidiaries at December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing on Item 15.2 of the 2016 Annual Report to Shareholders. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers SpA

Milan, Italy

April 12, 2017

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**Table of Contents****Consolidated Financial Statements****Consolidated Statements Of Financial Position****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2016,  
DECEMBER 31, 2015 AND JANUARY 1, 2015 ASSETS**

	Note	As of December 31, 2016	As of December 31, 2015 (Revised)	As of January 1, 2015 (Revised)
<b>(millions of euros)</b>				
<b>NON-CURRENT ASSETS</b>				
<b>Intangible assets</b>				
Goodwill	5	29,612	29,383	29,943
Intangible assets with a finite useful life	6	6,951	6,480	6,827
		<b>36,563</b>	<b>35,863</b>	<b>36,770</b>
<b>Tangible assets</b>				
	7			
Property, plant and equipment owned		13,947	12,659	12,544
Assets held under finance leases		2,413	2,208	843
		<b>16,360</b>	<b>14,867</b>	<b>13,387</b>
<b>Other non-current assets</b>				
Investments in associates and joint ventures accounted for using the equity method	8	18	41	36
Other investments	8	46	45	43
Non-current financial assets	9	2,698	2,989	2,445
Miscellaneous receivables and other non-current assets	10	2,222	1,804	1,624
Deferred tax assets	11	877	853	1,118
		<b>5,861</b>	<b>5,732</b>	<b>5,266</b>
<b>TOTAL NON-CURRENT ASSETS (A)</b>		<b>58,784</b>	<b>56,462</b>	<b>55,423</b>
<b>CURRENT ASSETS</b>				
Inventories	12	270	254	313
Trade and miscellaneous receivables and other current assets	13	5,426	5,086	5,607
Current income tax receivables	11	94	163	101
Current financial assets	9			
Securities other than investments, financial receivables and other current financial assets		1,908	1,840	1,611
Cash and cash equivalents		3,964	3,559	4,812
		<b>5,872</b>	<b>5,399</b>	<b>6,423</b>

<b>Current assets sub-total</b>		<b>11,662</b>	<b>10,902</b>	<b>12,444</b>
<b>Discontinued operations /Non-current assets held for sale</b>	14			
of a financial nature			227	165
of a non-financial nature			3,677	3,564
			<b>3,904</b>	<b>3,729</b>
<b>TOTAL CURRENT ASSETS (B)</b>		<b>11,662</b>	<b>14,806</b>	<b>16,173</b>
<b>TOTAL ASSETS (A+B)</b>		<b>70,446</b>	<b>71,268</b>	<b>71,596</b>

The accompanying notes are an integral part of these consolidated financial statements

**Table of Contents****Consolidated Financial Statements****Consolidated Statements Of Financial Position****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2016,  
DECEMBER 31, 2015 AND JANUARY 1, 2015 EQUITY AND LIABILITIES**

	Note	As of December 31, 2016	As of December 31, 2015 (Revised)	As of January 1, 2015 (Revised)
(millions of euros)				
<b>EQUITY</b>	15			
Share capital issued		11,677	10,740	10,723
Less: treasury shares		(90)	(90)	(89)
Share capital		11,587	10,650	10,634
Additional paid-in capital		2,094	1,731	1,725
Other reserves and retained earnings (accumulated losses), including profit (loss) for the year		7,526	5,173	5,709
<b>Equity attributable to owners of the Parent</b>		<b>21,207</b>	<b>17,554</b>	<b>18,068</b>
<b>Non-controlling interests</b>		<b>2,346</b>	<b>3,695</b>	<b>3,516</b>
<b>TOTAL EQUITY (A)</b>		<b>23,553</b>	<b>21,249</b>	<b>21,584</b>
<b>NON-CURRENT LIABILITIES</b>				
Non-current financial liabilities	16	30,469	30,518	32,325
Employee benefits	20	1,355	1,420	1,056
Deferred tax liabilities	11	293	323	438
Provisions	21	830	551	720
Miscellaneous payables and other non-current liabilities	22	1,607	1,429	984
<b>TOTAL NON-CURRENT LIABILITIES (B)</b>		<b>34,554</b>	<b>34,241</b>	<b>35,523</b>
<b>CURRENT LIABILITIES</b>				
Current financial liabilities	16	4,056	6,224	4,686
Trade and miscellaneous payables and other current liabilities	23	7,646	7,563	8,249
Current income tax payables	11	637	110	36
<b>Current liabilities sub-total</b>		<b>12,339</b>	<b>13,897</b>	<b>12,971</b>
<b>Liabilities directly associated with Discontinued operations/Non-current assets held for sale</b>	14			
of a financial nature			348	43
of a non-financial nature			1,533	1,475

		<b>1,881</b>	<b>1,518</b>
<b>TOTAL CURRENT LIABILITIES (C)</b>	<b>12,339</b>	<b>15,778</b>	<b>14,489</b>
<b>TOTAL LIABILITIES (D=B+C)</b>	<b>46,893</b>	<b>50,019</b>	<b>50,012</b>
<b>TOTAL EQUITY AND LIABILITIES (A+D)</b>	<b>70,446</b>	<b>71,268</b>	<b>71,596</b>

The accompanying notes are an integral part of these consolidated financial statements

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**Table of Contents****Consolidated Financial Statements****Separate Consolidated Income Statements****SEPARATE CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**

	Note	Year ended December 31,		
		2016	2015 (Revised)	2014 (Revised)
(millions of euros)				
Revenues	25	19,025	19,719	21,574
Other income	26	311	287	401
<b>Total operating revenues and other income</b>		<b>19,336</b>	<b>20,006</b>	<b>21,975</b>
Acquisition of goods and services	27	(7,793)	(8,532)	(9,432)
Employee benefits expenses	28	(3,106)	(3,589)	(3,119)
Other operating expenses	29	(1,083)	(1,491)	(1,175)
Change in inventories		9	(44)	(52)
Internally generated assets	30	639	656	588
Depreciation and amortization	31	(4,291)	(4,135)	(4,284)
Gains (losses) on disposals of non-current assets	32	14	336	29
Impairment reversals (losses) on non-current assets	33	(3)	(244)	(1)
<b>Operating profit (loss)</b>		<b>3,722</b>	<b>2,963</b>	<b>4,529</b>
Share of profits (losses) of associates and joint ventures accounted for using the equity method	8	(23)	1	(5)
Other income (expenses) from investments	34	7	10	16
Finance income	35	2,543	2,760	2,404
Finance expenses	35	(3,450)	(5,281)	(4,594)
<b>Profit (loss) before tax from continuing operations</b>		<b>2,799</b>	<b>453</b>	<b>2,350</b>
Income tax expense	11	(880)	(403)	(930)
<b>Profit (loss) from continuing operations</b>		<b>1,919</b>	<b>50</b>	<b>1,420</b>
Profit (loss) from Discontinued operations/Non-current assets held for sale	14	47	611	541
<b>Profit (loss) for the year</b>	36	<b>1,966</b>	<b>661</b>	<b>1,961</b>
<b>Attributable to:</b>				
<i>Owners of the Parent</i>		<i>1,808</i>	<i>(70)</i>	<i>1,351</i>
<i>Non-controlling interests</i>		<i>158</i>	<i>731</i>	<i>610</i>

	Year ended December 31,		
	2016	2015 (Revised)	2014 (Revised)
	(Euros)		
<b>Basic and Diluted Earnings Per Share (EPS)(*)</b>	37		
Ordinary Share	0.08		0.06
Savings Share	0.09		0.07
<i>Of which:</i>			
<i>From continuing operations attributable to Owners of the Parent</i>			
<i>Ordinary Share</i>	<i>0.08</i>	<i>(0.01)</i>	<i>0.06</i>
<i>Savings Share</i>	<i>0.09</i>	<i>(0.01)</i>	<i>0.07</i>

(\*) Basic EPS is equal to Diluted EPS.

The accompanying notes are an integral part of these consolidated financial statements



**Table of Contents****Consolidated Financial Statements****Consolidated Statements Of Comprehensive Income****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED  
DECEMBER 31, 2016, 2015 AND 2014 (see Note 15)**

		Year ended December 31,		
		2016	2015	2014
			(Revised)	(Revised)
		(millions of euros)		
<b>Profit (loss) for the year</b>	<b>(A)</b>	<b>1,966</b>	<b>661</b>	<b>1,961</b>
<b>Other components of the Consolidated Statement of Comprehensive Income</b>				
<b>Other components that will not be reclassified subsequently to Separate Consolidated Income Statement</b>				
<b>Remeasurements of employee defined benefit plans (IAS 19):</b>				
Actuarial gains (losses)		(33)	16	(209)
Income tax effect		7	(7)	53
	<b>(B)</b>	<b>(26)</b>	<b>9</b>	<b>(156)</b>
<b>Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method:</b>				
Profit (loss)				
Income tax effect				
	<b>(C)</b>			
<b>Total other components that will not be reclassified subsequently to Separate Consolidated Income Statement</b>	<b>D=(B+C)</b>	<b>(26)</b>	<b>9</b>	<b>(156)</b>
<b>Other components that will be reclassified subsequently to Separate Consolidated Income Statement</b>				
<b>Available-for-sale financial assets:</b>				
Profit (loss) from fair value adjustments		46	(4)	74
Loss (profit) transferred to Separate Consolidated Income Statement		(37)	(57)	(23)
Income tax effect		(2)	18	(15)
	<b>(E)</b>	<b>7</b>	<b>(43)</b>	<b>36</b>
<b>Hedging instruments:</b>				
Profit (loss) from fair value adjustments		(312)	1,536	767
Loss (profit) transferred to Separate Consolidated Income Statement		(80)	(983)	(871)

