TIM S.p.A.
Form 6-K
April 26, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15D-16

UNDER THE SECURITIES EXCHANGE ACT OF 1934

FOR THE MONTH OF APRIL 2019

TIM S.p.A.

(Translation of registrant s name into English)

Via Gaetano Negri 1

20123 Milan, Italy

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

FORM 20-F FORM 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

YES NO

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

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ANNUAL FINANCIAL REPORT

2018

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This document has been translated into English for the convenience of the readers.

In the event of discrepancy, the Italian language version prevails.

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Report on Operations

TIM Group

THE TIM GROUP

THE BUSINESS UNITS

DOMESTIC

The Domestic Business Unit operates as the consolidated market leader in the sphere of voice and data services on fixed and mobile networks for final retail customers and other wholesale operators.

Olivetti, which is part of the Core Domestic Business segment, operates in the area of products and services for Information Technology, covering the traditional areas of the office and retail world, as well as the innovative world of IoT, M2M and Big Data.

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

The Telecom Italia Sparkle group operates In the international field in the development of fiber optic networks for wholesale customers (in Europe, in the Mediterranean and in South America).

CORE DOMESTIC

- Consumer
- Business
- Wholesale
- Other (INWIT S.p.A. and support structures)

INTERNATIONAL WHOLESALE

Telecom Italia Sparkle Group

- Telecom Italia Sparkle S.p.A.
- South American subsidiaries

North American subsidiaries

European subsidiaries

BRAZIL

The Brazil Business Unit (Tim Brasil group) provides mobile telephone services using UMTS, GSM and LTE technologies. Moreover, the Tim Brasil group offers fiber optic data transmission using full IP technology, such as DWDM and MPLS and residential broadband services.

Tim Brasil Serviços e Participações S.A.

Tim Participações S.A.

TIM S.A.

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BOARD OF DIRECTORS

Chairman	Fulvio Conti (independent)
Chief Executive Officer and General Manager	Luigi Gubitosi
Directors	Alfredo Altavilla (independent)
	Paola Bonomo (independent)
	Giuseppina Capaldo (independent)
	Maria Elena Cappello (independent)
	Massimo Ferrari (independent)
	Amos Genish
	Paola Giannotti de Ponti (independent)
	Marella Moretti (independent)
	Lucia Morselli (independent)
	Dante Roscini (Lead Independent Director)
	Arnaud Roy de Puyfontaine
	Rocco Sabelli (independent)
	Michele Valensise (independent)
Secretary to the Board	Agostino Nuzzolo

BOARD OF STATUTORY AUDITORS

Chairman	Roberto Capone
Acting Auditors	Giulia De Martino Anna Doro Marco Fazzini Francesco Schiavone Panni

Alternate Auditors	Andrea Balelli Antonia Coppola Franco Dalla Sega Laura Fiordelisi
Independent Auditors	PwC S.p.A.

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KEY OPERATING AND FINANCIAL DATA - TIM GROUP

Consolidated operating and financial data (*)

(millions of euros)		2018	2017	2016	2015	2014
Revenues		18,940	19,828	19,025	19,719	21,574
EBITDA	(1)	7,403	7,790	8,002	7,006	8,785
EBIT before goodwill impairment loss		3,151	3,291	3,722	3,203	4,529
Goodwill impairment loss		(2,590)			(240)	
EBIT	(1)	561	3,291	3,722	2,963	4,529
Profit (loss) before tax from continuing operations		(777)	1,777	2,799	453	2,350
Profit (loss) from continuing operations		(1,152)	1,287	1,919	50	1,420
Profit (loss) from Discontinued operations/Non-current assets held for sale				47	611	541
Profit (loss) for the year		(1,152)	1,287	1,966	661	1,961
Profit (loss) for the year attributable to Owners of the Parent		(1,411)	1,121	1,808	(70)	1,351
Spectrum & capital expenditures		6,408	5,701	4,876	5,197	4,984

Consolidated financial position data(*)

(millions of euros)	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014
Total Assets	65,619	68,783	70,446	71,268	71,596
Total Equity	21,747	23,783	23,553	21,249	21,584
- attributable to Owners of the Parent	19,528	21,557	21,207	17,554	18,068
- attributable to non-controlling interests	2,219	2,226	2,346	3,695	3,516

Total Liabilities		43,872	45,000	46,893	50,019	50,012
Total Equity and Liabilities		65,619	68,783	70,446	71,268	71,596
Share capital		11,587	11,587	11,587	10,650	10,634
Net financial debt carrying amount	(1)	25,995	26,091	25,955	28,475	28,021
Adjusted net financial debt	(1)	25,270	25,308	25,119	27,278	26,651
Adjusted net invested capital	(2)	47,017	49,091	48,672	48,527	48,235
Debt Ratio (Adjusted net financial debt/Adjusted net invested capital)		53.7%	51.6%	51.6%	56.2%	55.3%

Consolidated profit ratios[*]

		2018	2017	2016	2015	2014
EBITDA/Revenues	(1)	39.1%	39.3%	42.1%	35.5%	40.7%
EBIT/Revenues (ROS)	(1)	3.0%	16.6%	19.6%	15.0%	21.0%
Adjusted Net Financial Debt/EBITDA	(1)	3.4	3.2	3.1	3.9	3.0

(*) Since January 1, 2018, the TIM Group has adopted: the IFRS 9 accounting standard (Financial Instruments) retrospectively - using the specific exemptions in the standard and without restating comparative figures of previous periods - and the IFRS 15 accounting standard (Revenue from contracts with customers), using the modified retrospective method. Consequently, operating and financial data of previous years have not been restated. In addition, as allowed by IFRS 9, the TIM Group decided to continue to apply the hedge accounting provisions contained in IAS 39 instead of those of IFRS 9. Further details are provided in the Note Accounting Policies to the Consolidated Financial Statements at December 31, 2018 of the TIM Group.

(1) Details are provided under Alternative Performance Measures .

(2) Adjusted net invested capital = Total equity + Adjusted net financial debt.

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Headcount, number in the Group at year end [1]

(number)	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014
Headcount (excluding headcount relating to Discontinued operations/Non-current assets held for sale)	57,901	59,429	61,229	65,867	66,025
Headcount relating to Discontinued operations/Non-current assets held for sale				16,228	16,420

Headcount, average number in the Group[1]

(equivalent number)	2018	2017	2016	2015	2014
Headcount (excluding headcount relating to Discontinued operations/Non-current assets held for sale)	54,423	54,946	57,855	61,553	59,285
Headcount relating to Discontinued operations/Non-current assets held for sale			2,581	15,465	15,652

Financial performance measures

TIM S.p.A.

(euros)		2018	2017	2016
Share prices (December average)				
- Ordinary		0.55	0.73	0.79
- Savings		0.47	0.60	0.64
Dividends per share	(2)			
- Ordinary				
- Savings		0.0275	0.0275	0.0275
Pay Out Ratio	(2) (*)	13%	9%	10%
Market capitalization (in million euros)		11,153	14,779	15,901

Market to Book Value	(**)	0.61	0.74	0.84
Dividend Yield (based on December average)	(2) (***)			
- Ordinary				
- Savings		5.86%	4.55%	4.27%

TIM Group

(euros)	2018	2017	2016
Basic earnings per share ordinary shares	(0.07)	0.05	0.08
Basic earnings per share savings shares	(0.07)	0.06	0.09
Diluted earnings per share ordinary shares	(0.06)	0.05	0.08
Diluted earnings per share savings shares	(0.06)	0.06	0.09

(1) Includes employees with temp work contracts.

(2) For 2018, the ratio was calculated on the basis of the proposed resolutions submitted to the shareholders meeting held on March 29, 2019. For all periods, the reference index was assumed to be the Parent s Earnings, calculated by excluding non-recurring items (as detailed in the Note Significant non-recurring events and transactions in the Separate Financial Statements of TIM S.p.A. at December 31, 2018).

(*) Dividends paid in the following year/Profit for the year.

(**) Capitalization/Equity of TIM S.p.A..

(***) Dividends per share/Share prices.

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ADOPTION OF THE NEW IFRS 9 AND IFRS 15 STANDARDS

On November 22, 2016, Regulation (EU) No. 2016/2067 was issued, which adopted IFRS 9 (*Financial Instruments*) at EU level, relating to the classification, measurement, derecognition and impairment of financial assets and liabilities, and hedge accounting.

As allowed by the accounting standard, the Tim Group:

- did not restate the comparative information provided in the year of first application, also due to the complexity of reformulating values at the beginning of the first year presented without the use of factors known later; therefore, the effects deriving from the first application of IFRS 9 were recognized in equity at January 1, 2018;

- decided to continue to apply the hedge accounting provisions contained in IAS 39 instead of those of IFRS 9.

The different classification of financial assets had no substantial impact for the TIM Group on the measurement of those assets, while the introduction of the *expected credit loss* model replacing the *incurred loss* model required by IAS 39, resulted in a reduction of 107 million euros in consolidated equity at the transition date of January 1, 2018.

On September 22, 2016, Commission Regulation (EU) No. 2016/1905 was issued, which adopted IFRS 15 (*Revenues from contracts with customers*) and the related amendments at EU level. On October 31, 2017, clarifications to IFRS 15 were adopted through Commission Regulation (EU) No. 2017/1987.

IFRS 15 replaces the standards that formerly governed revenue recognition, namely IAS 18 (*Revenue*), IAS 11 (*Construction contracts*) and the related interpretations on revenue recognition (IFRIC 13 *Customer loyalty programmes*, IFRIC 15 *Agreements for the construction of real estate*, IFRIC 18 *Transfers of assets from customers* and SIC 31 *Revenue Barter transactions involving advertising services*).

The TIM Group has applied the modified retrospective method with the recognition of the cumulative effect of the first-time application of the standard as an adjustment to the opening balance of equity for the period when the standard is adopted, without restating prior periods.

The comprehensive net impact (including tax effects) of the adoption of IFRS 15 on consolidated equity at January 1, 2018 (transition date) was positive for 19 million euros and mainly connected with the combined effects of:

- the change in the types of contract costs that are deferred;

- the new approach to recognizing activation and installation revenues and the recognition of contract assets connected with the earlier recognition of revenues from bundle offers.

Further details are provided in the Note Accounting Policies to the Consolidated Financial Statements at December 31, 2018 of the TIM Group.

To enable the year-on-year comparison of the economic and financial performance for the year 2018, this Report on Operations also shows comparable financial position figures and comparable income statement figures, prepared in accordance with the previous accounting standards applied (IAS 39, IAS 18, IAS 11, and relative Interpretations).

FINANCIAL AND NON-FINANCIAL HIGHLIGHTS

In terms of economic and financial performance in 2018:

Consolidated revenues amounted to 18,940 million euros; comparable consolidated revenues amounted to 19,109 million euros, showing a drop of 3.6% compared to 2017, mainly due to the effects of the major depreciation of the Brazilian real, which lowered the contribution of the Brazil Business Unit to consolidated revenues, which are denominated in euros; in organic terms the Group s consolidated revenues increased by 0.1%.
Consolidated revenues for the fourth quarter of 2018 amounted to 4,863 million euros. The comparable figure (4,892 million euros) shows a drop of 5.0% (-2.5% in organic terms).

EBITDA was equal to 7,403 million euros; Comparable EBITDA amounted to 7,713 million euros, down by 1.0% on 2017 (+2.6% in organic terms), with an EBITDA margin of 40.4%, +1.1 percentage points on the figure for 2017 (40.4% in organic terms, +1.0 percentage points).
EBITDA for 2018 reflected a negative impact totaling 408 million euros relative to non-recurring net expenses.

EBITDA for 2017 reflected non-recurring expenses for a total of 883 million euros.

In the absence of these impacts, organic EBITDA would have been equal to 8,121 million euros, down by 3.4% over 2017, with an EBITDA margin of 42.4% (-1.6 percentage points).

EBITDA for the fourth quarter of 2018 amounted to 1,625 million euros. Comparable EBITDA amounted to 1,683 million euros, up by 6.7 million euros compared to the fourth quarter of 2017 (+10.9% in organic terms).

EBIT amounted to 561 million euros; comparable EBIT amounted to 727 million euros, down -77.9% on 2017 (-77.3% in organic terms).
The EBIT was pulled down by 2,590 million euros relating to the goodwill impairment loss attributed to the Core Domestic Unit and International Wholesale: specifically, as at September 30, 2018, a goodwill impairment loss of 2.0 billion euros was recognized for the goodwill assigned to the Core Domestic Unit; during preparation of the annual financial statements, the impairment test was repeated and an additional impairment loss of 450 million euros for the Core Domestic Unit was recognized - bringing the overall impairment loss for 2018 to 2,450 million euros - as well as an impairment loss of 140 million euros for the goodwill assigned to International Wholesale.

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Excluding this impairment loss as well as the negative impact of non-recurring net expenses totaling 408 million euros (912 million euros in 2017, at constant exchange rates), the change in EBIT would have been -9.5%.Consolidated EBIT for the fourth quarter of 2018 amounted to -56 million euros. Comparable EBIT amounted to -35 million euros (457 million euros in the fourth quarter of 2017).

Consolidated net loss for the year attributable to Owners of the Parent amounted to 1,411 million euros (while a net profit of 1,121 million euros was posted in 2017). The positive contribution from operating activities and the recognition of deferred tax assets in Brazil was offset by the aforementioned goodwill impairment loss of the Core Domestic Unit and International Wholesale, as well as other non-recurring net expenses and the effects of IFRS 9 and 15 application. Excluding those impacts, consolidated net profit for 2018 attributable to Owners of the Parent would have amounted to over 1.4 billion euros.

Capital expenditures in 2018 amounted to 6,408 million euros. On a comparable basis, they amounted to 6,558 million euros (5,701 million euros in 2017), showing an increase of 857 million euros. In particular, the increase deriving from higher investments in mobile phone licenses - and in particular the purchase by the Domestic Business Unit in the last quarter of 2018 of the rights to use 5G frequencies (2,399 million euros) - was offset by lower capital expenditures in fixed and mobile domestic networks, also due to the coverage levels achieved with current technology, as well as the fluctuations in Brazilian exchange rates.

Adjusted net financial debt amounted to 25,270 million euros at December 31, 2018, a decrease of 38 million euros compared December 31, 2017 (25,308 million euros): cash flow generation from operations and financing activities in 2018 was affected by the payment of 739 million euros of income taxes, 477 million euros relative to the portion of the award amount due for 2018 for rights to use 3700-3800 MHZ and 26.5-27.5 GHZ frequencies in Italy and the payment of dividends for a total of 256 million euros.

Financial highlights for the year

(millions of euros)		2018	2018 comparable (a)	2017 (b)	% Change (a-b)	% Change Organic
Revenues		18,940	19,109	19,828	(3.6)	0.1
EBITDA	(1)	7,403	7,713	7,790	(1.0)	2.6
EBITDA Margin		*39.1%*	*40.4%*	*39.3%*	*1.1pp*	
Organic EBITDA Margin		*39.1%*	*40.4%*	*39.4%*	*1.0pp*	
EBIT before goodwill impairment loss		3,151	3,317	3,291	0.8	

Goodwill impairment loss		*(2,590)*	*(2,590)*			
EBIT	(1)	561	727	3,291	(77.9)	(77.3)
EBIT Margin		*3.0%*	*3.8%*	*16.6%*	*(12.8)pp*	
Organic EBIT Margin		*3.0%*	*3.8%*	*16.8%*	*(13.0)pp*	
Profit (loss) for the year attributable to Owners of the Parent		(1,411)	(1,298)	1,121		
Capital expenditures & spectrum		6,408	6,558	5,701	15.0	

		12/31/2018	12/31/2017	Change Amount
Adjusted net financial debt	(1)	25,270	25,308	(38)

Details are provided under Alternative Performance Measures .

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Financial highlights for the fourth quarter

(millions of euros)		4th Quarter 2018	4th Quarter 2018 comparable (a)	4th Quarter 2017 (b)	% Change (a-b)	% Change Organic
Revenues		4,863	4,892	5,149	(5.0)	(2.5)
EBITDA	(1)	1,625	1,683	1,577	6.7	10.9
EBITDA Margin		*33.4%*	*34.4%*	*30.6%*	*3.8pp*	
Organic EBITDA Margin		*33.4%*	*34.4%*	*30.3%*	*4.1pp*	
EBIT before goodwill impairment loss		534	555	457	21.4	
Goodwill impairment loss		*(590)*	*(590)*			
EBIT	(1)	(56)	(35)	457		
EBIT Margin		*(1.2)%*	*(0.7)%*	*8.9%*	*(9.6)pp*	
Organic EBIT Margin		*(1.2)%*	*(0.7)%*	*8.6%*	*(9.3)pp*	
Profit (loss) for the period attributable to owners of the Parent		(543)	(528)	88		

Details are provided under Alternative Performance Measures .

* * *

The obligations laid down in Legislative Decree 254/2016, regarding the disclosure of sensitive information of a non-financial nature and on diversity, have been the object of reporting by TIM Group since 1997, the year in which the Group published its first Social Report , subsequently extended to cover environmental issues.

The current Sustainability Report follows a multi-stakeholder approach involving the joint analysis of actions taken in respect of the main stakeholders with whom the Company interacts. It is based on the main reference standard for Sustainability Reporting and on the principles (inclusivity, materiality, responsiveness) of the AA1000 AccountAbility Principles Standard (APS 2008), adopted by the Group as of the 2009 Financial Statements.

The 2018 materiality matrix, which summarizes the point of view of the Company and stakeholders, also identified the Sustainable Development Goals which the Group considers it can significantly contribute to, through its own operations.

Such non-financial reporting stands alongside the company s positioning in major sustainability indices, which in 2018 saw the TIM Group included, for the 15th consecutive year, in the Dow Jones Sustainability Indices World (DJSI World) and Europe (DJSI Europe), and its inclusion in the Euronext Vigeo World 120, Eurozone 120 and Europe 120 indices.

For more details of TIM s approach to sustainability and results achieved, see the 2018 Sustainability Report - Non-Financial Disclosure.

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Non-recurring events - other one-off items

In the years 2018 and 2017, the TIM Group recognized non-recurring net operating expenses connected to events and transactions that by their nature do not occur on an ongoing basis in the normal course of operations and which have been shown because their amount is significant. Such expenses include the goodwill impairment loss, corporate restructuring and reorganization expenses, expenses resulting from regulatory disputes and sanctions and the liabilities related to those expenses, expenses for disputes with former employees, and liabilities with customers and/or suppliers, as well as items related to adjustments relative to previous years.

In detail:

(millions of euros)	2018	2017
Non-recurring expenses (Income)		
Revenues		
Adjustments of revenues from previous years	62	
Other income		
Effect of Brazil BU tax recovery	(37)	
Acquisition of goods and services and Change in inventories		
Expenses related to agreements and the development of non-recurring projects	15	10
Employee benefits expenses		
Expenses related to restructuring and rationalization and other expenses	233	697
Sundry expenses and provisions		
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	135	176
Impact on EBITDA	408	883
Goodwill impairment loss on Core Domestic and International Wholesale	2,590	
Impairment losses on intangible assets		30
Impact on EBIT	2,998	913

Non-recurring net expenses in 2018 included:

- the goodwill impairment loss attributed to the Core Domestic unit and International Wholesale (2,590 million euros);

- expenses related to company restructuring processes (233 million euros);

- sundry expenses for 135 million euros including provisions to cover a fine of 74.3 million euros levied for alleged infringement of Article 2 of Italian Decree Law 21 of March 15, 2012 (the Golden Power rule) under a ruling of May 8, 2018. TIM lodged an appeal with the Lazio Regional Administrative Court (TAR), requesting the precautionary suspension of the decision. In July 2018, the TAR granted the application and suspended payment of the fine, setting a date for the appeal to be heard;

- the adjustment of some contractual liabilities in order to align them with their estimated period end value. Specifically, liabilities relative to prepaid contracts were adjusted by a total of 62 million euros, wholly attributable to previous financial years;

- the positive effect of the Brazil Business Unit tax recovery, equal to 37 million euros, following the favorable outcome of the tax dispute relative to the unconstitutional grounds of the law that entailed the inclusion of ICMS indirect tax in the base for calculating taxes on PIS and COFINS revenues.

Non-recurring expenses in 2017 chiefly included provisions for the start-up of the company restructuring plan of TIM S.p.A..

For comparative purposes only and to provide a better understanding of business performance in the reporting period, besides non-recurring transactions, one-off items are highlighted which, by their nature, are not linear or recurring, in the reporting period or the comparative period. Such above-mentioned items exclusively pertain to the Domestic market, are not subject to auditing and are produced for explanatory purposes only.

In 2017, positive one-off items for a total of 112 million euros were posted, relative to the differential impact arising from the revised estimate of the settlement value of some contractual liabilities with customers and suppliers.

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CONSOLIDATED OPERATING PERFORMANCE

Revenues

Revenues amounted to 18,940 million euros in 2018.

Comparable revenues on the same accounting basis amounted to 19,109 million euros, down by 3.6% (-719 million euros) on 2017 (19,828 million euros); the decrease is mainly attributable to the Brazil Business Unit (-543 million euros), due to the depreciation of the Brazilian real of approximately 20% compared to 2017, and the Domestic Business Unit (-169 million euros). Without the negative exchange rate effect[(1)], the Brazil Business Unit saw growth of +189 million euros (+5.0%) and the organic change in consolidated revenues for the Group was up by 0.1% (+27 million euros).

Revenues for 2018 include a non-recurring adjustment of -62 million euros relating to previous financial years.

The breakdown of revenues on the same accounting basis for 2018 by operating segment is shown below, with comparative data provided for 2017.

	2018 comparable		2017		Change		
(millions of euros)		% of total		% of total	amount	%	% organic
Domestic	15,185	79.5	15,354	77.4	(169)	(1.1)	(1.0)
Core Domestic	*14,161*	*74.1*	*14,249*	*71.9*	*(88)*	*(0.6)*	*(0.6)*
International Wholesale	*1,272*	*6.7*	*1,349*	*6.8*	*(77)*	*(5.7)*	*(4.7)*
Brazil	3,959	20.7	4,502	22.7	(543)	(12.1)	5.0
Other Operations							
Adjustments and eliminations	(35)	(0.2)	(28)	(0.1)	(7)		
Consolidated Total	19,109	100.0	19,828	100.0	(719)	(3.6)	0.1

EBITDA

EBITDA amounted to 7,403 million euros for 2018.

Comparable EBITDA for 2018 totaled 7,713 million euros (7,790 million euros in 2017), showing a drop of 77 million euros (-1.0%); the EBITDA margin stood at 40.4% (39.3% in 2017; +1.1 percentage points).

Organic EBITDA rose by 192 million euros (+2.6%) compared to 2017, with the organic EBITDA margin posting an increase of 1.0 percentage points, from 39.4% in 2017 to 40.4% in 2018.

Organic EBITDA, net of the non-recurring component, amounted to 8,121 million euros (8,404 million euros in 2017). Specifically EBITDA for 2018 reflected a negative impact totaling 408 million euros referring to non-recurring expenses as already described.

For further details, see the Note Non-recurring events and transactions in the Consolidated Financial Statements as at December 31, 2018 of the TIM Group.

[1] The average exchange rates used for the translation into euro (expressed in terms of units of local currency per 1 euro) were 1.18121 in 2018 and 1.12946 in 2017 for the US dollar. For the Brazilian real, the average exchange rates used were 4.30628 in 2018 and 3.60584 in 2017. The effect of the change in exchange rates is calculated by applying the foreign currency translation rates used for the current period to the period under comparison.

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The drop essentially referred to the Brazil Business Unit for -347 million euros and was mainly driven by the negative exchange rate effect for 353 million euros. Excluding that effect, the item would have been positive and equal to approximately 6 million euros.

Employee benefits expenses (3,105 million euros; 3,084 million euros on comparable basis; 3,626 million euros in 2017):

(millions of euros)	2018 comparable	2017	Change
Employee benefits expenses - Italy	2,744	3,248	(504)
Ordinary employee expenses and costs	2,520	2,551	(31)
Restructuring and other expenses	224	697	(473)
Employee benefits expenses Outside Italy	340	378	(38)
Ordinary employee expenses and costs	331	378	(47)
Restructuring and other expenses	9		9
Total employee benefits expenses	3,084	3,626	(542)
EBITDA Margin	*16.1*	*18.3*	*(2.2)pp*

The net decrease of 542 million euros was mainly driven by:

the decrease of 473 million euros for restructuring expenses and allocations to employee and other provisions of the Italian component. Specifically, a plan was launched at the end of 2017 for executive and non-executive staff to adopt, among others, Article 4(1 7-ter) of Law 92 of June 28, 2012 (the Fornero Law , which provides for early retirement arrangements). During 2018, Plan take-up was greater than initially forecast, while Decree Law 4 of January 28, 2019, which introduced significant changes in social security, allows wider accessibility in terms of recourse to assisted pensions. Therefore, estimates for staff leaving in 2019-2020 were revised, with additional non-recurring provisions being allocated for a total of 204 million euros; In 2017, provisions were already set aside for non-recurring expenses totaling 697 million euros;

lower ordinary employee expenses for the Italian component, which fell by 31 million euros, mainly due to the benefits delivered by the reduction of the average salaried workforce by -1,447 employees (excluding the component relating to the solidarity agreement), which only in part were offset by the termination, at the start of 2018, of the defensive solidarity agreements applied by TIM S.p.A.. The solidarity agreement was renewed in June 2018 for a further 12 months;

the decrease of 47 million euros in the component outside Italy of ordinary employee expenses, mainly due to the balance between the impact of the change in exchange rates and local remuneration dynamics of the Brazil Business Unit.

Other operating income (341 million euros; 341 million euros on comparable basis; 523 million euros in 2017):

(millions of euros)	2018 comparable	2017	Change
Late payment fees charged for telephone services	60	59	1
Recovery of employee benefit expenses, purchases and services rendered	27	22	5
Capital and operating grants	39	51	(12)
Damages, penalties and recoveries connected with litigation	29	40	(11)
Partnership agreements and other arrangements with suppliers	22	129	(107)
Estimate revisions and other adjustments	73	188	(115)
Other	91	34	57
Total	341	523	(182)

Other operating income includes, *inter alia* :

contribution fees resulting from partnership agreements and other agreements with suppliers, designed to develop collaboration, in order to strengthen and stabilize industrial, commercial and real estate relations over time;

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the non-recurrent item of 37 million euros recorded in 2018 by the Brazil Business Unit and concerning the positive effect of the tax recovery following the favorable outcome of the tax dispute relative to the unconstitutional grounds of the law that entailed the inclusion of ICMS indirect tax in the base for calculating taxes on PIS and COFINS revenues;

positive one-off items for a total of 112 million euros in 2017, relative to the differential impact arising from the revised estimate of the settlement value of some contractual liabilities with customers and suppliers.

Other operating expenses (1,259 million euros; 1,236 million euros on comparable basis; 1,208 million euros in 2017):

(millions of euros)	2018 comparable	2017	Change
Write-downs and expenses in connection with credit management	495	400	95
Provision charges	189	228	(39)
TLC operating fees and charges	286	356	(70)
Indirect duties and taxes	125	111	14
Penalties, settlement compensation and administrative fines	73	33	40
Association dues and fees, donations, scholarships and traineeships	12	15	(3)
Other	56	65	(9)
Total	1,236	1,208	28

Other operating expenses included a non-recurring component of 135 million euros (176 million euros in 2017), 108 million euros relative to the Domestic Business Unit, mainly referred to the fine levied on May 8, 2018 in application of the Golden Power rule (Italian Decree Law no. 21 of 15/3/2012) and 27 million euros to the Brazil Business Unit for expenses concerning litigation.

Depreciation and amortization

Depreciation and amortization amounted to 4,255 million euros.

On the same accounting basis, depreciation and amortization amounted to 4,399 million euros, breaking down as follows.

(millions of euros)	2018 comparable	2017	Change
Amortization of intangible assets with a finite useful life	1,743	1,793	(50)
Depreciation of property, plant and equipment owned and leased	2,656	2,680	(24)
Total	4,399	4,473	(74)

Net impairment losses on non-current assets

This item amounted to 2,586 million euros in 2018 and mainly refers to the overall goodwill impairment loss of 2,590 million euros, recognized during the year and related to the Domestic Business Unit.

In accordance with IAS 36, goodwill is not subject to amortization, but is tested for *impairment* on at least an annual basis, when preparing the company s consolidated financial statements. At September 30, 2018, with reference to the Core Domestic CGU, internal and external events and circumstances had arisen that led the company to carry out impairment testing on the CGU and brought a recognition of an Impairment loss relative for an amount of 2,000 million euros.

In the 2018 Financial Statements, the annual impairment test resulted in an additional impairment loss of 450 million euros on the goodwill attributed to the Core Domestic CGU - bringing the total impairment loss for the financial year 2018 to 2,450 million euros - as well as an impairment loss of 140 million euros on the goodwill attributed to the International Wholesale CGU.

With reference to the Brazil Cash Generating Units, the Impairment test exercise did not show any impairment losses to the Goodwill allocated to the said CGUs.

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In 2017, net impairment losses on non-current assets amounted to 37 million euros and mainly consisted of write-downs of intangible assets.

Further details are provided in the Note Goodwill to the Consolidated Financial Statements at December 31, 2018 of the TIM Group.

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EBIT

EBIT amounted to 561 million euros for 2018.

Comparable EBIT for 2018 totaled 727 million euros (3,291 million euros for 2017), a drop of 2,564 million euros (-77.9%) compared to 2017; the EBIT margin stood at 3.8% (16.6% in 2017).

Organic EBIT was down by 2,476 million euros (-77.3%), with an organic EBIT margin of 3.8% (16.8% in 2017).

Organic EBIT, net of the non-recurring component, amounted to 3,725 million euros (4,115 million euros in 2017), with an EBIT margin of 19.4% (21.6% in 2017).

EBIT for 2018 reflected the negative impact of non-recurring net expenses, including the aforesaid impairment loss on goodwill of the Core Domestic unit and International Wholesale totaling 2,998 million euros (912 million euros in 2017, at constant exchange rates).

Organic EBIT is calculated as follows:

			Change	
(millions of euros)	2018	2017	amount	%
REPORTED EBIT	561			
Effect of adoption of new accounting standards	166			
COMPARABLE EBIT on the same accounting basis	727	3,291	(2,564)	(77.9)
Foreign currency financial statements translation effect		(88)	88	
Changes in the scope of consolidation				
ORGANIC EBIT	727	3,203	(2,476)	(77.3)
of which non-recurring income/(expenses)	(2,998)	(913)	(2,085)	
Foreign currency translation effect on Non-recurring Income/(Expenses)		1	(1)	
ORGANIC EBIT, excluding Non-recurring items	3,725	4,115	(390)	(9.5)

Exchange rate fluctuations mainly related to the Brazil Business Unit.

Income/(expenses) from investments

In 2018, this item showed a positive figure of 10 million euros and mainly included the dividends paid to TIM S.p.A. by the company Emittenti Titoli.

In 2017, this item amounted to an expense of 18 million euros and essentially included the allocation to the income statement of the Reserve for exchange differences on translating foreign operations for the investee company Tierra Argentea S.A., the liquidation of which was completed that year.

Finance income (expenses), net

Finance income (expenses) show a net expense of 1,348 million euros (expense of 1,495 million euros in 2017): the improvement was mainly driven by lower finance expenses, connected to the reduction in the Group s average debt exposure and a drop in interest rates from the refinancing operations carried out over the last 12/18 months.

Income tax expense

This item amounted to 375 million euros, a drop of 115 million euros on 2017 (490 million euros). Specifically, the figure for 2018 benefited from approximately 200 million euros contributed by the Brazil Business Unit, from the recognition of deferred tax assets related to the tax recoverability of past losses recorded in previous years that had become recoverable based on the expected profits. This impact was offset by the Parent TIM S.p.A. s higher taxes, in relation to the impact of certain items in the 2018 financial year which have no tax relevance (mainly driven by the goodwill impairment loss and other non-deductible sundry expenses and minor benefits).

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Profit (loss) for the year

This item breaks down as follows:

(millions of euros)	2018	2018 comparable	2017
Profit (loss) for the year	(1,152)	(1,038)	1,287
Attributable to:			
Owners of the Parent:			
Profit (loss) from continuing operations	(1,411)	(1,298)	1,121
Profit (loss) from Discontinued operations/Non-current assets held for sale			
Profit (loss) for the year attributable to Owners of the Parent	(1,411)	(1,298)	1,121
Non-controlling interests:			
Profit (loss) from continuing operations	259	260	166
Profit (loss) from Discontinued operations/Non-current assets held for sale			
Profit (loss) for the year attributable to Non-controlling interests	259	260	166

The net loss for 2018 attributable to Owners of the Parent amounted to 1,411 million euros (while a net profit of 1,121 million euros was posted in 2017). The positive contribution from operating activities and the recognition of deferred tax assets in Brazil was offset by the aforementioned goodwill impairment loss of the Core Domestic Unit and International Wholesale, as well as other non-recurring net expenses and the effects of IFRS 9 and 15 application. Excluding those impacts, consolidated net profit for 2018 attributable to Owners of the Parent would have amounted to over 1.4 billion euros.

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FINANCIAL AND OPERATING HIGHLIGHTS OF THE BUSINESS UNITS OF THE TIM GROUP

DOMESTIC

(millions of euros)	2018	2018 comparable (a)	2017 (b)	Change amount	Change (a-b) %	% organic
Revenues	15,031	15,185	15,354	(169)	(1.1)	(1.0)
EBITDA	5,955	6,221	6,171	50	0.8	0.9
EBITDA Margin	*39.6*	*41.0*	*40.2*		*0.8pp*	*0.8 pp*
EBIT	16	177	2,772	(2,595)	(93.6)	(93.6)
EBIT Margin	*0.1*	*1.2*	*18.1*		*(16.9)pp*	*(16.9)pp*
Headcount at year end (number)	48,200		49,851	(1,651)	(3.3)	

(millions of euros)	4th Quarter 2018	4th Quarter 2018 comparable (a)	4th Quarter 2017 (b)	Change amount	Change (a-b) %	% organic
Revenues	3,849	3,874	4,042	(168)	(4.2)	(4.2)
EBITDA	1,216	1,263	1,116	147	13.2	13.1
EBITDA Margin	*31.6*	*32.6*	*27.6*		*5.0 pp*	*5.0 pp*
EBIT	(235)	(216)	265	(481)		
EBIT Margin	*(6.1)*	*(5.6)*	*6.6*		*(12.2)pp*	*(12.2)pp*

Fixed

	12/31/2018	12/31/2017	12/31/2016
Physical accesses at period end (thousands) [1]	18,212	18,995	18,963
of which retail physical accesses at period end (thousands)	*10,149*	*11,044*	*11,285*
Broadband accesses at period end (thousands) [2]	11,184	10,154	9,206
of which Retail broadband accesses at period end (thousands)	*7,575*	*7,641*	*7,191*
Network infrastructure in Italy:			
copper access network (millions of km pair, distribution and connection)	114.4	114.6	114.4
access and carrier network in optical fiber (millions of km - fiber)	16.4	14.3	12.6
Total traffic:			
Minutes of traffic on fixed-line network (billions):	58.3	64.0	69.1
Domestic traffic	46.2	50.7	55.6
International traffic	12.1	13.3	13.5
Broadband volumes (PBytes) [3]	9,394	7,848	5,774

Does not include full-infrastructured OLOs and Fixed Wireless Access (FWA).
Does not include LLU and NAKED, satellite and full-infrastructured OLOs and FWA.
DownStream and UpStream traffic volumes.

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Mobile

	12/31/2018	12/31/2017	12/31/2016
Lines at period end (thousands) (1)	31,818	30,755	29,617
Change in lines (%)	3.5	3.8	(1.3)
Churn rate (%) (2)	26.3	26.2	22.8
Total traffic:			
Outgoing retail traffic (billions of minutes)	57.0	51.4	44.9
Incoming and outgoing retail traffic (billions of minutes)	85.4	78.1	69.6
Browsing traffic (PBytes) (3)	686.8	417.5	258.5
Average monthly revenues per line (in euros) ARPU (4)	11.5	12.5	12.4

The figure includes the SIM cards used on platforms for delivering Machine-to-Machine services.

The data refer 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.

National traffic excluding roaming.

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.

Revenues

Revenues for 2018 amounted to 15,031 million euros. Comparable revenues on the same accounting basis amounted to 15,185 million euros for 2018, down by 169 million euros on the previous year (-1.1%). Revenues for 2018 include a non-recurring adjustment of -62 million euros relating to previous financial years.

In the fourth quarter, revenues recorded a drop of 168 million euros (-4.2% compared to the fourth quarter of the 2017).

The revenues from services amounted to 13,834 million euros (-166 million euros over 2017, equal to -1.2%), impacted by the effects of a changed regulatory and competitive scenario (30-day pricing restored, entry of a fourth mobile operator and a reduction in the prices of some wholesale services).