Income tax effect		90	(165)	28
	<b>(F)</b>	<b>(302)</b>	<b>388</b>	<b>(76)</b>
<b>Exchange differences on translating foreign operations:</b>				
Profit (loss) on translating foreign operations		852	(2,129)	(224)
Loss (profit) on translating foreign operations transferred to Separate Consolidated Income Statement		304	(1)	
Income tax effect				
	<b>(G)</b>	<b>1,156</b>	<b>(2,130)</b>	<b>(224)</b>
<b>Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method:</b>				
Profit (loss)				
Loss (profit) transferred to Separate Consolidated Income Statement				
Income tax effect				
	<b>(H)</b>			
<b>Total other components that will be reclassified subsequently to Separate Consolidated Income Statement</b>	<b>(I=E+F+G+H)</b>	<b>861</b>	<b>(1,785)</b>	<b>(264)</b>
<b>Total other components of the Consolidated Statement of Comprehensive Income</b>	<b>(K=D+I)</b>	<b>835</b>	<b>(1,776)</b>	<b>(420)</b>
<b>Total comprehensive income (loss) for the year</b>	<b>(A+K)</b>	<b>2,801</b>	<b>(1,115)</b>	<b>1,541</b>
<i>Attributable to:</i>				
<i>Owners of the Parent</i>		<i>2,534</i>	<i>(807)</i>	<i>1,124</i>
<i>Non-controlling interests</i>		<i>267</i>	<i>(308)</i>	<i>417</i>

The accompanying notes are an integral part of these consolidated financial statements

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Consolidated Financial Statements

Consolidated Statements Of Changes In Equity

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED

DECEMBER 31, 2016, 2015 AND 2014

## CHANGES IN EQUITY IN 2014 (Revised) (see Note 15)

	Share capital (a)	paid-in capital (b)	financial instruments (c)	hedging operations (d)	foreign plans (e)	IAS 19 method (f)	the equity method (g)	Equity attributable to non-controlling interest (h)	Total Equity (i+l)	
	(millions of euros)									
<b>Balance at December 31, 2013</b>	<b>10,604</b>	<b>1,704</b>	<b>39</b>	<b>(561)</b>	<b>(377)</b>	<b>132</b>	<b>5,520</b>	<b>17,061</b>	<b>3,125</b>	<b>20,186</b>
Correction of errors					28		(104)	(76)	(39)	(115)
<b>Balance at December 31, 2013 (Revised)</b>	<b>10,604</b>	<b>1,704</b>	<b>39</b>	<b>(561)</b>	<b>(349)</b>	<b>132</b>	<b>5,416</b>	<b>16,985</b>	<b>3,086</b>	<b>20,071</b>
<b>Changes in equity in the year ended December 31, 2014:</b>										
Dividends approved							(166)	(166)	(177)	(343)
Total comprehensive income (loss) for the year			36	(76)	(31)	(156)	1,351	1,124	417	1,541
Effect of Rete A acquisition					58		10	68	40	40
									92	160

Effect of equity transactions of the Sofora Telecom Argentina group

Grant of equity instruments	30	21					13	64		64
Other changes					(72)		65	(7)	58	51
<b>Balance at December 31, 2014 (Revised)</b>	<b>10,634</b>	<b>1,725</b>	<b>75</b>	<b>(637)</b>	<b>(322)</b>	<b>(96)</b>	<b>6,689</b>	<b>18,068</b>	<b>3,516</b>	<b>21,584</b>

The accompanying notes are an integral part of these consolidated financial statements

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**Table of Contents****Consolidated Financial Statements****Consolidated Statements Of Changes In Equity****CHANGES IN EQUITY IN 2015 (Revised) (See Note 15)**

	Share capital (a)	paid-in capital (b)	financial assets (c)	for hedging instrument (d)	foreign operations (e)	translating benefit (f)	19) method year (g)	Share of other comprehensive income (loss) retained Reserve for available-for-exchange differences Reserve for associates earnings Reserve for employee benefits (including defined costs) Additional sale Reserve Share paid-in capital (h)	Share of other comprehensive income (loss) retained Reserve for available-for-exchange differences Reserve for associates earnings Reserve for employee benefits (including defined costs) Additional sale Reserve Share paid-in capital (i)	Parent interest (j)	Total Equity (i+l)
	(millions of euros)										
<b>Balance at December 31, 2014</b>	<b>10,634</b>	<b>1,725</b>	<b>75</b>	<b>(637)</b>	<b>(350)</b>	<b>(96)</b>	<b>6,794</b>	<b>18,145</b>	<b>3,554</b>	<b>21,699</b>	
Correction of errors					28		(105)	(77)	(38)	(115)	
<b>Balance at December 31, 2014 (Revised)</b>	<b>10,634</b>	<b>1,725</b>	<b>75</b>	<b>(637)</b>	<b>(322)</b>	<b>(96)</b>	<b>6,689</b>	<b>18,068</b>	<b>3,516</b>	<b>21,584</b>	
<b>Changes in equity in the year ended December 31, 2015:</b>											
Dividends approved							(166)	(166)	(125)	(291)	
Total comprehensive income (loss) for the year			(43)	388	(1,091)	9	(70)	(807)	(308)	(1,115)	
INWIT effect of sale of the non-controlling interest							279	279	560	839	
Merger of Telecom Italia Media S.p.A. in TIM S.p.A.	7	6					(39)	(26)	17	(9)	
							186	186		186	

Convertible Bond issue maturing 2022 Equity component										
Grant of equity instruments	9					1	10			10
Other changes						10	10	35		45
<b>Balance at December 31, 2015 (Revised)</b>	<b>10,650</b>	<b>1,731</b>	<b>32</b>	<b>(249)</b>	<b>(1,413)</b>	<b>(87)</b>	<b>6,890</b>	<b>17,554</b>	<b>3,695</b>	<b>21,249</b>

The accompanying notes are an integral part of these consolidated financial statements

**Table of Contents****Consolidated Financial Statements****Consolidated Statements Of Changes In Equity****CHANGES IN EQUITY IN 2016 (see Note 15)**

	Share capital (a)	Share premium (b)	Reserves for financial instruments (c)	Reserve for available-for-exchange differences of joint ventures (d)	Reserve for hedging foreign plans (e)	Share of income (loss) of associates (f)	Share of income (loss) of joint ventures (g)	Share of income (loss) of equity attributable to the owners of the Parent (h)	Non-controlling interests (i)	Total Equity (i+l)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(l)
	(millions of euros)									
<b>Balance at December 31, 2015</b>	<b>10,650</b>	<b>1,731</b>	<b>32</b>	<b>(249)</b>	<b>(1,459)</b>	<b>(87)</b>	<b>6,992</b>	<b>17,610</b>	<b>3,723</b>	<b>21,333</b>
Correction of errors					46		(102)	(56)	(28)	(84)
<b>Balance at December 31, 2015 (Revised)</b>	<b>10,650</b>	<b>1,731</b>	<b>32</b>	<b>(249)</b>	<b>(1,413)</b>	<b>(87)</b>	<b>6,890</b>	<b>17,554</b>	<b>3,695</b>	<b>21,249</b>
<b>Changes in equity in the year ended December 31, 2016:</b>										
Dividends approved							(166)	(166)	(38)	(204)
Total comprehensive income (loss) for the year			7	(302)	1,047	(26)	1,808	2,534	267	2,801
Disposal of the Sofora Telecom Argentina group									(1,582)	(1,582)
Conversion of the Guaranteed Subordinated Mandatory Convertible Bonds due 2016	937	363						1,300		1,300

Grant of equity instruments							1	1		1
Other changes							(16)	(16)	4	(12)
<b>Balance at December 31, 2016</b>	<b>11,587</b>	<b>2,094</b>	<b>39</b>	<b>(551)</b>	<b>(366)</b>	<b>(113)</b>	<b>8,517</b>	<b>21,207</b>	<b>2,346</b>	<b>23,553</b>

The accompanying notes are an integral part of these consolidated financial statements



**Table of Contents****Consolidated Financial Statements****Consolidated Statements Of Cash Flows****CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED****DECEMBER 31, 2016, 2015 AND 2014**

	Note	Year ended December 31, (Revised) (Revised) (millions of euros)		
		2016	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Profit (loss) from continuing operations		1,919	50	1,420
<i>Adjustments for:</i>				
Depreciation and amortization		4,291	4,135	4,284
Impairment losses (reversals) on non-current assets (including investments)		6	253	13
Net change in deferred tax assets and liabilities		38	(45)	187
Losses (gains) realized on disposals of non-current assets (including investments)		(15)	(343)	(29)
Share of losses (profits) of associates and joint ventures accounted for using the equity method		23	(1)	5
Change in provisions for employee benefits		(131)	389	(59)
Change in inventories		(10)	56	55
Change in trade receivables and net amounts due from customers on construction contracts		(310)	410	(125)
Change in trade payables		229	(481)	(323)
Net change in current income tax receivables/payables		581	13	353
Net change in miscellaneous receivables/payables and other assets/liabilities		(915)	634	(584)
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES (A)</b>		<b>5,706</b>	<b>5,070</b>	<b>5,197</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
<i>Purchase of intangible assets</i>	6	(1,641)	(1,959)	(2,422)
<i>Purchase of tangible assets</i>	7	(3,467)	(4,761)	(2,562)
Total purchase of intangible and tangible assets on an accrual basis		(5,108)	(6,720)	(4,984)
<i>Change in amounts due for purchases of intangible and tangible assets</i>		450	1,294	325
Total purchase of intangible and tangible assets on a cash basis		(4,658)	(5,426)	(4,659)
Acquisition of control of companies or other businesses, net of cash acquired		(10)	(5)	(9)
Acquisitions/disposals of other investments		(5)	(36)	(2)
Change in financial receivables and other financial assets		175	(635)	(1,118)
Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of		492		
		42	717	78

Proceeds from sale/repayments of intangible, tangible and other non-current assets

<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES (B)</b>		<b>(3,964)</b>	<b>(5,385)</b>	<b>(5,710)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Change in current financial liabilities and other		(437)	408	1,305
Proceeds from non-current financial liabilities (including current portion)		3,561	5,054	4,377
Repayments of non-current financial liabilities (including current portion)		(4,164)	(7,191)	(5,877)
Share capital proceeds/reimbursements (including subsidiaries)		4	186	14
Dividends paid		(227)	(204)	(252)
Changes in ownership interests in consolidated subsidiaries			845	160
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES (C)</b>		<b>(1,263)</b>	<b>(902)</b>	<b>(273)</b>
<b>CASH FLOWS FROM (USED IN) DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE (D)</b>	14	<b>(45)</b>	<b>(19)</b>	<b>(499)</b>
<b>AGGREGATE CASH FLOWS (E=A+B+C+D)</b>		<b>434</b>	<b>(1,236)</b>	<b>(1,285)</b>
<b>NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR (F)</b>		<b>3,216</b>	<b>4,910</b>	<b>6,296</b>
<b>Net foreign exchange differences on net cash and cash equivalents (G)</b>		<b>302</b>	<b>(458)</b>	<b>(101)</b>
<b>NET CASH AND CASH EQUIVALENTS AT END OF THE YEAR (H=E+F+G)</b>		<b>3,952</b>	<b>3,216</b>	<b>4,910</b>