In detail:

- revenues from services for the fixed-line market amounted to 9,951 million euros, remaining stable with respect to 2017 despite stronger market competition. Such stabilization was due to higher retail ARPU, higher revenues from ICT solutions (+99 million euros compared to 2017, +14.8%) and from innovative services for data connectivity (+306 million euros, +14.4%), also driven by growth in Ultrabroadband customers (+1.0 million on 2017) that at the end of 2018 reached 3.2 million (5.4 million including wholesale lines). These dynamics offset the natural decline in revenues from traditional voice services (-334 million euros), due to the decrease in traditional accesses and lower regulated prices on some wholesale services (-65 million euros);

- revenues from services for the Mobile market were equal to 4,513 million euros (-142 million euros, equal to -3.1% on 2017) and were affected to a greater extent by the changed regulatory and competitive scenario, with a downturn in calling and broadband ARPU.

Revenues from product sales, including the change in work in progress, amounted to 1,351 million euros in 2018 (-3 million euros on the previous year).

EBITDA

EBITDA for the Domestic Business Unit for 2018 amounted to 5,955 million euros.

Comparable EBITDA for 2018 totaled 6,221 million euros, up by 50 million euros compared to 2017 (+0.8%), with an EBITDA margin of 41.0% (+0.8 percentage points compared to the previous year).

Organic EBITDA rose by 53 million euros (+0.9%) compared to 2017, with the organic EBITDA margin posting an increase of 0.8 percentage points, from 40.2% in 2017 to 41.0% in 2018.

Organic EBITDA, net of the non-recurring component, amounted to 6,629 million euros (7,050 million euros in 2017). Specifically EBITDA for 2018 reflected a negative impact totaling 408 million euros referring to non-recurring expenses as already described.

In the fourth quarter of 2018, organic EBITDA amounted to 1,263 million euros, showing an increase of 146 million euros (+13.1%) compared to the fourth quarter of 2017, with the EBITDA margin posting an increase of 5.0 percentage points, rising from 27.6% in the fourth quarter of 2017 to 32.6% for 2018.

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Organic EBITDA is calculated as follows:

(millions of euros)	2018	2017	Change amount	Change %
REPORTED EBITDA	5,955			
Effect of adoption of new accounting standards	266			
COMPARABLE EBITDA on the same accounting basis	6,221	6,171	50	0.8
Foreign currency financial statements translation effect		(3)	3	
Changes in the scope of consolidation				
ORGANIC EBITDA	6,221	6,168	53	0.9
of which non-recurring income/(expenses)	(408)	(882)	474	
ORGANIC EBITDA - excluding Non-recurring items	6,629	7,050	(421)	(6.0)

In 2017, EBITDA also reflected some one-off items for a total of 112 million euros, relative to the differential impact arising from the revised estimate of the period end value of some contractual liabilities with customers and suppliers.

The changes in the main cost items, on the same accounting basis, are shown below:

(millions of euros)	2018 comparable	2017	Change
Acquisition of goods and services	6,289	6,235	54
Employee benefits expenses	2,761	3,266	(505)
Other operating expenses	742	704	38

In particular:

Acquisition of goods and services (6,360 million euros; 6,289 million euros on comparable basis; 6,235 million euros in 2017):

(millions of euros)	2018 comparable	2017	Change
Acquisition of goods	1,733	1,628	105

Revenues due to other TLC operators and costs for telecommunications network access services	1,562	1,614	(52)
Commercial and advertising costs	792	751	41
Power, maintenance and outsourced services	876	949	(73)
Rent and leases	397	414	(17)
Other service expenses	929	879	50
Total acquisition of goods and services	6,289	6,235	54
% of Revenues	*41.4*	*40.6*	*0.8*

This item increased by 54 million euros compared to 2017. Costs for the acquisition of goods increased mainly due to higher purchasing volumes of equipment and handsets linked to the increase in product sales and to higher commercial and advertising costs, offset by a reduction in costs for energy and outsourced services, as a result of streamlining actions taken during the year.

Employee benefits expenses (2,781 million euros; 2,761 million euros on comparable basis; 3,266 million euros in 2017): went down by 505 million euros, driven chiefly by the same factors affecting the Italian employee benefits expenses component at Group level, to which readers are referred.

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Other operating income (273 million euros; 273 million euros on comparable basis; 471 million euros in 2017):

(millions of euros)	2018 comparable	2017	Change
Late payment fees charged for telephone services	49	48	1
Recovery of employee benefit expenses, purchases and services rendered	27	22	5
Capital and operating grants	33	44	(11)
Damages, penalties and recoveries connected with litigation	28	39	(11)
Partnership agreements and other arrangements with suppliers	22	97	(75)
Estimate revisions and other adjustments	75	192	(117)
Other income	39	29	10
Total	273	471	(198)

Other operating income includes, among others, contribution fees resulting from partnership agreements and other arrangements with suppliers designed to develop the collaboration between the parties, in order to strengthen and stabilize industrial, commercial and real estate relations over time. In the 2017 financial year, Other income included the aforementioned one-off items for a total amount of 112 million euros.

Other operating expenses (763 million euros; 742 million euros on comparable basis; 704 million euros in 2017):

(millions of euros)	2018 comparable	2017	Change
Write-downs and expenses in connection with credit management	372	313	59
Provision charges	109	155	(46)
TLC operating fees and charges	48	55	(7)
Indirect duties and taxes	94	91	3
Penalties, settlement compensation and administrative fines	73	33	40
Association dues and fees, donations, scholarships and traineeships	11	13	(2)

Sundry expenses	35	44	(9)
Total	742	704	38

Other operating expenses include a non-recurring component of 108 million euros (176 million euros in the 2017 financial year), mainly referring to the fine imposed on May 8, 2018 in the application of Decree Law 21 of 3/15/2012 (Golden Power rule). The item also includes higher provision charges for bad debts (+10 million euros) compared to 2017 mainly attributable to difficulties and delays in collections from some South American and Mediterranean Basin operators.

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EBIT

EBIT for the Domestic Business Unit for 2018 amounted to 16 million euros.

Comparable EBIT for 2018 totaled 177 million euros (2,772 million euros in 2017), showing a drop of 2,595 million euros, with the EBIT margin at 1.2% (18.1% in 2017).

Organic EBIT was down by 2,594 million euros.

Organic EBIT, net of the non-recurring component, amounted to 3,175 million euros (3,683 million euros in 2017), with an EBIT margin of 20.8% (24.0% in 2017).

EBIT for 2018 reflected the negative impact of non-recurring net expenses, including the aforesaid impairment loss on goodwill of the Core Domestic unit and International Wholesale totaling 2,998 million euros (912 million euros in 2017, at constant exchange rates).

Consolidated EBIT for the fourth quarter of 2018 amounted to -235 million euros; Comparable EBIT amounted to -216 million euros (265 million euros in the fourth quarter of 2017).

Organic EBIT is calculated as follows:

(millions of euros)	2018	2017	Change amount	Change %
REPORTED EBIT	16			
Effect of adoption of new accounting standards	161			
COMPARABLE EBIT on the same accounting basis	177	2,772	(2,595)	(93.6)
Foreign currency financial statements translation effect		(1)	1	
Changes in the scope of consolidation				
ORGANIC EBIT	177	2,771	(2,594)	(93.6)
of which non-recurring income/(expenses)	(2,998)	(912)	(2,086)	
ORGANIC EBIT, excluding Non-recurring items	3,175	3,683	(508)	(13.8)

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Financial highlights of the Domestic Cash-Generating Units

The main financial and operating highlights of the Domestic Business Unit are reported according to two Cash-Generating Units (CGU), as defined by IAS 36:

Core Domestic: includes all telecommunications activities pertaining to the Italian market. Revenues are broken down in the following tables according to the net contribution of each market segment to the CGU s results, excluding intrasegment transactions. 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 Retail, Persidera and Noverca.

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. The segment includes the companies Olivetti, TI Trust Technologies and Olivetti Scuola Digitale (formerly Alfabook) and Telsy.

Wholesale: the segment consists of the management and development of the portfolio of regulated and unregulated wholesale services for Fixed-line and Mobile telecommunications operators in the domestic market and Open Access operations connected with delivery and assurance processes for customer services. The segment includes the companies TN Fiber, Flash Fiber, TI San Marino and Telefonia Mobile Sammarinese.

Other (INWIT S.p.A. and support structures): includes:

INWIT S.p.A.: from 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;

Other Operations units: covering technological innovation and development, engineering, construction and operating processes for network infrastructures, IT, real estate properties and plant engineering;

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.

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Key results for 2018 for the Domestic Business Unit are presented in the following tables, broken down by market/business segment and compared to 2017, on the same accounting basis.

Core Domestic

(millions of euros)	2018 comparable	2017	Change amount	%
Revenues	14,161	14,249	(88)	(0.6)
Consumer	*7,573*	*7,737*	*(164)*	*(2.1)*
Business	*4,721*	*4,656*	*65*	*1.4*
Wholesale	*1,787*	*1,690*	*97*	*5.8*
Other	*80*	*166*	*(86)*	*(51.8)*
EBITDA	6,127	6,029	98	1.6
EBITDA Margin	*43.3*	*42.3*		*1.0pp*
EBIT	335	2,736	(2,401)	(87.8)
EBIT Margin	*2.4*	*19.2*		*(16.8)pp*
Headcount at year end (number)	47,455	49,095	(1,640)	(3.3)

In detail:

Consumer: revenues for 2018 in the Consumer segment were equal to 7,573 million euros, down on the performance of the previous year (-164 million euros, -2.1%), in contrast to the growth registered in 2017, due to the changed competitive and regulatory scenario (entry of a fourth mobile operator, 30-day pricing restored). The same trend seen in total revenues also applied to revenues from services, which amounted to 6,834 million euros, down by 1.6% compared to the previous year (-114 million euros). In particular:

Mobile revenues amounted to 3,835 million euros (-1.5% on the previous year); revenues from services fell by 122 million euros (-3.7% over 2017), with a more marked slowdown in the fourth quarter compared to the trend observed the previous year, attributable to the changed regulatory and competitive scenario;

revenues from the Fixed-line market totaled 3,696 million euros, down over the previous year (-3.0%), but with revenues from services in line with 2017; this trend reflected a decrease in accesses, offset by higher ARPU levels.

Business: revenues for the Business segment amounted to 4,721 million euros, up by 65 million euros on 2017 (+1.4%) attributable to revenues from services (+1.4%). In particular:

Mobile revenues show a positive performance compared to 2017 (+1.8%), driven mainly by higher revenues from services (+1.2%) and, in particular, growth in new digital services (+2.7% on 2017);

Revenues from the fixed-line market rose by 41 million euros (+1.1% over 2017), thanks to the performance of services (+1.4%); lower prices and revenues from traditional services (connected with the technological shift towards VoIP systems and solutions) were more than offset by steady growth in revenues from ICT services (+14.7%).

Wholesale: revenues for the Wholesale segment in 2018 came to 1,787 million euros, up by 97 million euros compared to 2017 (+5.8%). Cuts to regulated prices, which lowered revenues by 65 million euros, were mainly offset by growth in access, driven by the Ultra-Broadband segment.

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International Wholesale

(millions of euros)	2018 comparable	2017	Change amount	%	% organic
Revenues	1,272	1,349	(77)	(5.7)	(4.7)
of which third party	*1,084*	*1,152*	*(68)*	*(5.9)*	*(4.7)*
EBITDA	111	154	(43)	(27.9)	(26.5)
EBITDA Margin	*8.7*	*11.4*		*(2.7)pp*	*(2.6)pp*
EBIT	(144)	37	(181)		
EBIT Margin	*(11.3)*	*2.7*		*(14.0)pp*	*(14.0)pp*
Headcount at year end (number)	745	756	(11)	(1.5)	

Revenues for the International Wholesale Cash-Generating Unit for 2018 totaled 1,272 million euros, showing a drop of 77 million euros on the 2017 figure (-5.7%). This trend is mainly related to the downturn in revenues from traditional telephone services and to the expiry of long-term contracts relative to the Mediterranean Basin area (IP/Data services).

The International Wholesale Cash-Generating Unit comprises the Telecom Italia Sparkle group companies; a share of the TIM group goodwill was allocated to the CGU. In the 2018 Financial Statements, the value of the assigned goodwill was written down for an amount of 140 million euros following the impairment test.

Further details are provided in the Note Goodwill to the TIM Group Consolidated Financial Statements at December 31, 2018.

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BRAZIL

	(millions of euros)			(millions of Brazilian reais)			Change	
	2018	2018 comparable (a)	2017 (b)	2018	2018 comparable (c)	2017 (d)	amount (c-d)	% (c-d)/d
Revenues	3,943	3,959	4,502	16,981	17,050	16,234	816	5.0
EBITDA	1,467	1,511	1,635	6,316	6,508	5,894	614	10.4
EBITDA Margin	*37.2*	*38.2*	*36.3*	*37.2*	*38.2*	*36.3*		*1.9pp*
EBIT	564	569	535	2,428	2,449	1,931	518	26.8
EBIT Margin	*14.3*	*14.4*	*11.9*	*14.3*	*14.4*	*11.9*		*2.5pp*
Headcount at year end (number)					9,658	9,508	150	1.6

The average exchange rates used for the translation into euro (expressed in terms of units of Real per 1 euro) were 4.30628 for 2018 and 3.60584 for 2017.

	(millions of euros)			(millions of Brazilian reais)			Change	
	4th Quarter 2018	4th Quarter 2018 comparable (a)	4th Quarter 2017 (b)	4th Quarter 2018	4th Quarter 2018 comparable (c)	4th Quarter 2017 (d)	amount (c-d)	% (c-d)/d
Revenues	1,025	1,030	1,113	4,457	4,479	4,257	222	5.2
EBITDA	417	427	465	1,807	1,856	1,758	98	5.6
EBITDA Margin	*40.5*	*41.4*	*41.3*	*40.5*	*41.4*	*41.3*		*0.1pp*
EBIT	186	188	195	807	813	729	84	11.5
EBIT Margin	*18.1*	*18.2*	*17.1*	*18.1*	*18.2*	*17.1*		*1.1pp*

	2018	2017
Lines at period end (thousands) (*)	55,923	58,634
MOU (minutes/month) (**)	123.4	109.7

ARPU (reais)	22.4	20.2

(*) Includes corporate lines.
(**) Net of visitors.

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Revenues

Revenues for 2018 amounted to 16,981 million reais. Comparable revenues for 2018, amounting to 17,050 million reais, were up by 816 million reais (+5.0%) on the previous year.

Revenues from services, on the same accounting basis, amounted to 16,205 million reais, rising by 731 million reais on the 15,474 million reais posted for 2017 (+4.7%).

Revenues from product sales, on the same accounting basis, came to 845 million reais (760 million reais for 2017, +11.2%). The increase reflects the change in the sales policy, which is now focused more on value than on increasing sales volumes. The main goals of the new strategy are to increase purchases of new connected devices giving TIM customers access to broadband services on 3G/4G networks and to support new retention offerings for higher-value postpaid customers.

On the same accounting basis, Mobile Average Revenue Per User (ARPU) for 2018 was equal to 22.4 reais, up by +11% on the figure for 2017 (20.2 reais), due to a general repositioning towards the postpaid segment and new commercial initiatives aimed at increasing data usage and the average spend per customer.

Total lines in place at December 31, 2018 amounted to 55.9 million, a decline of 2.7 million compared to December 31, 2017 (58.6 million). The lower figure was driven entirely by the prepaid segment (-5.1 million), only partially offset by growth in the post-paid segment (+2.4 million), in part due to the consolidation underway in the market for second SIM cards. Postpaid customers accounted for 36.2% of the customer base at December 31, 2018, an increase of 5.8 percentage points on December 2017 (30.4%).

Revenues for the fourth quarter of 2018 amounted to 4,457 million reais. Comparable revenues were equal to 4,479 million reais, an increase of 5.2% compared to the same period of the previous year (4,257 million reais).

EBITDA

EBITDA for 2018 amounted to 6,316 million reais.

Comparable EBITDA for 2018 amounted to 6,508 million reais, up by 614 million reais on the previous year (+10.4%). Growth in EBITDA was attributable to both the positive performance of revenues and the benefits delivered by projects to enhance the efficiency of the operating expenses structure.

The EBITDA margin, on the same accounting basis, rose by 1.9 percentage points on 2017 to reach 38.2%.

The Brazil Business Unit reported net non-recurring income in 2018 of 2 million reais, mainly relative to the positive effect of the favorable outcome of the tax dispute concerning the unconstitutional grounds of the law that entailed the inclusion of ICMS indirect tax in the base for calculating taxes on PIS and COFINS revenues (159 million reais at an EBITDA level), which was mainly offset by the recognition of expenses related to the forecast revision of labor litigation arising in previous years.

EBITDA, net of the non-recurring component, was equal to 6,506 million reais.

EBITDA for the fourth quarter of 2018 amounted to 1,807 million reais. On the same accounting basis, the figure came to 1,856 million reais, showing growth of 98 million reais on the fourth quarter of 2017. The EBITDA margin for the fourth quarter of 2018 stood at 41.4%, up by 0.1 percentage points on the same period of the previous year (41.3%).

The changes in the main cost items are shown below:

	(millions of euros)		(millions of Brazilian reais)		
	2018 comparable (a)	2017 (b)	2018 comparable (c)	2017 (d)	Change (c-d)
Acquisition of goods and services	1,821	2,168	7,842	7,816	26
Employee benefits expenses	317	353	1,364	1,274	90
Other operating expenses	488	500	2,102	1,805	297
Change in inventories	(14)	6	(59)	20	(79)

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EBIT

EBIT for 2018 amounted to 2,428 million reais. Comparable EBIT for 2018 rose to 2,449 million reais, up by 518 million reais (+26.8%) on the same period of the previous year (1,931 million reais). Growth was mainly driven by higher EBITDA (+614 million reais) and slightly higher depreciation and amortization (96 million reais).

Net of the non-recurring component, EBIT was equal to 2,447 million reais.

EBIT for the fourth quarter of 2018 amounted to 807 million reais. On the same accounting basis, the figure came to 813 million reais, showing growth of 84 million reais on the fourth quarter of 2017 (+11.5%). The EBIT margin for the fourth quarter of 2018 stood at 18.2%, up by 1.1 percentage points on the same period of the previous year (17.1%).

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MAIN COMMERCIAL DEVELOPMENTS

DOMESTIC

Consumer

TIM is driving the country s digital revolution, continuing to invest in innovation through the development of fixed and mobile ultrabroadband networks, platforms and highly customized quality services based on customer needs. TIM is also committed to spreading a digital culture for leisure, offering **innovative, flexible and increasingly convergent products that boast the best multimedia content**, with films, TV series, music, video games, sports news and major events, delivered through decoders, smart TVs, the Web and mobile apps.

In 2018, TIM continued to develop the fixed consumer market, with its new convergent, quadruple play deal for families **TIM Connect**,launched in April at a price starting from 26.90 euros/month. The deal offers a fiber connection with download speeds of up to 1000 Mbps and upload speeds of up to 100 Mgbs, including a free-loan modem and Timvision. The **Gold** version, at a price of 29.90 euros/month, also includes unlimited calls from home to landline numbers and national mobile numbers; while the **Black** version, at a price of 39.90 euros, offers 1,000 minutes of calls from a mobile telephone and 5 GB of data traffic, plus international calls to all zone 1 landline numbers.

All new TIM Connect deals also offer the **TIM Expert** service. For an additional charge, customers receive the expert assistance of a TIM engineer in their home when activating the deal, to test and optimize the performance of their new Internet connection. To support the launch of the new TIM Connect deals, additional promotions were offered and renewed during 2018; these include the **promo Limited Edition** or **Winter Edition** (with an extra 2 euros/month off the basic price for new customers), and specific promotions for customers purchasing deals online.

To support fixed-mobile convergence, TIM launched the **TIM 100%**promotion in March, targeting its most loyal customers that choose TIM as the operator for both their home and mobile connection, with 5 GB of data traffic free each month. In July, the promotion was extended to cover 3 SIM cards of TIM, even if not held in the name of the main SIM card owner, and the fixed network, for even greater benefits.

Throughout 2018, TIM continued **to support the use of new fiber technology,** with offers for customers that already have ADSL and can use the FTTCab service, to migrate towards the new technology, at no additional cost.

As regards the drop in customers due to transitions from fixed lines to the mobile segment, the new **TIM Flexy** offer was launched in November, targeting second-home owners in particular. TIM Flexy is the first deal for fixed network browsing at speeds of up to 200 Mbps, to use even for just one weekend. This solution, which is perfect for second-home owners and for homes used for occasional weekends away or short breaks is offered as a pay-as-you-go deal starting from 5.90. TIM Flexy is the solution for customers who want to connect from home when they want for two, seven or thirty days. The Internet deal offers unlimited traffic, with no voice service.

Further developments were made in 2018 to bring Fixed-line Consumer deals in line with the obligations of AGCOM decisions, including Decision 292/18/CONS (which establishes a new system to identify various types of Internet accesses based on the type of connection between the exchange and the user location), and Decision 348/18/CONS

(which establishes measures on access to an open Internet, with specific reference to the freedom of choice of handsets).

As regards the mobile sector, TIM continued to support the **development of 4G and 4.5G ultrabroadband** during 2018, achieving important goals - and first and foremost its **download speed record** in Ookla tests. Important progress was also made in terms of coverage: at national level, 4G technology has now reached more than **7,300 municipalities**, **covering over 98%** of the population. The company continued the steady roll-out to Italy s major cities of **4.5G** services (LTE Advanced technology), which offer data connection speeds of up to **700 Megabits per second**.

TIM s technological leadership was confirmed with its **acquisition of 5G frequencies**, which are fundamental for the future development of mobile services that can revolutionize the lives of citizens, consumers and businesses alike, steering the country towards a dimension in which everything is smarter and more connected: from public safety to transport, from environmental monitoring to health, tourism and culture, and even applications for media, education and virtual reality. TIM has already run numerous live trials with 5G in Turin, Bari and Matera, and in the Republic of San Marino, where it has already implemented services for a Smart City, health, tourism and culture.

Technological leadership means a **competitive edge** for TIM, which is fundamental for making it mark in a highly competitive market. By making the most of the distinctive quality **of the 4G and 4.5G network**, TIM has been able to continue its **value strategy** and focus on the quality of its offering, maintaining a **premium position** on the market.

Another essential aspect of its business strategy in 2018 was customer **retention**, with the focus on reducing churn rates and stabilizing customer spending. As part of the campaign, a range of deals was launched (TIM Special, TIM Young, TIM 60+, TIM International) offering content benefits and subscription discounts for customers choosing to direct debit the subscription fee from their bank account or credit card. Plus, to increase awareness and satisfaction, **TIM Party was launched** - the retention program for all TIM customers that can only be accessed online.

The program has three levels:

extensive benefits for all customers joining the program;

- specific benefits for clusters selected based on how long customers have been with TIM and the presence of several TIM services (3Play, 4Play);

- competitions with prizes.

TIM Party, with its innovative, differentiated format, aims to increase customer retention, the penetration of 3-4Play services, the digital customer base as well as approval levels.

At the same time, efforts continued to **focus on the spread of new smartphones** through the offer of premium content and unique formulas, such as the **NEXT** smartphone renewal deal. TIM was the first to offer this kind of deal, allowing the customer to **replace their smart phone every year** at no cost, with extra services such as protection against damage and theft.

Lastly, during the year the company also continued its **segment-based approach, with dedicated value propositions according to the varying needs of the targets**. In particular, for **Young** customers, initiatives included targeted music deals and special content offers for customers choosing to direct debit subscription charges from their bank account or credit card. For the youngest customers (Young Junior), TIM focused on expanding the content it offers to appeal both to younger children (TIM Games) and parents (TIM Protect, to control Internet browsing, and tracking services and devices). Finally, for Senior customers, the company expanded its offering with targeted features such as dedicated 24/7 telephone assistance and simplified smartphones.

Business

TIM s work in the Business market during 2018 focused on four main areas:

- supporting positive growth in the Fixed-line and Mobile customer bases, in keeping with trends in the various segments (fixed-line, mobile and IT) and gradually increasing revenues;

- further consolidating the Customer Base retention process with structural action targeting offers as well as Customer Experience, through a more for more policy that makes the most of TIM s profile as an integrated operator;

- further consolidating commercial monitoring of the market, above all by increasing the proximity of direct and indirect sales channels;

- extending leadership in the ICT market by increasing products targeting over-the-network services and data deals for the large customer segment and through off-the-shelf cloud computing solutions for SMEs, based on a multi-cloud approach.

The main goals of 2018 were protecting the Customer Base and consolidating TIM s position as a national player that can meet the IT needs of SMEs, large companies and the public administration. These goals were pursued by maintaining a distinctive product offering and consolidating the commercial front end, which has also been functional

in the gradual migration of the services mix used by customers towards more updated models based on the extensive adoption of fixed network Fiber/VoIP connectivity, mobile network LTE and Cloud solutions. Considerable effort has gone into developing the ARPU, through bundle deals and by leveraging professional services that are distinctive and highly visible.

For the fixed-line network in particular towards the SOHO-SME segment, TIM has further simplified its offering, focused on Fiber and VoIP solutions. The growth in ARPU and loyalty has been supported by bundle deals for Unified Communication services (Tim Comunicazione Integrata Smart), together with mobile network and IT services, delivering major opportunities for end users in terms of efficiency and new business development.

With a view to improving customer care management, new customer segmentation was developed, combining customer value with technology, and pre-retention actions based on predictive models were stepped up.

For high-end customers, the main new feature was the launch of the first offer of SD-WAN, which gives users greater flexibility in managing their bandwidth needs. The proposition of cloud computing services was stepped up further, offering - alongside consolidated VoIP and advanced Collaboration service -the cloud-on premise deal with SIP trunking as part of the TIM Comunicazione Integrata, in synergy with the development of IT services.

The award of the Consip LAN 6 agreement drove the development of projects in the last part of the year to update the local connectivity of the public administration sector.

The development of the Information Technology offering focused on leveraging Data Center assets and on the offer of Security, Communication as a Service and Business Solutions.

Efforts were stepped up, with respect to 2017, to promote the adoption of SPC Cloud Lotto 1 solutions for the Public Sector, in particular cloud-based IaaS, PaaS, SaaS solutions, with important projects being started by numerous major local public authorities in 2018.

The integration of connectivity deals with public cloud services managed by TIM was exemplified by the launch of the TIM Safe Web secure DNS deal, integrated with all basic Internet connectivity bundles for the SOHO-SME segment, protecting over 500,000 customer accesses from over 450 million fraudulent events or IT threats. A project was set up to develop multi-cloud IT services provided by TIM, through strategic partnerships with leading providers of IT Cloud over the top services. The IT offering for SMEs continued to be developed with the Digital Store Market Place featuring around 160 solutions for SMEs, also developed by partners in the TIM Open environment, using both a horizontal and vertical approach to new e-commerce, e-payment, security, and video control solutions, to give just a few examples.

In terms of Mobile services, the Mobile Ultra-Broadband service over the LTE and VoLTE networks continued to be developed in 2018, while also expanding the offering with VAS and IT bundle solutions, with a more money for more value mindset. During the year, the total acquisition of lines went up considerably, despite a competitive market where the presence of a newcomer was more than offset by the performance in MNP and M2M acquisitions.

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For our high-end customers, alongside contract renegotiations with large customers to defend revenues, the Tutto Smart offering continued, which provides a bundle of services for smartphones and tablets with All-Risk Assistance.

Lastly, Olivetti continued to optimize its more traditional offering in the office and retail sectors in 2018, channeling its products into a single business line to transform them from a simple hardware component into a hub delivering integrated digital solutions (cash registers and multifunction printers in particular). This optimization also targeted more innovative areas of the world of IoT, M2M and Big Data. Excellent results in smart metering and tracking were achieved.

BRAZIL

In 2018, TIM Brazil fully renewed its range of offers to reposition the brand with high-value customers, leveraging its leadership in the 4G network.

The change in approach had a major impact on the mix of the customer base, mainly in the prepaid segment, resulting in the progressive and marked migration of customers from single service daily plans (voice and/or data) to recurring weekly/monthly plans that bundle voice and data packages with other value-added digital services (music, e-reading and video streaming), all with a view to stabilizing future revenue flows and proactively managing the ongoing consolidation of the market for second SIMs.

The main sales initiatives included:

- the launch of a new range of recurring bundle offers (TIM Pre TOP) for the prepaid segment, which offer comprehensive and differentiated solutions for voice and data services, and packages of unlimited social networks for a specific period (two weeks);

- New TIM Controle: TIM Controle with social networks was launched in the third quarter. The offer now includes unlimited social networks for three months, a 5 GB data package and unlimited calls to any carrier, costing 49.99 reais per month. The offer was launched through a major media campaign, featuring top artists with great appeal to the target audience;

- Fixed: The focus on investing in FTTH (Fiber To The Home) expansion continues, with higher speed offers and optimal connection stability. TIM began to invest in this type of technology in the fourth quarter of 2017, closing the fourth quarter of 2018 with the number of households with FTTH available representing 24% of the total coverage;

- TIM Casa Internet, which uses WTTX technology to offer residential broadband through the mobile network, is available in 123 cities.

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MAIN CHANGES IN THE REGULATORY FRAMEWORK

DOMESTIC

In this section we report the main changes in the regulatory framework in 2018 in the Domestic region.

As regards the Antitrust proceedings (A514, I799 and I820), as well as the proceedings regarding the 28-day invoicing, see the Note Disputes and pending legal actions, other information, commitments and guarantees in the TIM Group Consolidated Financial Statements at December 31, 2018.

Wholesale fixed-line markets

Fixed network access market analysis

On February 20, 2017, AGCom launched the fourth cycle of access market analysis (resolution 43/17/CONS) to review the obligations and economic terms of wholesale access services for the 2018-2021 period.

The market analyses also take into account TIM s voluntary legal separation project relative to the fixed access network, notified to AGCom on March 27, 2018.

On January 18, 2019, AGCom put the result of coordinated access market analyses to a public consultation (resolution 613/18/CONS), proposing the following:

- confirmation of TIM as operator with significant market power (SMP) on the access market for all of Italy with the exclusion of Milan, where the regulation was repealed ex ante;
- positive assessment of the project to separate the TIM access network, but with a limited impact on how obligations will evolve, as AGCom believes elements of vertical integration still exist (in the project notified to AGCom, the network company NetCo is held 100% by TIM);
- elimination of the obligation to guide the cost of wholesale prices in municipalities considered contestable (up to 45 in the 1st year with annual update possible, based on developments in alternative infrastructures and the market); these prices are tested ex ante for replicability;
- wholesale subscription charges for copper and fiber for 2018 the same as 2017;
- gradual increase in the full unbundling price (ULL) and bitstream price on copper in the 2019-2021 period;

- sub loop unbundling (SLU) price stability in the 2019-2021 period;
- gradual decrease in fiber access prices (VULA FTTC and FTTH) and price differentiation of the bandwidth in the 2019-2021 period, depending on whether the access line is on a copper or NGA network;
- repeal of current replicability obligations in public tenders;
- reduction in times for giving notice of the closure of exchanges whose duration depends on NGA network coverage (including FWA technology) in the area where the exchange is present;
- possibility to use vectoring in FTTC cabinets where sub loop unbundling (SLU) is not used by alternative operators;
- elimination of current asymmetries in procedures to change operator between processes to return to TIM and changing from TIM to alternative operators.

It is estimated that AGCom will reach a final decision between June and July 2019, after the deadline for the national consultation and subsequent opinions issued by the European Commission and AGCM.

Infratel Tenders for the subsidizing of Ultra-broadband networks

On April 4, 2018, Infratel launched a consultation on the public investment plan for gray areas . As stated in the consultation document, the aim of public intervention in gray areas is to support investment projects in networks able to provide symmetrical 1 Gbps upload and download speeds, thereby delivering step change innovation in current networks. The consultation process is required by EU regulations governing state aid, before the formal notification of the plan to the European Commission. State aid measures can only be implemented with the prior approval of the Commission.

On April 19, 2018, Infratel announced a third call for tenders for contracts worth a total of 103 million euros to cover the remaining white areas of the ultra-broadband network not covered by private service providers, all located in Calabria, Apulia, and Sardinia. TIM did not make any technical/price proposals. On December 19, 2018, the contract was awarded to Open Fiber.

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Wholesale mobile network markets

Mobile termination market analysis

On January 22, 2018, AGCom published its final decision on mobile network termination market analysis (resolution 599/18/CONS). AGCom decided to:

- identify the twelve operators, including Iliad, that provide or will provide termination services for voice calls on the mobile network (MNO and Full MVNO) as operators with significant market power (SMP);
- confirm use of the cost model indicated in Decision 60/11/CONS to establish termination prices for the 2018-2021 period, also establishing symmetric rate conditions for all SMP operators (0.98 eurocents in 2018, 0.90 eurocents in 2019, 0.76 eurocents in 2020, 0.67 eurocents in 2021) based on a WACC equal to 8.55%;
- require price control for the supply of interconnection kits, for all SMP operators, retroactively as from 2018;
- withdraw the obligation for TIM, Vodafone and WindTre to recognize costs in the accounts;
- confirm the absence of the obligation to control termination prices for calls originating from outside the European Economic Area (EEA); however, SMP operators cannot adopt termination rates that are higher than those applied to Italian operators by operators in non-EEA countries where rates are regulated.

Retail fixed-line markets

Universal Service

In May 2018, TIM challenged the Lazio Regional Administrative Court ruling that dismissed TIM s appeal against Resolution 456/16/CONS with the Council of State. In that decision, AGCom rejected TIM s proposal for a price adjustment to voice offers (basic voice telephone service) and introduced a strict procedure for future variations in Universal Service prices.

On June 15, 2018, AGCom Resolution 88/18/CIR accepted that all operators should contribute to the net cost of the universal service for 2009, for a total of 11.61 million euros, of which 5.6 million euros payable by Other Operators. In relation to 2008, AGCom also accepted the existence of a cost, the amount of which, however, does not justify the activation of the contribution mechanism.

Following the conclusion of assessment activities to review the net cost of Universal Service for the years 2006 and 2007, which resulted in Decision 145/17/CONS, on July 3, 2018, AGCom Decision 89/18 /CIR launched a public consultation process on the applicability of the mechanism for distributing and assessing the net cost of the Universal

Service for those years, which ended on November 15.

Authority fees

AGCom contribution fee

In March 2018, TIM conditionally paid an amount of 18.5 million euros for the 2018 AGCom contribution fee. The amount was calculated by applying a rate of 0.00135 to the revenues posted in the Company s 2016 Financial Statements, as required by the guidelines set out in AGCom Decision 426/17/CONS.

Privacy and personal data protection

General Data Protection Regulation

On May 25, 2018, the General Data Protection Regulation (Regulation (EU) No. 2016/679 GDPR) came into force. The GDPR is directly applicable in all Member States of the European Union, superseding, in Italy, the provisions of the Data Protection Code that are incompatible with the new regulation.

To ensure the compliance of personal data processing with the GDPR within Group companies, TIM carried out the activities envisaged in the adjustment plan by the May 25, 2018 deadline, involving almost all relevant TIM departments and Group Companies for around 18 months. In particular the activities carried out led to:

- the appointment of the Data Protection Officer and the setting up of related touch points for data subjects in relation to the processing of their data;

- the appointment of internal Privacy Officers, employees with specific duties and instructions to assist the Company s senior management in implementing their obligations;

- the updating and issuing of numerous policies and procedures, including those defining the obligations in relation to data breaches (extended to all types of personal data), privacy impact assessments (for processing high privacy risk data), customer profiling, data subject rights request management;

- the adjustment of the TIM compliance catalog to render it compliant with the processing activity register;

- the updating of the numerous disclosures on personal data processing, provided by TIM and other Group companies to the various types of data subjects (e.g. customers, employees, visitors);

- the revision of procedures in the event of the assignment of activities to third parties (e.g. suppliers and business partners) to ensure compliance with the legislation.

A specific training project was then designed to raise awareness in the various company departments and to illustrate the policies and procedures in place for the application of the GDPR. Eight training courses involving around 600 TIM and Group company employees were held.

Further training initiatives related to privacy were aimed at personnel moving to commercial departments, to ensure correct understanding and application of privacy obligations in relation to sales and telemarketing activities, as well as at personnel overseeing the execution of obligatory services for the judiciary.

BRAZIL

Revision of the model for the provision of telecommunications services

In April 2016, the working group composed of the Ministry of Science, Technology, Innovation and Communications (MCTIC) and Anatel published its final report with a diagnosis on the telecommunications industry and proposed guidelines for the revision of the Brazilian regulatory model. A bill (PLC 79/2016) was then presented to the National Congress of Brazil to propose amendments to the General Telecommunications Law. Although the bill was passed by both chambers of Congress, the opposition challenged the legislative procedure followed in the Supreme Court, where the bill remained blocked for months. At the beginning of October 2017, the bill PLC 79/2016 was referred back to the Senate pending voting. Its approval is expected to be held over the course of 2019.

In October and November 2017, the Ministry of Science, Technology, Innovation and Communications (MCTIC) held a public consultation to review the general telecommunications policy proposing the setting of guidelines and objectives for the provision of telecommunications services, for the technological development of digital services and broadband infrastructure, and for the spread of smart cities . The Public Consultation was memorialized in Decree 9,612/2018 (Connectivity Plan) and established a series of guidelines for implementation of the new rules of conduct, paid granting of spectrum authorization and regulatory acts in general, including: (i) expansion of high capacity telecommunications transport networks; (ii) increased coverage of mobile broadband access networks; and (iii) broadening the coverage of fixed broadband access network in areas with no Internet access offer through this type of infrastructure. It also establishes that the implemented network will be subject to sharing from its entry into operation, except when there is appropriate competition in the respective relevant market.

In relation to the deadlines for the upgrading of pipelines not compliant with current regulations, authorizations for user licenses to radio frequencies, and the introduction of other statutory provisions generally, planned investments (as identified by Anatel and approved by the MCTIC) will focus primarily on the expansion of mobile and fixed-line broadband networks and on specific areas of the country. TLC networks built under the investment plan will have shared access.

Revision of Competition Rules

In November 2012, the Brazilian regulator Anatel introduced instruments for the market analysis, the identification of operators with significant market power (SMP) and the consequent imposition of *ex-ante* obligations (Plano Geral de Metas de Competição PGMC).

Anatel has established a number of asymmetrical obligations on all markets for operators with a Significant Market Power (SMP).

In July 2018, Anatel published the new PGMC revising some points and defining two new markets:
(i) interconnection for mobile services; and (ii) high capacity data transmission.

TIM Brasil has been identified as the SMP operator for: (i) mobile network terminals; (ii) national roaming; and (iii) high capacity data transport (in five municipalities).

The measures adopted for the SMP operator on these markets include:

- a reduction in mobile termination rates based on a price cap system and partially maintaining a Bill & Keep mechanism, until the next review of the PGMC;

- the obligation for non-SMP operators to offer national roaming services.

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The obligation for vertically integrated landline operators with an SMP to access the copper network (e.g.: leased lines, bitstream and full unbundling) was maintained.

With the new PGMC, alternative operators may not apply asymmetrical interconnection rates above 20% the rate applied by incumbent operators. Since 2016, fixed interconnection rates have been based on a cost-oriented approach.

700 MHz and Analog TV switch off

In September 2014, TIM won the tender for the award of the 700 MHz (4G/LTE) band frequencies, for a price of 1.7 billion reais, and with additional commitments of 1.2 billion reais (in four annual installments, adjusted for inflation) as a contribution to the consortium established by the tender (EAD) for all the operators (TIM, Algar, Claro and Vivo) awarded the contract for managing the freeing up of the 700 MHz band through the switch off of analog TV, the redistribution of channels and the clean-up of interference. To that end, the first payment (370 million reais) was made in April 2015 and another two payments (for a total of 860 million reais) were both made in January 2017, while the final installment (142 million reais) was duly paid in January 2018.

Since 2016, the spectrum has been freed up for mobile operations in 4,467 municipalities and all Brazilian capitals already have the mobile service in 4G technology, operating in the range. These municipalities cover approximately 85% of the Brazilian population. Currently about 2,620 cities are in operation and 1,379 cities were shut down. By 2019, the schedule for completion of the remaining 1,103 cities remains.

Marco Civil da Internet and Network Neutrality

The Marco Civil da Internet (MCI), approved in April 2014 by Brazilian Law No. 12,965/2014, defined network neutrality as the duty to treat different data packages in the same way, without distinction based on content, origin and destination, service, terminal or application . On May 11, 2016, Brazilian Presidential Decree No. 8,771/2016 was published, which regulates exceptions to the principle of net neutrality, set out in article 9 of the mentioned law.

In August 2017, the oversight board (GS) of the Administrative Council for Economic Defense (CADE) handed down a decision in favor of Brazil s mobile TLC providers, which excluded the imposition of fines in relation to a preliminary investigation into alleged unfair competition in zero rating offers and promotions on Internet data consumption. The oversight board heard the depositions of various parties, including the Ministry of Science, Technology, Innovation and Communications (MCTIC) and Anatel, and concluded that Internet business models should not be banned *ex-ante*, but instead should be monitored comprehensively to prevent any unfair competition outcomes.

Strategic Digital Transformation and the Internet of Things

Between December 15, 2016 and February 5, 2017, the MCTIC conducted a public consultation process to discuss the public procedure for solutions enabling Machine to Machine (M2M) and Internet of Things (IoT) services for the Brazilian market. The final consultation report was published in November, with the objective of addressing regulatory and tax matters, as well as aspects of public procedure, investment, and education issues. A decree

outlining a national IoT plan is expected to be published in 2019.

In August and September 2017, the MCTIC conducted a public consultation process on Digital Transformation Strategy (E-Digital), with the aim of widening discussion and creating strategies for the digitization of the Brazilian economy. An E-Digital Decree (9319/2018) has now been published, identifying around 100 strategic actions aimed at boosting competition and on-line productivity levels in the country, while raising connectivity and digital inclusion levels. The actions seek to address the main strategic issues for the digital economy, including connectivity infrastructure, the use and protection of data, IoT, and cyber-security.

In July 2018, Anatel also requested funding for a Public Consultation on future IoT regulation and a reduction in entry barriers to expand IoT. The main issues addressed by Anatel were: (i) the need for a license; (ii) use of the spectrum; (iii) quality and consumer protection; (iv) taxes. The Public Consultation is expected to be held in 2019.

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Data protection

On August 14, 2018, the Brazilian President promulgated the General Data Protection Law (Law 13,709/2018). The new law, as promulgated by the President, is closer to the GDPR, including significant extra-territorial application and considerable fines of up to 2% of the Company s global turnover of the previous financial year.

In December 2018, Provisional Measure 869/2018 passed by the former President amended Law 13,709 to create the National Data Protection Authority, within the structure of the Presidency of the Republic, which implies greater control by the State and, among other topics, extending the entry into force of the Law to 24 months. By this date all legal entities will be required to adapt their data processing activities to these new rules.

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COMPETITION

DOMESTIC

The market

During 2018, the Italian TLC market was affected by a downturn in value due to tougher competition in the mobile sector.

The expansion of broadband and ultra-broadband has been the main driver of market growth, helping to open up new opportunities for telecommunications providers to develop convergent offers that bundle together TLC services with Media & Entertainment services, IT services and Digital services.

The Italian telecommunications market has always been highly competitive; in particular core competition with other operators in the sector is still the factor that has the greatest impact on market trends. Telecommunications operators must also face the challenges from Over the Tops (OTT) and device manufacturers, that operate in the new digital world using completely different assets and competitive strategies to TLC players.

The traditional business models of the various market players are, therefore, changing to exploit new opportunities and meet the challenges posed by the new entrants:

- in the Media & Entertainment segment, as the web takes on growing importance as a complementary distribution platform, OTTs, telecommunications providers and consumer electronics manufacturers are acquiring an increasingly major role;
- in the Information Technology market, the decline in traditional revenues is driving the various players towards cloud computing, with the goal of protecting their core business. Telecommunications providers are strengthening in this sector, including through partnerships;
- Consumer Electronics manufacturers are developing services that can be accessed through the Internet by leveraging handset ownership and user experience management, breaking the relationship between customers and TLC providers;
- OTTs have, for some time now, been leading the transformation in how TLC services are used (including voice services), increasingly integrating them with Media & Entertainment, IT and new Digital services.

With regard to the current positioning of telecommunications providers in converging markets, on the other hand, as partially described above, the following is taking place with different levels of progress:

development of new Media & Entertainment services (TV, Music, Gaming) and new Digital services (Smart Home, Digital Advertising, Mobile Payment-Digital Identity);

development of Innovative Services in the IT market, particularly Cloud services.

During 2018, the bidding for the award of frequencies for 5G services took place, which led, following various higher bids, to an overall outlay for telecommunications companies of over 6.5 billion euros, well above the minimum bid price:

TIM and Vodafone were awarded the biggest part of the spectrum, 10+10 MHz at 700 MHz, 80 MHz in the 3.6-3.8 GHz band respectively (the most requested to launch good-quality 5G services) and 200 MHz in the 27 GHz band, consolidating their competitive positioning in terms of bandwidth owned and quality of service offered;

WindTre was limited to acquiring a 20 MHz part at 3.6-3.8 GHz and a 200 MHz part in the 27GHz band;

Iliad was awarded the 10+10 MHz to 700 MHz part, reserved for a new entry operator, a 20 MHz to 3.6-3.8 GHz part and a 200 MHz to 27 GHz part;

Fastweb was awarded a 200 MHz to 27 GHz part.

Based on performance capabilities in terms of speed, latency and number of connected devices, 5G is a great opportunity for telecommunications companies with the necessary bandwidth to open new vertical markets (automotive, smart agriculture, logistics, cloud robotics), provide new services, start up new production processes and increase the efficiency of optimized product management.

Competition in Fixed-line Telecommunications

The fixed-line telecommunications market has continued to see a decline in access and voice revenues, while broadband and ultra-broadband revenues have shown continuous growth. In recent years, service providers have concentrated mainly on expanding the penetration of broadband and ultra-broadband services and defending Voice revenues by introducing bundled voice, broadband and service deals in a highly competitive environment with consequent pricing pressure.

Deals and offers are also becoming more competitive thanks to the consolidation, among competitors, of an approach based on control over infrastructure (above all, Local Loop Unbundling (LLU), as well as Fiber to the Cabinet (FTTC) networks). The main fixed-line service providers are also offering mobile services, also as Mobile Virtual Operators (MVOs).

TIM Group

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As concerns competition in infrastructure, two providers Open Fiber (an ENEL Group company) and Infratel (controlled by the Ministry of Economic Development) presented plans for the development of their own optic fiber networks as alternatives to the TIM network, which respectively target major Italian cities and areas of market failure.

For major cities, Open Fiber announced a plan for the development of Fiber to the Home (FTTH) connections in 271 large Italian towns by 2022, reaching around 9.6 million homes through an investment of 3.8 billion euros.

After obtaining 3.5 billion euros of funding in July 2018, the development of the Open Fiber network was stepped up considerably, opening up to 71 Italian towns (as of January 2019), including many major Italian cities, such as Milan, Turin and Bologna, where Metroweb (acquired in December 2016) had previously expanded, besides other cities such as Bari, Cagliari, Catania, Naples, Padova, Perugia, Venice, Genoa, Palermo and Florence, and other smaller towns that are mainly satellite areas of Milan, Turin and Bologna.

In the meantime, according to media reports, main competitors in the TLC retail market have signed an agreement with Open Fiber to link their new ultra-broadband (UBB) customers onto its network, where available.

As concerns areas of market failure the so-called white areas in the C and D clusters of the government s Ultra-Broadband Plan Infratel held three public calls for tenders over the last three years for the development of a UBB network to deliver services to around 7,500 municipalities across 19 regions.

- In the first call for tenders, Open Fiber won all five of the lots offered in the six regions involved (Lombardy, Emilia Romagna, Veneto, Tuscany, Abruzzo and Molise), covering around 3,000 municipalities;
- in the second call for tenders, Open Fiber won all six of the lots offered in the ten regions involved (Piedmont, Valle d Aosta, Liguria, Friuli Venezia Giulia, the Autonomous Province of Trento, Marche, Umbria, Lazio, Campania, Basilicata and Sicily), covering around 3,700 municipalities;
- in the third call for tenders, Open Fiber won all three lots in the three regions involved (Apulia, Calabria and Sardinia) covering around 880 municipalities.

In January 2019, there were nearly 1,174 work sites open for the first two Infratel/Open Fiber contracts, of which 977 for fiber optic connections and 197 for wireless connections (FWA).

Therefore the development of Open Fiber Plans both in major Italian cities and market failure areas will drive a significant shift in infrastructure competition, with the development of various competitive dynamics depending on the overlap and reach of available ultrabroadband infrastructure:

- areas with two FTTH networks overlapping FTTC networks;
- areas with a single FTTH network overlapping FTTC networks;

- areas with FTTH networks overlapping ADSL networks;

- areas with FTTC networks overlapping ADSL networks.

Competition in the Italian fixed-line telecommunications market is also characterized by the presence of other service providers besides TIM, such as Wind-Infostrada, Fastweb, Vodafone, and Tiscali, which have business models focused on different segments of the market.

In December 2018, fixed accesses in Italy were estimated to be around 20.3 million (including OLO Infrastructured and FWA-Fixed Wireless Accesses) down slightly on the previous year. Competition in the access market led to a gradual reduction in TIM s market share.

As concerns the Broadband market, at December 31, 2018, the number of fixed-line broadband customers in Italy (including both broadband and Ultra-broadband customers) was estimated to have reached a penetration rate of approximately 86% of all fixed-line accesses. The spread of broadband continues to be driven by the penetration of computers and other enabling devices (such as Smart TVs), but also by growing demand for fast connections and access to new over-IP services that are becoming increasingly widespread (Media & Entertainment, IT and Digital services).

Competition in Mobile Telecommunications

The mobile market has continued to see the rationalization of second and third SIM cards for human communications, while sales of SIM cards for machine to machine (M2M) communications are growing.

Moreover, growth in mobile broadband customers has continued thanks to the high penetration rate of LTE on mobile lines, especially as a result of the increasing spread of smartphones.

Alongside innovative services that have already caught on and are under full-scale development, as in the case of mobile apps, 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.

The competitive scenario on the Italian mobile telecommunications market in 2018 was marked by the entry of the French operator Illiad, that launched its own service in May, becoming the fourth infrastructured operator in Italy, alongside TIM, Vodafone and WindTre.

With a particularly aggressive price and data volume offering, Illiad has rapidly won over customers and consequently gained a market share to the detriment of other infrastructured operators, mainly WindTre and Vodafone, while TIM has shown a greater resilience, thanks also to the contribution from the *second brand* virtual operator, Kena Mobile, launched during 2017. To best respond to the competitive threat of Illiad, Vodafone also launched its own *low-cost* operator in June 2018, with the ho.mobile brand.

At the same time, mobile virtual operators (MVO), of which PosteMobile is the most important player, also reported a growth trend, taking market share away from infrastructured operators.

This tougher competition following Illiad s entry to the market resulted in a new drop in the spend on services, after several years of relative stability.

BRAZIL

Macroeconomic trends witnessed in the last quarter of 2018 confirm a recovery scenario expected for 2019, although forecasts for 2018 have been progressively decreased throughout the year, especially due to political uncertainty regarding the election process. Thus, main scenario is still a slow economic recovery scenario, after a severe recession notably during 2015-16 period. Unemployment has been falling slowly, while inflation returned to a more contained level (below 4% for 2018).

Although some political uncertainty still exists, especially regarding the ability of the new government to fulfill the economic liberal agenda promised during the election process, the market has acknowledged such liberal guidelines presented so far as a pro-business agenda, in the form of a recent hike in the Brazilian stock market (Bovespa +18% from September 30, 2018 until January 15, 2019) and currency appreciation (BRL +8.4% over the same period).

Despite improving financial indicators (such as stock market and currency ratio), economic conditions are still challenging, as budget deficit and growing debts (for central government, Federal States and municipalities) present a risk that can only be addressed by structural reforms that need the congress approval. Present government acknowledges that need and put reforms as a top priority for the first months of the government to put the economy growing consistently for the coming years.

The mobile telecommunications sector has seen some rationality prevail in the market and in competition, with service providers remaining focused on the development of the characteristics and service range of their commercial offers, rather than pursuing aggressive pricing policies, especially for the first half of 2018.

In the Prepaid segment, the main objective of market players has been to raise recurrence rates on the use of services by leveraging the ongoing SIM card consolidation process in the market, by encouraging migration to weekly (and monthly) plans or hybrid plans (Controle postpaid) by offering a range of bundled service packages to meet different needs of customers (unlimited voice calls or data packages). The aim of the strategy is to improve the mix of the customer base and ensure greater stability (reducing churn rates) and growth in ARPU. The prepaid base has grown 12.3% YoY (up to November 2018, last data available).

In the Postpaid mobile segment, growth in the customer base was driven primarily by the hybrid Controle segment (in particular by the migration of Prepaid customers), even though pure Postpaid lines also registered a certain growth

based on offer segmentation strategies that introduce distinctions in the use of data services (for example the unlimited use of data for specific apps, such as WhatsApp, Facebook, Netflix, etc.), as part of a More for More sales policy that is bringing greater price stability and effectively repositioning the customer base towards higher value deals (voice + data + content). The postpaid base grew by +13.2% YoY (up to November 2018, last data available).

Service quality is still an element of differentiation. Telecommunication providers that have invested more in the development of 4G networks (coverage and capacity) and in the improvement of processes shaping customers experience will have a greater ability to apply premium prices, as customers raise their expectations and place growing importance on the quality of data services and higher value content.

The fixed-line broadband market posted growth of approximately 8.5% in 2018 (up to November 2018, last data available), driven mainly by smaller market players, which tend to offer better download speeds and/or are in areas in which incumbents have limited infrastructure. Penetration rates across the population are still quite low (approximately 43% of households) when compared to several other countries, which means there are good opportunities for medium-term growth, underpinned by the improving macroeconomic situation.

In this context, since 2017, TIM Brasil adopted a business strategy for TIM Live to leverage its fiber network infrastructure, offering ultra broadband Internet services, through FTTC and notably FTTH, not only in some of the largest cities of Brazil, but also in cities where opportunities arise for such high-quality service. Therefore, TIM Live has expanded to cover 12 cities by the end of 2018, and this is expected to grow even more in the following years. TIM Live service not only offers very fast Internet connections, but it is also acknowledged as the best fixed Internet service in Brazil by Netflix, and customer satisfaction rates rank among the best for the service in the country. For smaller cities, TIM has launched its WTTx service, which delivers broadband services through the LTE mobile network, leveraging TIM s leading 4G coverage to address increasing demand for residential broadband, especially in areas with poor fixed infrastructure by local incumbent.

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CONSOLIDATED FINANCIAL POSITION AND CASH FLOWS PERFORMANCE

NON-CURRENT ASSETS

Goodwill: this item fell by 2,693 million euros, from 29,462 million euros at the end of 2017 to 26,769 million euros at December 31, 2018 due to the 2,590 million-euro impairment loss recognized on goodwill of the Core Domestic and International Wholesale cash-generating units following the impairment testing conducted at December 31, 2018. Testing was carried out in line with the method used for past impairment testing, in particular comparing the value in use of the Core Domestic and International Wholesale Cash-Generating Units compared to their carrying amount at the same date; the figure was also adversely affected by exchange differences on goodwill allocated to the Brazil Business Unit[1].

Further details are provided in the Note Goodwill to the Consolidated Financial Statements at December 31, 2018 of the TIM Group.

Other intangible assets: these rose by 1,697 million euros, from 7,192 million euros at the end of 2017 to 8,889 million euros at December 31, 2018, representing the balance of the following items:

- impact of the adoption of the new version of IFRS 15 as from January 1, 2018 (-110 million euros);
- capex (+3,647 million euros);
- amortization charge for the year (-1,599 million euros);
- disposals, exchange differences, reclassifications and other changes (for a net negative balance of 241 million euros).

Tangible assets: these fell by 401 million euros, from 16,547 million euros at the end of 2017 to 16,146 million euros at December 31, 2018, representing the balance of the following items:

- capex (+2,761 million euros);
- changes in finance leasing contracts (+70 million euros);
- depreciation charge for the year (-2,656 million euros);

disposals, exchange differences, reclassifications and other changes (for a net negative balance of 576 million euros).

CONSOLIDATED EQUITY

Consolidated equity amounted to 21,747 million euros (23,783 million euros at December 31, 2017), of which 19,528 million euros attributable to Owners of the Parent (21,557 million euros at December 31, 2017) and 2,219 million euros attributable to non-controlling interests (2,226 million euros at December 31, 2017).

In greater detail, the changes in consolidated equity were the following:

(millions of euros)	12/31/2018	12/31/2017
At the beginning of the year	23,783	23,553
Effect of the adoption of IFRS 15 and IFRS 9	(88)	
At the beginning of the year, restated	23,695	23,553
Total comprehensive income (loss) for the year	(1,694)	457
Dividends approved by:	(281)	(230)
TIM S.p.A.	*(166)*	*(166)*
Other Group companies	*(115)*	*(64)*
Issue of equity instruments	2	(6)
Other changes	25	9
At the end of the year	21,747	23,783

(1) The spot exchange rate used for the translation into euro of the Brazilian real (expressed in terms of units of local currency per 1 euro) was 4.43664 at December 31, 2018 and 3.96728 at December 31, 2017.

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CASH FLOWS

Adjusted net financial debt stood at 25,270 million euros, down by 38 million euros compared to December 31, 2017 (25,308 million euros).

The table below summarizes the main transactions that had an impact on the change in adjusted net financial debt for 2018:

Change in adjusted net financial debt

(millions of euros)	2018	2017	Change
EBITDA	7,403	7,790	(387)
Capital expenditures on an accrual basis	(4,009)	(5,071)	1,062
Capital expenditures for mobile telephone licenses / spectrum	(2,399)	(630)	(1,769)
Change in net operating working capital:	1,194	(126)	1,320
Change in inventories	*(99)*	*(30)*	*(69)*
Change in trade receivables and net amounts due from customers on construction contracts	*(49)*	*379*	*(428)*
Change in trade payables (*)	*(150)*	*40*	*(190)*
Change in payables for mobile telephone licenses / spectrum	*1,886*	*(257)*	*2,143*
Other changes in operating receivables/payables	*(394)*	*(258)*	*(136)*
Change in employee benefits	(208)	437	(645)
Change in operating provisions and Other changes	96	96	
Net operating free cash flow	2,077	2,496	(419)
of which operating free cash flow connected with the purchase of mobile telephone licenses / spectrum	*(513)*	*(887)*	*374*
% of Revenues	*11.0*	*12.6*	*(1.6)pp*
Sale of investments and other disposals flow	18	33	(15)

Share capital increases/reimbursements, including incidental costs	22	16	6
Financial investments flow	(6)	(12)	6
Dividends payment	(256)	(235)	(21)
Increases in finance leasing contracts	(70)	(68)	(2)
Finance expenses, income taxes and other net non-operating requirements flow	(1,747)	(2,419)	672
Reduction/(Increase) in adjusted net financial debt from continuing operations	38	(189)	227
Reduction/(Increase) in net financial debt from Discontinued operations/Non-current assets held for sale			
Reduction/(Increase) in adjusted net financial debt	38	(189)	227

(*) Includes the change in trade payables for amounts due to fixed asset suppliers.
In addition to what has already been described with reference to EBITDA, the change in adjusted net financial debt for 2018 was particularly impacted by the following:

Capital expenditures and for mobile telephone licenses / spectrum

Capital expenditures and for mobile telephone licenses / spectrum are broken down by operating segment as follows:

	2018		2018 comparable		2017		Change
(millions of euros)		% of total	(a)	% of total	(b)	% of total	(a-b)
Domestic	5,518	86.1	5,634	85.9	4,551	79.8	1,083
Brazil	890	13.9	924	14.1	1,150	20.2	(226)
Adjustments and eliminations							
Consolidated Total	6,408	100.0	6,558	100.0	5,701	100.0	857
% of Revenues	*33.8*		*34.3*		*28.8*		*5.5pp*

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With the introduction of IFRS 15, Mobile customer acquisition costs, relating to contracts with minimum-duration lock-in clauses, are no longer capitalized and depreciated. Instead they are classified as deferred contract costs and subsequently recognized in the income statement over the term of the contract.

On the same accounting basis, capital expenditures in 2018 totaled 6,558 million euros (5,701 million euros in 2017).

In particular:

- the Domestic Business Unit reported expenditures equal to 5,634 million euros (4,551 million euros in 2017). Net of the acquisition of rights to use 5G frequencies (2,399 million euros) at the end of 2018 and the renewal of the GSM license in 2017 (630 million euros), capital expenditures were down by 686 million euros, mainly attributable to the coverage levels of fixed and mobile networks already achieved;

- the Brazil Business Unit posted 924 million euros of capex in 2018, 226 million euros less than for 2017. Without the impact of fluctuations in exchange rates (-187 million euros), the change was a negative 39 million euros. Capital expenditures of the Business Unit were targeted primarily at strengthening mobile ultra-broadband network infrastructure and developing the fixed broadband business of TIM Live.

Change in net operating working capital

The positive change in net operating working capital of 1,194 million euros (negative for 126 million euros in 2017) was mainly related to higher operating payables (1,922 million euros) following the acquisition of rights to use mobile telephone frequencies in Italy (5G): in 2018 TIM made the first payment tranche, for an amount of approximately 480 million euros, the remaining tranches, as established by the Italian government in the 2017 budget law, will be due for payment based on pre-established quotas between 2019 and 2022.

Change in employee benefits

In 2018, the change amounted to -208 million euros and mainly refers to uses for staff leaving the company, already allocated in previous years and the change in the provision for non-executive personnel affected by the application of Article 4(1-7ter) of Italian Law 92 of June 28, 2012, the Fornero Law, following the higher number of staff leaving in 2018 and the consequent revised estimate of staff leaving for the years 2019-2020, also taking into account the social security changes made by Decree Law 4 of January 28, 2019.

In 2017, the change in employee benefits was affected mainly by the allocation of 689 million euros of provisions for non-recurring expenses, offset by drawdowns totaling 177 million euros in relation to restructuring plans previously in place.

Sale of investments and other disposals flow

This item shows a positive figure of 18 million euros and mainly refers to disposals of assets within the normal operating cycle.

In 2017, the item posted a positive balance of 33 million euros, mainly reflecting the disposal of 17 million euros of tangible assets and the collection of a deferred 13 million euros of the sale price of a non-controlling interest sold in previous years.

Share capital increases/reimbursements, including incidental costs

These totaled 22 million euros in 2018 and essentially consisted of contributions from an external shareholder of the Group for new capital issued by a subsidiary (16 million euros in 2017).

Increase in finance leasing contracts

In 2018, this item was equal to 70 million euros (68 million euros in 2017) and mainly refers to the higher value of finance lease assets and related higher financial payables recognized mainly following the recognition of vehicle lease agreements as finance leases, in accordance with IAS 17, for the Domestic Business Unit.

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Finance expenses, income taxes and other net non-operating requirements flow

The item shows a net requirement of 1,747 million euros in total, mainly driven by the payment flows, in 2018, of outflows connected to components of financial income and expense, and the change in non-operating payables and receivables, as well as the lower financial debt payable for property leases, under the revised estimated life of leases renegotiated under the real estate restructuring and rationalization plan underway (215 million euros).

Sales of receivables to factoring companies

As regards the reduction of adjusted net financial debt by 38 million euros, we report that sales without recourse of trade receivables to factoring companies completed during 2018 resulted in a positive effect on adjusted net financial debt at December 31, 2018 of 2,004 million euros (2,000 million euros at December 31, 2017).

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Net financial debt

Net financial debt is composed as follows:

(millions of euros)	12/31/2018 (a)	12/31/2017 (b)	Change (a-b)
Non-current financial liabilities			
Bonds	18,579	19,981	(1,402)
Amounts due to banks, other financial payables and liabilities	4,740	5,878	(1,138)
Finance lease liabilities	1,740	2,249	(509)
	25,059	28,108	(3,049)
Current financial liabilities (*)			
Bonds	2,918	2,221	697
Amounts due to banks, other financial payables and liabilities	2,787	2,354	433
Finance lease liabilities	208	181	27
	5,913	4,756	1,157
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale			
Total gross financial debt	30,972	32,864	(1,892)
Non-current financial assets			
Securities other than investments			
Financial receivables and other non-current financial assets	(1,594)	(1,768)	174
	(1,594)	(1,768)	174
Current financial assets			
Securities other than investments	(1,126)	(993)	(133)

Financial receivables and other current financial assets	(340)	(437)	97
Cash and cash equivalents	(1,917)	(3,575)	1,658
	(3,383)	(5,005)	1,622
Financial assets relating to Discontinued operations/Non-current assets held for sale			
Total financial assets	(4,977)	(6,773)	1,796
Net financial debt carrying amount	25,995	26,091	(96)
Reversal of fair value measurement of derivatives and related financial liabilities/assets	*(725)*	*(783)*	*58*
Adjusted net financial debt	25,270	25,308	(38)
Breakdown as follows:			
Total adjusted gross financial debt	29,432	31,149	(1,717)
Total adjusted financial assets	(4,162)	(5,841)	1,679
(*) of which current portion of medium/long-term debt:			
Bonds	*2,918*	*2,221*	*697*
Amounts due to banks, other financial payables and liabilities	*1,477*	*1,371*	*106*
Finance lease liabilities	*208*	*181*	*27*

The financial risk management policies of the TIM Group are aimed at minimizing market risks, fully hedging exchange rate risk, and optimizing interest rate exposure through appropriate diversification of the portfolio, which is also achieved by using carefully selected derivative financial instruments. Such instruments, it should be stressed, are not used for speculative purposes and all have an underlying, which is hedged.

In addition, to determine its exposure to interest rates, the Group sets an optimum composition for the fixed-rate and variable-rate debt structure and uses derivative financial instruments to achieve that 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, at a range of 65% 75% for the fixed-rate component and 25% 35% for the variable-rate component.

In managing market risks, the Group has adopted Guidelines for the Management and control of financial risk and mainly uses IRS and CCIRS derivative financial instruments.

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To provide a better representation of the true performance of Net Financial Debt, in addition to the usual indicator (renamed Net financial debt carrying amount), the TIM Group reports a measure called Adjusted net financial debt , which neutralizes the effects caused by the volatility of financial markets. Given that some components of the fair value measurement of derivatives (contracts for setting the exchange and interest rate for contractual flows) and of derivatives embedded in other financial instruments do not result in actual monetary settlement, the Adjusted net financial debt excludes these purely accounting and non-monetary effects (including the effects of IFRS 13 Fair Value Measurement) from the measurement of derivatives and related financial assets/liabilities.

Gross financial debt

Bonds

Bonds at December 31, 2018 totaled 21,497 million euros (22,202 million euros at December 31, 2017). Repayments totaled a nominal 21,021 million euros (21,775 million euros at December 31, 2017).

Changes in bonds over 2018 are shown below.

(millions of original currency)	Currency	Amount	Issue date
New issues			
Telecom Italia S.p.A. 750 million euros 2.875% (1/28/2026)	Euro	750	6/28/2018

(millions of original currency)	Currency	Amount	Repayment date
Repayments			
Telecom Italia S.p.A. 593 million euros 4.750% (1)	Euro	593	5/25/2018
Telecom Italia S.p.A. 677 million US dollars 6.999% (2)	USD	677	6/4/2018
Telecom Italia S.p.A. 582 million euros 6.125% (3)	Euro	582	12/14/2018

Net of buy-backs totaling 157 million euros made by the company in 2015.
Net of the securities bought back by TIM S.p.A. (323 million USD) on July 20, 2015.
Net of buy-backs totaling 168 million euros made by the company in 2015.

With reference to Telecom Italia S.p.A. 2002 2022 bonds, reserved for subscription by employees of the Group, the nominal amount at December 31, 2018 was 203 million euros, down by 1 million euros compared to December 31, 2017 (204 million euros).

On January 11, 2019, TIM S.p.A. issued a bond for 1,250 million euros, maturing on April 11, 2024, with coupon equal to 4.000%, issue price 99.436%, repayment price 100%. The issue is part of the maturing debt optimization and refunding process.

Revolving Credit Facility and Term Loan

The following table shows committed credit lines available at December 31, 2018.

(billions of euros)		12/31/2018 Agreed	12/31/2018 Drawn down	12/31/2017 Agreed	12/31/2017 Drawn down
Revolving Credit Facility	maturing May 2019			4.0	
Revolving Credit Facility	maturing March 2020			3.0	
Revolving Credit Facility	maturing January 2023	5.0			
Total		5.0		7.0	

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On January 16, 2018, two syndicated *Revolving Credit Facilities* existing at December 31, 2017 were closed in advance and replaced by a new syndicated *Revolving Credit Facility* for a total of 5 billion euros, maturing on January 16, 2023, currently not drawn.

At December 31, 2018, TIM had bilateral Term Loans for 1,475 million euros and overdraft facilities for 250 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) was 7.62 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, stood at approximately 4.4%.

For details on the maturities of financial liabilities in terms of expected nominal repayment amounts, as contractually agreed, see the Notes Financial liabilities (non-current and current) in the Consolidated Financial Statements at December 31, 2018 of the TIM Group.

Current financial assets and liquidity margin

The TIM Group s available liquidity margin amounted to 8,043 million euros, equal to the sum of:

- Cash and cash equivalents and Current securities other than investments totaling 3,043 million euros (4,568 million euros at December 31, 2017), also included 545 million euros of *repurchase agreements*, of which 450 million euros maturing in January 2019 and the remaining portion maturing in March 2019;

- the new Revolving Credit Facility opened in January 2018 for 5,000 million euros.

This margin is sufficient to cover Group financial liabilities falling due over the next 24 36 months.

In particular:

Cash and cash equivalents amounted to 1,917 million euros (3,575 million euros at December 31, 2017). The different technical forms of investing available cash can be analyzed as follows:

- Maturities: investments 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.
Current securities other than investments amounted to 1,126 million euros (993 million euros at December 31, 2017): These forms of investment represent alternatives to the investment of liquidity with the aim of improving returns. They included a total of 558 million euros of Italian treasury bonds purchased by TIM S.p.A. (252 million euros), Telecom Italia Finance S.A. (296 million euros) and Inwit S.p.A. (10 million euros), as well as 387 million euros of bonds purchased by Telecom Italia Finance S.A. with different maturities, all with an active market and consequently readily convertible into cash, and 181 million euros of investments in monetary funds by the Brazil Business Unit. The purchases of the above government bonds, which, pursuant to Consob Communication no. 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 the fourth quarter of 2018, adjusted net financial debt increased by 80 million euros compared to September 30, 2018 (25,190 million euros): income tax payments and the payment of 477 million euros relative to the portion of the award amount due for 2018 for rights to use the 3700-3800 MHZ and 26.5-27.5 GHZ (5G) frequencies basically offset the positive cash generation from operations and financing activities.

(millions of euros)	12/31/2018 (a)	9/30/2018 (b)	Change (a-b)
Net financial debt carrying amount	25,995	26,127	(132)
Reversal of fair value measurement of derivatives and related financial assets /liabilities	*(725)*	*(937)*	*212*
Adjusted net financial debt	25,270	25,190	80
Breakdown as follows:			
Total adjusted gross financial debt	29,432	30,001	(569)
Total adjusted financial assets	(4,162)	(4,811)	649

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CONSOLIDATED DATA TABLES OF DETAIL

The TIM Group Consolidated Financial Statements for 2018 and the comparative figures for the previous year have been prepared in accordance with the International Accounting Standards issued by the International Accounting Standards Board and endorsed by the European Union (IFRS).

The accounting and consolidation policies adopted are consistent with those applied for the TIM Group Consolidated Financial Statements at December 31, 2017, except for the new standards adopted as of January 1, 2018, the impact of which is illustrated in the Note Accounting Policies Adoption of the New IFRS 9 and IFRS 15 Standards , to which readers are referred for more details.

The TIM Group, in addition to the conventional financial performance measures established by IFRS, uses certain alternative performance measures in order to present a better understanding of the trend of operations and financial condition. Specifically, these alternative performance measures refer to: EBITDA; EBIT; the organic change in revenues, EBITDA and EBIT; EBITDA margin and EBIT margin; and net financial debt carrying amount and adjusted net financial debt.

Moreover, the part entitled Business Outlook for the year 2019 contains forward-looking statements in relation to the Group s intentions, beliefs or current expectations regarding financial performance and other aspects of the Group s operations and strategies. Readers of the Annual Report are reminded not to place undue reliance on forward-looking statements; actual results may differ significantly from forecasts owing to numerous factors, the majority of which are beyond the scope of the Group s control.

MAIN CHANGES IN THE SCOPE OF CONSOLIDATION

There were no significant changes in the scope of consolidation in 2018 and in 2017.