The accompanying notes are an integral part of these consolidated financial statements

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	<b>Year ended December 31,</b>		
	<b>2016</b>	<b>2015 (Revised)</b>	<b>2014 (Revised)</b>
	<b>(millions of euros)</b>		
<b>ADDITIONAL CASH FLOW INFORMATION:</b>			
Income taxes (paid) received	(218)	(363)	(427)
Interest expense paid	(2,306)	(5,145)	(4,985)
Interest income received	934	3,632	3,301
Dividends received	8	3	5
<b>ANALYSIS OF NET CASH AND CASH EQUIVALENTS:</b>			
<b>NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR:</b>			
Cash and cash equivalents from continuing operations	3,559	4,812	5,744
Bank overdrafts repayable on demand from continuing operations	(441)	(19)	(64)
Cash and cash equivalents from Discontinued operations/Non-current assets held for sale	98	117	616
Bank overdrafts repayable on demand from Discontinued operations/Non-current assets held for sale			
	<b>3,216</b>	<b>4,910</b>	<b>6,296</b>
<b>NET CASH AND CASH EQUIVALENTS AT END OF THE YEAR:</b>			
Cash and cash equivalents from continuing operations	3,964	3,559	4,812
Bank overdrafts repayable on demand from continuing operations	(12)	(441)	(19)
Cash and cash equivalents from Discontinued operations/Non-current assets held for sale		98	117
Bank overdrafts repayable on demand from Discontinued operations/Non-current assets held for sale			
	<b>3,952</b>	<b>3,216</b>	<b>4,910</b>

The accompanying notes are an integral part of these consolidated financial statements

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**NOTE 1 FORM, CONTENT AND OTHER GENERAL INFORMATION**

**Form and content**

Telecom Italia S.p.A. (the Parent ), also TIM S.p.A. , and its subsidiaries form the TIM Group or the Group .

TIM is a joint-stock company (S.p.A.) organized under the laws of the Republic of Italy.

The registered offices of the Parent, TIM, are located in Milan, Italy, at Via Gaetano Negri 1,.

The duration of the company, as stated in the company s Bylaws, extends until December 31, 2100.

The TIM Group operates mainly in Europe, the Mediterranean Basin and South America.

The Group is engaged principally in the communications sector and, particularly, the fixed and mobile national and international telecommunications sector.

The TIM Group consolidated financial statements for the year ended December 31, 2016 have been prepared on a going concern basis (for further details see Note Accounting policies ) and in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (designated as IFRS ).

In 2016, the Group has applied the accounting policies on a basis consistent with those of the previous years, except for the new standards and interpretations adopted by the Group since January 1, 2016 and described below.

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

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 two years.

At the end of 2016, following the introduction of a new procedure that refined the methods for the recognition of deferred income and prepaid expenses for the deferral of various revenues and costs by more precisely identifying the expiry dates of the individual contracts, TIM S.p.A. for 2015, reclassified 319 million euros from Trade and miscellaneous payables and other current liabilities to Miscellaneous payables and other non-current liabilities and 26 million euros from Trade and miscellaneous receivables and other current assets to Miscellaneous receivables and other non-current assets . These refinements did not have any impact on the income statement.

The TIM Group consolidated financial statements at December 31, 2016 are expressed in euro (rounded to the nearest million, unless otherwise indicated).

Publication of the TIM Group consolidated financial statements for the year ended December 31, 2016 was approved by resolution of the Board of Directors meeting held on March 23, 2017.

**The correction of errors**

Within the Brazil Business Unit, Tim Brasil's Management identified that incorrect accounting entries were made in prior years in connection with the recognition of service revenues from the sale of prepaid traffic.

Such incorrect accounting entries, which were attributable to the business model used in Brazil for recognizing prepaid traffic revenues in non-recent years, resulted in the early recognition of revenues and consequently the underestimation of deferred revenue liabilities for prepaid traffic not yet consumed. The incorrect accounting entries did not have any impact either in terms of net financial position or on cash and cash equivalents.

In assessing the level of significance of the error for purposes of the related financial statement presentation in accordance with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), Management also considered US accounting standards and related guidance.

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In particular, this analysis indicated that the impact of the error was not material with respect to consolidated results of operations for each of the years ended December 31, 2015, 2014, 2013 and 2012 but the correction of the cumulative error as of December 31, 2015 would have a material impact on full-year consolidated results of operations for 2016, if entirely recognized at charge of such year.

In light of the above and for purposes of the TIM Group Consolidated Financial Statements as of and for the year ended December 31, 2016, the Company's Management decided to revise the comparative financial information, including segment reporting. In accordance with IAS 1 and IAS 8, the revised consolidated statement of financial position as of January 1, 2015 is also presented.

Impacts of correction of errors on Consolidated Statements of Financial Position as of December 31, 2015, 2014, 2013 and 2012 are summarized as follows:

**Consolidated Statements of Financial Position Revised**

	2015	As of December 31, 2014 2013 (millions of euros)		2012
<b>Assets</b>				
<b>Non-current assets</b>				
Miscellaneous receivables and other non-current assets	1,804	1,624	1,649	1,557
<b>Current assets</b>				
Trade and miscellaneous receivables and other current assets	5,086	5,607	5,391	7,011
<b>Total Assets</b>	<b>71,268</b>	<b>71,596</b>	<b>70,264</b>	<b>77,621</b>
<b>Equity and Liabilities</b>				
<b>Equity</b>				
Equity attributable to Owners of the Parent	17,554	18,068	16,985	19,269
Non-controlling interests	3,695	3,516	3,086	3,580
<b>Total Equity</b>	<b>21,249</b>	<b>21,584</b>	<b>20,071</b>	<b>22,849</b>
<b>Current liabilities</b>				
Trade and miscellaneous payables and other current liabilities	7,563	8,249	8,808	10,771
<b>Total Equity and Liabilities</b>	<b>71,268</b>	<b>71,596</b>	<b>70,264</b>	<b>77,621</b>

**Adjustments to Consolidated Statements of Financial Position**

	2015	As of December 31, 2014 2013 (millions of euros)		2012
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<b>Assets</b>				
<b>Non-current assets</b>				
Miscellaneous receivables and other non-current assets	34	43	42	61
<b>Current assets</b>				
Trade and miscellaneous receivables and other current assets	2	2	2	5
<b>Total Assets</b>	<b>36</b>	<b>45</b>	<b>44</b>	<b>66</b>
<b>Equity and Liabilities</b>				
<b>Equity</b>				
Equity attributable to Owners of the Parent	(56)	(77)	(76)	(109)
Non-controlling interests	(28)	(38)	(39)	(54)
<b>Total Equity</b>	<b>(84)</b>	<b>(115)</b>	<b>(115)</b>	<b>(163)</b>
<b>Current liabilities</b>				
Trade and miscellaneous payables and other current liabilities	120	160	159	229
<b>Total Equity and Liabilities</b>	<b>36</b>	<b>45</b>	<b>44</b>	<b>66</b>

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	2015	As of December 31, 2014      2013		2012
		(millions of euros)		
<b>Assets</b>				
<b>Non-current assets</b>				
Miscellaneous receivables and other non-current assets	1,770	1,581	1,607	1,496
<b>Current assets</b>				
Trade and miscellaneous receivables and other current assets	5,084	5,605	5,389	7,006
<b>Total Assets</b>	<b>71,232</b>	<b>71,551</b>	<b>70,220</b>	<b>77,555</b>
<b>Equity and Liabilities</b>				
<b>Equity</b>				
Equity attributable to Owners of the Parent	17,610	18,145	17,061	19,378
Non-controlling interests	3,723	3,554	3,125	3,634
<b>Total Equity</b>	<b>21,333</b>	<b>21,699</b>	<b>20,186</b>	<b>23,012</b>
<b>Current liabilities</b>				
Trade and miscellaneous payables and other current liabilities	7,443	8,089	8,649	10,542
<b>Total Equity and Liabilities</b>	<b>71,232</b>	<b>71,551</b>	<b>70,220</b>	<b>77,555</b>

The consolidated statement of financial position historical includes the effects arising from the reclassification of prepaid expenses/deferred income from current asset/liabilities to non-current asset/liabilities described in the section Form and Content .

The increase in the item Trade and miscellaneous payables and other current liabilities was mainly attributable to the higher liability for prepaid traffic not yet used recorded to correct the error resulting from the early recognition of that traffic within revenues. In addition, the related changes in indirect and direct taxes have been taken into account and costs for commissions and related liabilities have also been recalculated.

The impact of correction of errors on Separate Consolidated Income Statements for the years ended December 31, 2015, 2014, 2013 and 2012 is detailed below:

**Separate Consolidated Income Statements Revised**

	Year ended December 31,			
	2015	2014	2013	2012
	(millions of euros)			
Revenues	19,719	21,574	23,443	25,736



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Acquisition of goods and services	(8,532)	(9,432)	(10,379)	(11,291)
<b>Operating profit (loss)</b>	<b>2,963</b>	<b>4,529</b>	<b>2,752</b>	<b>1,684</b>
Finance income	2,760	2,404	2,007	1,989
<b>Profit (loss) before tax from continuing operations</b>	<b>453</b>	<b>2,350</b>	<b>570</b>	<b>(312)</b>
Income tax expense	(403)	(930)	(1,126)	(1,080)
<b>Profit (loss) from continuing operations</b>	<b>50</b>	<b>1,420</b>	<b>(556)</b>	<b>(1,392)</b>
<b>Profit (loss) for the year</b>	<b>661</b>	<b>1,961</b>	<b>(215)</b>	<b>(1,290)</b>
Attributable to:				
<i>Owners of the Parent</i>	<i>(70)</i>	<i>1,351</i>	<i>(659)</i>	<i>(1,635)</i>
<i>Non-controlling interests</i>	<i>731</i>	<i>610</i>	<i>444</i>	<i>345</i>

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	Year ended December 31,			
	2015	2014	2013	2012
	(millions of euros)			
Revenues	1	1	36	(23)
Acquisition of goods and services	1	(2)	(2)	(2)
<b>Operating profit (loss)</b>	<b>2</b>	<b>(1)</b>	<b>34</b>	<b>(25)</b>
Finance income	4	4	4	6
<b>Profit (loss) before tax from continuing operations</b>	<b>6</b>	<b>3</b>	<b>38</b>	<b>(19)</b>
Income tax expense	(2)	(2)	(15)	6
<b>Profit (loss) from continuing operations</b>	<b>4</b>	<b>1</b>	<b>23</b>	<b>(13)</b>
<b>Profit (loss) for the year</b>	<b>4</b>	<b>1</b>	<b>23</b>	<b>(13)</b>
Attributable to:				
<i>Owners of the Parent</i>	2	1	15	(8)
<i>Non-controlling interests</i>	2		8	(5)

**Separate Consolidated Income Statements Historical**

	Year ended December 31,			
	2015	2014	2013	2012
	(millions of euros)			
Revenues	19,718	21,573	23,407	25,759
Acquisition of goods and services	(8,533)	(9,430)	(10,377)	(11,289)
<b>Operating profit (loss)</b>	<b>2,961</b>	<b>4,530</b>	<b>2,718</b>	<b>1,709</b>
Finance income	2,756	2,400	2,003	1,983
<b>Profit (loss) before tax from continuing operations</b>	<b>447</b>	<b>2,347</b>	<b>532</b>	<b>(293)</b>
Income tax expense	(401)	(928)	(1,111)	(1,086)
<b>Profit (loss) from continuing operations</b>	<b>46</b>	<b>1,419</b>	<b>(579)</b>	<b>(1,379)</b>
<b>Profit (loss) for the year</b>	<b>657</b>	<b>1,960</b>	<b>(238)</b>	<b>(1,277)</b>
Attributable to:				
<i>Owners of the Parent</i>	(72)	1,350	(674)	(1,627)
<i>Non-controlling interests</i>	729	610	436	350

**Earnings per share**

The correction of errors on Separate Consolidated Income Statements for the years ended December 31, 2015, 2014, 2013 and 2012 did not have an impact on the calculation of the Basic and Diluted Earnings Per Share for those years.

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The adjustments resulting from the correction of errors on Consolidated Statements of Comprehensive Income for the years ended December 31, 2015 and 2014 are summarized as follows:

**Consolidated Statement of Comprehensive Income**

	<b>2015 Historical (a)</b>	<b>Adjustments (b)</b>	<b>2015 Revised (a+b)</b>
	(millions of euros)		
<b>Profit (loss) for the year</b>	<b>657</b>	<b>4</b>	<b>661</b>
<b>Exchange differences on translating foreign operations:</b>			
Profit (loss) on translating foreign operations	(2,155)	26	(2,129)
Loss (profit) on translating foreign operations transferred to the Separate Consolidated Income Statements	(1)		(1)
Income tax effects			
	<b>(2,156)</b>	<b>26</b>	<b>(2,130)</b>
<b>Total comprehensive income (loss) for the year</b>	<b>(1,145)</b>	<b>30</b>	<b>(1,115)</b>
Attributable to:			
<i>Owners of the Parent</i>	(827)	20	(807)
<i>Non-controlling interests</i>	(318)	10	(308)

**Consolidated Statement of Comprehensive Income**

	<b>2014 Historical (a)</b>	<b>Adjustments (b)</b>	<b>2014 Revised (a+b)</b>
	(millions of euros)		
<b>Profit (loss) for the year</b>	<b>1,960</b>	<b>1</b>	<b>1,961</b>
<b>Exchange differences on translating foreign operations:</b>			
Profit (loss) on translating foreign operations	(225)	1	(224)
Loss (profit) on translating foreign operations transferred to the Separate Consolidated Income Statements			
Income tax effects			
	<b>(225)</b>	<b>1</b>	<b>(224)</b>
<b>Total comprehensive income (loss) for the year</b>	<b>1,539</b>	<b>2</b>	<b>1,541</b>

Attributable to:

<i>Owners of the Parent</i>	1,123	1	1,124
<i>Non-controlling interests</i>	416	1	417

### Consolidated Statements of Cash Flows

The correction of errors on Consolidated Statements of Cash Flows for the years ended December 31, 2015 and 2014 did not have an impact on Aggregate cash flows or Cash flows from (used in) operating activities .

### Financial statement formats

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

- the **consolidated statement of financial position** has been prepared by classifying assets and liabilities according to current and non-current criterion;
- the **separate consolidated income statement** has been prepared by classifying operating expenses by nature of expense as this form of presentation is considered more appropriate and representative of the specific business of the Group, conforms to internal reporting and is in line with TIM'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;

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- the **consolidated statement of cash flows** has been prepared by presenting cash flows from operating activities according to the indirect method, as permitted by IAS 7 (*Statement of Cash Flows*). Furthermore, according to IAS 1 (paragraphs 97 and 98), certain expense and income items that are material in terms of nature and amount are separately disclosed in the notes to the separate consolidated income statement. Specifically, such items include: income/expenses arising from the disposal of property, plant and equipment, business segments and investments; expenses resulting from corporate restructuring, reorganizations and other corporate transactions (mergers, spin-offs, etc.); expenses resulting from regulatory disputes and penalties and associated liabilities; other provisions for risks and charges and related reversals; and impairment losses on goodwill and/or other tangible and intangible assets.

**Segment Reporting**

An operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources (for the TIM Group, the Board of Directors of the Parent) 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 TIM Group are organized according to the relative geographical location of the telecommunications business (Domestic and Brazil).

The Sofora Telecom Argentina group, which was sold on March 8, 2016, has been recognized under Discontinued operations.

The term "operating segment" is considered synonymous with "Business Unit".

The operating segments of the TIM Group are as follows:

- **Domestic:** includes operations in Italy for voice and data services on fixed and mobile networks for final customers (retail) and other operators (wholesale), the operations of the Telecom Italia Sparkle group (International wholesale), that operates internationally (in Europe, in the Mediterranean and in South America) in the development of fiber optic networks for wholesale customers, the operations of Olivetti (products and services for Information Technology), as well as INWIT S.p.A. (a company operating in the electronic communications infrastructure business, specifically relating to infrastructure for housing radio transmission equipment for mobile telephone networks, for both TIM and other operators) and the units

supporting the Domestic sector.

Following the change in Persidera's business mission, the Media Business Unit was included into the Domestic Business Unit as of January 1, 2016.

- **Brazil:** includes mobile (TIM Celular) and fixed (TIM Celular and Intelig) telecommunications operations in Brazil.
- **Other Operations:** includes finance companies and other minor companies not strictly related to the core business of the TIM Group.

## **NOTE 2 ACCOUNTING POLICIES**

### **Going concern**

The consolidated financial statements for the year ended December 31, 2016 have been prepared on a going concern basis as there is the reasonable expectation that TIM will continue its operational activities in the foreseeable future (and in any event with a time horizon of at least twelve months).

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In particular, consideration has been given to the following factors:

- the main risks and uncertainties (that are for the most part of external in nature) to which the Group and the various activities of the TIM Group are exposed:
  - macroeconomic changes in the Italian, European and 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, or decisions that may affect the technological choices);
  - outcomes of legal disputes and proceedings with regulatory authorities, competitors and other parties;
  - financial risks (interest rate and/or exchange rate trends, changes in the Group's credit rating by rating agencies);
- the optimal mix between risk capital and debt capital as well as the policy for the remuneration of risk capital, described in the paragraph Share capital information under the Note Equity ;
- the policy for financial risk management (market risk, credit risk and liquidity risk) as described in the Note Financial risk management .

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

**Principles of consolidation**

The consolidated financial statements include the financial statements of all subsidiaries from the date control over such subsidiaries commences until the date that control ceases.

The statement of financial position date of all the subsidiaries' financial statements coincides with that of the Parent.



Control exists when the Parent has all the following:

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

TIM 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 and losses arising from intragroup transactions are eliminated in 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.

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Assets and liabilities of foreign consolidated subsidiaries which are denominated in currencies other than euro are converted at the exchange rates prevailing at the statement of financial position date (the current method); income and expenses are converted at the average exchange rates for the year. Exchange differences resulting from the application of this method are classified as equity until the entire disposal of the investment or upon loss of control of the foreign subsidiary. Upon partial disposal, without losing control, the proportionate share of the cumulative amount of exchange differences related to the disposed interest is recognized in non-controlling interests.

The cash flows of foreign consolidated subsidiaries denominated in currencies other than Euro included in the consolidated statement of cash flows are converted into Euro at the average exchange rates for the year.

Goodwill and fair value adjustments arising from the allocation of the purchase price of a foreign entity are recorded in the relevant foreign currency and are converted using the year-end exchange rate.

Under IFRS 10, changes in a parent's ownership interest in a subsidiary that do not result in a loss or acquisition of control are accounted for as equity transactions. In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the Parent.

Under IFRS 10, the parent company in case of loss of control of a subsidiary:

- derecognizes:
  - the assets (including any goodwill) and 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 and joint ventures are accounted for using the equity method, as provided, respectively, by IAS 28 (Investments in Associates and Joint Ventures) and IFRS 11 (Joint Arrangements).

Associates are all entities 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.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Associates and joint ventures are included in the consolidated financial statements from the date that significant influence or joint control commences until the date such significant influence or joint control ceases.

Under the equity method, on initial recognition the investment in an associate or a joint venture 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 conversion differences). The investor's share of those changes is recognized in the investor's other comprehensive income.

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If an investor's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, 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 or joint venture. If the associate or joint venture 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 or joint venture are recognized in the investor's financial statements only to the extent of unrelated investors' interests in the associate or joint venture.

Gains and losses arising from transactions with associates or joint ventures are eliminated to the extent of the Group's interest in those entities.