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Separate Consolidated Income Statements

(millions of euros)	2018	2018 comparable (a)	2017 (b)	Change (a-b) amount	%
Revenues	18,940	19,109	19,828	(719)	(3.6)
Other income	341	341	523	(182)	(34.8)
Total operating revenues and other income	19,281	19,450	20,351	(901)	(4.4)
Acquisition of goods and services	(8,186)	(8,089)	(8,388)	299	3.6
Employee benefits expenses	(3,105)	(3,084)	(3,626)	542	14.9
Other operating expenses	(1,259)	(1,236)	(1,208)	(28)	(2.3)
Change in inventories	102	102	35	67	
Internally generated assets	570	570	626	(56)	(8.9)
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	7,403	7,713	7,790	(77)	(1.0)
Depreciation and amortization	(4,255)	(4,399)	(4,473)	74	1.7
Gains (losses) on disposals of non-current assets	(1)	(1)	11	(12)	
Impairment reversals (losses) on non-current assets	(2,586)	(2,586)	(37)	(2,549)	
Operating profit (loss) (EBIT)	561	727	3,291	(2,564)	(77.9)
Share of profits (losses) of associates and joint ventures accounted for using the equity method	(1)	(1)	(1)		
Other income (expenses) from investments	11	10	(18)	28	
Finance income	1,056	1,047	1,808	(761)	(42.1)
Finance expenses	(2,404)	(2,388)	(3,303)	915	27.7
Profit (loss) before tax from continuing operations	(777)	(605)	1,777	(2,382)	

Income tax expense	(375)	(433)	(490)	57	11.6
Profit (loss) from continuing operations	(1,152)	(1,038)	1,287	(2,325)	
Profit (loss) from Discontinued operations/Non-current assets held for sale					
Profit (loss) for the year	(1,152)	(1,038)	1,287	(2,325)	
Attributable to:					
Owners of the Parent	(1,411)	(1,298)	1,121	(2,419)	
Non-controlling interests	259	260	166	94	56.6

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Consolidated Statements of Comprehensive Income

In accordance with IAS 1 (Presentation of Financial Statements), the following Consolidated Statements of Comprehensive Income include the Profit (loss) for the year as shown in the Separate Consolidated Income Statements and all non-owner changes in equity.

(millions of euros)		2018	2017
Profit (loss) for the year	(a)	(1,152)	1,287
Other components of the Consolidated Statement of Comprehensive Income			
Other components that will not be reclassified subsequently to Separate Consolidated Income Statement			
Financial assets measured at fair value through other comprehensive income:			
Profit (loss) from fair value adjustments		(5)	
Income tax effect			
	(b)	(5)	
Remeasurements of employee defined benefit plans (IAS 19):			
Actuarial gains (losses)		19	10
Income tax effect		(5)	(1)
	(c)	14	9
Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method:			
Profit (loss)			
Income tax effect			
	(d)		
Total other components that will not be reclassified subsequently to Separate Consolidated Income Statement	(e=b+c+d)	9	9
Other components that will be reclassified subsequently to Separate Consolidated Income Statement			
Financial assets measured at fair value through other comprehensive income(*):			
Profit (loss) from fair value adjustments		(14)	63
Loss (profit) transferred to the Separate Consolidated Income Statement		(4)	(62)

Income tax effect		2	2
	(f)	(16)	3
Hedging instruments:			
Profit (loss) from fair value adjustments		362	(854)
Loss (profit) transferred to Separate Consolidated Income Statement		(336)	826
Income tax effect		(7)	(3)
	(g)	19	(31)
Exchange differences on translating foreign operations:			
Profit (loss) on translating foreign operations		(554)	(830)
Loss (profit) on translating foreign operations transferred to Separate Consolidated Income Statement			19
Income tax effect			
	(h)	(554)	(811)
Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method:			
Profit (loss)			
Loss (profit) transferred to Separate Consolidated Income Statement			
Income tax effect			
	(i)		
Total other components that will be reclassified subsequently to Separate Consolidated Income Statement	(k=f+g+h+i)	(551)	(839)
Total other components of the Consolidated Statement of Comprehensive Income	(m=e+k)	(542)	(830)
Total comprehensive income (loss) for the year	(a+m)	(1,694)	457
Attributable to:			
Owners of the Parent		(1,784)	527
Non-controlling interests		90	(70)

(*) Including, for 2017, Available-for-sale financial assets .

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Consolidated Statements of Financial Position

(millions of euros)		12/31/2018 (a)	12/31/2017 (b)	Change (a-b)
Assets				
Non-current assets				
Intangible assets				
Goodwill		26,769	29,462	(2,693)
Intangible assets with a finite useful life		8,889	7,192	1,697
		35,658	36,654	(996)
Tangible assets				
Property, plant and equipment owned		14,251	14,216	35
Assets held under finance leases		1,895	2,331	(436)
		16,146	16,547	(401)
Other non-current assets				
Investments in associates and joint ventures accounted for using the equity method		16	17	(1)
Other investments		49	51	(2)
Non-current financial assets		1,594	1,768	(174)
Miscellaneous receivables and other non-current assets		2,291	2,422	(131)
Deferred tax assets		1,136	993	143
		5,086	5,251	(165)
Total Non-current assets	(a)	56,890	58,452	(1,562)
Current assets				
Inventories		389	290	99
Trade and miscellaneous receivables and other current assets		4,706	4,959	(253)
Current income tax receivables		251	77	174

Current financial assets				
Securities other than investments, financial receivables and other current financial assets		*1,466*	*1,430*	*36*
Cash and cash equivalents		*1,917*	*3,575*	*(1,658)*
		3,383	5,005	(1,622)
Current assets sub-total		8,729	10,331	(1,602)
Discontinued operations/Non-current assets held for sale				
Total Current assets	(b)	8,729	10,331	(1,602)
Total Assets	(a+b)	65,619	68,783	(3,164)

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(millions of euros)		12/31/2018 (a)	12/31/2017 (b)	Change (a-b)
Equity and Liabilities				
Equity				
Equity attributable to Owners of the Parent		19,528	21,557	(2,029)
Non-controlling interests		2,219	2,226	(7)
Total Equity	(c)	21,747	23,783	(2,036)
Non-current liabilities				
Non-current financial liabilities		25,059	28,108	(3,049)
Employee benefits		1,567	1,736	(169)
Deferred tax liabilities		192	265	(73)
Provisions		876	825	51
Miscellaneous payables and other non-current liabilities		3,297	1,678	1,619
Total Non-current liabilities	(d)	30,991	32,612	(1,621)
Current liabilities				
Current financial liabilities		5,913	4,756	1,157
Trade and miscellaneous payables and other current liabilities		6,901	7,520	(619)
Current income tax payables		67	112	(45)
Current liabilities sub-total		12,881	12,388	493
Liabilities directly associated with Discontinued operations/Non-current assets held for sale				
Total Current Liabilities	(e)	12,881	12,388	493
Total Liabilities	(f=d+e)	43,872	45,000	(1,128)
Total Equity and Liabilities	(c+f)	65,619	68,783	(3,164)

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Consolidated Statements of Cash Flows

(millions of euros)		2018	2017
Cash flows from operating activities:			
Profit (loss) from continuing operations		(1,152)	1,287
Adjustments for:			
Depreciation and amortization		4,255	4,473
Impairment losses (reversals) on non-current assets (including investments)		2,589	50
Net change in deferred tax assets and liabilities		(195)	(147)
Losses (gains) realized on disposals of non-current assets (including investments)		1	(11)
Share of losses (profits) of associates and joint ventures accounted for using the equity method		1	1
Change in provisions for employee benefits		(208)	437
Change in inventories		(99)	(30)
Change in trade receivables and net amounts due from customers on construction contracts		(49)	379
Change in trade payables		(163)	(605)
Net change in current income tax receivables/payables		(210)	(515)
Net change in miscellaneous receivables/payables and other assets/liabilities		(178)	80
Cash flows from (used in) operating activities	(a)	4,592	5,399
Cash flows from investing activities:			
Purchase of intangible assets		*(3,647)*	*(2,292)*
Purchase of tangible assets		*(2,831)*	*(3,477)*
Total purchase of intangible and tangible assets on an accrual basis		(6,478)	(5,769)
Change in amounts due for purchases of intangible and tangible assets		*1,947*	*455*
Total purchase of intangible and tangible assets on a cash basis		(4,531)	(5,314)

Capital grants received		108	82
Acquisition of control of companies or other businesses, net of cash acquired			
Acquisitions/disposals of other investments		(3)	(4)
Change in financial receivables and other financial assets (excluding hedging and non-hedging derivatives under financial assets)		96	466
Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of			
Proceeds from sale/repayment of intangible, tangible and other non-current assets		16	30
Cash flows from (used in) investing activities	(b)	(4,314)	(4,740)
Cash flows from financing activities:			
Change in current financial liabilities and other		394	(1,188)
Proceeds from non-current financial liabilities (including current portion)		2,546	2,630
Repayments of non-current financial liabilities (including current portion)		(4,426)	(3,426)
Changes in hedging and non-hedging derivatives		(110)	997
Share capital proceeds/reimbursements (including subsidiaries)		22	16
Dividends paid		(256)	(235)
Changes in ownership interests in consolidated subsidiaries			(4)
Cash flows from (used in) financing activities	(c)	(1,830)	(1,210)
Cash flows from (used in) Discontinued operations/Non-current assets held for sale	(d)		
Aggregate cash flows	(e=a+b+c+d)	(1,552)	(551)
Net cash and cash equivalents at beginning of the year:	(f)	3,246	3,952
Net foreign exchange differences on net cash and cash equivalents	(g)	(63)	(155)
Net cash and cash equivalents at end of the year:	(h=e+f+g)	1,631	3,246

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Additional Cash Flow information

(millions of euros)	2018	2017
Income taxes (paid) received	(739)	(1,100)
Interest expense paid	(1,978)	(2,899)
Interest income received	871	1,636
Dividends received	2	1

Analysis of Net Cash and Cash Equivalents

(millions of euros)	2018	2017
Net cash and cash equivalents at beginning of the year:		
Cash and cash equivalents from continuing operations	3,575	3,964
Bank overdrafts repayable on demand from continuing operations	(329)	(12)
Cash and cash equivalents from Discontinued operations/Non-current assets held for sale		
Bank overdrafts repayable on demand from Discontinued operations/Non-current assets held for sale		
	3,246	3,952
Net cash and cash equivalents at end of the year:		
Cash and cash equivalents from continuing operations	1,917	3,575
Bank overdrafts repayable on demand from continuing operations	(286)	(329)
Cash and cash equivalents from Discontinued operations/Non-current assets held for sale		
Bank overdrafts repayable on demand from Discontinued operations/Non-current assets held for sale		
	1,631	3,246

The additional disclosures required by IAS 7 are provided in the Note Net Financial Debt to the TIM Group Consolidated Financial Statements at December 31, 2018.

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OTHER INFORMATION

Average salaried workforce

(equivalent number)	2018	2017	Change
Average salaried workforce Italy	45,058	45,648	(590)
Average salaried workforce Outside Italy	9,365	9,298	67
Total average salaried workforce [1]	54,423	54,946	(523)

(1) Includes employees with temp work contracts: the average headcount was 0 in 2018 versus 2 in 2017 (1 in Italy and 1 outside Italy).

Headcount at year end

(number)	12/31/2018	12/31/2017	Change
Headcount Italy	48,005	49,689	(1,684)
Headcount Outside Italy	9,896	9,740	156
Total headcount at year end [1]	57,901	59,429	(1,528)

(1) No employees with temporary work contracts at 12/31/2018 and 12/31/2017.

Headcount at year end Breakdown by Business Unit

(number)	12/31/2018	12/31/2017	Change
Domestic	48,200	49,851	(1,651)
Brazil	9,658	9,508	150

Other Operations	43	70	(27)
Total	57,901	59,429	(1,528)

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SOCIAL AND ENVIRONMENTAL IMPACT OF OPERATIONS AND THEIR ECONOMIC ASPECTS

Environmental and social changes underway pose economic risks, but also business opportunities for TIM, that has a leading role in the economy of the main countries where it operates; In an increasingly digital world, the ability to find a sustainable dimension among the new business models, new service classes, new operating procedures and new professional dimensions that are transforming the way we live and work and reshaping systems and economic relations is of strategic importance.

The analysis process conducted in 2018, in order to identify material issues relative to the social, environmental and economic impacts business activities have both in and outside the Company, showed that opportunities related to the digital transformation of companies, the public administration and citizens services are material issues for the Group. The analysis also showed how essential it was for TIM to play a lead role in developing digital expertise and knowledge in its own dimension and in a capacity as enabler for a new digital society. There has also been a renewed focus on human rights, in all forms, and on environmental issues, such as reducing greenhouse gases, which the Group can contribute to with products that enable businesses and households to reduce their energy consumption, and with services to help cities lower their own emissions.

The following are a few cases in which social and environmental elements have direct economic impacts on TIM and, lastly, a description is provided of the materiality analysis, the details of which are provided in the Group s Sustainability Report/Disclosure of non-financial information.

IMPROVING THE EFFICIENCY OF ENVIRONMENTAL COSTS - REDUCING ENERGY CONSUMPTION

TIM is one of the biggest electricity users nationally, consuming around 1.87[1] TWh of energy per year.

Technological developments continued in 2018, related mainly to the NGAN (Next Generation Access Network) implementation plan and LTE technology, are generally leading to an increase in energy consumption. 2018 in particular saw a significant boost given to the technological development of the fixed-line and mobile network and significant growth in new installations in the internal and external market in the field of Information Technology, with a consequent increase in energy demand.

TIM pro-actively managed to offset its energy consumption related to technological development, through continual research into efficiency and the optimization of solutions adopted, achieving:

- net total decrease in energy consumption in 2018 of the Domestic Business Unit approximately 28 GWh compared to 2017;
- an increase in own production of electricity through the co-generation and tri-generation of approximately 25 GWh by the Domestic Business Unit in 2018, compared to the previous year, for an output of around 132 GWh, thanks to optimized plant operation.

In economic terms, the overall savings of the Domestic Business Unit from the reduction in consumption and own energy produced can be estimated to be approximately 7.3 million euros over the course of the year.

During the year, TIM maintained ISO 50001 certification for sites covered by the Energy Management System. In 2018, certification was extended considerably: besides the historic site in Bologna, in via Stendhal and the Data Center in Rozzano 1 and 2, certification was also obtained for Rozzano 3 - thus completing the entire Data Center at Rozzano - and for the exchange in the center of Piacenza, as well as the Data Processing Centers at Padova and Bologna Roveri. TIM therefore achieved the objective it had set the previous year to add an exchange to the certification on top of the already certified buildings. The energy efficiency of TIM was also recognized through the awarding of Energy Efficiency Certificates (EEC, also known as White Certificates): During 2018, 18,000 EECs were awarded, sold with revenues equal to approximately 6 million euros. As proof of its commitment to energy, TIM received the 2018 Energy Manager award for the tertiary sector from FIRE (the Italian Federation for a Rational Use of Energy) in association with ENEA and Key Energy.

EFFICIENCY IMPROVEMENT PROCESS, SOCIAL COST OPTIMIZATION ENGAGEMENT WITH WORKERS REPRESENTATIVES

TIM pays much attention to listening and involving workers representatives in many areas of work, including reorganization processes.

The search for constant dialog and discussion with union representatives led to major agreements being reached, aimed at reconciling the needs of the business with those of the people who work in the company. This has allowed

[1] This does not include the electricity used by OLOs.

agreements to be reached for the implementation of efficiency improvement plans that can mediate between the needs of the workers and those of the company. For example, a complex negotiation process involving the leading trade union organizations was completed in late 2015 with the signing of a framework agreement to manage staff redundancies.

Like its predecessors, the agreement provided for the use of a mixture of integrated instruments and measures that are not socially traumatic but that are economically sustainable:

- these include the use in 2016 2017 of Defensive Solidarity Contracts, as required by the Jobs Act, extended up to June 2019, combined with the strategic role of the training lever, as a pivotal element to encourage professional retraining and requalification in order to counteract redundancies. Defensive Solidarity Contracts are agreements that provide for working hours to be reduced in order to avoid downsizing. For the workers to whom the contract will be applied, provision is made for INPS (Istituto Nazionale della Previdenza Sociale) to make up part of the remuneration not received due to the reduction in working hours. In 2018, the benefit on the cost of labor obtained from solidarity contracts was 81 million euros for the Group (117 million euros in 2017), all relating to the Parent Company;

- redundancy in accordance with Law 223/91 and Article 4 of the so-called Fornero Law, with participation on a voluntary basis.

GROWTH OPPORTUNITIES

ICT services for environmental protection and improving citizens quality of life are seeing positive growth rates. TIM customers already have a range of solutions available to them to cut energy consumption, reduce red tape, and increase security for citizens.

TIM s services for the environment (described on timbusiness.it) include:

- TIM ENERGREEN, the energy management service platform which allows businesses and public organizations to monitor their consumption and manage it efficiently and effectively through locally placed sensors. Energy saving can be estimated to be approximately 10% only as regards the adoption of metering & reporting functions. For TIM ENERGREEN alone, sales in 2018 amounted to approximately one million euros, increasing by 30% over 2017;

- videoconferencing solutions, a market which is extremely dynamic, reported a turnover of approximately 11 million in 2018. Available in different commercial formulations, suitable for the requirements of small, medium and large companies, with service levels and quality standards ranging from High Definition to telepresence, videoconferencing services reduce the amount of travel, and therefore CO_2. Web-based solutions in particular are increasing both the availability of videoconferencing services among SMEs and their penetration

among larger companies, contributing to reducing emissions;

vertical solutions - from telemedicine to smart agriculture - are also available on the market, directly or indirectly contributing to reducing consumption and emissions by optimizing and improving the efficiency of activities.

MATERIALITY ANALYSIS

As already stated, in compliance with Italian Legislative Degree 254/2016 and the requirements of the Global Reporting Initiative Standards, TIM conducted a materiality analysis in 2018 with the aim of identifying material topics as regards the socio-environmental and economic impacts of its business activities both within and outside the company.

Process to identify the material topics

In keeping with the methodology started in 2017, TIM assessed the validity of the material issues identified the previous year, adopting evolved semantic analysis techniques, to analyze a larger number of information sources in order to identify and map sector topics, and also continued its analysis of big data, in order to collect external points of view.

The taxonomy[5] to adopt in the semantic engine was updated, using the same sustainability and digital references as those in 2017, in more recent versions and expanding the number. In particular:

Global Reporting Initiative Standard, ISO 26000, Sustainable Development Goals and specialist assessments[6];

4 Law 92/2012 www.gazzettaufficiale.it/eli/id/2012/07/03/012G0115/sg

5 Each taxonomy is made up of interrelated concepts and keywords with different correlation and significance levels. Each taxonomy was constructed using both Italian and English terms.

6 For example RobecoSam (Dow Jones Sustainability Index), FTSE4good and Sustainalytics questionnaires.

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Italian Digital Agenda, Objectives of the European Digital Single Market and dedicated indexes[7], besides regulatory references which are relevant for TIM and its stakeholders.

The semantic engine analyzed all the national and international sources of information, public and non-public sources, internal and external to TIM[8] with different interactions leading to the definition of a list of topics based on the occurrences[9] found in the various documents and establishing hierarchies between the topics. The material topics of the sector were identified through the occurrences, which were compared with the topics that emerged from the 2017 tree .

In order to obtain the significance of the material topics for the company, an internal questionnaire was given to a significant sample of representative contact people from all the company s departments.

As stated, collecting external points of view was facilitated by the use of innovative tools such as semantics and big data analysis,[10] as well as digital collaboration tools[11] .

At the end of this initial screening, the company was able to draw up a list of topics representing the following macro areas:

- correctness of corporate conduct;
- stakeholder engagement;
- integrating economic, social and environmental aspects in governance and the strategic plan;
- supporting the development of digital skills in the community (in schools, in the public administration, in businesses);
- developing the resilience of areas to disasters and calamities;
- consolidating social and environmental aspects in the supply chain;
- managing the workforce and employment development;
- managing the health and safety of workers;
- developing personnel competencies;
- service quality;

online protection of minors (cyber bullying, child pornography, gambling);

safeguarding privacy and personal data protection and security;

contributing to and taking initiatives to fight climate change in company policies, strategies and processes;

reducing the environmental impact of TIM s operations;

increasing the use of energy from renewable sources in company processes;

electromagnetism;

digital inclusion in society;

developing digital infrastructures with next-generation networks;

promoting and safeguarding human rights;

reducing inequalities and promoting equal opportunities in the Company.

This approach has enabled TIM to expand stakeholder engagement and dynamically observe topics in order to measure their trends over time.

Results at a glance

At the end of the analysis, TIM attributed a relevance score based on the occurrence of the topics[12].

[7] For example, the Digital Economy Society Index which monitors different aspects of the digitization level of the individual European countries.

[8] For example: The Piano Nazionale italiano per l Agenda 2030 (Italian National Plan for the 2030 agenda) of the Italian government, the Ernst & Young Megatrends report 2015 , the Fair and Sustainable Well-Being in Italy 2016 (BES) report promoted by the National Council for Economy and Labor (CNEL) and the National Institute for Statistics (ISTAT).

[9] The occurrences identify the number of times that a concept (or a specific term) is detected within the document by the semantic engine and provide an indication of the significance of the topic detected in the context of the

document.

[10] In keeping with activities of the previous years, stakeholders involved in engagement activities were surveyed, in addition to many other entities, for a total of approximately 500, concerning 8 categories of TIM stakeholders. Three types of sources were identified for the analysis:

- documents issued by stakeholders (in particular sustainability reports);
- statements issued on company websites;
- discussions on social networks concerning the themes identified thanks to TIM Data Room activities.

[11] Digital instruments were used for engagement. In particular:

- a questionnaire was given to stakeholders, via the platform, from the categories: customers, suppliers, competitors, institutions, environment, community, persons, also collecting suggestions and feedback;
- TIM s vendor assessment platform was used to specifically focus on the category of suppliers;
- information on TIM customers views on the proposed issues was obtained from the TIM.com site.

[12] Scores ranged from 1 to 5, where 1 is the minimum frequency, 5 the maximum frequency, 3 the average frequency (calculated from the average occurrence of the topics taken into consideration). 2 and 4 are attributed in proportion to the minimum, average and maximum scores. Finally, the final score was calculated, weighted by the significance attributed to each source according to the different time periods covered in the analysis.

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The activity resulted in the following materiality matrix:

The key issues for the Group and its stakeholders reflect the Sustainable Development Goals which TIM believes it can help achieve to a greater extent through its own personnel, technologies and services, adopting business policies that promote and safeguard human rights and the environment.

Specifically, the relevant Goals are:

- No. 4: Quality education;
- No. 5: Gender equality;
- No. 7: Affordable and clean energy;
- No. 8: Decent work and economic growth;
- No. 9: Industry, innovation and infrastructure;
- No. 10: Reduced inequalities;
- No. 11: Sustainable cities and communities;
- No. 12: Responsible consumption and production;
- No. 16: Peace, justice and strong institutions.

Service quality is the topic which registered the greatest increase, overall, compared to 2017. **Fair corporate conduct** was instead the most relevant issue for external stakeholders; **Safeguarding privacy and personal data protection and security**, **Developing digital infrastructures with next-generation networks** and **Supporting the development of digital skills in the community (in schools, in the public administration, in businesses)** all ranked higher than 2017.

Reducing the environmental impact of TIM s operations is one of the most significant topics due to the important contribution TIM can provide through its solutions as a leading ICT company and through its adoption of strategies and policies to contain its energy consumption and greenhouse gas emissions.

Validation and Review

The validation of the topics and of the entire materiality analysis process was carried out by the Sustainability Reporting, Monitoring and Relationship (SRMR) division, with the support of RE2N, a company that develops innovative tools for sustainability and Shared Value, and TIM Data Room. The review phase is due to take place as a preparatory stage prior to the next reporting cycle, with the aim of submitting the results of the analyses carried out, updated in the following year, to specific stakeholder engagement activities.

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RESEARCH AND DEVELOPMENT

Approach to innovation, choice of topics, innovation governance process

Innovation, understood as a research and development activity for innovative technologies and services, processes and business models, represents a key factor in the company s ability to keep up with the profound transformations brought about through ICT, as well as a necessary asset acting as a driving force in this evolution in terms of its customers and the national system, helping to overcome the socio-cultural barriers that limit the opportunity to participate in the information society and enjoyment of the relative benefits.

TIM has always considered innovation to be a strategic asset and takes great care in governing individual aspects, from its strategic role to its responsibility, objectives and policy.

In terms of role, both technological and business-based innovation are also confirmed in 2018 as the central element to the response to change in the technological, market and competitive context. In line with this, the Group has taken action in several ways:

- by continuing the action, underway for several years now, to strengthen internal innovation lines, focusing laboratory activities and research groups on key aspects of the development of the fixed and mobile network towards future **5G standards and ultrabroadband**, and issues concerning service platforms and new operations systems;

- by confirming the drive towards the **Open Innovation** principle with the aim of maximizing the benefits deriving from the integration of innovative contributions generated internally with external sources of innovative ideas;

- by interacting with the start-up world in order to catalyze the latter s capacity for innovation through the **TIM #Wcap acceleration program**;

- by implementing initiatives which allow for the growth of co-creation ecosystems like the **IoT Open Lab**, a laboratory dedicated to the development of IoT solutions based on key technologies for the Telco Operator with a view to open innovation.

More specifically, innovation management is overseen, with different missions, by the **Technology Architectures & Innovation Department** and by engineers, but involves various internal and external stakeholders of the company:

- **other areas of the company** involved from time to time, both as internal customers for the innovation output solution and as centers of expertise on the topic;

traditional and digital **partners**, for the joint go2market of digital services;

research centers and universities, for cooperation and joint projects. In 2018, 18 research contracts came into effect, for a total value of 840,000 euros;

Standardization Bodies and Associations: TIM is still very active within the main Standardization Bodies and Associations, with 27 memberships in 2018, for a cost of 900,000 euros. On a national, but above all international, level there is a broad circle made up of standardization bodies (ETSI, ITU, CENELEC and 3GPP among others), associations (GSMA and NGMN to name the major ones), alliances (oneM2m and BBF), and telco open communities (ONF, OPNFV and CORD), which play a fundamental role in the evolution of the TLC industry for networks, platforms and services;

Ministries (Ministry of Economic Development and Ministry of Education, Universities and Research), the **European Union and public authorities** (CNR and local authorities) for projects funded through participation in competitive tenders, and partnership initiatives. In particular, two specific consortiums were set up in 2018. KIC U-Move, the Community for Knowledge and Innovation in urban mobility, promoted by the European Institute of Innovation and Technology (EIT), with the support of the EU, in order to promote urban mobility, and Competence Industry Manufacturing 4.0 (CIM 4.0), set up in December 2018 after the award of the Ministry of Economic Development Industry 4.0 contract, to help fast track the process to transform a considerable section of the production system at local and national level, and act as an integrated hub for the dissemination of expertise and good practices, offering training and on-site experience, in technological and industrial sectors in Piedmont and other Italian regions. The Ministry of Economic Development will fund the consortium projects over the next three years.

TIM s technological evolution is based on CTO Technology Strategy, which identifies technology strategy in terms of guidelines, specific technologies and roadmaps to adopt in the long term. The three-year technological plan is the reference policy for the Group and includes the technological evolution plans of subsidiaries. The plan sets out the main external factors that may affect company strategies (regulation, standards, suppliers, other market operators) and establishes the company entities involved, the applicable technological architecture and evolution of specific technologies, along with relative roadmaps for deployment or assessment. The qualitative and/or quantitative goals address the long term and have been given an annual framework. They are defined so that they can be objectively measured in compliance with quality standards (ISO 9001) and environmental standards (ISO 14001), and operational innovation processes, in the same way as TIM processes, in general, are based on TMF s reference standard E-Tom.

Overall, in 2018 TIM committed around 1,300 people to working on technological innovation and engineering in Italy, for an overall investment for the Company of 1,165 million euros, which is equivalent to around 8% of revenues.

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Activities for the future of mobility and networks: initiatives for 5G

In October 2018, the tender of the Ministry of Economic Development for the award of user rights to 694 790 MHz, 3600 3800 MHz, and 26.5 27.5 GHz band frequencies for 5G mobile telecommunications services was completed, with an overall undertaking for TIM of 2,399 million euros. The rights to 3600-3800 MHz and 26.5-27.5 GHz band frequencies were assigned on a definitive basis in January 2019, while the rights to 694-790 MHz band frequencies will be made available in July 2022. 5G allows not only faster speeds than those possible with earlier technologies, but also a multitude of services with very different requirements, in particular in the mMTC[13] and URLLC[14] areas.

TIM has followed the development of 5G from 2012, actively participating in the definition of international standards as well as European consortia and projects which laid the foundations for the system and contributed to the introduction of innovative use cases and applications. In particular, TIM participated in the European Horizon 2020 METIS and METIS II projects included in the 5GPPP European initiative and in another 12 projects concerning all the main technological turning points of 5G, collaborating with the main providers of network technologies and terminals through specific MoUs.

The operational activities for technological development and 5G trials are accompanied by structured technical communication ranging from publishing to promotion with events of a scientific scope. Many initiatives dedicated to 5G took place during 2018, including the inauguration of the first Innovation Hub in Rome, which is the very cornerstone of the agreement. Another important event was held in Turin, at Palazzo Madama, with two days when TIM opened its doors to the public with live demos of 5G services, including automotive, digital tourism, Industry 4.0 and smartcity services, which will soon be available on the network. In Turin, TIM will develop the first 5G network in Italy, thanks to an agreement with the local authorities, following on from three important projects started in 2017 - Torino 5G, San Marino 5G and Bari-Matera 5G - for 5G coverage of these municipalities, involving over 55 partners.

In 2018, these projects continued, consolidating activities to provide coverage, with San Marino becoming the first European microstate to be covered by 5G.Research and partnerships with organizations and universities involved for Bari-Matera were also set up and activities will continue in 2019.

Over the next few years, 5G will be the revolution that everyone can experience in their daily lives.

Main applications will target:

- the automotive and transport sector with vehicle-to-vehicle and vehicle-to-infrastructure connectivity, aimed at increasing safety and energy saving; connectivity for infotainment; self-driving vehicles and related aspects;
- industry 4.0, i.e. the digital transformation of industry; the systematic addition of sensors to products, to produce data to improve production and processes; the evolution of the supply chain to enable real-time management of relations with suppliers and end customers;
- the world of new media, with changes in user trends and new formats, including virtual and enhanced reality solutions;

healthcare, with remote assistance, to enable specialists to assist patients with chronic diseases from afar;

public safety, with mobile video surveillance solutions that can integrate data and images for a far broader vision, guaranteeing greater public security levels than the past;

assistance for tourists who can have information and multimedia content on their visits at their fingertips, thanks to sensors on their smartphones;

the information sector in general which can ensure live connections with a better video quality without complex instruments, thanks to a greater bandwidth availability, combined with a reduced latency.

[13] Massive Machine Type Communication
[14] Ultra Reliable and Low Latency Communications

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IoT Open Lab

In November 2016, TIM opened the IoT Open Lab, which became fully operational in 2017, at its base in Turin. Its purpose, according to the methods inherent in Open Innovation, is to support the development of IoT solutions based on key technologies for Telco Operators. In particular, the IoT Open Lab acts as a business accelerator to support companies in entering the ecosystem of technologies standardized by the 3GPP and, as regards the current period, Narrow Band IoT technologies. In 2018, more than 180 companies and customers visited the Lab, and among them, around fifty construction companies agreed a partnership with TIM allowing them to use the Lab s facilities free of charge.

Research with Universities

The Open Innovation activities (understood as R&D participatory behavior) for 2018 were largely concentrated on the new Innovation model pursued at TIM and guided by top management. Research and development activities in 2018 focused on infrastructure issues and application solutions with a particular emphasis on opportunities afforded by 5G.

As already stated, the financial commitment amounted to 840,000 euros, involving 70 TIM technicians and 60 university researchers dedicated to specific research, including:

- research projects on cognitive computing, artificial intelligence solutions and 5G in partnership with Turin Polytechnic;
- the academic research partnership as part of the Ministry of Economic Development Bari-Matera 5G project involved TIM, together with academic organizations, in the full 5G coverage of cities scheduled for 2019, with 10 application areas started and over 70 use scenarios. In 2021, the entire metropolitan area of the 2 cities will be covered;
- research projects started also in partnership with the University of Catania under the technology/innovation plan to fast-track the market delivery of the entire IoT ecosystem and 5G development activities.

Funded research activities

TIM has always been active in innovative and research initiatives funded by the European Commission and by national public administrations. This has enabled it to obtain funding of nearly 14 million euros over the 2016-2018 period and to take part in projects with a high innovation content, thanks to which it has been able to develop and consolidate its own know-how in sectors with a fast-paced technological evolution, working together with leading European, North American, Korean and Japanese research centers. In this area, it has been involved in activities carried out as part of funded projects concerning 5G, virtualization and intelligent mobility services, furthering its expertise and gaining a prominent position in the international sphere.

Patents and Intellectual Property Rights

During 2018, the Group s portfolio of patents grew to include new patents filed (TIM ranks sixth as the Italian company for number of European patents filed), and was also streamlined, eliminating some patents that were no longer worth investing in, given advances in technological progress.

The patenting areas relate to the whole ICT sector, with areas of excellence in the mobile sector, where TIM is one of the six leading Telcos worldwide.

Specifically, TIM s portfolio of patents included 3,256 patents held by TIM in 2018, of which 2,754 granted in 41 countries around the world and 502 published in 15 patent offices, relative to some 600 inventions.

A total of 11% of the patented inventions stem from work with universities and research institutes, from 1997 to the present day.

Participation in a Patent Pool for LTE with a patent essential for the relative standard should also be noted. The Patent Pool acquired new participants over the course of the year (bringing the current total to 19 license-holders) and granted several licenses to 42 companies.

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RESEARCH AND DEVELOPMENT IN BRAZIL

The **Innovation & Technology Department**, headed by the CTO of TIM Brasil, is responsible for Research and Development (R&D) activities. Its main areas of focus include: identifying technological innovation for the network and the evolutionary needs for new technologies and devices, setting architectural guidelines, and the development of strategic partnerships, so as to exploit new business models and guarantee the evolution of the network infrastructure in line with the business strategy. The organizational structure of Innovation & Technology is currently made up of 25 people in the Networks area, including telecommunications engineers, electrics and electronics engineers, IT experts and other technicians of various origins, competences and experiences, who cover all innovative needs and provide support to R&D.

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

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

In 2018, more than 180 validation and innovation projects were concluded. Moreover, new technological areas, such as transport and fixed access solutions, were included in the range of initiatives relating to innovation and R&D. In this regard, more than 22 million reais were invested in the 2016/17 period, also for new lab premises, in addition to the 4 million reais in 2018; based on the 2019-2021 plan, further investments of 12 million reais have been allocated.

The Innovation & Technology department continued to work on projects and initiatives 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. These projects can be divided into the following groups:

- new generation networks;
- positive environmental and social impacts;
- Open Lab initiatives.

Next generation network projects

The reassignment of the 1,800 MHz, 850 MHz and 2,100 MHz bandwidths from 2G/3G to 4G gives TIM Brasil three important competitive advantages:

- reduction of costs for LTE deployment;
- expansion of the LTE coverage area and activation of the Carrier Aggregation strategy, improving the customer experience through higher *throughputs*;
- improved indoor coverage. In addition to the expansion of coverage, use of the 850/1,800/2,100 MHz bandwidths could increase the capacity in cities already covered by the LTE bandwidth at 2.6 GHz, at limited additional cost.

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Another important consideration in this scenario is that over 94% of current LTE terminals are already compatible with the 1,800 MHz and 2,600 MHz bandwidths, and with the other bandwidths available; hence, implementation of the LTE multilayer is proving to be an excellent strategy that 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 roll-out will follow the rules dictated by the EAD[15] in order to manage the spectrum cleaning and avoid interference problems with the analogue TV transmission service. 82% of the LTE devices employed by the current users of TIM Brasil services are enabled for the 700 MHz bandwidth.

At the end of 2018, over 1,400 cities could test the LTE 700 MHz coverage.

In 2015, as part of the IP Multimedia Network Evolution, three tests were carried out at the Innovation Lab to assess the IMS[16]. In 2016 the tests were extended to live networks, allowing TIM Brasil to set up the functional infrastructure to provide services such as Voice over LTE (VoLTE), Video over LTE (ViLTE) and Wi-Fi Calling, entirely laid on IP and activated by an IMS platform. In 2017 TIM launched VoLTE high definition voice call services on the market, providing call services without the need to pass through switched lines. At the end of 2018, over 2,500 cities could use this service.

Projects with positive environmental and social impacts

The expansion of 4G RAN sharing , in partnership with other Brazilian mobile operators, aims to define the architectural requirements, technical assumptions and specifications for the LTE RAN sharing solution, optimizing the network resources and costs. In this regard, TIM has pursued and considered RAN Sharing Solutions since 2007. Another strong motivation lies in coverage issues and timing in compliance with regulatory requirements. The RAN Sharing agreement allows TIM to promote the evolution of LTE development in rural areas of Brazil, with effective sharing of access and backhauling. At present 4G RAN Sharing relies on two national partners, improving the possible benefits and efficiencies of this technical model.