**Intangible assets**

**Goodwill**

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

IFRS 3 requires, *inter alia*, the following:

- incidental costs incurred in connection with a business combination are charged to the separate consolidated income statement;
- in a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its fair value at the acquisition date of control and recognize the resulting gain or loss, if any, in the separate consolidated income statement.

Goodwill is classified in the statement of financial position as an intangible asset with an indefinite useful life.

Goodwill initially recorded is subsequently reduced only for impairment losses. Further details are provided in the accounting policy Impairment of tangible and intangible assets Goodwill, reported below. In case of loss of control of a subsidiary, the relative amount of goodwill is taken into account in calculating the gain or loss on disposal.

### **Development costs**

Costs incurred internally for the development of new products and services represent either intangible assets (mainly costs for software development) or tangible assets. Such costs are capitalized only when all the following conditions are satisfied: i) the cost attributable to the development phase of the asset can be measured reliably, ii) there is the intention, the availability of financial resources and the technical ability to complete the asset and make it available for use or sale and iii) it can be demonstrated that the asset will be able to generate future economic benefits.

Capitalized development costs comprise only expenditures that can be attributed directly to the development process for new products and services.

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Capitalized development costs are amortized systematically over the estimated product or service life so that the amortization method reflects the way in which the asset's future economic benefits are expected to be consumed by the entity.

**Other intangible assets with a finite useful life**

Other purchased or internally-generated assets with a finite useful life are recognized as assets, in accordance with IAS 38 (Intangible Assets), where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be measured reliably.

Such assets are recorded at purchase or production cost and amortized on a straight-line basis over their estimated useful lives; the amortization rates are reviewed annually and revised if the current estimated useful life is different from that estimated previously. The effect of such changes is recognized in the separate consolidated income statement prospectively.

For a small portion of mobile offerings, the Group capitalizes directly attributable subscriber acquisition costs (currently mainly represented by commissions for the sales network) when the following conditions are met:

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

Capitalized subscriber acquisition costs are amortized on a straight-line basis over the foreseen minimum period of the underlying contract (between 12 and 36 months).

In all other cases, subscriber acquisition costs are recognized in the separate consolidated income statement when incurred.

**Tangible assets**

**Property, plant and equipment owned**

Property, plant and equipment owned is stated at acquisition or production cost. Subsequent expenditures are capitalized only if they increase the future economic benefits embodied in the related item of property, plant and equipment. All other expenditures are expensed as incurred.

Cost also includes the expected costs of dismantling the asset and restoring the site if a legal or constructive obligation exists. The corresponding liability is recognized at its present value as a provision in the statement of financial position. These capitalized costs are depreciated and charged to the separate consolidated income statement over the useful life of the related tangible assets.

The recalculation of estimates for dismantling costs, discount rates and the dates in which such costs are expected to be incurred is reviewed annually, at each financial year-end. Changes in the above liability must be recognized as an increase or decrease of the cost of the relative asset; the amount deducted from the cost of the asset must not exceed its carrying amount. The excess if any, should be recorded immediately in the separate consolidated income statement, conventionally under the line item Depreciation .

Depreciation of property, plant and equipment owned is calculated on a straight-line basis over the estimated useful life of the assets.

The depreciation rates are reviewed annually and revised if the current estimated useful life is different from that estimated previously. The effect of such changes is recognized in the separate consolidated income statement prospectively.

Land, including land pertaining to buildings, is not depreciated.

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**Assets held under finance leases**

Assets held under finance leases, in which substantially all the risks and rewards of ownership are transferred to the Group, are initially recognized as assets of the Group at fair value or, if lower, at the present value of the minimum lease payments, including bargain purchase options. The corresponding liability due to the lessor is included in the statement of financial position under financial liabilities.

Lease payments are apportioned between interest (recognized in the separate consolidated income statement) and principal (recognized as a deduction from liabilities). This split is determined so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Furthermore, gains realized on sale and leaseback transactions that are recorded under finance lease contracts are deferred over the lease term.

The depreciation policy for depreciable assets held under finance leases is consistent with that for depreciable assets that are owned. If there is no reasonable certainty over the acquisition of the ownership of the asset at the end of the lease period, assets held under finance leases are depreciated over the shorter of the lease term and their useful lives.

Leases where the lessor retains substantially all the risks and rewards of ownership of the assets are accounted for as operating leases. Operating lease rentals are charged to the separate consolidated income statement on a straight-line basis over the lease term.

When a lease includes both land and buildings, an entity assesses the classification of each element as a finance or an operating lease separately.

**Capitalized borrowing costs**

Under IAS 23 (Borrowing Costs), the Group capitalizes borrowing costs only if they are directly attributable to the acquisition, construction or production of a qualifying asset, that is an asset that takes a substantial period of time (conventionally more than 12 months) to get ready for its intended use or sale.

Capitalized borrowing costs are recorded in the separate consolidated income statement and deducted from the finance expense line item to which they relate.

**Impairment of intangible and tangible assets**

**Goodwill**

Goodwill is tested for impairment at least annually or more frequently whenever events or changes in circumstances indicate that goodwill may be impaired, as set forth in IAS 36 (Impairment of Assets); however, when the conditions that gave rise to an impairment loss no longer exist, the original amount of goodwill is not reinstated.



The test is generally conducted at the end of every year so the date of testing is the year-end closing date of the financial statements. Goodwill acquired and allocated during the year is tested for impairment at the end of the year in which the acquisition and allocation took place.

To test for impairment, goodwill is allocated at the date of acquisition to each cash-generating unit or group of cash-generating units which is expected to benefit from the acquisition.

If the carrying amount of the cash-generating unit (or group of cash-generating units) exceeds the recoverable amount, an impairment loss is recognized in the separate consolidated income statement. The impairment loss is first recognized as a deduction of the carrying amount of goodwill allocated to the cash-generating unit (or group of cash-generating units) and then only applied to the other assets of the cash-generating unit in proportion to their carrying amount, up to the recoverable amount of the assets with a finite useful life. The recoverable amount of a cash-generating unit (or group of cash-generating units) to which goodwill is allocated is the higher of fair value less costs to sell and its value in use.

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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 TIM Group, the date of the financial statements).

Future cash flows are estimated by referring to the current operating conditions of the cash generating unit (or group of cash-generating units) and, therefore, do not include either benefits originating from future restructuring for which the entity is not yet committed, or future investments for the improvement or optimization of the cash-generating unit.

For the purpose of calculating impairment, the carrying amount of the cash-generating unit is established based on the same criteria used to determine the recoverable amount of the cash generating unit, excluding surplus assets (that is, financial assets, deferred tax assets and net non-current assets held for sale) and includes the goodwill attributable to non-controlling interests.

After conducting the goodwill impairment test for the cash-generating unit (or groups of cash-generating units), a second level of impairment testing is carried out which includes the corporate assets which do not generate positive cash flows and which cannot be allocated by a reasonable and consistent criterion to the single units. At this second level, the total recoverable amount of all cash-generating units (or groups of cash-generating units) is compared to the carrying amount of all cash-generating units (or groups of cash-generating units), including also those cash-generating units to which no goodwill was allocated, and the corporate assets.

**Intangible and tangible assets with a finite useful life**

At every closing date, the Group assesses whether there are any indications of impairment of intangible and tangible assets with a finite useful life. Both internal and external sources of information are used for this purpose. Internal sources include obsolescence or physical damage, and significant changes in the use of the asset and the economic performance of the asset compared to estimated performance. External sources include the market value of the asset, changes in technology, markets or laws, trend in market interest rates and the cost of capital used to evaluate investments, and an excess of the carrying amount of the net assets of the Group over market capitalization.

When indicators of impairment exist, the carrying amount of the assets is reduced to the recoverable amount. The recoverable amount of an asset is the higher of fair value less costs to sell and its value in use. In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Impairment losses are recognized in the separate consolidated income statement.

When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, up to the carrying amount that would have been recorded had no impairment loss been recognized. The reversal of an impairment loss is recognized as income in the separate consolidated income statement.

**Financial instruments**

**Other investments**

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

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Upon acquisition, investments are classified in the following categories:

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

Other investments classified as available-for-sale financial assets are measured at fair value; changes in the fair value of these investments are recognized in a specific equity reserve under the other components of the statement of comprehensive income (Reserve for available-for-sale financial assets) until the financial asset is disposed of or impaired, at which time the equity reserve is reversed to the separate consolidated income statement.

Other unlisted investments classified as available-for-sale financial assets whose fair value cannot be measured reliably are measured at cost adjusted by any impairment losses which are recognized in the separate consolidated income statement, as required by IAS 39 (Financial instruments: recognition and measurement).

Impairment losses recognized on other investments classified as available-for-sale financial assets are not reversed.

Changes in the value of other investments classified as financial assets at fair value through profit or loss are recognized directly in the separate consolidated income statement.

**Securities other than investments**

Securities other than investments classified as non-current assets are those held to maturity. The assets are recorded on the trade date and, on initial recognition, are stated at acquisition cost, including transaction costs, and subsequently measured at amortized cost.

Amortized cost represents the initial cost of the financial instrument net of principal repayments received, adjusted (up or down) by the amortization of any differences between the initial amount and the maturity amount using the effective interest method, less any write-down for impairment or uncollectibility, if any.

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

- held to maturity (originally more than 3 months but less than 12 months, or, with an original maturity of more than 12 months but the remaining maturity at the date of purchase is more than 3 months but less than 12 months) and measured at amortized cost;
- held for trading and measured at fair value through profit or loss;

- available-for-sale and measured at fair value with a contra-entry to an equity reserve (Reserve for available-for-sale financial assets) which is reversed to the separate consolidated income statement when the financial asset is disposed of or impaired.

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

### **Receivables and loans**

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

### **Cash and cash equivalents**

Cash and cash equivalents are recorded, according to their nature, at nominal value or amortized cost.

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

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**Impairment of financial assets**

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

**Financial liabilities**

Financial liabilities comprise financial debt, including advances received on the assignment of accounts receivable, and other financial liabilities such as derivatives and finance lease obligations.

In accordance with IAS 39, they also include trade and other payables.

Financial liabilities other than derivatives are initially recognized at fair value and subsequently measured at amortized cost.