Following continuous testing activities, savings and energy efficiency solutions were introduced, which primarily concern the low traffic periods for the 2G, 3G and 4G access layers. The energy consumption recorded for the site, dependent on the access technology and coverage conditions, showed a reduction of up to 10%. According to TIM Brasil, the large-scale introduction of IoT could drastically change the mobile market in that it exploits the creation of services and represents a potential tool for agricultural applications, connected vehicles, tracking solutions, and social and healthcare support. In 2017 TIM invested in TIM Lab and in the E2E sector, improving existing smart parking applications and activating the connection of new applications, preparing the terrain for future NB-IoT and LTE-M commercial networks, which were launched in 2018 in the city of Santa Rita do Sapucai.

Since 2018, TIM Brasil together with Nokia and BR Digital, has offered connectivity services in rural areas, not only enabling agrobusiness commercial applications, but also the digital inclusion of sector employees and residents in small towns.

Open Lab initiatives

In 2017 TIM Brasil joined the Telecom Infra Project (TIP), an initiative founded by Facebook, SK Telecom, Deutsche Telekom, Nokia, Intel and other companies, which aims to identify new approaches to the creation and deployment of telecommunications network infrastructure. TIM Brasil has transformed TIM Lab into the first TIP Community Lab in Latin America, which will be used by TIP members to create universal standards relating to solutions, initially for

transport networks, in order to overcome the challenges linked to the interoperability of the different providers. This initiative represents an open and collaborative approach to the development and testing of new technologies and solutions.

[15] Entidade Administradora de Processo de Redistribuição e Digitalização de Canais de TV e RTV

[16] IMS: IP Multimedia Subsystem, solutions focused on functional tests, specific analyses and interoperability with the so-called legacy system

Moreover, in October 2018, TIM joined up with a new work team in the Telecom Infra Project (TIP) together with Vodafone and other mobile operators, called DCSG (Disaggregated Cell Site Gateway). This project is an opportunity to define a common set of requirements to produce devices that are more open, flexible and cost-effective.

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CONSOLIDATED NON-FINANCIAL STATEMENT

TIM, as a Relevant Public Interest Entity (PIE), has prepared and presented a Consolidated non-financial statement as a separate report , as provided for by article 5 *Statement positioning and disclosure regime* of Legislative Decree 254/2016, on the disclosure of non-financial information and diversity information by some companies and some large groups. Moreover, a report (statement) issued by the appointed external auditor pursuant to article 3, subsection 10 of Legislative Decree 254/2016 is annexed to the Consolidated non-financial statement ; the assignment was given to PwC S.p.A..

The Consolidated Non-Financial Statement is available in the sustainability section of the website www.telecomitalia.com.

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EVENTS SUBSEQUENT TO DECEMBER 31, 2018

For details of subsequent events, see the specific Note Events Subsequent to December 31, 2018 in the Consolidated and Separate Financial Statements as at December 31, 2018 of the TIM Group and TIM S.p.A., respectively.

BUSINESS OUTLOOK FOR THE YEAR 2019

The strategy of the TIM 2019-2021 Plan marks a major break with the past, focusing on execution as a key factor in TIM s organic transformation, together with strategic initiatives capable of freeing up value. The Plan s objectives are the relaunch of the Domestic business, with a focus on the quality, size and technical skills of TIM, and the strengthening of business in Brazil, taking advantage of growth opportunities (e.g. residential broadband and ultra-broadband connectivity) and continuing the repositioning of customers towards postpaid offers, leveraging 4G leadership.

On the **Domestic market** the Consumer segment begins with consolidated competitive advantages (quality, size and technical skills), to bring rationality to both the Fixed and Mobile market, using network quality and product reliability to leverage optimized profitability and expand the range of offered services. By 2021, ultra-broadband penetration will reach 80% of the broadband customer base (up from 45% in 2018).

The **Business segment** will put itself forward as a reference supplier and top ICT quality partner for SMEs and as a leading ICT solutions provider for large customers. Revenues from ICT services will grow significantly, reaching 48% of total revenues of the Large Business segment by 2021 (up from 39% in 2018).

The **Wholesale segment** will defend its access market share and confirm its leadership in ultra-broadband coverage. Fiber access will double compared to 2018.

The **Telecom Italia Sparkle group** will expand its infrastructure and grow enterprise networking and the cloud; partnerships to accelerate growth and expand strategic options will also be assessed.

In **Brazil**, the mobile customer base will continue to migrate towards postpaid offers, increasing from 36% in 2018 to around 50% in 2021. The fiber development program (backbone, backhauling and FTTH) will also continue and residential ultra-broadband customers will be at 1.2 million in 2021. Cost rationalization and digital transformation will be a leverage to support margin improvement, with an EBITDA margin of at least 40% by 2020.

TIM s strategy aims to reduce debt through cash generation growth in the domestic market, achieved through stabilization of revenues, a streamlined costs structure and working capital and invested capital optimization. A dedicated department will ensure cost efficiencies are made and, through already identified actions, will allow for a reduction in the reducible cost base of 8% in 2021 compared to 2018; invested capital optimization will also take place through network sharing. To this end TIM and Vodafone Italia signed a memorandum of understanding in February 2019 and agreed to start exclusive negotiations on a partnership project to share the active component of the 5G network, assess the possibility of sharing active devices on the 4G network and expand the current passive sharing agreement.

The technological approach outlined in the new TIM plan puts modernization, simplification and artificial intelligence at the heart of future capital expenditure. TIM will build a completely new and automated 5G network, continuing with the disposal and consolidation of redundant assets (e.g. data centers and exchanges).

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The main financial targets of the 2019-2021 plan are as follows, it should also be remembered that the 2019 forecasts assume an operating performance affected by competitive dynamics that have already impacted increasingly the whole of 2018. These dynamics will have full effect on 2019, influencing the Year on Year comparability of the coming periodic financial reports and will determine the highlight of a recovery trend only during the second part of the year.

TIM Group:

- Total Equity Free Cash Flow (2019/2021) of around 3.5 billion euros with the possibility of further growth through non-organic activities currently not included;
- Group debt of around 22 billion euros in 2021 before non-organic operations (on the same accounting basis as 2018).

Domestic:

- Slightly declining revenues from services (low single-digit) during the period with the aim of stabilizing them from 2020;
- Organic EBITDA in low single-digit/mid single digit decline in 2019 and low single-digit growth for both 2020 and 2021;
- Capex equal to about 3 billion euros per year.

Brazil:

- Revenues from services growing by 3-5% in 2019 and mid single-digit growth in 2020 and 2021;
- EBITDA growth (mid/high single digit) in 2019 with the confirmed EBITDA margin target of at least 40% in 2020;
- Cumulative capex totaling around 12.5 billion reais in 2019/2021.

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MAIN RISKS AND UNCERTAINTIES

Risk governance is a strategic tool for value creation. The TIM Group has adopted an Enterprise Risk Management Model based on the methodology of the Committee of Sponsoring Organizations of the Treadway Commission (ERM CoSO Report), which enables the identification and management of risk in a uniform manner across the Group companies, highlighting potential synergies among the actors involved in the assessment of the Internal Control and Risk Management System. The ERM process is designed to identify potential events that may affect the business, to manage risk within acceptable limits and to provide reasonable assurance regarding the achievement of corporate objectives.

The business outlook for 2019 could moreover be affected by risks and uncertainties caused by a multitude of factors, the majority of which are beyond the Group s control.

These include, but are not limited to, the change in market context, entry of new potential competitors in the fixed and mobile field, start of proceedings by the authorities and delays in new strategy implementation, with effects at this moment not foreseeable in terms of strategic choices and development timing of the already announced triennial objectives, which may lead, in some cases, to a different progression in timing in respect of that initially foreseen or achievement of the objectives through new and more joined-up methods.

The main risks affecting the business activities of the TIM Group, which may impact, even significantly, the ability to achieve the objectives of the Group are presented below in an analytical way.

STRATEGIC RISKS

Risks related to macro-economic factors

The TIM Group s economic and financial situation depends on the influence of numerous macroeconomic factors such as economic growth, political stability, consumer confidence, and changes in interest rates and exchange rates in the markets in which it operates. In 2018 economic growth in the euro area suffered an unexpected slowdown, suggesting that growth for the year would be lower than in 2017. The slowdown in the Italian economy was more evident than in other European countries: GDP recorded two consecutive negative quarter-on-quarter changes in the second half of the year. 2018 closed with an average growth of 0.9% in real terms, against a growth of 1.6% recorded in 2017, and growth for 2019 is expected at an even lower rate compared to 2018.

The slowdown in Italian growth reflects the deceleration in exports (in particular towards its main trading partner, Germany, which in turn recorded a sharp downturn in the third quarter), and expected normalization of monetary policies. On the domestic front, the uncertainty related to budget policy and possible repercussions on the financial markets and confidence of households and businesses had a considerable impact.

In Brazil, the expected results may be significantly affected by the macroeconomic and political situation. After two years of negative GDP growth one of the deepest and longest recessions in its history Brazil returned to growth in 2017 (+1%). In December the Central Bank slightly reduced its GDP growth forecasts for 2018, from 1.4 % estimated

in September to 1.3%, due mainly to the performance of public accounts. The elections which ended with the new president voted in with a considerable popular majority should help to attenuate the political uncertainty and boost the confidence of households and businesses, creating a climate that is far more favorable for the economy to recover. Short and medium term growth forecasts remain tied to pension reforms and the introduction of a more efficient public spending system, which is not an easy task for the new president.

Risks related to competition

The telecommunications market is characterized by strong competition that may reduce market share in the geographical areas where the TIM Group is engaged as well as erode prices and margins. Competition is focused on innovative products and services and on the capacity to move towards higher levels of convergence in service and expand it to the content offering, but also on the price competition in both traditional and other services. The use of new technologies (IoT) and new knowledge and customer management tools (Big Data) represent enabling factors in the mitigation of competition risks, however failure to exploit these opportunities could become an additional element of risk.

In the area of infrastructure competition, the growth of alternative operators could represent a threat for TIM, also beyond the Plan period.

Iliad launched its new mobile service at the end of May with the objective of capturing 10 15% of the market, adopting the same strategies it currently employs on the French market. In addition, Open Fiber and Infratel started up plans for the development of an UBB telecommunications network as an alternative to the TIM network, respectively in major Italian cities and in areas of market failure, opening up the possibility of a new wave of competition in those areas, with impacts for both the Wholesale and Retail segments.

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

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OPERATIONAL RISKS

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

Risks related to the development of fixed and mobile networks

To maintain and expand our customer portfolio in each of the markets in which the TIM Group operates, it is necessary to maintain, update and improve existing networks in a timely manner. A reliable and high quality network is necessary to maintain the customer base and minimize terminations to protect the Company s revenues from erosion.

The maintenance and improvement of existing installations depend on the Group s ability to:

- deliver network development plans within the time-frames contemplated by business development plans and with the necessary level of effectiveness/efficiency;
- upgrade the capabilities of the networks to provide customers with services that are closer to their needs;
- increase the geographical coverage of innovative services;
- upgrade the structure of the systems and the networks to adapt it to new technologies;
- sustaining the necessary level of capital expenditure in the long term.

Risks related to business continuity

The TIM Group s success depends heavily on the ability to ensure the continuous and uninterrupted delivery of the products and services we provide through the availability of processes and the relating supporting assets, which are sensitive to various internal and external threats. TIM has adopted a Business Continuity Model System framework in line with international standards, to analyze and prevent these risks.

Risks related to disputes and litigation

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

Risks of internal/external fraud

Technological progress means that increasingly sophisticated tools and techniques, which are quick acting and have a considerable economic impact are available for fraudulent activity.

Conventional phenomena such as subscription, interconnection, and commercial fraud currently generate the highest part of *revenue loss* and will continue to be significant in the near future, however new types of Internet-style fraud will gradually gain more ground (Internet spamming/phishing, service reselling, VoIP bypass, etc.). Furthermore, some specific types of provided services (e.g. wholesale interconnection, voice or data services) are potentially at risk of third party use for the construction of fictitious transaction schemes, tax avoidance offenses and/or international money laundering.

By way of example only, Fraud Management covers:

- traffic or marketing-related fraud;
- fraud connected with procurement processes and the supply of goods and services;
- computer fraud;
- fraud related to the use and disclosure of confidential information;
- tax and/or financial fraud;

which are:

- identified by specific controls during routine working activities, or reported from sources inside/outside the company;
- committed by entities outside the company, or by or with the assistance of employees (internal fraud).

The TIM Group has an established organizational model based on the governance of fraud and a separate operational governance system for managing and combating fraud.

The procedure to combat external fraud, drawing on company processes at risk of the offenses contemplated in Italian Legislative Decree 231/01 being committed, sets out internal control mechanisms, including instructions on how employees and Company staff/partners (including suppliers) must behave (Prevention). In the Detection stage, potential cases of fraud are identified and after a preliminary check of the possible grounds the cases may be subject to Investigation and Tackling. To complete the fraud management end-to-end cycle, the results of actions taken are assessed with monitoring and any actions to improve the fraud management process are identified.

Likewise, internal fraud is managed in compliance with constraints in trade union agreements banning the remote control of employees work, and involves monitoring and checking access to company systems only for operational purposes, and access to registration data only in the case of identified anomalies.

FINANCIAL RISKS

The TIM Group may be exposed to financial risks, such as risks arising from fluctuations in interest rates and exchange rates, credit risk, liquidity risk and risks related to the performance of the equity markets in general, and more specifically risks related to the performance of the share price of the TIM Group companies. These risks may adversely impact the earnings and the financial structure of the Group. Accordingly, to manage those risks, the TIM Group has established guidelines, at central level, which must be followed for operational management, identification of the most suitable financial instruments to meet set goals, and monitoring the results achieved. In particular, in order to mitigate the liquidity risk, the TIM Group aims to maintain an adequate level of financial flexibility , in terms of cash and syndicated committed credit lines, enabling it to cover refinancing requirements at least for the next 12-18 months.

The potential impact of Brexit will depend on the result of negotiations on the divorce agreement with the EU, which is even more uncertain, after the House of Commons voted against the British Prime Minister s Brexit plan in January 2019.

Brexit and possible future scenarios connected to the outcomes of negotiations could cause further instability on global financial markets in an international context that is already affected by the trade dispute between the US and China.

The potential effects of Brexit could adversely affect our financial conditions, our business and the related earnings and cash flows.

REGULATORY AND COMPLIANCE RISKS

Regulatory risks

The electronic communications industry is highly regulated. As such, new decisions by the Communications Authority (AGCom) may lead to changes in the regulatory framework that may affect the expected results of the Group and the guidance announced to the market. In addition, the position held by TIM In the fixed-line markets and the structure of the mobile markets results in high levels of scrutiny from the Italian Antitrust Authority (AGCM) over competition in the sector.

The main elements that introduce uncertainty are:

- lack of predictability in start-up timing and consequent final decisions in new proceedings by AGCom and AGCM;
- AGCom decisions with retroactive effect (for example, the revision of prices applicable to past years and the effectiveness and actual implementation of repricing policies, also following administrative rulings);
- AGCom decisions that can influence the technological choices, with potential impact on the timing of return on infrastructure investment;
- any AGCM decisions that can limit TIM s competitive capacity (for example, in terms of minimum retail prices to guarantee replicability);
- any inadequacy in the implementation of processes and systems for the management of regulated services, identified by AGCom or AGCM.

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Compliance risks

The TIM Group may be exposed to risks of non-compliance due to non-observance/breach of internal (self-regulation, such as, for example, bylaws, code of ethics) and external rules (laws, regulations, new accounting standards and Authority orders), with consequent judicial or administrative penalties, financial losses or reputational damage.

The TIM Group aims to ensure that processes, and, therefore, the procedures and systems governing them, and corporate conduct comply with legal requirements. The risk is associated with potential time lags in making the processes compliant with regulatory changes or whenever non-conformities are identified and is monitored by the dedicated internal control system.

Compliance with Commission Regulation (EU) 2016/679 (General Data Protection Regulation, GDPR), directly applicable as from May 25, 2018 and enacted in Italy by Legislative Decree no. 101/2018 is particularly important. This Regulation has increased administrative fines considerably compared to the Data Protection Act previously in effect, and in some cases fines of up to 20 million euros may be administered, or in the case of companies, of up to 4% of their global annual turnover of the previous year, if this amount is higher than 20 million euros. Starting from the operating model already in use with pre-existing privacy regulations, the TIM Group has taken necessary action to comply with the GDPR.

INFORMATION FOR INVESTORS

TIM S.p.A. SHARE CAPITAL AT DECEMBER 31, 2018

Share capital	11,677,002,855.10 euros
Number of ordinary shares (without nominal value)	15,203,122,583
Number of savings shares (without nominal value)	6,027,791,699
Number of TIM S.p.A. ordinary treasury shares	37,672,014
Number of TIM S.p.A. ordinary shares held by Telecom Italia Finance S.A.	126,082,374
Percentage of ordinary treasury shares held by the Group to total share capital	0.77%
Market capitalization (based on December 2018 average prices)	11,153 million euros

On May 25, 2016, the Shareholders Meeting approved amendments to the company name, introducing the name TIM S.p.A. as an alternative to Telecom Italia S.p.A. .

TIM S.p.A. ordinary and savings shares, as well as the ordinary shares of INWIT S.p.A. are listed on the Italian stock exchange (FTSE index), whereas the ordinary shares of Tim Participações S.A. are listed in Brazil (BOVESPA index).

	TIM-Telecom Italia			
code	ordinary shares	savings shares	INWIT	Tim Participações
Stock exchange	IT0003497168	IT0003497176	IT0005090300	BRTIMPACNOR1
Bloomberg	TIT IM	TITR IM	INW IM	TIMP3 BZ
Reuters	TLIT.MI	TLITn.MI	INWT.MI	TIMP3.SA

The ordinary and savings shares of TIM S.p.A., and the ordinary shares of Tim Participações S.A. are also listed on the NYSE (New York Stock Exchange); trading occurs through ADS (American Depositary Shares) that respectively represent 10 ordinary shares and 10 savings shares of TIM S.p.A. and 5 ordinary shares of Tim Participações S.A..

SHAREHOLDERS

Shareholder composition according to the Shareholders Book at December 31, 2018, supplemented by communications received and other available sources of information (ordinary shares):

(1) Evidence of the ownership interests disclosed for the TIM shareholders meeting on May 4, 2018.
(2) Paul E. Singer is a General Partner of Elliott Capital Advisors LP. This ownership interest is held indirectly through the subsidiaries Elliott International LP, Elliott Associates LP and The Liverpool Limited Partnership.

MAJOR HOLDINGS IN SHARE CAPITAL

Taking into account the entries in the Shareholders Book, communications sent to Consob and to the Company pursuant to Italian Legislative Decree 58 of February 24, 1998, Article 120, and other available sources of information, the relevant holdings of TIM S.p.A. s ordinary share capital are as follows:

Outcomes of communications as per Article 120 of Legislative Decree 58 of February 24, 1998

Holder	Type of ownership	Percentage of ownership
Vivendi S.A.	Direct	23.94%
Paul E. Singer	Indirect	8.85%
Cassa Depositi e Prestiti S.p.A. (*)	Direct	4.26%

(*) Ownership interest referred to April 10, 2018.

Besides the above information, reported before December 31, 2018:

The Canada Pension Plan Investment Board notified the direct and indirect availability, on January 21, 2019, of an amount of ordinary shares equal to 3.13% of the total ordinary shares of TIM S.p.A..

Paul E. Singer notified the indirect availability, on January 31, 2019, through the subsidiaries Elliott International LP, Elliott Associates LP and The Liverpool Limited Partnership, of an amount of ordinary shares equal to 9.55% of the total ordinary shares of TIM S.p.A.;

Cassa Depositi e Prestiti S.p.A. notified the direct and indirect availability, on February 18, 2019, of an amount of ordinary shares equal to 5.03% of the total ordinary shares of TIM S.p.A..

COMMON REPRESENTATIVES

The special meeting of the savings shareholders held on June 16, 2016 renewed the appointment of Dario Trevisan as the common representative for three financial years, up to the approval of the financial statements for the year ended December 31, 2018.

By decree of June 9, 2017, the Milan Court confirmed the appointment of Enrico Cotta Ramusino (already appointed by the decrees of April 11, 2014 and March 7, 2011) as the common representative of the bondholders for the Telecom Italia S.p.A. 2002-2022 bonds at variable rates, open special series, reserved for subscription by employees of the TIM Group, in service or retired , with a mandate for the three-year period 2017-2019.

By decree of June 14, 2018, the Court of Milan appointed Monica Iacoviello, as common representative of the holders of the Notes for the Loan Telecom Italia S.p.A. Euro 1,250,000,000 5.375 per cent. Notes due 2019 issue, up until the maturity and redemption of the bonds (January 29, 2019).

RATING AT DECEMBER 31, 2018

At December 31, 2018, the three rating agencies Standard & Poor s, Moody s and Fitch Ratings rated TIM as follows:

	Rating	Outlook
STANDARD & POOR S	BB+	Stable
MOODY S	Ba1	Stable
FITCH RATINGS	BBB-	Negative

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WAIVER OF THE OBLIGATION TO PUBLISH DISCLOSURE DOCUMENTS FOR EXTRAORDINARY OPERATIONS

On January 17, 2013, the Board of Directors of TIM S.p.A. resolved to exercise the option, as per article 70 paragraph 8 and article 71 paragraph 1-bis of the Consob Regulation 11971/99, to waive the obligations to publish disclosure documents in the event of significant operations such as mergers, demergers, capital increases by means of the transfer of assets in kind, acquisitions and disposals.

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RELATED PARTY TRANSACTIONS AND DIRECTION AND COORDINATION ACTIVITY

On May 16, 2018, the Board of Directors of TIM S.p.A. acknowledged that the grounds for considering Vivendi the entity exercising direction and coordination powers over TIM no longer applied. Furthermore, on June 25, 2018, the Board of Directors of TIM approved amendments to the internal procedure governing transactions with related parties, and updated the relative related-party boundary to reflect the new situation, whereby Vivendi no longer qualifies as the de facto controlling entity over TIM. The procedure was lastly updated by the Board of Directors with some improvements on July 24, 2018.

In accordance with Article 5, paragraph 8 of Consob Regulation 17221 of March 12, 2010 concerning Related-party transactions and the subsequent Consob Resolution 17389 of June 23, 2010, no significant transactions were conducted in 2018, as defined by Article 4, paragraph 1a of the aforementioned regulation, that had a material impact on the financial position or the performance of the TIM Group and TIM S.p.A. in 2018.

In addition, there were no changes or developments with respect to the related party transactions described in the 2017 Report on Operations which had a significant effect on the financial position or on the performance of the TIM Group and TIM S.p.A. in 2018.

Related-party transactions, when not dictated by specific laws, were conducted at arm s length. They were performed in compliance with the internal procedure, which sets forth rules designed to ensure the transparency and fairness of the transactions in accordance with Consob Regulation 17221/2010. The current procedure is available on the website www.telecomitalia.com, under the Group section/Governance System channel.

For information on related-party transactions, see the Financial Statements and Notes to the Consolidated Financial Statements and Separate Financial Statements Related-party transactions and direction and coordination activity .

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ALTERNATIVE PERFORMANCE MEASURES

In this Report on Operations, in the TIM Group Consolidated Financial Statements and in the Separate Financial Statements of the Parent, TIM S.p.A., for the year ended December 31, 2018, in addition to the conventional financial performance measures established by IFRS, certain alternative performance measures are presented for a better understanding of the performance of operations and financial position. Such measures, which are also presented in other periodical financial reports (annual and interim) should, however, not be construed as a substitute for those required by IFRS.

The alternative performance measures used are described below:

EBITDA: this financial measure is used by TIM as the financial target in internal presentations (business plans) and in external presentations (to analysts and investors). It represents a useful unit of measurement for assessing the operating performance of the Group (as a whole and at Business Unit level) and of the Parent, TIM S.p.A., in addition to EBIT. These measures are calculated as follows:

Profit (loss) before tax from continuing operations

+ Finance expenses

- Finance income

+/- Other expenses (income) from investments[1]

+/- Share of profits (losses) of associates and joint ventures accounted for using the equity method[2]

EBIT - Operating profit (loss)

+/- Impairment losses (reversals) on non-current assets

+/- Losses (gains) on disposals of non-current assets

+ Depreciation and amortization

EBITDA - Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets

(1) Expenses (income) from investments for TIM S.p.A..
(2) Line item in Group consolidated financial statements only.

Organic change in Revenues, EBITDA and EBIT: these measures express changes (amount and/or percentage) in Revenues, EBITDA and EBIT, excluding, where applicable, the effects of the change in the scope of consolidation and exchange differences.

TIM believes that the presentation of the organic change in revenues, EBITDA and EBIT allows for a more complete and effective understanding of the operating performance of the Group (as a whole and at Business Unit level) and of the Parent. This method of presenting information is also used in presentations to analysts and investors. This Report

on Operations provides a reconciliation between the reported figure and the organic figure.

EBITDA margin and EBIT margin: TIM believes that these margins represent useful indicators of the ability of the Group, as a whole and at Business Unit level, and of the Parent to generate profits from its revenues. In fact, EBITDA margin and EBIT margin measure the operating performance of an entity by analyzing the percentage of revenues that are converted into EBITDA and EBIT, respectively. Such indicators are used by TIM in internal presentations (business plans) and in external presentations (to analysts and investors) in order to illustrate the results from operations also through the comparison of the operating results of the financial year being reported with those of the previous years.

Net Financial Debt: TIM believes that the Net Financial Debt represents an accurate indicator of its ability to meet its financial obligations. It is represented by Gross Financial Debt less Cash and Cash Equivalents and other Financial Assets. The Report on Operations includes two tables showing the amounts taken from the statements of financial position and used to calculate the Net Financial Debt of the Group and Parent respectively.

In order to better represent the actual change in Net Financial Debt, in addition to the usual measure (named Net financial debt carrying amount), the Adjusted net financial debt is also shown, which excludes effects that are purely accounting in nature resulting from the fair value measurement of derivatives and related financial liabilities/assets.

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Net financial debt is calculated as follows:

+ Non-current financial liabilities

+ Current financial liabilities

+ Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale

A) Gross financial debt

+ Non-current financial assets

+ Current financial assets

+ Financial assets relating to Discontinued operations/Non-current assets held for sale

B) Financial assets

C=(A - B) Net financial debt carrying amount

D) Reversal of fair value measurement of derivatives and related financial liabilities/assets

E=(C + D) Adjusted net financial debt

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REVIEW OF KEY OPERATING AND FINANCIAL DATA - TIM S.p.A.

Non-recurring events - other one-off items

In 2018 and 2017, TIM S.p.A. recognized non-recurring operating expenses connected with events and transactions that by their nature do not recur as part of continuing operations, which are reported when their amount is material. Such expenses include the goodwill impairment loss, corporate restructuring and reorganization expenses, expenses resulting from regulatory disputes and sanctions and the liabilities related to those expenses, expenses for disputes with former employees, and liabilities with customers and/or suppliers, as well as items related to adjustments relative to previous years.

In detail:

(millions of euros)	2018	2017
Non-recurring net expenses		
Revenues		
Adjustments of revenues from previous years	62	
Acquisition of goods and services and Change in inventories		
Expenses related to agreements and the development of non-recurring projects	13	8
Employee benefits expenses		
Expenses related to restructuring and rationalization and other expenses	221	692
Sundry expenses and provisions		
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	108	176
Impact on EBITDA	404	876
Impairment loss on Goodwill	2,686	
Impairment losses on intangible assets		30
Impact on EBIT	3,090	906

Non-recurring net expenses in 2018 included:

- the goodwill impairment loss attributed to domestic activities (2,686 million euros);

- expenses related to company restructuring processes (221 million euros);

- the adjustment of some contractual liabilities in order to align them with their estimated period end value. Specifically, liabilities relative to "prepaid" contracts were adjusted by a total of 62 million euros, wholly attributable to previous financial years;

- sundry expenses for 121 million euros including provisions to cover a fine of 74.3 million euros levied for alleged infringement of Article 2 of Italian Decree Law 21 of March 15, 2012 (the "Golden Power" rule) under a ruling of May 8, 2018. The Company lodged an appeal with the Lazio Regional Administrative Court (TAR), requesting the precautionary suspension of the decision. In July 2018, the TAR granted the application and suspended payment of the fine, setting a date for the appeal to be heard.

Non-recurring expenses in 2017 chiefly included provisions for the start-up of the company restructuring plan of TIM S.p.A..

For comparative purposes only and to provide a better understanding of business performance in the reporting period, besides non-recurring transactions, "one-off" items are highlighted which, by their nature, are not linear or recurring, in the reporting period or the comparative period. Such above-mentioned items exclusively pertain to the Domestic market, are not subject to auditing and are produced for explanatory purposes only.

In 2017, positive one-off items for a total of 112 million euros were posted, relative to the differential impact arising from the revised estimate of the settlement value of some contractual liabilities with customers and suppliers.

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OPERATING PERFORMANCE

(millions of euros)	2018	2018 comparable (a)	2017 (b)	Change (a-b) amount	%
Revenues	13,902	14,055	14,099	(44)	(0.3)
EBITDA	5,608	5,876	5,801	75	1.3
EBIT margin	40.3%	41.8%	41.1%	0.7 pp	
EBIT	(241)	(77)	2,567	(2,644)	
EBIT margin	(1.7)%	(0.5)%	18.2%	(18.7)pp	
Profit (loss) before tax	(1,420)	(1,258)	1,398	(2,656)	
Profit (loss) for the year	(1,854)	(1,749)	1,087	(2,836)	
Licenses & capital expenditures	5,043	5,159	4,095	1,064	26.0
Net financial debt	29,360		29,210	150	0.5
Headcount at year end (number)	42,656		44,281	(1,625)	(3.7)

Revenues

Revenues amounted to 13,902 million euros.

The application of IFRS 15 resulted in the recognition of lower revenues by 153 million euros.

Excluding that effect, revenues for 2018 amounted to 14,055 million euros, down by 44 million euros (-0.3%) on 2017.

This result is impacted by the effects of the changed regulatory and competitive scenario (30-day pricing restored, entry of a fourth mobile operator), particularly in the Consumer segment.

Revenues for 2018 include a non-recurring adjustment of -62 million euros relating to previous financial years.

The sales segments show the following changes compared to 2017:

(millions of euros)	2018 comparable	2017	Change
Revenues	14,055	14,099	(44)
Consumer	7,480	7,659	(179)
Business	4,577	4,492	85
Wholesale	1,959	1,826	133
Other	39	122	(83)

In particular:

Consumer: revenues for the Consumer segment in 2018 amounted to 7,480 million euros, a decrease of 179 million euros compared to 2017 (-2.3%). In particular:

Revenues for the mobile segment were equal to 3,815 million euros, down by 71 million euros over 2017 (equal to -1.8%), particularly in the fourth quarter, following the greater impact of the changed competitive and regulatory scenario;

Revenues for the fixed segment were equal to 3,696 million euros, down by 113 million euros over 2017 (-3.0%), but with revenues from services holding up, thanks to higher ARPU levels that offset the effects of a decrease in access.

Business: revenues for the Business segment amounted to 4,577 million euros, up by 85 million euros on 2017 (+1.9%). In particular:

Revenues for the Mobile segment in 2018 totaled 1,196 million euros (+1.6%), up over the previous year, due in particular to the development of new digital services;

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Revenues for the Fixed segment were equal to 3,448 million euros, up by 64 million euros over 2017 (+1.9% compared to 2017) due to continual growth in innovative services, which widely offset the natural decline in revenues from traditional services.

Wholesale: revenues for the Wholesale segment in 2018 came to 1,959 million euros, up on the figure of 2017 (+133 million euros, equal to +7.3%).

EBITDA

EBITDA amounted to 5,608 million euros for 2018.

The application of IFRS 15 had a negative impact on EBITDA of 268 million euros. Excluding this effect, comparable EBITDA for 2018 totaled 5,876 million euros (5,801 million euros in 2017), increasing by 75 million euros (equal to +1.3%); the EBITDA margin stood at 41.8% (41.1% in 2017, up by 0.7 percentage points).

EBITDA for 2018, net of the non-recurring component, amounted to 6,280 million euros (6,677 million euros in 2017). Specifically EBITDA for 2018 reflected a negative impact totaling 404 million euros referring to non-recurring expenses (876 million euros in 2017), as already described.

Further details on non-recurring items are provided in the Note Significant non-recurring events and transactions of the Separate Financial Statements at December 31, 2018 of TIM S.p.A..

Organic EBITDA is calculated as follows:

(millions of euros)	2018	2017	Change amount	%
REPORTED EBITDA	5,608			
Effect of adoption of new accounting standards	268			
COMPARABLE EBITDA - on the same accounting basis	5,876	5,801	75	1.3
of which non-recurring income/(expenses)	(404)	(876)	472	
ORGANIC EBITDA - excluding Non-recurring items	6,280	6,677	(397)	(5.9)

In 2017, EBITDA also reflected some one-off items for a total of 112 million euros, relative to the differential impact arising from the revised estimate of the settlement value of some contractual liabilities with customers and suppliers.

The following elements also affected EBITDA:

Other operating income (252 million euros; 252 million euros on comparable basis; 459 million euros in 2017)

(millions of euros)	2018 comparable	2017	Change
Late payment fees charged for telephone services	49	48	1
Recovery of employee benefit expenses, purchases and services rendered	27	20	7
Capital and operating grants	33	44	(11)
Damages, penalties and recoveries connected with litigation	23	35	(12)
Partnership agreements and other arrangements with suppliers	22	97	(75)
Estimate revisions and other adjustments	73	188	(115)
Other	25	27	(2)
Total	252	459	(207)

Other operating income includes, among others, contribution fees resulting from partnership agreements and other arrangements with suppliers, designed to develop the collaboration between the parties, in order to strengthen and stabilize industrial, commercial and real estate relations over time. In the 2017 financial year, Other income included the aforementioned one-off items for a total amount of 112 million euros.

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Acquisition of goods and services (5,801 million euros; 5,715 million euros on comparable basis; 5,567 million euros in 2017)

(millions of euros)	2018 comparable	2017	Change
Acquisition of goods	1,643	1,566	77
Revenues due to other TLC operators and costs for telecommunications network access services	762	766	(4)
Commercial and advertising costs	777	743	34
Professional and consulting services	115	86	29
Power, maintenance and outsourced services	1,106	1,123	(17)
Lease and rental costs	803	767	36
Other	509	516	(7)
Total acquisition of goods and services	5,715	5,567	148
% of Revenues	40.7	39.5	1.2 pp

This item increased by 148 million euros compared to 2017. Costs for the acquisition of goods increased mainly due to higher purchasing volumes of equipment and handsets related to the increase in product sales and to higher commercial costs and costs for professional services; reduction in costs for energy and outsourced services is attributable to streamlining actions taken during the year.

Employee benefits expenses (2,541 million euros; 2,531 million euros on comparable basis; 3,034 million euros in 2017)

(millions of euros)	2018 comparable	2017	Change
Ordinary employee expenses and costs	2,310	2,342	(32)
Restructuring expenses and allocations to employee and other provisions	221	692	(471)
Total employee benefits expenses	2,531	3,034	(503)

Employee benefits expenses decreased by 503 million euros compared to 2017. The main factors that drove this change were:

- lower ordinary employee expenses, which fell by 32 million euros, mainly due to the benefits delivered by the downsizing of the average salaried workforce by 1,433 employees (excluding the component relating to the solidarity agreement), which in part were offset by the termination, at the start of 2018, of the defensive solidarity agreements applied by TIM S.p.A. The solidarity agreement was renewed in June 2018 for a further 12 months;

- the decrease of 471 million euros for restructuring expenses and allocations to employee and other provisions. Specifically, a plan was launched at the end of 2017 for executive and non-executive staff to adopt, among others, Article 4(1 7-ter) of Law 92 of June 28, 2012 (the Fornero Law , which provides for early retirement arrangements). During 2018, Plan take-up was greater than initially forecast, while Decree Law 4 of January 28, 2019, which introduced significant changes in social security, allows wider accessibility in terms of recourse to assisted pensions. As a consequence estimates for staff leaving in 2019-2020 were revised, with additional non-recurring provisions being allocated for a total of 203 million euros. In 2017, provisions were already set aside for non-recurring expenses totaling 692 million euros.

The headcount at December 31, 2018 amounted to 42,656 employees, a decrease of 1,625 compared to December 31, 2017 (44,281).

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Other operating expenses (722 million euros; 703 million euros on comparable basis; 658 million euros in 2017)

(millions of euros)	2018 comparable	2017	Change
Write-downs and expenses in connection with credit management	350	303	47
Provision charges	112	153	(41)
TLC operating fees and charges	41	48	(7)
Indirect duties and taxes	67	63	4
Penalties, settlement compensation and administrative fines	73	35	38
Association dues and fees, donations, scholarships and traineeships	10	12	(2)
Other	50	44	6
Total	703	658	45

Other operating expenses included a non-recurring component of 108 million euros (176 million euros in 2017), consisting chiefly of the fine levied on May 8, 2018 in application of the Golden Power rule (Italian Decree Law 21 of 15/3/2012).

Depreciation and amortization

As a result of the introduction of IFRS 15, which requires that customer acquisition costs be deferred, rather than capitalized, depreciation and amortization for 2018 amounted to 3,155 million euros.

Depreciation and amortization on the same accounting basis instead amounted to 3,259 million euros, rising by 56 million euros compared to 2018 (3,203 million euros). In particular, we report:

- depreciation posted an increase of 40 million euros, mainly due to the reduction of the lease terms on some real estate leases classified as finance leases renegotiated as part of a Project of real estate space restructuring and rationalization which resulted in greater depreciation, including improvements, of around 28 million euros;

- amortization increased by 16 million euros, mainly due to the capitalization of subscriber acquisition costs (SACs) for 23 million euros, the investment following the extension of the GSM license for 10 million euros and IRU contracts for 5 million euros. The increase was partially offset by decreases for 22 million euros, due to the reduction in software amortization.

Gains/(losses) on disposals of non-current assets

The item showed a loss of 11 million euros (a loss of one million euros in 2017). Capital losses, totaling 13 million euros, included 6 million euros for advance releases of property lease agreements.

Impairment reversals (losses) on non-current assets

The item Impairment reversals (losses) on non-current assets was negative by 2,683 million euros (negative by 30 million euros in 2017), mainly following the TIM S.p.A. goodwill impairment loss in the year.

A more detailed analysis is provided in the Note Goodwill in the Separate Financial Statements as at December 31, 2018 of TIM S.p.A.

EBIT

The item shows a negative 241 million euros.

The application of IFRS 15 had a negative impact on EBIT of 164 million euros. Excluding that effect, EBIT for 2018 was negative for 77 million euros (2,567 million euros in 2017), showing a drop of 2,644 million euros. The EBIT margin fell from 18.2% in 2017 to -0.5% in 2018.

EBIT for 2018 was pulled down by non-recurring net expenses, including the aforesaid goodwill impairment loss, totaling 3,090 million euros (906 million euros in 2017).

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In particular:

(millions of euros)	2018	2017	Change amount	%
REPORTED EBIT	(241)			
Effect of adoption of new accounting standards	164			
COMPARABLE EBIT on the same accounting basis	(77)	2,567	(2,644)	
of which non-recurring income/(expenses)	(3,090)	(906)	(2,184)	
ORGANIC EBIT excluding Non-recurring items	3,013	3,473	(460)	(13.2)

Income (expenses) from investments

The item, equal to 71 million euros (71 million euros on comparable basis) is as follow:

(millions of euros)	2018 comparable	2017	Change
Dividends	125	255	(130)
Impairment losses on financial assets	(54)	(30)	(24)
Total	71	225	(154)

In particular, we report:

dividends mainly referred to the subsidiaries Inwit S.p.A. (68 million euros), TI Finance (38 million euros) and Persidera (8 million euros), as well as the company Emittenti Titoli (10 million euros). In 2017, dividends mainly referred to the subsidiaries TI Finance (190 million euros), Inwit S.p.A. (53 million euros), Persidera (9 million euros), and Telecontact (2 million euros);

impairment losses mainly referred to the write-down of the investments held in the subsidiary Noverca (42 million euros), Persidera (4 million euros), and Olivetti (5 million euros), as well as in the associate Tiglio 1 (2 million euros). In 2017, impairment losses mainly related to the subsidiaries TN Fiber (16 million euros), Olivetti (6 million euros), and the associate Alfiere (7 million euros).

Finance income (expenses), net

Finance income (expenses) showed a net expense of 1,250 million euros (expense of 1,394 million euros in 2017). The improvement is connected to the reduction in average debt exposure and a drop in interest rates from the

refinancing operations carried out over the last 12/18 months, as well as the effects of the change on some non-monetary items of a currency and accounting nature, relative to the fair value measurement of derivatives, as provided for in IFRS 13.

Income tax expense

This item amounted to 434 million euros, showing an increase of 123 million euros on 2017 (311 million euros). The trend in taxes is affected by the impact of some items in 2018 that are not relevant for tax purposes (mainly driven by goodwill impairment loss and other non-deductible sundry expenses and lower tax deductions for dividends). Further details are provided in the Note Income tax expense (current and deferred) of the Separate Financial Statements at December 31, 2018 of TIM S.p.A..

Profit (loss) for the year

The loss for the year amounted to 1,854 million euros (profit of 1,087 million euros in 2017). The figure was adversely affected by the adoption of IFRS 9 and IFRS 15 for 105 million euros, as well as by non-recurring net expenses (including the previously mentioned goodwill impairment loss) for 3,024 million euros.

On comparable basis, profit for the year would have amounted to around 1.3 billion euros, a drop of approximately 0.4 billion euros over 2017.

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Financial Position and Cash Flows Performance

Financial position structure

(millions of euros)	12/31/2018 (a)	12/31/2017 (b)	Change (a-b)
Assets			
Non-current assets	55,205	56,231	(1,026)
Goodwill	*24,341*	*27,027*	*(2,686)*
Other intangible assets	*6,339*	*4,249*	*2,090*
Tangible assets	*12,476*	*12,943*	*(467)*
Other non-current assets	*11,167*	*11,110*	*57*
Deferred tax assets	*882*	*902*	*(20)*
Current assets	5,956	5,956	
Inventories, Trade and miscellaneous receivables and other current assets	*4,112*	*4,113*	*(1)*
Current income tax receivables	*166*		*166*
Current financial assets	*1,678*	*1,843*	*(165)*
	61,161	62,187	(1,026)
Equity and liabilities			
Equity	18,138	20,069	(1,931)
Non-current liabilities	29,868	32,016	(2,148)
Current liabilities	13,155	10,102	3,053
	61,161	62,187	(1,026)

Non-current assets

Goodwill: the item shows a decrease of 2,686 million euros compared to December 31, 2017, following the aforementioned goodwill impairment loss attributed to domestic activities;

Other intangible assets: rose by 2,090 million euros, representing the sum of the following:

- Impact as a consequence of the adoption of the new version of IFRS 15 as from January 1, 2018 (-78 million euros);
- capex (+3,310 million euros);
- amortization charge for the year (-1,146 million euros);
- reversals, reclassifications and other changes (+4 million euros).

Tangible assets: decreased by 467 million euros, representing the sum of the following:

- capex (+1,733 million euros);
- changes in finance leasing contracts (+58 million euros);
- depreciation charge for the year (-2,009 million euros);
- disposals, reclassifications and other changes (-249 million euros).

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Equity

Equity amounted to 18,138 million euros, down by 1,931 million euros compared to December 31, 2017 (20,069 million euros). The changes in equity over 2018 and 2017 are detailed in the following table:

(millions of euros)	12/31/2018	12/31/2017
At the beginning of the year	20,069	18,973
Impact of the adoption of IFRS 9 and IFRS 15	6	
At the beginning of the year, restated	20,075	18,973
Profit (loss) for the year	(1,854)	1,087
Dividends approved	(166)	(166)
Merger of TIM Real Estate S.r.l. and Olivetti Multiservices S.p.A. into TIM S.p.A.		44
Issue of equity instruments and other changes	3	(6)
Movements in the reserve for financial assets measured at fair value through other comprehensive income and derivative hedging instruments	65	130
Movements in the reserve for remeasurements of employee defined benefit plans (IAS 19)	15	7
At the end of the year	18,138	20,069

Cash flows

Change in net financial debt

(millions of euros)	2018	2017	Change
EBITDA	5,608	5,801	(193)
Capital expenditures on an accrual basis	(2,644)	(3,465)	821

Expenditures for mobile telephone licenses	(2,399)	(630)	(1,769)
Change in net operating working capital:	1,154	(10)	1,164
Change in inventories	*(84)*	*(45)*	*(39)*
Change in trade receivables and net amounts due from customers on construction contracts	*(65)*	*(16)*	*(49)*
Change in trade payables (*)	*(196)*	*83*	*(279)*
Change in payables for mobile telephone licenses	*1,922*		*1,922*
Other changes in operating receivables/payables	*(423)*	*(32)*	*(391)*
Change in employee benefits	(194)	439	(633)
Change in operating provisions and Other changes	49	103	(54)
Net operating free cash flow	1,574	2,238	(664)
of which operating free cash flow connected with the purchase of mobile telephone licenses	*(477)*	*(630)*	*153*
% of Revenues	*11.3*	*15.9*	*(4.6) pp*
Sale of investments and other disposals flow	24	47	(23)
Financial investments flow	(130)	(76)	(54)
Dividends flow	(51)	89	(140)
Increases in finance leasing contracts	(58)	(54)	(4)
Share capital increases/reimbursements			
Financial expenses, income taxes and other net non-operating requirements flow	(1,509)	(2,257)	748
Reduction (Increase) in net financial debt	(150)	(13)	(137)

(*) Includes the change in trade payables for amounts due to fixed asset suppliers.

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The decrease in net operating free cash flow in 2018, compared to 2017, was driven mainly by the drop in EBITDA (193 million euros), by higher capital expenditures and mobile phone licenses (948 million euros), as well as by provisions for employee benefits expenses, partially offset by the change in net working capital.

In addition to what has already been illustrated with reference to EBITDA, adjusted net financial debt at December 31, 2018 was particularly impacted by the following:

Flow of expenditures for mobile telephone licenses / spectrum

Capital expenditures totaled 5,043 million euros (net of the effect of the introduction of IFRS 15, amounting to 5,159 million euros; they were equal to 4,095 million euros in 2017), with a growth of 948 million euros, determined by higher capital expenditures on intangible assets of 1,683 million euros, partially offset by lower capital expenditures of 735 million euros on tangible assets.

In particular, we report:

- capital expenditures in intangible assets rose by million euros, driven by the investment of 2,399 million euros in the acquisition of user rights to frequencies in the 694 790 MHz, 3600 3800 MHz, and 26.5 27.5 GHz bands, which will be reserved for 5G mobile telecommunications services, awarded to the Group by the Ministry of Economic Development auction. The user rights were formally awarded on October 9, 2018, with the rights to 3600 3800 MHz and 26.5 27.5 GHz frequencies assigned on a definitive basis in January 2019, while the user rights to 694 790 MHz frequencies will be assigned in July 2022;

- capital expenditures in tangible assets fell by 735 million euros, mainly driven by lower investments in Network infrastructure, in part due to the progressive delivery of ultra-broadband coverage objectives and the completion of Ministry of Economic Development financed projects.

Sale of investments and other disposals flow

This item shows a positive figure of 24 million euros and related mainly to disposals of tangible assets.

In 2017, the item posted a positive balance of 47 million euros, reflecting the sale of tangible assets and 3 million euros collection of the deferred portion of the sale price of a non-controlling interest sold in previous years.

Financial investments flow

The figure amounted to 130 million euros and referred primarily to investment account payments to cover subscriptions of new share capital issued by the subsidiaries Noverca (40 million euros) Flash Fiber (86 million euros) and Timvision (2 million euros). In 2017, the figure amounted to 76 million euros and referred primarily to investment account payments to cover subscriptions of new share capital issued by the subsidiaries Flash Fiber (62 million euros)

and Noverca (10 million euros).

Increases in finance leasing contracts

This item, equal to 58 million euros, refers to the higher value of finance lease assets, also due to higher financial payables recognized, mainly following the recognition of vehicle lease agreements as finance leases in accordance with IAS 17. In 2017, the item amounted to 54 million euros. Further details are provided in the Note Tangible assets (owned and under finance leases) in the Separate Financial Statements at December 31, 2018 of TIM S.p.A..

Share capital increases/reimbursements, including incidental costs

No increases or reimbursements of share capital were made in 2018 and in 2017.

Finance expenses, income taxes and other net non-operating requirements flow

Finance expenses, income taxes and other net non-operating requirements flow mainly includes the payment of income taxes, net finance expenses, and the change in non-operating receivables and payables.

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Net financial debt

This item amounted to 29,360 million euros, up by 150 million euros on 2017 (29,210 million euros).

To provide a better representation of the true performance of Net Financial Debt, from 2009, in addition to the usual indicator (renamed Net financial debt carrying amount), a measure called Adjusted net financial debt has also been shown, which neutralizes the effects caused by the volatility of financial markets. Given that some components of the fair value measurement of derivatives (contracts for setting exchange and interest rates for contractual flows) and derivatives embedded in other financial instruments do not result in actual monetary settlement, the Adjusted net financial debt excludes these purely accounting and non-monetary effects (including the effects resulting from the introduction of IFRS 13 Fair Value measurement, from January 1, 2013) from the measurement of derivatives and related financial assets/liabilities.

The details are as follows:

(millions of euros)	12/31/2018	12/31/2017	Change
Non-current financial liabilities			
Bonds	13,984	14,902	(918)
Amounts due to banks, other financial payables and liabilities	9,348	11,709	(2,361)
Finance lease liabilities	1,445	1,856	(411)
	24,777	28,467	(3,690)
Current financial liabilities (1)			
Bonds	2,126	1,528	598
Amounts due to banks, other financial payables and liabilities	5,618	2,522	3,096
Finance lease liabilities	159	147	12
	7,903	4,197	3,706
Total gross financial debt	32,680	32,664	16
Non-current financial assets			
Financial receivables and other non-current financial assets	(1,642)	(1,611)	(31)
	(1,642)	(1,611)	(31)
Current financial assets			
Securities other than investments	(466)	(746)	280

Financial receivables and other current financial assets	(327)	(326)	(1)
Cash and cash equivalents	(885)	(771)	(114)
	(1,678)	(1,843)	165
Total financial assets	(3,320)	(3,454)	134
Net financial debt carrying amount	29,360	29,210	150
Reversal of fair value measurement of derivatives and related financial liabilities/assets	(1,307)	(1,414)	107
Adjusted net financial debt	28,053	27,796	257
Breakdown as follows:			
Total adjusted gross financial debt	30,712	30,298	414
Total adjusted financial assets	(2,659)	(2,502)	(157)
(1) of which current portion of medium/long-term debt:			
Bonds	*2,126*	*1,528*	*598*
Amounts due to banks, other financial payables and liabilities	*3,372*	*1,428*	*1,944*
Finance lease liabilities	*159*	*147*	*12*

The non-current portion of gross financial debt amounted to 24,777 million euros (28,467 million euros at the end of 2017) and represented 76% of total gross financial debt.

In line with the Group s objectives in terms of debt composition and in accordance Guidelines adopted for the Management and control of financial risk , TIM S.p.A., in securing both third-party and intercompany loans, uses IRS and CCIRS derivative financial instruments to hedge its liabilities.

Derivative financial instruments are designated as fair value hedges for managing exchange rate risk on financial instruments denominated in currencies other than euro and for managing interest rate risk on fixed-rate loans. Derivative financial instruments are designated as cash flow hedges when the objective is to fix the exchange rate and interest rate of future variable contractual flows.

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Gross financial debt

Bonds

Bonds at December 31, 2018 totaled 16,110 million euros (16,430 million euros at December 31, 2017). Their nominal repayment amount was 15,849 million euros, down by 378 million euros compared to December 31, 2017 (16,227 million euros).

Changes in bonds over 2018 are shown below:

(millions of original currency)	Currency	Amount	Issue date
New issues			
Telecom Italia S.p.A. 750 million euros 2.875% (1/28/2026)	Euro	750	6/28/2018

(millions of original currency)	Currency	Amount	Repayment date
Repayments			
Telecom Italia S.p.A. 593 million euros 4.750% [1]	Euro	593	5/25/2018
Telecom Italia S.p.A. 582 million euros 6.125% [2]	Euro	582	12/14/2018

(1) Net of buy-backs totaling 157 million euros made by the company in 2015.
(2) Net of buy-backs totaling 168 million euros made by the company in 2015.

With reference to Telecom Italia S.p.A. 2002 2022 bonds, reserved for subscription by employees of the Group, the nominal amount at December 31, 2018 was 203 million euros, down by 1 million euros compared to December 31, 2017 (204 million euros).

On January 11, 2019, TIM S.p.A. issued a bond for 1,250 million euros, maturing on April 11, 2024, with coupon equal to 4.000%, issue price 99.436%, repayment price 100%. The issue is part of the maturing debt optimization and refunding process.

Revolving Credit Facility and Term Loan

The following table shows committed credit lines available at December 31, 2018.

		12/31/2018		12/31/2017	
(billions of euros)		Approved	Drawdowns	Approved	Drawdowns
Revolving Credit Facility	maturing May 2019			4.0	
Revolving Credit Facility	maturing March 2020			3.0	

Revolving Credit Facility	maturing January 2023	5.0	
Total		5.0	7.0

On January 16, 2018, two syndicated Revolving Credit Facilities existing at December 31, 2017 were closed in advance and replaced by a new syndicated Revolving Credit Facility for a total of 5 billion euros, maturing on January 16, 2023, currently not drawn.

At December 31, 2018, TIM had bilateral Term Loans for 1,475 million euros and overdraft facilities for 250 million euros, drawn down for the full amount.

Maturities of financial liabilities

The average maturity of non-current financial liabilities (including the current portion of medium/long-term financial liabilities due within 12 months) was 7.07 years.

Details of the maturities of financial liabilities in terms of expected nominal repayment amounts, as contractually agreed, are provided in the Note Financial Liabilities (non-current and current) of the Separate Financial Statements of TIM S.p.A. at December 31, 2018.

Financial assets and liquidity margin

Financial assets totaled 3,320 million euros (3,454 million euros at December 31, 2017), of which 708 million euros relating to financial receivables from Group companies.

Of that total, 1,678 million euros (1,843 million euros at December 31, 2017) was classified as current financial assets.

The available liquidity margin of TIM S.p.A. amounted to 6,351 million euros, equal to the sum of:

- Cash and cash equivalents and Current securities other than investments for a total of 1,351 million euros (1,517 million euros at December 31, 2017);
- the new *Revolving Credit Facility* opened in January 2018 for 5,000 million euros.

This margin is amply sufficient to cover the financial liabilities due.

In particular:

Cash and cash equivalents amounted to 885 million euros (771 million euros at December 31, 2017). The different technical forms of investing available cash can be analyzed as follows:

- Maturities: investments have a maximum maturity of three months;
- Counterparty risk: investments are made with leading banking and financial institutions with high-credit-quality;
- Country risk: deposits have been made mainly in major European financial markets.

Current securities other than investments amounted to 466 million euros (746 million euros at December 31, 2017). These forms of investment represent alternatives to the investment of liquidity with the aim of improving returns. They consist of:

- Italian Treasury bonds (252 million euros). These securities, which, pursuant to Consob Communication DEM/11070007 of August 5, 2011, represent investments in Sovereign debt securities , have been purchased in accordance with the Guidelines for the Management and control of financial risk adopted by the TIM Group since August 2012, in replacement of the previous policies;
- securities held in portfolio by TIM S.p.A. for a total nominal amount of USD 240 million, resulting from the public buyback offer on bonds of Telecom Italia Capital S.A. completed on July 20, 2015.

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FINANCIAL STATEMENTS TIM S.p.A.

Separate Income Statements

(millions of euros)	2018	2018 comparable (a)	2017 (b)	Change (a/b) amount	Change (a/b) %
Revenues	13,902	14,055	14,099	(44)	(0.3)
Other income	252	252	459	(207)	(45.1)
Total operating revenues and other income	14,154	14,307	14,558	(251)	(1.7)
Acquisition of goods and services	(5,801)	(5,715)	(5,567)	(148)	(2.7)
Employee benefits expenses	(2,541)	(2,531)	(3,034)	503	16.6
Other operating expenses	(722)	(703)	(658)	(45)	(6.8)
Change in inventories	84	84	45	39	86.7
Internally generated assets	434	434	457	(23)	(5.0)
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	5,608	5,876	5,801	75	1.3
Depreciation and amortization	(3,155)	(3,259)	(3,203)	(56)	(1.7)
Gains/(losses) on disposals of non-current assets	(11)	(11)	(1)	(10)	
Impairment reversals (losses) on non-current assets	(2,683)	(2,683)	(30)	(2,653)	
Operating profit (loss) (EBIT)	(241)	(77)	2,567	(2,644)	
Income (expenses) from investments	71	71	225	(154)	(68.4)
Finance income	1,177	1,172	1,571	(399)	(25.4)
Finance expenses	(2,427)	(2,424)	(2,965)	541	18.2
Profit (loss) before tax	(1,420)	(1,258)	1,398	(2,656)	

Income tax expense	(434)	(491)	(311)	(180)	(57.9)
Profit (loss) for the year	(1,854)	(1,749)	1,087	(2,836)	

Statements of Comprehensive Income

In accordance with IAS 1 (Presentation of Financial Statements), the following Statements of Comprehensive Income include the Profit (loss) for the year as shown in the Separate Income Statements and all non-owner changes in equity.

(millions of euros)		2018	2017
Profit (loss) for the year	(a)	(1,854)	1,087
Other components of the Statements of Comprehensive Income			
Other components that will not be reclassified subsequently to Separate Income Statements			
Financial assets measured at fair value through other comprehensive income:			
Profit (loss) from fair value adjustments		(4)	
Income tax effect			
	(b)	(4)	
Remeasurements of employee defined benefit plans (IAS 19):			
Actuarial gains (losses)		20	9
Income tax effect		(5)	(2)
	(c)	15	7
Share of other profits (losses) of associates and joint ventures accounted for using the equity method:			
Profit (loss)			
Income tax effect			
	(d)		
Total other components that will not be reclassified subsequently to Separate Income Statements	(e=b+c+d)	11	7
Other components that will be reclassified subsequently to Separate Income Statements			
Financial assets measured at fair value through other comprehensive income(*):			
Profit (loss) from fair value adjustments		11	(33)
Loss (profit) transferred to the Separate Income Statements			

Income tax effect		(3)	9
	(f)	8	(24)
Hedging instruments:			
Profit (loss) from fair value adjustments		70	(190)
Loss (profit) transferred to the Separate Income Statements		10	393
Income tax effect		(19)	(49)
	(g)	61	154
Share of other profits (losses) of associates and joint ventures accounted for using the equity method:			
Profit (loss)			
Loss (profit) transferred to the Separate Income Statements			
Income tax effect			
	(h)		
Total other components that will be reclassified subsequently to Separate Income Statements	(i= f+g+h)	69	130
Total other components of the Statements of Comprehensive Income	(k= e+i)	80	137
Total comprehensive income (loss) for the year	(a+k)	(1,774)	1,224

(*) Including, for 2017, available-for-sale financial assets .

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Statements of Financial Position

(millions of euros)		12/31/2018 (a)	12/31/2017 (b)	Change (a-b)
Assets				
Non-current assets				
Intangible assets				
Goodwill		24,341	27,027	(2,686)
Intangible assets with a finite useful life		6,339	4,249	2,090
		30,680	31,276	(596)
Tangible assets				
Property, plant and equipment owned		10,782	10,871	(89)
Assets held under finance leases		1,694	2,072	(378)
		12,476	12,943	(467)
Other non-current assets				
Investments		7,821	7,747	74
Non-current financial assets		1,642	1,611	31
Miscellaneous receivables and other non-current assets		1,704	1,752	(48)
Deferred tax assets		882	902	(20)
		12,049	12,012	37
Total Non-current assets	(a)	55,205	56,231	(1,026)
Current assets				
Inventories		262	178	84
Trade and miscellaneous receivables and other current assets		3,850	3,935	(85)
Current income tax receivables		166		166
Current financial assets				
Securities other than investments, financial receivables and other current financial assets		*793*	*1,072*	*(279)*

Cash and cash equivalents		*885*	*771*	*114*
		1,678	1,843	(165)
Total Current assets	(b)	5,956	5,956	
Total Assets	(a+b)	61,161	62,187	(1,026)

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(millions of euros)		12/31/2018 (a)	12/31/2017 (b)	Change (a-b)
Equity and liabilities				
Equity				
Share capital issued		11,677	11,677	
less: Treasury shares		(21)	(21)	
Share capital		11,656	11,656	
Additional paid-in capital		2,094	2,094	
Other reserves and retained earnings (accumulated losses), including profit (loss) for the year		4,388	6,319	(1,931)
Total Equity	(c)	18,138	20,069	(1,931)
Non-current liabilities				
Non-current financial liabilities		24,777	28,467	(3,690)
Employee benefits		1,503	1,661	(158)
Deferred tax liabilities		3	2	1
Provisions		579	595	(16)
Miscellaneous payables and other non-current liabilities		3,006	1,291	1,715
Total Non-current liabilities	(d)	29,868	32,016	(2,148)
Current liabilities				
Current financial liabilities		7,903	4,197	3,706
Trade and miscellaneous payables and other current liabilities		5,238	5,850	(612)
Current income tax payables		14	55	(41)
Total Current Liabilities	(e)	13,155	10,102	3,053
Total Liabilities	(f=d+e)	43,023	42,118	905
Total Equity and Liabilities	(c+f)	61,161	62,187	(1,026)

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Statements of Cash Flows

(millions of euros)		2018	2017
Cash flows from operating activities:			
Profit (loss) for the year		(1,854)	1,087
Adjustments for:			
Depreciation and amortization		3,155	3,203
Impairment losses (reversals) on non-current assets (including investments)		2,739	73
Net change in deferred tax assets and liabilities		(14)	(168)
Losses (gains) realized on disposals of non-current assets (including investments)		11	1
Change in provisions for employee benefits		(194)	439
Change in inventories		(84)	(45)
Change in trade receivables and net amounts due from customers on construction contracts		(65)	(16)
Change in trade payables		(174)	(538)
Net change in current income tax receivables/payables		(205)	(485)
Net change in miscellaneous receivables/payables and other assets/liabilities		(434)	99
Cash flows from (used in) operating activities	(a)	2,881	3,650
Cash flows from investing activities:			
Purchase of intangible assets		*(3,310)*	*(1,627)*
Purchase of tangible assets		*(1,791)*	*(2,522)*
Total purchase of intangible and tangible assets on an accrual basis		(5,101)	(4,149)
Change in amounts due for purchases of intangible and tangible assets		*1,957*	*676*
Total purchase of intangible and tangible assets on a cash basis		(3,144)	(3,473)
Contributions for plants received		108	82
Cash arising from corporate actions			(243)

Acquisitions/disposals of other investments		(130)	(76)
Change in financial receivables and other financial assets (excluding hedging derivative and other derivative receivables)		265	(114)
Proceeds received from the sale of investments in subsidiaries			
Proceeds from sale/repayment of intangible, tangible and other non-current assets		24	47
Cash flows from (used in) investing activities	(b)	(2,877)	(3,777)
Cash flows from financing activities:			
Change in current financial liabilities and other		682	(317)
Proceeds from non-current financial liabilities (including current portion)		2,723	3,243
Repayments of non-current financial liabilities (including current portion)		(3,534)	(3,595)
Changes in hedging and non-hedging derivatives		(224)	199
Share capital proceeds/reimbursements			
Dividends paid		(166)	(166)
Cash flows from (used in) financing activities	(c)	(519)	(636)
Aggregate cash flows	(d=a+b+c)	(515)	(763)
Net cash and cash equivalents at beginning of the year	(e)	299	1,062
Net cash and cash equivalents at end of the year	(f=d+e)	(216)	299

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Additional Cash Flow Information

(millions of euros)	2018	2017
Income taxes (paid) received	(632)	(949)
Interest expense paid	(2,034)	(2,838)
Interest income received	953	1,658
Dividends received	115	255

Analysis of Net Cash and Cash Equivalents

(millions of euros)	2018	2017
Net cash and cash equivalents at beginning of the year:		
Cash and cash equivalents	771	1,230
Bank overdrafts repayable on demand	(472)	(168)
	299	1,062
Net cash and cash equivalents at end of the year:		
Cash and cash equivalents	885	771
Bank overdrafts repayable on demand	(1,101)	(472)
	(216)	299

The additional disclosures required by IAS 7 are provided in the Note Net Financial Debt in the Separate Financial Statements of TIM S.p.A. as at December 31, 2018.

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RECONCILIATION OF CONSOLIDATED EQUITY

(millions of euros)	Profit (loss) for the year 2018	Profit (loss) for the year 2017	Equity at 12/31 2018	Equity at 12/31 2017
Equity and Profit (Loss) for the year of TIM S.p.A.	(1,854)	1,087	18,138	20,069
Equity and Profit (Loss) for the year of consolidated companies, net of the share attributable to Non-controlling interests	707	378	14,782	14,999
Consolidation adjustments on the Equity and Profit (Loss) for the year attributable to Owners of the Parent:				
elimination of carrying amount of consolidated investments			(28,051)	(28,287)
impairment losses of consolidated companies included in the results of parent companies	59	32	12,659	12,675
elimination of goodwill recognized in Parent financial statements	2,686		(24,341)	(27,027)
recognition of positive differences arising from purchase of investments, of which:				
- goodwill	(2,590)		26,057	28,732
- allocation of the purchase price to the net assets acquired and the liabilities assumed in the business combinations	(2)	(3)	27	29
measurement of hedging derivatives at Group level	2	27	488	553
effect of elimination of carrying amount of Parent s shares held by Telecom Italia Finance			(61)	(91)
intra-group dividends	(379)	(370)		
other adjustments	(40)	(30)	(170)	(95)
Equity and Profit (Loss) for the year attributable to Owners of the Parent	(1,411)	1,121	19,528	21,557
Equity and Profit (Loss) for the year attributable to Non-controlling interests	259	166	2,219	2,226
Equity and Profit (Loss) for the year in the Consolidated Financial Statements	(1,152)	1,287	21,747	23,783

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CORPORATE BOARDS AT DECEMBER 31, 2018

BOARD OF DIRECTORS

The Ordinary Shareholders meeting of TIM, held on May 4, 2018, appointed a new Board of 15 Directors for a three-year term of office (up to the approval of the financial statements at December 31, 2020). At its first meeting on May 7, 2018, the Board of Directors appointed Fulvio Conti as its Chairman, and Amos Genish as Chief Executive Officer of the Company.

At the Board of Directors meeting held on July 24, 2018, the director Dante Roscini was appointed Lead Independent Director, tasked with supporting the chairman (an independent) in coordinating the board s work, and with the powers and responsibilities identified in the Borsa Italiana Corporate Governance Code.

The Board of Directors, in the meeting of November 13, 2018, withdrew the majority decision taken and with immediate effect revoked all powers granted to the Board Director Amos Genish; in compliance with the succession plan for executive directors adopted by TIM, the powers removed from the Board Director Amos Genish were temporarily assigned to the Chairman of the Board of Directors.

Subsequently, on November 18, 2018, the Board of Directors of TIM approved the recommendation of the Appointments and Remuneration Committee and appointed Luigi Gubitosi as Chief Executive Officer and General Manager, granting him executive powers.

With the decision passed by the majority, the assignment of powers was confirmed as follows:

- to the Chairman, the powers and responsibilities contemplated by law, the Articles of Association and corporate governance arrangements;

- to the Chief Executive Officer, all powers necessary to perform acts pertinent to the Company s business, except for the powers reserved by law and the Articles of Association to the Board of Directors;

- to the Head of Security, Stefano Grassi, temporary powers, as the delegated security officer.

The Board of Directors of the Company, at December 31, 2018, was therefore composed as follows:

Chairman	Fulvio Conti (independent)
Chief Executive Officer and General Manager	Luigi Gubitosi

Directors	Alfredo Altavilla (independent)
	Paola Bonomo (independent)
	Giuseppina Capaldo (independent)
	Maria Elena Cappello (independent)
	Massimo Ferrari (independent)
	Amos Genish
	Paola Giannotti de Ponti (independent)
	Marella Moretti (independent)
	Lucia Morselli (independent)
	Dante Roscini (Lead Independent Director)
	Arnaud Roy de Puyfontaine
	Rocco Sabelli (independent)
	Michele Valensise (independent)
Secretary to the Board	Agostino Nuzzolo

The following board committees were in place at December 31, 2018:

- Control and Risk Committee: composed of the Directors: Paola Giannotti de Ponti (Chairman), Massimo Ferrari, Marella Moretti, Lucia Morselli and Michele Valensise;

- Nomination and Remuneration Committee: composed of the Directors: Alfredo Altavilla (Chairman), Paola Bonomo, Giuseppina Capaldo, Rocco Sabelli, and Michele Valensise;

- Related Parties Committee: composed of the Directors: Lucia Morselli (Chairwoman), Giuseppina Capaldo, Maria Elena Cappello, Marella Moretti, and Dante Roscini;

- Strategy Committee: composed of the Chairman of the Board of Directors Fulvio Conti, the CEO Luigi Gubitosi, and the Board Directors Arnaud Roy de Puyfontaine, Massimo Ferrari, and Rocco Sabelli.

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BOARD OF STATUTORY AUDITORS

The Ordinary Shareholders Meeting of April 24, 2018 appointed the Company s Board of Statutory Auditors for a term of office that will end with the approval of the 2020 financial statements.

The Board of Statutory Auditors of the Company is now composed as follows:

Chairman	Roberto Capone
Acting Auditors	Giulia De Martino
	Anna Doro
	Marco Fazzini
	Francesco Schiavone Panni
Alternate Auditors	Andrea Balelli
	Antonia Coppola
	Franco Dalla Sega
	Laura Fiordelisi

INDEPENDENT AUDITORS

The engagement for the independent auditing of the financial statements of TIM S.p.A. for the nine-year period 2010 2018 was awarded to PwC S.p.A. by the shareholders meeting of April 29, 2010.

MANAGER RESPONSIBLE FOR PREPARING THE CORPORATE FINANCIAL REPORTS

At the meeting of May 7, 2018, the Board of Directors confirmed Piergiorgio Peluso (Head of the Group Administration, Finance and Control Function) as the manager responsible for preparing the financial reports of TIM S.p.A..