Financial liabilities hedged by derivative instruments designed to manage exposure to changes in fair value of the liabilities (fair value hedge derivatives) are measured at fair value in accordance with the hedge accounting principles of IAS 39. Gains and losses arising from re-measurement at fair value, to the extent of the hedged component, are recognized in the separate consolidated income statement and are offset by the effective portion of the gain or loss arising from re-measurement at fair value of the hedging instrument.

Financial liabilities hedged by derivative instruments designed to manage exposure to variability in cash flows (cash flow hedge derivatives) are measured at amortized cost in accordance with the hedge accounting principles of IAS 39.

**Derivatives**

Derivatives are used by the TIM 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:

- a) at the inception of the hedge, the hedging relationship is formally designated and documented;
- b) the hedge is expected to be highly effective;
- c) its effectiveness can be reliably measured;
- d) 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 hedging instruments). The cumulative gain or loss is removed from equity and recognized in the separate consolidated income statement at the same time the hedged transaction affects the separate consolidated income statement. The gain or loss associated with the ineffective portion of a hedge is recognized in the separate consolidated income statement immediately. If the hedged transaction is no longer probable, the cumulative gains or losses included in the equity reserve are immediately recognized in the separate consolidated income statement.

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If hedge accounting is not appropriate, gains or losses arising from the measurement of the fair value of derivative financial instruments are directly recognized in the separate consolidated income statement.

**Sales of receivables**

The TIM Group carries out sales of receivables under factoring arrangements. These sales, in the majority of cases, are characterized by the transfer of substantially all the risks and rewards of ownership of the receivables to third parties, meeting IFRS requirements for derecognition. Specific servicing contracts, through which the buyer confers a mandate to TIM S.p.A. for the collection and management of the receivables, leave the current Company/customer relationship unaffected.

**Amounts due from customers on construction contracts**

Amounts due from customers on construction contracts, regardless of the duration of the contracts, are recognized in accordance with the percentage of completion method and classified under current assets.

Losses on such contracts, if any, are recorded in full in the separate consolidated income statement when they become known.

**Inventories**

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

**Non-current assets held for sale/Discontinued operations**

Non-current assets held for sale (or disposal groups) whose carrying amount will mainly be recovered through sale, rather than through ongoing use, are classified as held for sale and shown separately in the consolidated statement of financial position from other assets and liabilities. The corresponding statement of financial position amounts for the previous year are not reclassified in the consolidated statement of financial position but are instead shown separately in a specific column in the changes in assets and liabilities in the year in which the non-current assets held for sale or the disposal groups are classified as such. An operating asset sold (Discontinued Operations) is a component of an entity that has been disposed of or classified as held for sale and:



- represents a major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

The results arising from Discontinued Operations whether disposed of or classified as held for sale are shown separately in the separate consolidated income statement, net of tax effects. The corresponding values for the previous years, where present, are reclassified and reported separately in the separate consolidated income statement, net of tax effects, for comparative purposes.

Non-current assets held for sale (or disposal groups) classified as held for sale are first recognized in compliance with the appropriate IFRS applicable to the specific assets and liabilities and subsequently measured at the lower of the carrying amount and fair value, less costs to sell. Any subsequent impairment losses are recognized as a direct adjustment to the non-current assets (or disposal groups) classified as held for sale and expensed in the separate consolidated income statement.

An entity shall recognize a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized.

As required by IFRS 5 (Non-current assets held for sale and discontinued operations), an entity shall not depreciate (or amortize) a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale.

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Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognized.

**Employee benefits****Provision for employee severance indemnity**

Employee severance indemnity, mandatory for Italian companies pursuant to Article 2120 of the Italian Civil Code, is a deferred compensation and is based on the employees' years of service and the compensation earned by the employee during the service period.

Under IAS 19 (Employee Benefits), the employee severance indemnity as calculated is considered a Defined benefit plan and the related liability recognized in the statement of financial position (Provision for employee severance indemnities) is determined by actuarial calculations.

The remeasurements of actuarial gains and losses are recognized in other components of other comprehensive income. Service cost of Italian companies that employ less than 50 employees, as well as interest expenses related to the time value component of the actuarial calculations (the latter classified as Finance expenses), are recognized in the separate consolidated income statement.

Starting from January 1, 2007, Italian Law introduced for employees the choice to direct their accruing indemnity either to supplementary pension funds or leave the indemnity as an obligation of the Company. Companies that employ at least 50 employees should transfer the employee severance indemnity to the Treasury fund managed by INPS, the Italian Social Security Institute.

Consequently, the Group's obligation to INPS and the contributions to supplementary pension funds take the form, under IAS 19, of a Defined contribution plan.

**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 as Finance expenses .

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**Government grants**

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions set by the Government, governmental and similar local, national or international bodies, for their disbursement.

Government grants are recognized in the Separate income statement on a systematic basis over the years in which the Group recognizes as expenses the related costs that the grants are intended to compensate.

Government grants related to assets received for the acquisition and /or construction of non-current tangible assets are recorded as deferred income in the Statement of financial position and credited to the Separate income statement on a systematic basis over the useful life of the facilities to which the grants relate.

**Treasury shares**

Treasury shares are recognized as a deduction from equity. In particular, the treasury shares are reported as a deduction from the share capital issued in the amount corresponding to the accounting par value, that is the ratio of total share capital and the number of issued shares, while the excess cost of acquisition over the accounting par value is presented as a deduction from Other reserves and retained earnings (accumulated losses), including profit (loss) for the year.

**Foreign currency transactions**

Transactions in foreign currencies are recorded at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted at the foreign exchange rate prevailing at the statement of financial position date. Exchange differences arising from the settlement of monetary items or from their conversion at rates different from those at which they were initially recorded during the year or at the end of the prior year, are recognized in the separate consolidated income statement.

**Revenues**

Revenues are the gross inflows of economic benefits during the period arising in the course of the ordinary activities of an entity. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenues.

Revenues are recognized to the extent that it is probable that economic benefits will flow to the Group and their amount can be measured reliably. Revenues are stated net of discounts, allowances, and returns.

· **Revenues from services rendered**

Revenues from services rendered are recognized in the separate consolidated income statement according to the stage of completion of the service and only when the outcome of the service rendered can be estimated reliably.

Traffic revenues from interconnection and roaming are reported gross of the amounts due to other TLC operators.

Revenues for delivering information or other content are recognized on the basis of the amount invoiced to the customer, when the service is rendered directly by the Group. In the event that the Group is acting as agent (for example non-geographic numbers) only the commission received from the content provider is recognized as revenue.

Revenues from the activation of telephone services (and related costs) are deferred over the expected duration of the relationship with the customer (in Italy, generally 8 years for retail customers and 3 years for wholesale customers). In particular, costs from the activation of telephone services are deferred taking also into account the reasonable expectations of cash flows arising from these services.

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Revenues from prepaid traffic are recorded on the basis of the minutes used at the contract price per minute. Deferred revenues for unused minutes are recorded in Trade and miscellaneous payables and other current liabilities in the consolidated statement of financial position.

· **Revenues from sales and bundled offerings**

Revenues from sales (telephone and other equipment) are recognized when the significant risks and rewards of ownership are transferred to the buyer.

For offerings which include the sale of mobile handsets and service contracts, the TIM Group recognizes revenues related to the sale of the handset when it is delivered to the final customer whereas traffic revenues are recorded on the basis of the minutes used; the related subscriber acquisition costs, including sales commissions, are expensed as incurred. The revenues allocated to the handset sale are limited to the contract amount that is not contingent upon the rendering of telecommunication services, i.e. the residual of the amount paid by the customer exceeding the services value.

A small portion of the bundled mobile offerings involve contracts with a minimum contractual period between 12 and 36 months which include an enforced termination penalty. For these contracts, the subscriber acquisition costs are capitalized under Intangible assets with a finite useful life if the conditions for capitalization as described in the related accounting policy are met.

· **Revenues on construction contracts**

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

**Research costs and advertising expenses**

Research costs and advertising expenses are charged directly to the separate consolidated income statement in the year in which they are incurred.

**Finance income and expenses**

Finance income and expenses are recognized on an accrual basis and include: interest accrued on the related financial assets and liabilities using the effective interest rate method, the changes in fair value of derivatives and other financial instruments measured at fair value through profit or loss, gains and losses on foreign exchange and financial instruments (including derivatives).

**Dividends**

Dividends received from companies other than subsidiaries, associates and joint ventures are recognized in the separate consolidated income statement in the year in which they become receivable following the resolution by the shareholders' meeting for the distribution of dividends of the investee companies.

Dividends payable to third parties are reported as a change in equity in the year in which they are approved by the shareholders' meeting.

**Income Taxes (current and deferred)**

Income taxes include all taxes calculated on the basis of the taxable income of the companies of the Group.

Income taxes are recognized in the separate consolidated income statement, except to the extent that they relate to items directly charged or credited to equity, in which case the related tax is recognized in the relevant equity reserves. In the Statement of comprehensive income the amount of income taxes relating to each item included as 'Other components of the Statement of comprehensive income' is indicated.

The income tax expense that could arise on the remittance of a subsidiary's retained earnings is only recognized where there is the actual intention to remit such earnings.

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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 carryforwards 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** .

**Earnings per share**

Basic earnings per ordinary share is calculated by dividing the Group's profit attributable to ordinary shares by the weighted average number of ordinary shares outstanding during the year. Similarly, basic earnings per savings share is calculated by dividing the Group's profit attributable to savings shares by the weighted average number of savings shares outstanding during the year.

For diluted earnings per ordinary share, the weighted average number of shares outstanding during the year is adjusted by all dilutive potential shares (for example, the exercise of rights on shares with dilutive effects). The Group profit is also adjusted to reflect the impact of these transactions net of the related tax effects.

**Use of estimates**

The preparation of consolidated financial statements and related disclosure in conformity with IFRS requires management to make estimates and assumptions based also on subjective judgments, past experience and hypotheses considered reasonable and realistic in relation to the information known at the time of the estimate. Such estimates have an effect on the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the amount of revenues and costs during the year. Actual results could differ, even significantly, from those estimates owing to possible changes in the factors considered in the determination of such estimates. Estimates are reviewed periodically.

The most important accounting estimates which require a high degree of subjective assumptions and judgments are addressed below:

**Financial statement**

<b>line item/area</b>	<b>Accounting estimates</b>
-----------------------	-----------------------------



Impairment of goodwill	The impairment test on goodwill is carried out by comparing the carrying amount of cash-generating units and their recoverable amount. The recoverable amount of a cash-generating unit is the higher of fair value, less costs to sell, and its value in use. This complex valuation process entails the use of methods such as the discounted cash flow method which uses assumptions to estimate cash flows. The recoverable amount depends significantly on the discount rate used in the discounted cash flow model as well as the expected future cash flows and the growth rate used for the extrapolation. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are detailed in the Note Goodwill .
Impairment of tangible and intangible assets with a finite useful life	<p>At every closing date, the Group assesses whether there are any indications of impairment of tangible and intangible assets with a finite useful life. Both internal and external sources of information are used for this purpose.</p> <p>The identification of impairment indicators, the estimation of future cash flows and the determination of the fair value of each asset require management to make significant judgments including the applicable discount rate, useful life and residual value. These estimates can have a material impact on fair value and the amount of any write-downs.</p>

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Business combinations	The recognition of business combinations requires that assets and liabilities of the acquiree be recorded at their fair value at the acquisition date of control, as well as the possible recognition of goodwill, through the use of a complex process in determining such values.
Capitalization / deferral of costs	The capitalization / deferral process of internal and external costs involves some areas of Management judgement among which there are the assessment of: i) the probability that the amount of the capitalized / deferred costs will be recovered through the associated future revenues; and ii) the actual increase in future economic benefits of the asset to which they refer.
Bad debt provision	The recoverability of receivables is measured by considering the uncollectibility of receivables, their age and losses on receivables recognized in the past by type of similar receivables.
Depreciation and amortization expense	Changes in the economic conditions of the markets, technology and competitive forces could significantly affect the estimated useful lives of tangible and intangible non-current assets and may lead to a difference in the timing and amount of depreciation and amortization expense.
Accruals, contingent liabilities and employee benefits	As regards the provisions for restoration costs the estimate of future costs to dismantle tangible assets and restore the site is a complex process that requires an assessment of the liability arising from such obligations which seldom are entirely defined by law, administrative regulations or contract clauses and which normally are to be complied with after an interval of several years.
	The accruals related to legal, arbitration and fiscal disputes are the result of a complex estimation process based upon the probability of an unfavorable outcome.
	Employee benefits, especially the provision for employee severance indemnities, are calculated using actuarial assumptions; changes in such assumptions could have a material impact on such liabilities.
Revenues	Revenue recognition is influenced by: <ul style="list-style-type: none"> <li>· the expected duration of the relationship with the customer for revenues from telephone service activations (as well as the related costs);</li> </ul>

· the estimate of the amount of discounts, allowances and returns to be recorded as a direct deduction from revenues.

Income taxes (current and deferred)

Income taxes (current and deferred) are calculated in each country in which the Group operates according to a prudent interpretation of the tax laws in effect. This process sometimes involves complex estimates to determine taxable income and deductible and taxable temporary differences between the carrying amounts and the taxable amounts. In particular, deferred tax assets are recognized to the extent that future taxable income will be available against which they can be utilized. The measurement of the recoverability of deferred tax assets, recognized based on both unused tax loss carryforwards to future years and deductible differences, takes into account the estimate of future taxable income and is based on conservative tax planning.

Derivative instruments and equity instruments

The fair value of derivative instruments and equity instruments is determined both using valuation models which also take into account subjective measurements such as, for example, cash flow estimates, expected volatility of prices, etc., or on the basis of either prices in regulated markets or quoted prices provided by financial counterparts. For further details please see also 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

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**Consolidated Financial Statements**

**Notes To Consolidated Financial Statements**

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 issued by IASB and in force from January 1, 2016**

In accordance with IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*) the IFRS in force starting from January 1, 2016 are indicated and briefly described below.

**Amendments to IFRS 11 (Joint Arrangements): Accounting for Acquisitions of Interests in Joint Operations**

IFRS 11 addresses accounting of interests in joint ventures and joint operations. These amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business (as defined in IFRS 3 Business Combinations).

The amendments specify the appropriate accounting treatment for such acquisitions.

The adoption of these amendments had no impact on these consolidated financial statements at December 31, 2016.

**Amendments to IAS 16 (Property, Plant and Equipment) and IAS 38 (Intangible Assets)**

IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortization as being the expected pattern of consumption of the future economic benefits of an asset.

The amendment clarifies that a revenue-based depreciation method asset is not appropriate. The provisions of IAS 38 have been amended to introduce a presumption that a revenue-based amortization method is inappropriate. That presumption can be overcome when:

- the right of use of an intangible asset is related to the achievement of a predetermined threshold of revenues;  
or
- it can be demonstrated that revenue and the consumption of the economic benefit generated by an intangible asset are highly correlated.

The adoption of these amendments had no impact on these consolidated financial statements at December 31, 2016.

**Annual Improvements to IFRSs 2012 - 2014 Cycle**

In particular, with reference to these amendments please note as follows:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: the subject of the amendments are the changes in the methods of disposal (from held for sale to held for distribution to owners and viceversa);
- IFRS 7 Financial Instruments: Disclosure: these amendments are related to the disclosure about Servicing Contracts in terms of continuing involvement and the applicability of the disclosure provided by IFRS 7 about the offsetting between financial assets and financial liabilities to interim financial statements;
- IAS 19 Employee Benefits: the subject of the amendment is the discount rate used to discount the liabilities for benefits upon termination of employment (rate of the reference market);
- IAS 34 Interim Financial Reporting: the amendment clarifies how information included in interim financial statements can be integrated with other available information also included elsewhere in other sections of interim financial reports (i.e., management reports) through incorporation by reference .

The adoption of these amendments had no impact on these consolidated financial statements at December 31, 2016.

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In particular, the amendments, which are part of a broader initiative to improve presentation and disclosure requirements, include changes in the following areas:

- **materiality:** the amendments clarify that the concept of materiality applies to all parts of the financial statements and that the inclusion of immaterial information could undermine the usefulness of financial disclosures;
- **disaggregation and subtotals:** the amendments clarify that the line items in the separate income statement, the statement of comprehensive income and the statement of financial position may be disaggregated. They also introduce new requirements concerning the use of subtotals;
- **the structure of the notes:** the amendments clarify that entities have a certain degree of flexibility in the order in which the notes to the financial statements may be presented. They also emphasize that in establishing that order the entity must consider the requirements of understandability and comparability of the financial statements;
- **investments accounted for using the equity method:** the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented as separate line items in the statement of comprehensive income depending whether they will subsequently be reclassified or not to profit or loss.

The adoption of these amendments had no impact on these consolidated financial statements at December 31, 2016.

**New Standards and Interpretations issued by IASB not yet in force**

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

<b>IASB/IFRIC documents</b>	<b>Mandatory application: annual periods beginning on or after</b>
IFRS 15 ( <i>Revenue from Contracts with Customers</i> )	January 1, 2018
IFRS 9 ( <i>Financial Instruments</i> )	January 1, 2018
IFRS 16 ( <i>Leases</i> )	January 1, 2019

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

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

### **IFRS 15 (Revenue from Contracts with Customers)**

IFRS 15 supersedes the previous revenue Standards: IAS 18 (Revenue), IAS 11 (Construction Contracts) as well as the related Interpretations on revenue recognition (IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue Barter Transactions Involving Advertising Services).

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IFRS 15 shall be applied retrospectively beginning on January 1, 2018, using one of the following two methods:

- the *full retrospective approach* which involves the restatement of each prior reporting period;
- the *modified retrospective approach* with the recognition of the cumulative effect of initially applying the standard as an adjustment to opening retained earnings of the annual reporting period that includes the date of initial application. All the data of the comparative periods presented in the financial statements remain unchanged.

Currently, the TIM Group intends to apply the modified retrospective approach .

The adoption of this standard by TIM Group will mainly affect the methods of recognition of:

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

**IFRS 16 (Leases)**

IFRS 16 supersedes IAS 17 (Leases) and the related interpretations (IFRIC 4 Determining whether an arrangement contains a lease; SIC 15 Operating leases Incentives; SIC 27 Evaluating the substance of transactions involving the legal form of a lease).

IFRS 16 shall be applied retrospectively beginning on January 1, 2019 using one of the following two methods:

- the *full retrospective approach* , which involves the restatement of each prior reporting period;



- the *modified retrospective approach*, with the recognition of the cumulative effect of initially applying the standard as an adjustment to opening retained earnings in the first year of adoption, without restating prior-period financial statements.

Early application is permitted, but only in the case of the contemporary adoption of IFRS 15 Revenue from Contracts with Customers.

Currently, the TIM Group intends to apply IFRS 16 concurrently with IFRS 15, utilizing the *modified retrospective approach*.

From the lessee's (customer) point of view, IFRS 16 provides that all passive lease contracts (without the distinction between operating leases and finance leases) are recorded in the Statement of financial position as a liability, represented by the present value of future lease payments, against the corresponding recording of the asset *Right of use of the leased asset*. Short term leases contracts having a duration equal or less than 12 months and the leases of low value goods can be excluded from the application of IFRS 16.

Currently, the TIM Group intends to make use of this practical expedient.

The main impacts on the consolidated financial statements are summarized as follows:

- statements of financial position: greater non-current assets for the recognition of the *right of use of the lease asset* against lease financial liabilities;
- separate income statements: different nature, qualification and classification of expenses (depreciation of the *right of use of the leased asset* and *finance expenses for interest* instead of *Rent* and

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leases fees for operating leases , according to IAS 17) with consequent impact on operating profitability. Furthermore, the combination of the straight-line depreciation of the right of use of the leased asset and the method of the effective interest rate applied to the lease liabilities entail, compared to operating lease according to IAS 17, additional expenses in the income statement in the first years of the lease contract and decreasing costs in the last years.

**IFRS 9 (Financial Instruments)**

IFRS 9 sets out the principles for the classification, measurement and derecognition of financial assets and liabilities, the impairment of financial instruments as well as hedge accounting.

IFRS 9 shall be applied beginning on January 1, 2018.

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

**NOTE 3 SCOPE OF CONSOLIDATION****Investments in consolidated subsidiaries****Composition of the Group**

TIM 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 TIM Group .