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MACRO-ORGANIZATION CHART

Macro-Organization Chart at December 31, 2018

(1) In relation to business operations and assets of relevance for national security and defense
(2) In relation to business operations and assets not relevant for national security and defense

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Macro-Organization Chart updated at February 21, 2019

(1) In relation to business operations and assets of relevance for national security and defense
(2) In relation to business operations and assets not relevant for national security and defense

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Assets

(millions of euros)		*note*	12/31/2018	*of which related parties*	12/31/2017	*of which related parties*
Non-current assets						
Intangible assets						
Goodwill		4)	26,769		29,462	
Intangible assets with a finite useful life		5)	8,889		7,192	
			35,658		36,654	
Tangible assets		6)				
Property, plant and equipment owned			14,251		14,216	
Assets held under finance leases			1,895		2,331	
			16,146		16,547	
Other non-current assets						
Investments in associates and joint ventures accounted for using the equity method		7)	16		17	
Other investments		7)	49		51	
Non-current financial assets		8)	1,594		1,768	
Miscellaneous receivables and other non-current assets		9)	2,291		2,422	
Deferred tax assets		10)	1,136		993	
			5,086		5,251	
Total Non-current assets	(a)		56,890		58,452	
Current assets						
Inventories		11)	389		290	
Trade and miscellaneous receivables and other current assets		12)	4,706	*22*	4,959	*36*

Current income tax receivables	10)	251	77	
Current financial assets	8)			
Securities other than investments, financial receivables and other current financial assets		1,466	1,430	*53*
Cash and cash equivalents		1,917	3,575	
		3,383	5,005	*53*
Current assets sub-total		8,729	10,331	
Discontinued operations/Non-current assets held for sale				
Total Current assets	(b)	8,729	10,331	
Total Assets	(a+b)	65,619	68,783	

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Equity and Liabilities

(millions of euros)		*note*	12/31/2018	*of which related parties*	12/31/2017	*of which related parties*
Equity		13)				
Share capital issued			11,677		11,677	
less: Treasury shares			(90)		(90)	
Share capital			11,587		11,587	
Additional paid-in capital			2,094		2,094	
Other reserves and retained earnings (accumulated losses), including profit (loss) for the year			5,847		7,876	
Equity attributable to Owners of the Parent			19,528		21,557	
Non-controlling interests			2,219		2,226	
Total Equity	(c)		21,747		23,783	
Non-current liabilities						
Non-current financial liabilities		14)	25,059		28,108	*100*
Employee benefits		19)	1,567		1,736	
Deferred tax liabilities		10)	192		265	
Provisions		20)	876		825	
Miscellaneous payables and other non-current liabilities		21)	3,297	*1*	1,678	
Total Non-current liabilities	(d)		30,991		32,612	
Current liabilities						
Current financial liabilities		14)	5,913		4,756	*163*
Trade and miscellaneous payables and other current liabilities		22)	6,901	*73*	7,520	*60*
Current income tax payables		10)	67		112	

Current liabilities sub-total		12,881	12,388
Liabilities directly associated with Discontinued operations/Non-current assets held for sale			
Total Current Liabilities	(e)	12,881	12,388
Total Liabilities	(f=d+e)	43,872	45,000
Total Equity and Liabilities	(c+f)	65,619	68,783

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SEPARATE CONSOLIDATED INCOME STATEMENTS

(millions of euros)	*note*	Year 2018	*of which: with related parties*	Year 2017	*of which: with related parties*
Revenues	24)	18,940	*5*	19,828	*118*
Other income	25)	341		523	*8*
Total operating revenues and other income		19,281		20,351	
Acquisition of goods and services	26)	(8,186)	*(162)*	(8,388)	*(192)*
Employee benefits expenses	27)	(3,105)	*(92)*	(3,626)	*(112)*
Other operating expenses	28)	(1,259)		(1,208)	
Change in inventories		102		35	
Internally generated assets	29)	570		626	
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)		7,403		7,790	
of which: impact of non-recurring items	40)	(408)		(883)	
Depreciation and amortization	30)	(4,255)		(4,473)	
Gains/(losses) on disposals of non-current assets	31)	(1)		11	
Impairment reversals (losses) on non-current assets	32)	(2,586)		(37)	
Operating profit (loss) (EBIT)		561		3,291	
of which: impact of non-recurring items	40)	(2,998)		(913)	
Share of profits (losses) of associates and joint ventures accounted for using the equity method	7)	(1)		(1)	
Other income (expenses) from investments	33)	11		(18)	
Finance income	34)	1,056	*8*	1,808	*45*
Finance expenses	34)	(2,404)	*(9)*	(3,303)	*(49)*

Profit (loss) before tax from continuing operations		(777)	1,777
of which: impact of non-recurring items	40)	(2,991)	(939)
Income tax expense	10)	(375)	(490)
Profit (loss) from continuing operations		(1,152)	1,287
Profit (loss) from Discontinued operations/Non-current assets held for sale			
Profit (loss) for the year	35)	(1,152)	1,287
of which: impact of non-recurring items	40)	(2,920)	(714)
Attributable to:			
Owners of the Parent		(1,411)	1,121
Non-controlling interests		259	166

(euros)		Year 2018	Year 2017
Earnings per share:	36)		
Basic earnings per share			
Ordinary Share		(0.07)	0.05
Savings Share		(0.07)	0.06
of which:			
from Continuing operations attributable to Owners of the Parent			
Ordinary Share		(0.07)	0.05
Savings Share		(0.07)	0.06
Diluted earnings per share			
Ordinary Share		(0.06)	0.05
Savings Share		(0.06)	0.06
of which:			
from Continuing operations attributable to Owners of the Parent			
Ordinary Share		(0.06)	0.05
Savings Share		(0.06)	0.06

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Note 13

(millions of euros)		Year 2018	Year 2017
Profit (loss) for the year	(a)	(1,152)	1,287
Other components of the Consolidated Statement of Comprehensive Income			
Other components that will not be reclassified subsequently to Separate Consolidated Income Statement			
Financial assets measured at fair value through other comprehensive income:			
Profit (loss) from fair value adjustments		(5)	
Income tax effect			
	(b)	(5)	
Remeasurements of employee defined benefit plans (IAS 19):			
Actuarial gains (losses)		19	10
Income tax effect		(5)	(1)
	(c)	14	9
Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method:			
Profit (loss)			
Income tax effect			
	(d)		
Total other components that will not be reclassified subsequently to Separate Consolidated Income Statement	(e=b+c+d)	9	9
Other components that subsequently will be reclassified in the Separate Consolidated Income Statements			
Financial assets measured at fair value through other comprehensive income(*):			
Profit (loss) from fair value adjustments		(14)	63
Loss (profit) transferred to the Separate Consolidated Income Statement		(4)	(62)
Income tax effect		2	2

	(f)	(16)	3
Hedging instruments:			
Profit (loss) from fair value adjustments		362	(854)
Loss (profit) transferred to the Separate Consolidated Income Statement		(336)	826
Income tax effect		(7)	(3)
	(g)	19	(31)
Exchange differences on translating foreign operations:			
Profit (loss) on translating foreign operations		(554)	(830)
Loss (profit) on translating foreign operations transferred to the Separate Consolidated Income Statement			19
Income tax effect			
	(h)	(554)	(811)
Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method:			
Profit (loss)			
Loss (profit) transferred to the Separate Consolidated Income Statement			
Income tax effect			
	(i)		
Total other components that will be reclassified subsequently to Separate Consolidated Income Statement	(k=f+g+h+i)	(551)	(839)
Total other components of the Consolidated Statement of Comprehensive Income	(m=e+k)	(542)	(830)
Total comprehensive income (loss) for the year	(a+m)	(1,694)	457
Attributable to:			
Owners of the Parent		(1,784)	527
Non-controlling interests		90	(70)

(*) Including, for 2017, available-for-sale financial assets .

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Changes from January 1, 2017 to December 31, 2017

	Equity attributable to Owners of the Parent										
(millions of euros)	Share capital	Additional paid-in capital	Reserve for available-for-sale financial assets	Reserve for hedging instruments	Reserve for exchange differences on translating foreign operations	Reserve for remeasurements of employee defined benefit plans (IAS 19)	Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method	Other reserves and retained earnings (accumulated losses), including profit (loss) for the year	Total	Non-controlling interests	Total equity
Balance at December 31, 2016	11,587	2,094	39	(551)	(366)	(113)		8,517	21,207	2,346	23,553
Changes in equity during the year:											
Dividends approved								(166)	(166)	(64)	(230)
Total comprehensive income (loss) for the year			3	(31)	(575)	9		1,121	527	(70)	457
Issue of equity instruments								(6)	(6)		(6)
Other changes					(14)			9	(5)	14	9
Balance at December 31, 2017	11,587	2,094	42	(582)	(955)	(104)		9,475	21,557	2,226	23,783

Changes from January 1, 2018 to December 31, 2018 Note 13

	Equity attributable to Owners of the Parent										
(millions of euros)	Share capital	Additional paid-in capital	Reserve for financial assets measured at fair value through other comprehensive income (*)	Reserve for hedging instruments	Reserve for exchange differences on translating foreign operations	Reserve for remeasurements of employee defined benefit plans (IAS 19)	Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method	Other reserves and retained earnings (accumulated losses), including profit (loss) for the year	Total	Non-controlling interests	Total equity
Balance at December 31, 2017	11,587	2,094	42	(582)	(955)	(104)		9,475	21,557	2,226	23,783
Adoption of IFRS 15 and IFRS 9			9					(92)	(83)	(5)	(88)
Adjusted Balance at December 31, 2017	11,587	2,094	51	(582)	(955)	(104)		9,383	21,474	2,221	23,695
Changes in equity during the year:											
Dividends approved								(166)	(166)	(115)	(281)
Total comprehensive income (loss) for the year			(21)	19	(385)	14		(1,411)	(1,784)	90	(1,694)
Issue of equity instruments								2	2		2
Other changes								2	2	23	25
Balance at December 31, 2018	11,587	2,094	30	(563)	(1,340)	(90)		7,810	19,528	2,219	21,747

(*) The balance at December 31, 2017 includes the Reserve for available-for-sale financial assets .

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of euros)	note	Year 2018	Year 2017
Cash flows from operating activities:			
Profit (loss) from continuing operations		(1,152)	1,287
Adjustments for:			
Depreciation and amortization		4,255	4,473
Impairment losses (reversals) on non-current assets (including investments)		2,589	50
Net change in deferred tax assets and liabilities		(195)	(147)
Losses (gains) realized on disposals of non-current assets (including investments)		1	(11)
Share of losses (profits) of associates and joint ventures accounted for using the equity method		1	1
Change in provision for employee benefits		(208)	437
Change in inventories		(99)	(30)
Change in trade receivables and net amounts due from customers on construction contracts		(49)	379
Change in trade payables		(163)	(605)
Net change in current income tax receivables/payables		(210)	(515)
Net change in miscellaneous receivables/payables and other assets/liabilities		(178)	80
Cash flows from (used in) operating activities	(a)	4,592	5,399
Cash flows from investing activities:			
Purchase of intangible assets	5)	(3,647)	(2,292)
Purchase of tangible assets	6)	(2,831)	(3,477)
Total purchase of intangible and tangible assets on an accrual basis (*)		(6,478)	(5,769)
Change in amounts due for purchases of intangible and tangible assets		1,947	455

Total purchase of intangible and tangible assets on a cash basis		(4,531)	(5,314)
Capital grants received		108	82
Acquisition of control of companies or other businesses, net of cash acquired			
Acquisitions/disposals of other investments		(3)	(4)
Change in financial receivables and other financial assets (excluding hedging and non-hedging derivatives under financial assets)		96	466
Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of			
Proceeds from sale/repayment of intangible, tangible and other non-current assets		16	30
Cash flows from (used in) investing activities	(b)	(4,314)	(4,740)
Cash flows from financing activities:			
Change in current financial liabilities and other		394	(1,188)
Proceeds from non-current financial liabilities (including current portion)		2,546	2,630
Repayments of non-current financial liabilities (including current portion)		(4,426)	(3,426)
Changes in hedging and non-hedging derivatives		(110)	997
Share capital proceeds/reimbursements (including subsidiaries)		22	16
Dividends paid		(256)	(235)
Changes in ownership interests in consolidated subsidiaries			(4)
Cash flows from (used in) financing activities	(c)	(1,830)	(1,210)
Cash flows from (used in) Discontinued operations/Non-current assets held for sale	(d)		
Aggregate cash flows	(e=a+b+c+d)	(1,552)	(551)
Net cash and cash equivalents at beginning of the year:	(f)	3,246	3,952
Net foreign exchange differences on net cash and cash equivalents	(g)	(63)	(155)
Net cash and cash equivalents at end of the year:	(h=e+f+g)	1,631	3,246
(*) of which related parties:			
Total purchase of intangible and tangible assets on an accrual basis		3	135

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Additional Cash Flow information

(millions of euros)	Year 2018	Year 2017
Income taxes (paid) received	(739)	(1,100)
Interest expense paid	(1,978)	(2,899)
Interest income received	871	1,636
Dividends received	2	1

Analysis of Net Cash and Cash Equivalents

(millions of euros)	Year 2018	Year 2017
Net cash and cash equivalents at beginning of the year:		
Cash and cash equivalents from continuing operations	3,575	3,964
Bank overdrafts repayable on demand from continuing operations	(329)	(12)
Cash and cash equivalents from Discontinued operations/Non-current assets held for sale		
Bank overdrafts repayable on demand from Discontinued operations/Non-current assets held for sale		
	3,246	3,952
Net cash and cash equivalents at end of the year:		
Cash and cash equivalents from continuing operations	1,917	3,575
Bank overdrafts repayable on demand from continuing operations	(286)	(329)
Cash and cash equivalents from Discontinued operations/Non-current assets held for sale		
Bank overdrafts repayable on demand from Discontinued operations/Non-current assets held for sale		
	1,631	3,246

The additional disclosures required by IAS 7 are provided in the Note Net financial debt to 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 known in short as 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 TIM S.p.A., as stated in the company s bylaws, extends until December 31, 2100.

On May 16, 2018, the Board of Directors of TIM S.p.A. acknowledged that the grounds for considering Vivendi the entity exercising direction and coordination powers over TIM no longer applied. Subsequently, on June 25, 2018, the Board of Directors approved amendments to the internal procedure governing transactions with related parties, and updated the relative related party boundary to reflect the new situation, whereby Vivendi no longer qualifies as the de facto controlling entity over TIM.

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 at December 31, 2018 have been prepared on a going concern basis (further details are provided in the Note Accounting Policies) and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and endorsed by the European Union (designated as *IFRS*), as well as laws and regulations in force in Italy.

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

The consolidated financial statements have been prepared under the historical cost convention except for financial assets measured at fair value through other comprehensive income, financial assets measured at fair value through profit or loss and derivative financial instruments which have been measured at fair value. 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 years.

The TIM Group consolidated financial statements as at December 31, 2018 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, 2018 was approved by resolution of the Board of Directors meeting held on February 21, 2019.

FINANCIAL STATEMENT FORMATS

The financial statement formats adopted are consistent with those indicated in IAS 1. In particular:

- the Consolidated statements of financial position have been prepared by classifying assets and liabilities according to the current and non-current criterion;
- the Separate consolidated income statements have been prepared by classifying operating expenses by nature of expense as this form of presentation is considered more appropriate and representative of the specific business of the Group, conforms to internal reporting and is in line with the TIM Group s industrial sector.

In addition to EBIT or Operating profit (loss), the separate consolidated income statements include the alternative performance measure of EBITDA or Operating profit (loss) before depreciation and amortization, Capital gains (losses) and Impairment reversals (losses) on non-current assets.

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In particular, besides EBIT, EBITDA is used by TIM as the financial target in internal presentations (business plans) and in external presentations (to analysts and investors). It represents a useful unit of measurement for the evaluation of the operating performance of the Group (as a whole and at the Business Unit level). EBIT and EBITDA are calculated as follows:

Profit (loss) before tax from continuing operations

+ Finance expenses

- Finance income

+/- Other expenses (income) from investments

+/- Share of profits (losses) of associates and joint ventures accounted for using the equity method

EBIT - Operating profit (loss)

+/- Impairment losses (reversals) on non-current assets

+/- Losses (gains) on disposals of non-current assets

+ Depreciation and amortization

EBITDA - Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets

the Consolidated statements of comprehensive income include the profit or loss for the year as shown in the separate consolidated income statements and all other non-owner changes in equity;

the Consolidated statements of cash flows have been prepared by presenting cash flows from operating activities according to the indirect method , as permitted by IAS 7 (Statement of Cash Flows).

Furthermore, as required by Consob Resolution 15519 of July 27, 2006, in the separate consolidated income statements, income and expenses relating to transactions which by nature do not occur during normal operation (non-recurring transactions) have been specifically identified and their impacts on the main intermediate levels have been shown separately, when they are significant. Specifically, non-recurring income/(expenses) include, for instance: income/expenses arising from the sale of properties, plant and equipment, business segments and investments; expenses stemming from company reorganization and streamlining processes and projects, also in connection with corporate transactions (mergers, spin-offs, etc.); expenses resulting from litigation and regulatory fines and related liabilities; other provisions and related reversals; costs for the settlement of disputes; items related to adjustments relating to previous years; and impairment losses on goodwill and/or other intangible and tangible assets.

Also in reference to the above Consob Resolution, the amounts relating to balances or transactions with related parties have been shown separately in the consolidated financial statements.

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 geographic location (Domestic and Brazil) for the telecommunications business.

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 end customers (retail) and other operators (wholesale), the operations of the Telecom Italia Sparkle group (International wholesale), which, at international level (Europe, the Mediterranean and South America), develops 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 sector, and in particular the infrastructure for hosting radio transmission equipment for mobile telephone networks, both for TIM and other operators) and the units supporting the Domestic sector.

See the section Financial and Operating Highlights of the Business Units of the TIM Group Domestic Business Unit of the Report on Operations for more details;

- Brazil: includes mobile and fixed telecommunications operations in Brazil (TIM S.A.);
- Other Operations: include finance companies and other minor companies not strictly related to the core business of the TIM Group.

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NOTE 2

ACCOUNTING POLICIES

GOING CONCERN

The consolidated financial statements for 2018 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 over a period of at least twelve months).

In particular, the following factors have been taken into consideration:

- the main risks and uncertainties (that are for the most part of an external nature) to which the Group and the various activities of the TIM Group are exposed:
  - changes in the general macroeconomic situation in the Italian, European and Brazilian markets, as well as the volatility of financial markets in the Eurozone also as a result of the Brexit referendum in the United Kingdom;
  - variations in business conditions, also related to competition;
  - changes to laws and regulations (price and rate variations);
  - outcomes of legal disputes and proceedings with regulatory authorities, competitors and other parties;
  - financial risks (interest rate and/or exchange rate trends, changes in the Group s credit rating by rating agencies);
- the optimal mix between risk capital and debt capital as well as the policy for the remuneration of risk capital, as 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 .

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

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the financial statements of all subsidiaries from the date control over such subsidiaries commences until the date that control ceases.

The date of all the subsidiaries financial statements coincides with that of the Parent TIM.

Control exists when the Parent TIM S.p.A. 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 items, respectively, in the consolidated statements of financial position, in the separate consolidated income statements and in the consolidated statements 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 statements.

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Assets and liabilities of foreign consolidated subsidiaries expressed in currencies other than euro are translated using the exchange rates in effect at the statement of financial position date (the current method); income and expenses are translated at the average exchange rates for the year. Exchange differences resulting from the application of this method are classified as equity until the entire disposal of the investment or upon loss of control of the foreign subsidiary. Upon partial disposal, without losing control, the proportionate share of the cumulative amount of exchange differences related to the disposed interest is recognized in non-controlling interests. The cash flows of foreign consolidated subsidiaries expressed in currencies other than euro included in the consolidated statements of cash flows are translated 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 translated using the year-end exchange rate.

Under IFRS 10, changes in a parent s ownership interest in a subsidiary that do not result in a loss or acquisition of control are accounted for as equity transactions. In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the Parent.

Under IFRS 10, the parent company in case of loss of control of a subsidiary:

- derecognizes:
  - the assets (including any goodwill) and the liabilities;
  - the carrying amount of any non-controlling interests;
- recognizes:
  - the fair value of the consideration received, if any, from the transaction;
  - any investment retained in the former subsidiary at its fair value at the date when control is lost;
  - any gain or loss, resulting from the transaction, in the separate consolidated income statements;
  - the reclassification to the separate consolidated income statements, 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 enterprises in which the Group holds at least 20% of the voting rights or exercises significant influence, but no control or joint control over the financial and operating policies.

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 statements. Dividends received from an investee reduce the carrying amount of the investment.

Adjustments to the carrying amount may also be necessary for changes in the investee s other comprehensive income (i.e. those arising from foreign exchange translation differences). The investor s share of those changes is recognized in the investor s other comprehensive income.

If an investor s share of losses of an associate or 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.

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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 in the separate financial statements as of the date of acquisition of control and measured as the excess of (a) over (b) below:

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;

the fair value of the identifiable assets acquired net of the identifiable liabilities assumed, measured at the date of acquisition of control.

IFRS 3 requires, inter alia, the following:

incidental costs incurred in connection with a business combination are charged to the separate income statements;

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 income statements.

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 intangible and tangible assets - Goodwill, reported below. In case of loss of control of a subsidiary, the relative amount of goodwill is taken into account in calculating the gain or loss on disposal.

Development costs

Costs incurred internally for the development of new products and services represent either intangible assets (mainly costs for software development) or tangible assets. These costs are capitalized only when all the following conditions are satisfied: i) the cost attributable to the development phase of the asset

can be measured reliably, ii) there is the intention, the availability of financial resources and the technical ability to complete the asset and make it available for use or sale and iii) it can be demonstrated that the asset will be able to generate future economic benefits. Capitalized development costs comprise only expenditures that can be attributed directly to the development process for new products and services.

Capitalized development costs are amortized systematically over the estimated product or service life so that the amortization method reflects the way which the asset s future economic benefits are expected to be consumed by the entity.

Other intangible assets with a finite useful life

Other purchased or internally-generated intangible assets with a finite useful life are recognized as assets, in accordance with IAS 38 (Intangible Assets), where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be measured reliably.

Such assets are recorded at purchase or production cost and amortized on a straight-line basis over their estimated useful lives; the amortization rates are reviewed annually and revised if the current estimated useful life is different from that estimated previously. The effect of such changes is recognized prospectively in the separate consolidated income statements.

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 statements 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 statements, 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 prospectively in the separate consolidated income statements.

Land, including land pertaining to buildings, is not depreciated.

Assets held under finance leases

Assets held under finance leases, in which substantially all the risks and rewards of ownership are transferred to the Group, are initially recognized as assets of the Group at fair value or, if lower, at the present value of the minimum lease payments, including bargain purchase options. The corresponding liability due to the lessor is included in the statement of financial position under financial liabilities.

Lease payments are apportioned between interest (recognized in the separate consolidated income statements) 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.

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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 statements on a straight-line basis over the lease term.

When a lease includes both land and buildings elements, an entity assesses the classification of each element as a finance or an operating lease separately.

CAPITALIZED BORROWING COSTS

Under IAS 23 (*Borrowing Costs*), the Group capitalizes borrowing costs only if they are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time (conventionally more than 12 months) to get ready for its intended use or sale.

Capitalized borrowing costs are recorded in the separate consolidated income statements and deducted directly from the finance expense line item to which they relate.

IMPAIRMENT OF INTANGIBLE AND TANGIBLE ASSETS

Goodwill

Goodwill is tested for impairment at least annually or more frequently whenever events or changes in circumstances indicate that goodwill may be impaired, as set forth in IAS 36 (*Impairment of Assets*); however, when the conditions that gave rise to an impairment loss no longer exist, the original amount of goodwill is not reinstated.

The test is generally conducted at the end of every year so the date of testing is the year-end closing date of the financial statements. Goodwill acquired and allocated during the year is tested for impairment at the end of the year in which the acquisition and allocation took place.

To test for impairment, goodwill is allocated at the date of acquisition to each cash-generating unit or group of cash-generating units which is expected to benefit from the acquisition.

If the carrying amount of the cash-generating unit (or group of cash-generating units) exceeds the recoverable amount, an impairment loss is recognized in the separate consolidated income statements. The impairment loss is first recognized as a deduction of the carrying amount of goodwill allocated to the cash-generating unit (or group of cash-generating units) and then only applied to the other assets of the cash-generating unit in proportion to their carrying amount, up to the recoverable amount of the assets with a finite useful life. The recoverable amount of a cash-generating unit (or group of cash-generating units) to which goodwill is allocated is the higher of fair value less costs to sell and its value in use.

In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The future cash flows are those arising from an explicit time horizon between three and five years as well as those extrapolated to estimate the terminal value. The long-term growth rate used to estimate the terminal value of the cash-generating unit (or group of cash-generating units) is assumed not to be higher than the average long-term growth rate of the segment, country or market in which the cash-generating unit (or group of cash-generating units) operates.

The value in use of cash-generating units denominated in foreign currency is estimated in the local currency by discounting cash flows to present value on the basis of an appropriate rate for that currency. The present value obtained is 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).

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 statements.

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 statements.

FINANCIAL INSTRUMENTS

Business models of financial assets management

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

In accordance with IFRS 9, the business models adopted by the TIM Group are:

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

Hold to Collect and Sell: monetary or debt instruments used to absorb short/medium-term cash surpluses; such instruments are low risk and generally held to maturity, or otherwise sold to cover specific cash requirements; and are measured at fair value through other consolidated comprehensive income;

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Hold to Sell: monetary, debt and equity trading instruments used to dynamically manage cash surpluses not managed under the business models identified above; such instruments are higher risk and traded repeatedly over time; and are measured at fair value through consolidated profit or loss.

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.

Other investments are classified as financial assets measured at fair value through consolidated profit or loss (FVTPL), as current assets.

At the purchase time of each investment, IFRS 9 provides for the irrevocable option to recognize these investments in financial assets measured at fair value through other consolidated comprehensive income (FVTOCI) as non-current or current assets.

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

Changes in the value of other investments classified as financial assets at fair value through profit or loss are recognized directly in the separate consolidated income statements.

Securities other than investments

Securities other than investments included among non-current or current assets, depending on the business model adopted and the contractual flows envisaged, fall among financial assets measured at amortized cost, or measured at fair value through other comprehensive income or at fair value though profit or loss.

Securities other than investments classified as current assets are those that, by decision of the directors, are intended to be kept in the Group s portfolio for a period of not more than 12 months, and are classified:

as financial assets measured at amortized cost (AC) when held to maturity (originally more than 3 months but less than 12 months, or, with an original maturity of more than 12 months but the remaining maturity at the date of purchase is more than 3 months but less than 12 months);

as financial assets measured at fair value through other consolidated comprehensive income (FVTOCI) when held in the scope of a business model whose objective is to sell the financial asset and/or collect the contractual

flows. The consolidated Reserve for financial assets measured at fair value through other comprehensive income is reversed to the separate consolidated income statements when the financial asset is disposed of or impaired;

as financial assets measured at fair value through consolidated profit or loss (FVTPL) in the other cases.

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Cash and cash equivalents

Cash and cash equivalents are recorded, according to their nature, at nominal value or amortized cost.

Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash, subject to an insignificant risk of change in value and their original maturity or the remaining maturity at the date of purchase does not exceed 3 months.

Impairment of financial assets

At every closing date, assessments are made as to whether there is any objective evidence that a financial asset or a group of financial assets may be impaired.

The impairment of financial assets is based on the expected credit loss model.

In particular:

§ impairment on trade receivables and on contract assets is carried out using the simplified approach that involves estimating the loss expected over the life of the receivable at the time of initial recognition and on subsequent measurements. For each customer segment, the estimate is principally made by calculating the average expected uncollectibility, based on historical and statistical indicators, possibly adjusted using forward-looking elements. For some categories of receivables characterized by specific risk elements, specific measurements are made on individual credit positions;

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

Derivatives

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

Derivatives are used by the 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:

§ at the inception of the hedge, the hedging relationship is formally designated and documented;

§ the hedge is expected to be highly effective;

§ its effectiveness can be reliably measured;

§ the hedge is highly effective throughout the financial reporting periods for which it is designated.

All derivative financial instruments are measured at fair value in accordance with IAS 39.

When derivative financial instruments qualify for hedge accounting, the following accounting treatment applies:

§ Fair value hedge Where a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of an asset or liability due to a particular risk, the gain or loss from re-measuring the hedging instrument at fair value is recognized in the separate consolidated income statements. 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 statements.

§ 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 expected transaction, the effective portion of any gain or loss on the derivative financial instrument is recognized directly in a specific equity reserve (Reserve for cash flow hedges). The cumulative gain or loss is removed from equity and recognized in the separate consolidated income statements at the same time the hedged transaction affects the separate consolidated income statements. The gain or loss associated with the ineffective portion of a hedge is recognized in the separate consolidated income statements 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 statements.

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If hedge accounting is not appropriate, gains or losses arising from the measurement at fair value of derivative financial instruments are directly recognized in the separate consolidated income statements.

Financial liabilities

Financial liabilities comprise financial payables, including advances received on the assignment of accounts receivable, and other financial liabilities such as derivatives and finance lease obligations.

In accordance with IFRS 9, they also include trade and other payables.

Financial liabilities other than derivatives are initially recognized at fair value and subsequently measured at amortized cost.

Financial liabilities hedged by derivative instruments designed to manage exposure to changes in fair value of the liabilities (fair value hedge derivatives) are measured at fair value in accordance with the hedge accounting principles of IAS 39. Gains and losses arising from re-measurement at fair value, to the extent of the hedged component, are recognized in the separate consolidated income statements 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.

SALES OF RECEIVABLES

The TIM Group carries out sales of receivables under factoring contracts. 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, therefore meeting the requirements of IFRS 9 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.

INVENTORIES

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

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 from other assets and liabilities in the consolidated statements of financial position. The corresponding amounts for the previous year are not reclassified in the consolidated statements 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.

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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; or
- 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 statements, net of tax effects. The corresponding values for the previous periods, where present, are reclassified and reported separately in the separate consolidated income statements, 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 statements.

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.

The finance expenses and other expenses attributable to the liabilities of a disposal group classified as held for sale must 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 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 the Consolidated Statements of 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 statements.

Starting from January 1, 2007, Italian Law gave 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 (for example 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

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the fair value of such instruments at the grant date, and is recognized in the separate consolidated income statements in Employee benefits expenses over the period between the grant date and vesting date with a contra-entry to an equity reserve denominated Other equity instruments . Changes in the fair value subsequent to the grant date do not affect the initial measurement. At the end of each year, adjustments are made to the estimate of the number of rights that will vest up to expiry. The impact of the change in estimate is recorded as an adjustment to Other equity instruments with a contra-entry to Employee benefits expenses .

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

PROVISIONS

The Group records provisions for risks and charges when it has a present obligation, legal or constructive, to a third party, as a result of a past event, when it is probable that an outflow of Group resources will be required to satisfy the obligation and when the amount of the obligation can be estimated reliably.

If the effect of the time value is material, and the payment date of the obligations can be reasonably estimated, provisions to be accrued are the present value of the expected cash flows, taking into account the risks associated with the obligation. The increase in the provision due to the passage of time is recognized in the separate consolidated income statements as Finance expenses .

GOVERNMENT GRANTS

Government grants are recognized when there is a reasonable certainty that they will be received and that the Group will satisfy all the conditions established for their granting by the government, government entities and equivalent local, national or international entities.

Government grants are recognized in the separate income statement, on a straight-line basis, over the periods in which the Group recognizes the expenses that the grants are intended to offset as costs.

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 straight-line basis over the useful life of the plants that the grants relate to.

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 translated 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 statements.

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REVENUES

Revenues are the gross inflows of economic benefits during the period arising in the course of the ordinary activities of an entity. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenues.

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

- identification of the contract: takes place when the parties approve the contract (with commercial substance), and identify the respective rights and obligations: in other terms, the contract must be legally binding, the rights to receive goods and/or services and the terms of payment can be clearly identified and the Group considers receipt of payment as probable;

- identification of the performance obligations: the main *performance obligations* identified, i.e. promises to transfer goods and services that are distinct, are services rendered (including voice and data traffic and ICT solutions) to retail customers, services rendered to wholesale customers and sale of products;

- determination of the transaction price: is the total amount contracted with the other party regarding the entire contractual term; the Group has determined that the contractual term is the one arising from the contractual obligations between the parties or, in lack of these obligations, it is by convention one month;

- allocation of the transaction price to the performance obligations: the allocation is made proportionately to the respective *stand alone selling prices* calculated based on the list prices (if present) or estimated by applying an appropriate margin to the cost of purchase/production of the good/service.

Revenues from activating the connectivity service are not a performance obligation; they are therefore allocated to the contractual performance obligations (typically to services).

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

- recognition of revenues: revenues are stated net of discounts, allowances, and returns in connection with the characteristics of the type of revenue:

  - Revenues from services rendered

Revenues from services rendered are recognized in the separate income statements according to the stage of completion of the service, that is based on actual consumption.

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 prepaid traffic are recorded on the basis of effective consumption. Deferred revenues for traffic already collected but not yet consumed are recorded in Trade and miscellaneous payables and other current liabilities in the consolidated statements of financial position.

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

Revenues for services rendered are generally invoiced and collected monthly (for retail customers) or in 40-60 days (for wholesale customers).

Revenues from sales

Revenues from sales (telephone and other equipment) are recognized upon delivery when control of the assets is transferred to the customers.

The devices sold separately from the services are invoiced at the time of delivery; collection takes place on demand or based on installment plans (up to 48 monthly installments). The devices sold as part of bundle offerings are invoiced at the time of delivery and usually collected in 24 monthly installments.

Some contracts (usually the installment sale of devices) include an implicit financial component that is recognized by posting finance income with concomitant reduction of the revenues from sales; this component is determined by using a discount rate that reflects a hypothetical customer loan transaction at the contract date reflecting the creditworthiness by type of customer. The Group avails itself of the practical expedient of not recognizing said component if it is insignificant or the collection extension is less than 12 months.

The recognition of revenues can generate the recognition of an asset or liability deriving from contracts. In particular:

- Contract asset are the right to a consideration in exchange for goods or services that have been transferred to the customer, when the right is subject to something other than the passage of time.

Contract liabilities are the obligation to transfer goods or services to the customer for which the Group has received (or for which it is due) a consideration from the customer.

Contract costs (incremental costs of obtaining a contract and costs to fulfill a contract; for example, the activation costs and the costs for sales network commissions) are extended and recognized in the consolidated income statements based on the expected term of the contractual relationship with the customers (on average, 3 years for the mobile business and 7 years for the fixed business). The TIM Group avails itself of the IFRS 15 practical expedient, which allows the incremental costs of obtaining the contract to be recognized entirely in the income statement if the deferral period does not exceed 12 months.

RESEARCH COSTS AND ADVERTISING EXPENSES

Research costs and advertising expenses are charged directly to the separate consolidated income statements 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 statements in the year in which they become receivable following the resolution by the shareholders meeting for the distribution of dividends of the investee companies.

Dividends payable to third parties are reported as a change in equity in the year in which they are approved by the shareholders meeting.

INCOME TAX EXPENSE (CURRENT AND DEFERRED)

Income tax expense includes all taxes calculated on the basis of the taxable income of the companies of the Group.

The income tax expense is recognized in the separate consolidated income statements, except to the extent that they relate to items directly charged or credited to equity, in which case the related tax effect is recognized in the relevant equity reserves. In the Statement of comprehensive income, the amount of income tax expense relating to each item included as Other components of the Consolidated Statements of Comprehensive income is indicated.

The income tax expense that could arise on the remittance of a subsidiary s undistributed earnings is only recognized where there is the actual intention to remit such earnings.

Deferred tax liabilities / assets are recognized using the Balance sheet liability method . They are calculated on all temporary differences that arise between the tax base of an asset or liability and the carrying amounts in the consolidated financial statements, except for non tax-deductible goodwill and for those differences related to investments in subsidiaries which will not reverse in the foreseeable future. Deferred tax assets relating to unused tax loss 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, and excluding treasury shares. 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 assumptions considered reasonable and realistic in relation to the information known at the time of the estimate. Such estimates have an effect on the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the amount of revenues and costs during the year. Actual results could differ, even significantly, from those estimates owing to possible changes in the factors considered in the determination of such estimates. Estimates are reviewed periodically.

The most important accounting estimates which require a high degree of subjective assumptions and judgments are detailed below.

Financial statement area	Accounting estimates
Goodwill impairment	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 intangible and tangible assets with a finite useful life	At every closing date, the Group assesses whether there are any indications of impairment of intangible and tangible assets with a finite useful life. Both internal and external sources of information are used for this purpose.
	Identifying the impairment indicators, estimating the future cash flows and calculating the fair value of each asset requires Management to make significant estimates and assumptions in calculating the discount rate to be used, and the useful life and residual value of the assets. These estimates can have a significant impact on the fair value of the assets and on the amount of any impairment write-downs.

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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/deferment of costs	The capitalization/deferment of internal and external costs is a process that entails elements of estimation and valuation. Specifically, it involves the valuation of: i) the likelihood that capitalized costs will be recovered through correlated future revenues; and ii) the effective increase in the future economic benefits embodied in the related asset.
Provision for bad debts	Impairment on trade receivables and on the contract assets is carried out using the simplified approach that involves estimating the loss expected over the life of the receivable at the time of initial recognition and on subsequent measurements. For each customer segment, the estimate is principally made by calculating the average expected uncollectibility, based on historical and statistical indicators, possibly adjusted using forward-looking elements. For some categories of receivables characterized by specific risk elements, specific measurements are made on individual credit positions.
Depreciation and amortization	Changes in the economic conditions of the markets, technology and competitive forces could significantly affect the estimated useful lives of tangible and intangible non-current assets and may lead to a difference in the timing, and thus on the amount of depreciation and amortization expense.
Accruals, 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 as well as regulatory proceedings 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	The recognition of revenues is influenced by estimates of the amount of discounts, rebates and returns to be reported as a direct adjustment to revenues, as well as the methods for defining individual product or service stand alone selling prices and for determining the duration of the contract when there are renewal options.
Contract costs (IFRS 15)	The recognition of the costs of obtaining and fulfilling contracts is influenced by the estimated expected duration of the relationship with the customer, calculated on the basis of the historical turnover indexes. However, this estimate is subject to fluctuations and could only represent customers future behavior in a limited way, especially if there are new commercial offers or changes in the competitive environment.
Income tax expense (current and deferred)	Income taxes (current and deferred) are calculated in each country in which the Group operates according to a prudent interpretation of the tax laws in effect. This process sometimes involves complex estimates to determine taxable income and deductible and taxable temporary differences between the carrying amounts and the taxable amounts. In particular, deferred tax assets are recognized to the extent that future taxable income will be available against which they can be utilized. The measurement of the recoverability of deferred tax assets, recognized based on both unused tax loss carry-forwards to future years and deductible differences, takes into account the estimate of future taxable income and is based on conservative tax planning.
Derivative instruments and equity instruments	The fair value of derivative instruments and equity instruments is determined both using valuation models which also take into account subjective measurements such as, for example, cash flow estimates, expected volatility of prices, etc., or on the basis of either prices in regulated markets or quoted prices provided by financial counterparts. For further details, please also see the Note Supplementary disclosures on financial instruments .

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

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

As required by IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), the following is a brief description of the IFRS in force commencing as of January 1, 2018.

The impacts of the application, as of January 1, 2018, of IFRS 15 (Revenue from Contracts with Customers) and IFRS 9 (Financial Instruments) are instead reported in the section Adoption of the New IFRS 9 and IFRS 15 Standards .

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration was adopted at the European Union level on March 28, 2018 by Commission Regulation (EU) 2018/519.