**Scope of consolidation**

The changes in the scope of consolidation at December 31, 2016 compared to December 31, 2015 are listed below.

These changes did not have any significant impacts on the Consolidated Financial Statements of the TIM Group at December 31, 2016.

**Continuing operations:****Subsidiaries entering/exiting/merged into the scope of consolidation:**

<b>Company</b>		<b>Business Unit</b>	<b>Month</b>
Entry:			
GESTIONE DUE S.r.l. (*)	New acquisition	Domestic	January 2016
GESTIONE IMMOBILI S.r.l. (*)	New acquisition	Domestic	January 2016
REVI IMMOBILI S.r.l. (*)	New acquisition	Domestic	January 2016
FLASH FIBER S.r.l.	New company	Domestic	July 2016

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TELECOM ITALIA SPARKLE RUSSIA LLC	New acquisition	Domestic	July 2016
NOVERCA S.r.l.	New acquisition	Domestic	October 2016
TIMVISION S.r.l.	New company	Domestic	December 2016
Exit:			
PURPLE TULIP B.V.	Liquidated	Other Operations	July 2016
Merger:			
TELECOM ITALIA DIGITAL SOLUTIONS S.p.A.	Merged into Olivetti S.p.A.	Domestic	January 2016
EMSA SERVIZI S.p.A.	Merged into TIM S.p.A.	Domestic	April 2016
OFI CONSULTING S.r.l.	Merged into TIM S.p.A.	Domestic	April 2016
TELECOM ITALIA INTERNATIONAL N.V.	Merged into Telecom Italia Finance S.A.	Other Operations	August 2016
TELECOM ITALIA DEUTSCHLAND HOLDING GmbH	Merged into TIM S.p.A.	Other Operations	August 2016
TELECOM ITALIA INFORMATION TECHNOLOGY S.p.A.	Merged into TIM S.p.A.	Domestic	December 2016

(\* ) Later merged into INWIT S.p.A..

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<b>Company</b>				<b>Month</b>
Exit:				
MICRO SISTEMAS S.A.	Sold	Sofora	Telecom Argentina group	March 2016
NORTEL INVERSORA S.A.	Sold	Sofora	Telecom Argentina group	March 2016
NUCLEO S.A.	Sold	Sofora	Telecom Argentina group	March 2016
PERSONAL ENVIOS S.A.	Sold	Sofora	Telecom Argentina group	March 2016
SOFORA TELECOMUNICACIONES S.A.	Sold	Sofora	Telecom Argentina group	March 2016
TELECOM ARGENTINA S.A.	Sold	Sofora	Telecom Argentina group	March 2016
TELECOM ARGENTINA USA Inc.	Sold	Sofora	Telecom Argentina group	March 2016
TELECOM PERSONAL S.A.	Sold	Sofora	Telecom Argentina group	March 2016

The breakdown by number of subsidiaries and associates of the TIM Group is as follows:

<b>Companies:</b>	<b>12/31/2016</b>		
	<b>Italy</b>	<b>Outside Italy</b>	<b>Total</b>
subsidiaries consolidated line-by-line	25	48	73
joint ventures accounted for using the equity method	1		1
associates accounted for using the equity method	19		19
<b>Total companies</b>	<b>45</b>	<b>48</b>	<b>93</b>

<b>Companies:</b>	<b>12/31/2015</b>		
	<b>Italy</b>	<b>Outside Italy</b>	<b>Total</b>
subsidiaries consolidated line-by-line (*)	26	58	84
joint ventures accounted for using the equity method	1		1
associates accounted for using the equity method	18		18
<b>Total companies</b>	<b>45</b>	<b>58</b>	<b>103</b>

(\*) Including subsidiaries posted under Discontinued operations/Non-current assets held for sale. Further details are provided in the Note List of companies of the TIM Group .

**Subsidiaries with significant non-controlling interests**

As of December 31, 2016, TIM Group held equity investments in subsidiaries with significant non-controlling interests in TIM Brasil group.

With respect to TIM Brasil group, the figures provided below, stated gross of the elimination of intragroup accounts, have been prepared in accordance with IFRS and reflect adjustments made on the acquisition date to align the assets and liabilities acquired to their fair value.

**TIM Brasil group Brazil Business Unit**

Non-controlling interests held at December 31, 2016 amounted to 33.4% of the share capital of Tim Participações (which in turn holds 100% of the share capital of the operating companies Tim Celular S.A. and Intelig Telecomunicações Ltda.), equivalent to the corresponding share of voting rights.

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	<b>Year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>(millions of euros)</b>	
Non-current assets	7,822	6,077
Current assets	2,956	2,845
<b>Total Assets</b>	<b>10,778</b>	<b>8,922</b>
Non-current liabilities	2,726	2,164
Current liabilities	2,331	2,230
<b>Total Liabilities</b>	<b>5,057</b>	<b>4,394</b>
<b>Equity</b>	<b>5,721</b>	<b>4,528</b>
<i>of which, Non-controlling interests</i>	<i>1,705</i>	<i>1,329</i>

**Income Statement Data TIM Brasil group**

	<b>Year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>(millions of euros)</b>		
Revenues	4,047	4,637	6,245
<b>Profit (loss) for the year</b>	<b>194</b>	<b>324</b>	<b>498</b>
<i>of which, Non-controlling interests</i>	<i>65</i>	<i>188</i>	<i>166</i>

**Financial Data TIM Brasil group**

In 2016, aggregate cash flows generated were a positive 58 million euros, primarily due to a positive exchange rate effect of 311 million euros, without which cash flow would have been a negative 253 million euros. In 2015, aggregate cash flows generated were a negative 186 million euros, due to a negative exchange rate effect of 424 million euros, without which cash flow would have been a positive 238 million euros. In 2015, this was driven in part by the effects of the sale of the first three blocks of telecommunication towers to American Tower do Brasil for approximately 676 million euros.

Lastly, again with reference to the Tim Brasil group, the main risk factors that could, even significantly, restrict the operations of the Tim Brasil group are listed below:

- strategic risks (risks related to macroeconomic and political factors, as well as risks associated with foreign exchange restrictions and competition);
- operational risks (risks related to business continuity and development of the fixed and mobile networks, as well as risks associated with litigation and disputes);
- financial risks;
- Regulatory and Compliance risks.

**NOTE 4 BUSINESS COMBINATIONS**

**YEAR 2016**

In 2016, there were no material business combination transactions, as defined in IFRS 3. For further details please see the Note Scope of consolidation and the Note Goodwill .

**YEAR 2015**

In 2015, there were no material business combination transactions, as defined in IFRS 3.

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On June 30, 2014, after receiving the necessary authorizations, the business combination of the digital terrestrial network operator for TV transmission businesses, controlled by Persidera S.p.A. formerly Telecom Italia Media Broadcasting S.r.l. and Rete A S.p.A. (Rete A), was completed. Rete A was merged into Persidera S.p.A. on December 1, 2014.

TIM, as a result of the merger of the subsidiary Telecom Italia Media into TIM, holds 70% of the shares of Persidera, while the remaining 30% is held by Gruppo Editoriale L'Espresso.

Persidera is an independent network operator in Italy, with five digital multiplexes and nationwide high-coverage infrastructure, based on next generation technologies.

The accounting effects of the business combination are summarized as follows:

- the consideration is 40 million euros and corresponds to the value of the capital increase of Persidera to the seller Gruppo Editoriale L'Espresso on June 30, 2014;
- all the Assets acquired and Liabilities assumed of the acquired company have been measured at fair value for their recognition. In addition to the value of the Assets acquired and the Liabilities assumed, goodwill has been recognized, amounting to 8 million euros, calculated as detailed in the following table:

		<b>Fair Value amounts (millions of euros)</b>
Measurement of consideration	(A)	40
Value of assets acquired	(B)	71
Value of liabilities assumed	(C)	(39)
<b>Goodwill</b>	<b>(A-B-C)</b>	<b>8</b>

**Rete A values at the acquisition date**

	<b>Fair Value amounts</b>	<b>Carrying amounts</b>
	<b>(millions of euros)</b>	
Goodwill	8	
Other non-current assets	64	45



Current assets		7	7
<i>of which Cash and cash equivalents</i>			
<b>Total assets</b>	<b>(A)</b>	<b>79</b>	<b>52</b>
Total non-current liabilities		12	6
<i>of which non-current financial liabilities</i>			
Total current liabilities		27	27
<i>of which current financial liabilities</i>		21	21
<b>Total liabilities</b>	<b>(B)</b>	<b>39</b>	<b>33</b>
<b>Net assets</b>	<b>(A-B)</b>	<b>40</b>	<b>19</b>

#### Acquisition of control of TN Fiber S.r.l. (former Trentino NGN)

On February 28, 2014, TIM S.p.A. acquired control of TN Fiber S.r.l., of which it already held 41.07%. The price paid was 17 million euros, bringing the stake in TN Fiber S.r.l. up to 97.4%.

The ownership interest held before the acquisition of control, previously measured using the equity method, was remeasured at fair value at the date of acquisition of control and amounted to approximately 36 million euros.

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The fair value of net assets acquired corresponded to the carrying amount of the assets and the acquisition of control did not result in the recognition of any goodwill.

In the second half of 2014, the percentage ownership further increased to 99.3%.

		<b>Fair Value amounts (millions of euros)</b>
Valuation of consideration	(A)	17
Fair value of the ownership interest held before the acquisition of control	(B)	36
<b>Total</b>	<b>(C=A+B)</b>	<b>53</b>
<b>Net value of assets acquired</b>	<b>(D)</b>	<b>53</b>
<b>Goodwill</b>	<b>(C-D)</b>	

**TN Fiber S.r.l. values at the date of acquisition of control**

		<b>Fair Value amounts (millions of euros)</b>	<b>Carrying amounts</b>
Goodwill			
Other non-current assets		36	36
Current assets		17	17
<i>of which Cash and cash equivalents</i>		8	8
<b>Total assets</b>	<b>(A)</b>	<b>53</b>	<b>53</b>
Total non-current liabilities			
Total current liabilities			
<b>Total liabilities</b>	<b>(B)</b>		
<b>Net assets</b>	<b>(A-B)</b>	<b>53</b>	<b>53</b>