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

Amendments to IFRS 2 (Share-based Payment)

Amendments to IFRS 2 Share-based Payment were adopted on February 26, 2018 by Commission Regulation (EU) 2018/289. The amendments concern:

- the fair value measurement of cash-settled share-based payment transactions at the valuation date (i.e., at the grant date, at the reporting date of each accounting period, and at the settlement date), the calculation of which must take into account market conditions (such as the target price of shares) and any other conditions different to the vesting conditions;

- the accounting for equity-settled share-based payment transactions in which the entity acts as a withholding agent for the tax liabilities of the employee (withholding tax);

the accounting for changes in terms and conditions that entail the reclassification of cash-settled share-based payments as equity-settled share-based payments.

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

Improvements to IFRS (2014 2016 cycle)

Amendments to IAS 28 Investments in Associates and Joint Ventures were adopted on February 7, 2018 by Commission Regulation (EU) 2018/182. Specifically, the amendments clarify that if an

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investment entity (such as a mutual investment fund or similar entity) elects to measure its investments in associates and joint ventures at fair value through profit or loss (rather than applying the equity method), the election must be applied to each and every investment upon initial recognition. A similar clarification applies to entities that are not investment entities, but which hold investments in associates or joint ventures that qualify as investment entities. In that case, when applying the equity method, the entities may maintain the fair value measurement through profit or loss made by their investees in associates and joint ventures.

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

Amendments to IAS 40 Transfers of Investment Property

Amendments to IAS 40 were adopted on March 14, 2018 by Commission Regulation (EU) 2018/400, which clarifies that an entity may transfer a property to, or from, investment property only when there is evidence of a change in use.

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

ADOPTION OF THE NEW IFRS 9 AND IFRS 15 STANDARDS

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

IFRS 9 (Financial Instruments)

On November 22, 2016, Regulation (EU) No. 2016/2067 was issued, which adopted IFRS 9 (*Financial Instruments*) at EU level, relating to the classification, measurement, derecognition and impairment of financial assets and liabilities, and hedge accounting.

As allowed by the accounting standard, the TIM Group:

- did not restate the comparative information provided in the year of first application, also due to the complexity of reformulating values at the beginning of the first year presented without the use of factors known later; therefore, the effects deriving from the first application of IFRS 9 were recognized in equity at January 1, 2018;

- decided to continue to apply the hedge accounting provisions contained in IAS 39 instead of those of IFRS 9.

Commencing as of January 1, 2018, TIM has amended the impairment model applied to financial assets (including trade receivables due from customers), by adopting an *expected credit loss* model as per IFRS 9, which replaces the *incurred loss* model required by IAS 39. In application of IFRS 9, the classification (and hence measurement) of financial assets has also been modified and is now based on the entity s business model for managing the financial assets and on the contractual cash flow characteristics of the financial asset. Under IAS 39, financial assets were classified (and hence measured) on the basis of their destination.

TIM Management has identified its business models for Group financial assets (other than trade receivables due from customers) on the basis of how the financial instruments are managed and their cash flows used. The purpose of the models is to ensure an adequate level of financial flexibility and to best manage, in terms of risks and returns, the financial resources immediately available to the Group through the treasuries of Group companies and in accordance with the strategies set forth by the Parent TIM.

In accordance with IFRS 9, the business models adopted by the TIM Group are:

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

- *Hold to Collect and Sell*: monetary or debt instruments used to absorb short/medium-term cash surpluses; such instruments are low risk and generally held to maturity, or otherwise sold to cover specific cash requirements;

and are measured at fair value through other comprehensive income;

Hold to Sell: monetary, debt and equity trading instruments used to dynamically manage cash surpluses not managed under the business models identified above; such instruments are higher risk and traded repeatedly over time; and are measured at fair value through profit or loss.

Financial assets other than trade receivables are written down for impairment on the basis of a general model which estimates expected credit losses over the following 12 months, or over the residual life of the asset in the event of a substantial increase in its credit risk.

The expected credit loss (**ECL**) is given by: (i) the present value at the reporting date of the financial asset, (ii) the probability that the counterparty does not meet its payment obligation (probability of default, **PD**), (iii) the estimate, in percentage terms, of the amount of credit that it will not be able to recover in the event of a default (loss given default, **LGD**).

To determine the PD and LGD, reference is made to the Bloomberg credit risk model.

For the management of trade receivables, TIM Group Management has identified different business models based on the specific nature of the receivables, the type of counterparty and collection times; in order to optimize the

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management of working capital through the constant monitoring of the payment performance of customers, the steering of credit collection policies, and the management of programs for the disposal and factoring of receivables, in line with financial planning needs.

The business models adopted by the TIM Group for managing trade receivables are:

- *Hold to Collect*: receivables usually held to maturity, such as trade receivables due from large customers and the OLOs for the Domestic Business Unit, and all receivables for the Brazil Business Unit; these instruments fall within IFRS 9 category Assets measured at amortized cost ;

- *Hold to Collect and Sell*: receivables usually traded massively and on a recurring basis, such as, for the Domestic Business Unit, receivables due from active consumer, small and medium business customers held for sale; these instruments fall under IFRS 9 category Financial assets measured at fair value through other comprehensive income . As required by IFRS 9, the related reserve is reversed to the separate consolidated income statements when disposed of or impaired.

Impairment of trade receivables and contract assets is carried out through the simplified approach allowed by the standard. This approach involves estimating the expected loss over the life of the receivable at the time of initial recognition and on subsequent measurements. For each customer segment, the estimate is principally made by calculating the average expected uncollectibility, based on historical and statistical indicators, possibly adjusted using forward-looking elements. For some categories of receivables characterized by specific risk elements, specific measurements are made on individual credit positions.

In general, the methodology to recognize the expected loss differs based on the offering content, the customer cluster and payment terms.

More specifically, in the case of receivables arising from traditional services offered to consumers and businesses, the expected loss is estimated based on the trend of outstanding receivables with respect to turnover, using the values recorded for turnover generations that have completed the operating cycle as a reference, as well as parameters for measuring the most recent performance, suitable for identifying deviations from the historical trend.

As regards receivables arising from offers where products or contribution fees are paid in installments, the assessment of credit default risk for ongoing payment-by-installment plans considers the trend of the customer drop out rate and the average of sums received from such customers.

For clusters with relational-based credit management (such as major TOP segment customers, the public administration sector, wholesale customers, sales network dealers), information that can identify specific individual counterparty risk is used in the assessment.

At the transition date (January 1, 2018), the TIM Group has chosen to continue to report gains and losses from other investments (other than those in subsidiaries, associates and joint ventures) , classified under IAS 39 as available-for-sale financial assets and measured at fair value, through other comprehensive income, also under IFRS 9. As of January 1, 2018, the aforementioned other investments are therefore measured at fair value through other comprehensive income (FVTOCI). Only dividends from other investments are recognized through profit or loss, while all other gains and losses are recognized through other comprehensive income without reclassification to the separate income statement when the financial asset is disposed of or impaired as provided by IAS 39.

The changes in the classification of financial assets had no material impact on the measurement of the assets for the TIM Group.

The comprehensive net impact (including tax effects) of the adoption of IFRS 9 on consolidated equity at the transition date of January 1, 2018 was mainly due to the recognition of higher write-downs for expected losses on trade receivables, connected with the introduction of an expected credit loss model, replacing the incurred loss model required by IAS 39.

IFRS 15 (Revenue from contracts with customers)

On September 22, 2016, Commission Regulation (EU) No. 2016/1905 was issued, which adopted IFRS 15 (*Revenues from contracts with customers*) and the related amendments at EU level. On October 31, 2017, clarifications to IFRS 15 were adopted through Commission Regulation (EU) No. 2017/1987.

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IFRS 15 replaces the standards that formerly governed revenue recognition, namely IAS 18 (*Revenue*), IAS 11 (*Construction contracts*) and the related interpretations on revenue recognition (IFRIC 13 *Customer loyalty programmes*, IFRIC 15 *Agreements for the construction of real estate*, IFRIC 18 *Transfers of assets from customers* and SIC 31 *Revenue Barter transactions involving advertising services*).

The TIM Group has applied the modified retrospective method with the recognition of the cumulative effect of the first-time application of the standard as an adjustment to the opening balance of equity for the period when the standard is adopted, without restating prior periods.

The adoption of IFRS 15 affected the recognition of revenues from fixed-line and mobile offers and the recognition of contract costs. The main differences for the TIM Group with respect to the previous accounting standards applied (IFRS 15 vs. IAS 18, IAS 11 and relative Interpretations) concern:

- bundle offers (bundled good and services): the allocation of contract discounts to performance obligations under IFRS 15 brings forward in time the recognition of revenues, resulting in the recognition of a contract asset and, in some cases, the deferral of revenues, entailing the recognition of a contract liability;
- activation/installation revenues: under previous accounting policies, these were deferred over the expected duration of the customer relationship. IFRS 15 requires that such revenues given that they are not allocated to separate performance obligations are allocated to other performance obligations (usually services) contained in the contract;
- contract costs (incremental costs of obtaining a contract and costs to fulfill a contract): under previous accounting policies, these costs were capitalized or deferred and recognized in the income statement on the basis of the expected duration of the contract and the type of customer. The approach is substantially confirmed under IFRS 15, with the exception of the reclassification of certain contract costs and the change in the types of costs considered, in some cases.

The comprehensive net impact (including tax effects) of the adoption of IFRS 15 on consolidated equity at January 1, 2018 (transition date) was not material and mainly connected with the combined effects of:

- the change in the types of contract costs that are deferred;
- the new approach to recognizing activation/installation revenues and the recognition of contract assets connected with the earlier recognition of revenues from bundle offers.

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IMPACTS OF THE ADOPTION OF IFRS 9 AND IFRS 15

Impacts on the consolidated statements of financial position at 1/1/2018 (transition date)

The impacts of the transition on the main line items of the consolidated statements of financial position are shown below.

(millions of euros)	12/31/2017 historical	IFRS 9 impacts (*)	IFRS 15 impacts (*)	1/1/2018 restated
Assets				
Non-current assets				
Intangible assets				
Intangible assets with a finite useful life	7,192		(110)	7,082
Other non-current assets				
Non-current financial assets	1,768			1,768
Miscellaneous receivables and other non-current assets	2,422		(269)	2,153
Deferred tax assets	993	27		1,020
Current assets				
Trade and miscellaneous receivables and other current assets	4,959	(147)	42	4,854
Current financial assets	5,005			5,005
Total Assets	68,783	(120)	(337)	68,326
Equity and Liabilities				
Equity				
Equity attributable to Owners of the Parent	21,557	(100)	17	21,474
Non-controlling interests	2,226	(7)	2	2,221
Total Equity	23,783	(107)	19	23,695
Non-current liabilities				
Miscellaneous payables and other non-current liabilities	1,678		(251)	1,427
Deferred tax liabilities	265	(11)	8	262
Current liabilities				

Trade and miscellaneous payables and other current liabilities	7,520		(113)	7,407
Current income tax payables	112	(2)		110
Total Equity and Liabilities	68,783	(120)	(337)	68,326

(*) For further details, see the specific notes to the Consolidated Financial Statements at December 31, 2018.
The different classification of financial assets, following the adoption of IFRS 9, had no substantial impact for the TIM Group on the measurement of those assets, while the introduction of the *expected credit loss* model replacing the *incurred loss* model required by IAS 39, resulted in a reduction of 107 million euros in consolidated equity at the transition date of January 1, 2018.

The comprehensive net impact (including tax effects) of the adoption of IFRS 15 on consolidated equity at January 1, 2018 (transition date) was positive for 19 million euros and mainly connected with the combined effects of:

- the change in the types of contract costs that are deferred;
- the new approach to recognizing activation and installation revenues and the recognition of contract assets connected with the earlier recognition of revenues from bundle offers.

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Impact of new accounting standards (IFRS 9 and IFRS 15) on the main line items of the separate consolidated income statements and consolidated statements of financial position for the year 2018

To enable the year-on-year comparison of the economic and financial performance for the year 2018, comparable financial position figures and comparable income statement figures, prepared in accordance with the previous accounting standards applied (IAS 39, IAS 18, IAS 11, and relative Interpretations) are provided below.

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

(millions of euros)		Year 2018 (a)	Year 2018 comparable (b)	Impact new standards (c=a-b)
Revenues	(1)	18,940	19,109	(169)
Operating expenses	(2)	(11,878)	(11,737)	(141)
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)		7,403	7,713	(310)
Depreciation and amortization	(3)	(4,255)	(4,399)	144
Operating profit (loss) (EBIT)		561	727	(166)
Other income (expenses) from investments	(4)	11	10	1
Finance income/(expenses)	(5)	(1,348)	(1,341)	(7)
Profit (loss) before tax from continuing operations		(777)	(605)	(172)
Income tax expense	(6)	(375)	(433)	58
Profit (loss) for the year		(1,152)	(1,038)	(114)
Attributable to:				
Owners of the Parent		(1,411)	(1,298)	(113)
Non-controlling interests		259	260	(1)

The change in Revenues was attributable to the different accounting of bundle offers and activation/installation revenues and to the discounting of revenues from sales using the deferred payment method, using a discount rate reflecting the creditworthiness of customers.

The change in Operating expenses was mainly due to the deferral of certain subscriber acquisition costs and contract costs that were previously expensed and to the reclassification of some contract costs from intangible assets to other non-current and current assets (cost deferral), as well as higher provisions for expected losses on trade receivables, resulting from the introduction of an expected credit loss model (replacing the incurred loss model).

The change in Depreciation and amortization was due to the reclassification of certain contract costs from intangible assets to other non-current and current assets (cost deferral).

The change in Other income (expenses) from investments was due to the different accounting of the write-downs of the Other investments, which with the new standard are recognized under other components of the statements of comprehensive income.

The change in Finance income (expenses) was due to higher provisions for expected losses on other financial assets, due to the introduction of an expected credit loss model (replacing the incurred loss model).

The change in Income tax expense shows the income tax effect of the changes illustrated above.

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The impact of the new accounting standards (IFRS 9 and IFRS 15) on the basic Earnings per Ordinary and Savings Share for the year 2018 is equal to -0.01 euros; instead, the impact is zero on diluted earnings per ordinary and savings share.

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

(millions of euros)	12/31/2018 (a)	12/31/2018 comparable (b)	Impact of new standards (*) (c=a-b)
Assets			
Non-current assets			
Intangible assets	35,658	35,771	(113)
Tangible assets	16,146	16,146	
Other non-current assets	5,086	5,368	(282)
Total Non-current assets	56,890	57,285	(395)
Current assets	8,729	8,794	(65)
Total Assets	65,619	66,079	(460)
Equity and Liabilities			
Equity			
Equity attributable to Owners of the Parent	19,528	19,716	(188)
Non-controlling interests	2,219	2,225	(6)
Total Equity	21,747	21,941	(194)
Non-current liabilities	30,991	31,276	(285)
Current liabilities	12,881	12,862	19
Total Liabilities	43,872	44,138	(266)
Total Equity and Liabilities	65,619	66,079	(460)

(*) For more details, see the information provided on impacts at the transition date.

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Existing improvements - also on the supporting IT systems - relating to the process of implementing the new accounting standards, together with the high number of new commercial offers of recent months, involved recalculating the time distribution of the revenues during the first and second quarters of 2018 for some specific fixed-line and mobile contract types.

The net cumulative impacts on the financial position figures are the following:

(millions of euros)	as at 3.31.2018	as at 6.30.2018
Current and non-current assets		
Trade and miscellaneous receivables and other current assets	(12)	(3)
Total Assets	(12)	(3)
Equity		
Equity attributable to Owners of the Parent	(17)	(22)
Total Equity	(17)	(22)
Non-current and current liabilities		
Deferred tax liabilities	(7)	(8)
Trade and miscellaneous payables and other current liabilities	12	27
Total Liabilities	5	19
Total Equity and Liabilities	(12)	(3)

Recalculation of the time distribution of the revenues over the first and second quarters of 2018 did not impact the Aggregate cash flows of the TIM Group s statement of cash flows, and in particular the Cash flows from (used in) operating activities .

The updated time series of the 2018 quarters, unaudited, of the TIM Group s main consolidated economic data is therefore the following:

	2018			
(millions of euros)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	4,685	4,726	4,666	4,863

Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	1,793	1,940	2,045	1,625
Operating profit (loss) (EBIT)	740	874	(997)	(56)
Profit (loss) before tax from continuing operations	391	513	(1,326)	(355)
Income tax expense	(156)	(141)	43	(121)
Profit (loss) for the period	235	372	(1,283)	(476)
Attributable to:				
Owners of the Parent	199	333	(1,400)	(543)
Non-controlling interests	36	39	117	67

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NEW STANDARDS AND INTERPRETATIONS ISSUED BY IASB BUT NOT YET APPLICABLE

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

	Mandatory application starting from
New Standards and Interpretations endorsed by the EU	
IFRS 16 (*Leases*)	1/1/2019
Amendments to IFRS 9: Prepayment Features with Negative Compensation	1/1/2019
IFRIC 23 Uncertainty over income tax treatments	1/1/2019
New Standards and Interpretations not yet endorsed by the EU	
Amendments to IAS 28: Long-term interests in Investments in associates and joint ventures	1/1/2019
Improvements to the IFRS (2015 2017 cycle)	1/1/2019
Amendments to IAS 19: plan amendment, curtailment or settlement	1/1/2019
Amendments to References to the Conceptual Framework in IFRS Standards	1/1/2020
IFRS 17: Insurance contracts	1/1/2021
Amendments to IFRS 3 Business combinations	1/1/2020
Amendments to IAS 1 and IAS 8: definition of materiality	1/1/2020

The potential impacts on the consolidated financial statements from application of these standards and interpretations are currently being assessed.

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IFRS 16 (Leases)

IFRS 16 (Leases) was adopted at the European Union level on October 31, 2017 by Commission Regulation (EU) 2017/1986. IFRS 16 replaces IAS 17 (Leases) and relative 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 applies retrospectively commencing as of January 1, 2019.

On the basis of the provisions of IFRS 16, lease agreements (that are not service contracts) are represented in accounting by recognizing a financial liability in the statements of financial position, represented by the current value of future subscription charges, against recognition under assets of the Right of Use .

Leasing expenses, already previously classified according to IAS 17 as finance leasing, will not undergo any change to the current accounting representation, continuing as in the past.

Upon first application, the TIM Group intends to apply a modified retrospective method by recognizing, for leases previously classified under IAS 17 as operating leases, a financial liability for lease agreements and the corresponding value of the user rights, measured on the basis of the remaining lease payments at the transition date.

Those agreements within the TIM Group that fall within the scope of application of IFRS 16 mainly refer to:

- Land and buildings for office and industrial use,
- infrastructure sites for the mobile telephony network and
- network infrastructure (when not services).

With reference to the options and exemptions provided for by IFRS 16, the TIM Group will adopt the following choices:

- IFRS 16 is not usually applied to intangible assets or to short-term (i.e. less than 12 months) contracts with low unit value;
- user rights and financial liabilities relating to lease agreements are classified on specific line items in the statements of financial position;
- any service contract component included in the lease payments is generally excluded from the IFRS 16 scope;

- contracts with similar characteristics are assessed using a single discount rate;
- lease agreements previously considered finance leasing pursuant to IAS 17 retain the previously recognized values.

The main impacts on the consolidated financial statements of the Group, which are still being assessed and refined, may be summarized as follows:

- **Statements of financial position**: higher non-current assets due to the recognition of Right of Use as a balancing entry to the higher financial liabilities recognized; as a result, a lease liability is expected to be recognized for between 3.4 and 3.9 billion euros during the transition.
- **Separate income statements**: a positive impact on EBITDA, due to the different nature, description, and classification of expenses (the amortization of user rights for the asset and financial expense for interest instead of Lease and rental costs payments for operating leases , as per IAS 17), equal to between 0.6 and 0.8 billion euros. Furthermore, the combination of the straight-line amortization of user rights for the asset and the application of the effective interest rate method for lease liabilities will result in higher total income statement expenses in the first few years, compared to IAS 17, and decreasing total expenses in the last years of the lease.
- **Statements of Cash Flows**: lease payments for the principal of the debt repayment will be reclassified from Cash flows from operating activities to Cash flows from financing activities .

The process of implementing the new accounting standard entails significant updates and modifications on the IT systems, modification and updating of the control and compliance models and of their processes. The impacts are based on the results of the analyses at the date these financial statements are prepared, and might change since implementation is still in progress.

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The impacts during transition are not indicative of future developments since the choices of allocating capital might change with resulting economic and financial repercussions on recognition in the financial statements.

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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 the TIM Group .

SCOPE OF CONSOLIDATION

The changes in the scope of consolidation at December 31, 2018 compared to December 31, 2017 are listed below.

These changes did not have any significant impacts on the Consolidated Financial Statements of the TIM Group at December 31, 2018.

Subsidiaries exiting/merged into the scope of consolidation:

Company		Business Unit	Month
Exit:			
OLIVETTI ESPAÑA S.A. (in liquidation)	Liquidated	Other Operations	December 2018
Merger:			
TI SPARKLE MED S.p.A.	Merged into TI Sparkle S.p.A.	Domestic	April 2018
TIM CELULAR S.A.	Merged into TIM S.A.	Brazil	October 2018

The breakdown by number of subsidiaries and associates of the TIM Group is as follows:

	12/31/2018		
Companies:	Italy		Total

		Outside Italy	
subsidiaries consolidated line-by-line	21	42	63
joint ventures accounted for using the equity method	1		1
associates accounted for using the equity method	16		16
Total companies	38	42	80

		12/31/2017	
Companies:	Italy	Outside Italy	Total
subsidiaries consolidated line-by-line	22	44	66
joint ventures accounted for using the equity method	1		1
associates accounted for using the equity method	19		19
Total companies	42	44	86

Further details are provided in the Note List of companies of the TIM Group .

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SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

At December 31, 2018, the TIM Group held investments in subsidiaries, with significant non-controlling interests, in relation to the TIM Brasil group.

The figures provided below, stated before the netting and elimination of intragroup accounts, have been prepared in accordance with IFRS and reflect adjustments made at the acquisition date to align the assets and liabilities acquired to their fair value.

Tim Brasil group Brazil Business Unit

Non-controlling interests accounted at December 31, 2018 for 33.4% of the capital of Tim Participações, which in turn holds 100% of the capital of the operating company Tim S.A., coinciding with their corresponding voting rights.

Financial Position Data Tim Brasil group

(millions of euros)	12/31/2018	12/31/2017
Non-current assets	6,257	6,819
Current assets	1,387	1,929
Total Assets	7,644	8,748
Non-current liabilities	959	1,703
Current liabilities	1,678	1,852
Total Liabilities	2,637	3,555
Equity	5,007	5,193
of which Non-controlling interests	*1,518*	*1,556*

Income statement Data Tim Brasil group

(millions of euros)	2018	2017

Revenues	3,943	4,502
Profit (loss) for the year	586	340
of which Non-controlling interests	*200*	*114*

Financial Data Tim Brasil group

In 2018, aggregate cash flows generated a negative amount of 512 million euros, essentially due to a negative exchange rate effect of 67 million euros, without which cash flow would have generated a negative 445 million euros.

In 2017, aggregate cash flows generated a negative amount of 744 million euros, essentially due to a negative exchange rate effect of 146 million euros, without which cash flow would have generated a negative 598 million euros.

Lastly, again with reference to the Tim Brasil group and in line with the information given in the Report on Operations Main risks and uncertainties Section, 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.

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NOTE 4

GOODWILL

Goodwill shows the following breakdown and changes for 2017 and 2018:

(millions of euros)	12/31/2016	Reclassifications	Increase	Decrease	Impairments	Exchange differences	12/31/2017
Domestic	28,489						28,489
Core Domestic	28,077						28,077
International Wholesale	412						412
Brazil	1,123					(150)	973
Other Operations							
Total	29,612					(150)	29,462

(millions of euros)	12/31/2017	Reclassifications	Increase	Decrease	Impairments	Exchange differences	12/31/2018
Domestic	28,489				(2,590)		25,899
Core Domestic	28,077				(2,450)		25,627
International Wholesale	412				(140)		272
Brazil	973					(103)	870
Other Operations							
Total	29,462				(2,590)	(103)	26,769

In accordance with IAS 36, goodwill is not subject to amortization, but is tested for impairment annually when preparing the company s consolidated financial statements.

In 2018 Goodwill fell by 2,693 million euros, from 29,462 million euros at the end of 2017 to 26,769 million euros at December 31, 2018, due to the 2,590 million euros impairment loss recognized during the year related to the Domestic Business Unit, as well as the goodwill allocated for the exchange difference of the Brazil Cash Generating Unit.

The Domestic Business Unit is made up of the Core Domestic CGU and the International Wholesale CGU. In relation to the Core Domestic CGU, as of September 30, 2018, events and circumstances of an exogenous and endogenous nature had occurred which led the company to carry out impairment testing on the CGU, this led to an impairment loss recognized for an amount of 2,000 million euros.

The impairment testing carried out during the preparation of the 2018 financial statements led to an additional impairment loss of 450 million euros of the goodwill attributed to the Core Domestic CGU (total write down for the year 2018 is equal to 2,450 million euros) as well as an impairment loss of 140 million euros of goodwill attributed to the International Wholesale CGU.

The impairment testing did not reveal any impairment in relation to the Brazil CGU.

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The gross carrying amounts of goodwill and the relative accumulated impairment losses from January 1, 2004 (date of allocation to the Cash-Generating Units CGUs) to December 31, 2018 and 2017 can be summarized as follows:

(millions of euros)	12/31/2018			12/31/2017		
	Gross carrying amount	Accumulated impairment losses	Net carrying amount	Gross carrying amount	Accumulated impairment losses	Net carrying amount
Domestic	42,457	(16,558)	25,899	42,457	(13,968)	28,489
Core Domestic	42,045	(16,418)	25,627	42,045	(13,968)	28,077
International Wholesale	412	(140)	272	412		412
Brazil	1,077	(207)	870	1,204	(231)	973
Other Operations						
Total	43,534	(16,765)	26,769	43,661	(14,199)	29,462

The figures for the Brazil CGU are stated in euros, converted at the spot exchange rate at the closing date of the financial statements; the carrying amount of goodwill for the CGU corresponds to 3,854 million reais.

The impairment test was conducted at two levels; at the first level, the recoverable amount was estimated for the assets assigned to the individual cash-generating units to which goodwill is allocated; at the second level, the assets of the Group as a whole were considered.

With regard to the first level test, goodwill was allocated to the following cash-generating units (or groups of units):

Segment	Cash-Generating Units (or groups of units)
Domestic	Core Domestic
	International Wholesale
Brazil	Brazil

At December 31, 2018 the recoverable amount of the CGUs was equal to the greater of the fair value less disposal costs and the value in use .

The value used to determine the recoverable value were the value in use for Core Domestic, fair value for International Wholesale and Brazil. In particular, for Brazil, the fair value was determined on the basis of the market capitalization at the end of the period; for International Wholesale, the fair value was determined on the basis of direct market multiples relating to a sample of comparable companies, taking into account the average values of the Enterprise Value/EBITDA ratio, applied to the forecast 2019 EBITDA of the CGU (level 3 fair value in the reference standard s hierarchy, corresponding to prices calculated using inputs that are not based on observable market data).

The values used were expressed in the local currency, and hence in EUR for the Core Domestic and International Wholesale CGUs and BRL for the Brazil CGU. For the Brazil CGU, the recoverable amount of the assets was denominated in the functional currency and subsequently translated at the spot exchange rate at the reporting date.

For the Core Domestic CGU value in use estimates were made, in accordance with IAS 36 and with valuation principles and best practices, based on the expected cash flows in different scenarios. The various expected cash flows were then summarized into an average normal cash flow, determined with the aid of Experts (expert appraisers and industry experts) and based on the data from the 2019-2021 Industrial Plan approved by the Board of Directors. The expected average cash flows were measured for the three years of the 2019-2021 Industrial Plan, plus an additional two years on the basis of extrapolated data, for which future cash flows were explicitly forecast for a period of five years (2019- 2023). The extrapolation of data for 2022-2023 enabled market and competition trends that will become manifest beyond the time horizon of the Industrial Plan to be captured.

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For the estimate of the terminal value, the sustainable long-term cash flow was assumed to be the extrapolation of the estimated cash flow at 2023, adjusted as necessary to take into consideration a suitable level of long-term capital expenditure. Furthermore, with specific reference to the valuation of the incremental share of the value deriving from 5G license use and therefore from the development of new and innovative business areas, an evaluation model has been adopted that takes into account the net incremental flows for a period of defined time which only concerns the duration of the license. This approach is consistent with the need in the value used to capture on one hand the outgoing flows deriving from the payment of the license (2019 - 2022) and the supporting capex, and on the other to capture the positive net flows from the incremental business component of the license acquisition that will develop over a broad period of time and over the 5 years of explicit forecast.

The Industrial Plan (2019-2021) incorporates some valuations of potential risk factors and the actions adopted to mitigate them. In defining the average normal flows for the purposes of impairment testing, management, with the help of the experts, identified additional risk factors, modifying the amount and/or distribution over time of future cash flows, giving a greater weighting to external data available.

The cost of capital used to discount the future cash flows for estimating the value in use of the Core Domestic:

- was estimated using the Capital Asset Pricing Model (CAPM), which is one of the generally accepted application criteria referred to in IAS 36;
- reflects the current market estimates of the time value of money and the specific risks of the groups of assets; it includes appropriate yield premiums for country risk and the risk associated with the depreciation of the currency of denomination of the cash flows;
- was calculated using comparative market parameters to estimate the *Beta coefficient* and the weighting coefficient of the equity and debt capital components.

Details are provided below for the Core domestic CGU:

- of the weighted average cost of capital (WACC rate) used to discount the future cash flows, and the equivalent rate before tax
- of the growth rate used to estimate the residual value after the explicit forecast period (the G-Rate), expressed in nominal terms and related to the cash flows in its functional currency;
- of the implicit capitalization rates resulting from the difference between the cost of capital, after tax, and the G-Rate.

PRINCIPAL PARAMETERS FOR THE ESTIMATES OF VALUE IN USE

	Core Domestic
WACC	6.60%
WACC before tax	8.91%
Growth rate beyond the explicit period (g)	0.5%
Capitalization rate net of taxes (WACC-g)	6.10%
Capitalization rate before taxes (WACC-g)	8,41%
Capex/Revenues, perpetual	20.15%

The growth rate of the terminal value g of the Core Domestic CGU was estimated taking into account the expected outlook during the explicit forecast period and are consistent with the range of growth rates applied by analysts who monitor TIM shares.

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In estimating the level of capital expenditure required to sustain the perpetual generation of cash flows after the explicit forecast period, according to the phase of capital expenditure, competitive positioning and the technological infrastructure operated were taken into account.

In addition to average normal cash flows, to take into account the market operator s perspective, sensitivity analyses were conducted on the risk factors identified with the experts to determine the value in use of the Core Domestic CGU.

The difference between the recoverable amounts and the net carrying amounts of the CGUs considered totaled:

(millions of euros)	Core Domestic	International Wholesale	Brazil
Difference between recoverable amounts and net carrying amounts	-2,450	-140	+1,246

Therefore, in the light of the factors above, the impairment loss of the goodwill allocated to the Core Domestic Cash Generating Unit amounted to 2,450 million euros and the impairment loss of the goodwill allocated to the International Wholesale Cash Generating Unit is equal 140 million euros.

The Brazil Cash Generating Unit on the other hand showed a positive difference of 1.2 billion euros. As the recoverable amount, determined on the basis of fair value, was higher than the carrying amounts, the value in use was not calculated for the Brazil CGU.

In relation to the Brazil CGU, the sensitivity analyzes showed that the change necessary to make the recoverable value equal to the carrying amount was equal to -25% of the share value.

With regard to value testing at overall Group level, the sum of the recoverable amounts of all the CGUs was compared against the carrying amount of the net operating assets in the consolidated financial statements. No impairment losses were recorded at this additional level of impairment testing.

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NOTE 5

INTANGIBLE ASSETS WITH A FINITE USEFUL LIFE

Intangible assets with a finite useful life increased by 1,697 million euros compared to December 31, 2017. The breakdown and movements are as follows:

(millions of euros)	12/31/2016	Capital expenditures	Depreciation and amortization	Impairment (losses) / reversals	Disposals	Exchange differences	Capitalized borrowing costs	Other changes	12/31/2017
Industrial patents and intellectual property rights	2,458	771	(1,263)			(147)		374	2,193
Concessions, licenses, trademarks and similar rights	2,854	140	(396)			(96)		248	2,750
Other intangible assets	109	157	(134)			(5)		7	134
Work in progress and advance payments	1,530	1,224		(30)		(143)	73	(539)	2,115
Total	6,951	2,292	(1,793)	(30)		(391)	73	90	7,192

(millions of euros)	12/31/2017	Adoption IFRS 15	Capital expenditures	Depreciation and amortization	Impairment (losses) / reversals	Disposals	Exchange differences	Capitalized borrowing costs	Other changes	12/31/2018
Industrial patents and intellectual property rights	2,193		703	(1,171)			(98)		468	2,095
Concessions, licenses, trademarks and similar rights	2,750		103	(422)			(64)		894	3,261
Other intangible assets	134	(110)	11	(6)			(1)		5	33
Work in progress and advance payments	2,115		2,830		4	(1)	(88)	37	(1,397)	3,500
Total	7,192	(110)	3,647	(1,599)	4	(1)	(251)	37	(30)	8,889

Additions in 2018, equal to 3,647 million euros (increased by 1,355 million euros compared to 2017) and particularly were affected by the impacts caused by the acquisitions of user rights for mobile telephone frequencies in Italy (2,399 million euros), recognized in Works in Progress.

Additions in 2018 also included 248 million euros of internally generated assets (272 million euros in 2017); Further details are provided in the Note Internally generated assets .

Industrial patents and intellectual property rights at December 31, 2018 consisted mainly of application software purchased outright and user licenses acquired, amortized over a period between 2 and 5 years. They mainly related to TIM S.p.A. (1,256 million euros) and to the Brazil Business Unit (794 million euros).

Concessions, licenses, trademarks and similar rights at December 31, 2018 mainly related to:

- the remaining cost of telephone licenses and similar rights (2,040 million euros for TIM S.p.A., 615 million euros for the Brazil Business Unit); they increased by 502 million euros, mainly following the reclassification of the Parent to the extension of the user rights to the 900 and 1800 MHz band (GSM license) acquired in 2017 with starting date July 1, 2018 and the reclassification from the Brazil Business Unit of the right to use the 700 MHz frequencies that came into operation;

- Indefeasible Rights of Use - IRU (412 million euros), mainly relating to companies of the Telecom Italia Sparkle group International Wholesale (270 million euros), the Parent (110 million euros) and the Brazil Business Unit (32 million euros);

- TV frequencies of the company Persidera in the Core Domestic segment (104 million euros). The user licenses for the frequencies used for digital terrestrial transmission will expire in 2032.

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The residual amount of telephone licenses and similar rights in operation at December 31, 2018 (2,655 million euros) and their useful lives are detailed below:

Type	Residual amount at 12/31/2018 (millions of euros)	Useful life (years)	Maturity	Amortization expense for 2018 (millions of euros)
TIM S.p.A.:				
UMTS	403	18	12/31/2021	134
UMTS 2100 MHz	22	12	12/31/2021	7
WiMax	4	15	5/31/2023	1
LTE 1800 MHz	94	18	12/31/2029	9
LTE 800 MHz	661	17	12/31/2029	60
LTE 2600 MHz	73	17	12/31/2029	7
1452-1492 MHz band	181	14	12/31/2029	16
GSM (extension)		3	6/30/2018	17
900 and 1800 MHz band	602	12	12/31/2029	27
Tim Brasil group:				
GSM and 3G (UMTS)	129	15	From 2023 to 2031	41
4G (LTE - 700 MHz)	486	15	2030	36

Other intangible assets fell mainly due to the introduction of IFRS 15, under which mobile customer acquisition costs (Subscriber Acquisition Costs - SACs), relating to contracts with minimum term clauses, are no longer capitalized and amortized. Instead they are reclassified as deferred contract costs and then subsequently recognized in the income statement over the term of the contract in the item Acquisition of goods and services , at December 31, 2017 SACs amounted to 110 million euros.

The figure for other intangible assets at December 31, 2018 mainly consisted of surface rights acquired by INWIT.

Work in progress and advance payments mainly included:

(1) the investment by the Parent in the acquisition of user rights to frequencies in the 694-790 MHz, 3600-3800 MHz and 26.5-27.5 GHz bands, which will be reserved for 5G mobile telecommunications services for the total amount of 2,399 million euros (net of the 8 million euros discount applied to the award proportionate to the population in the areas affected by the testing), due to the participation of TIM S.p.A. in the auction for their

award in 2018 by the Ministry of Economic Development. The user rights were formally awarded on October 9, 2018, with the rights to 3600 3800 MHz and 26.5 27.5 GHz frequencies made available on a definitive basis in January 2019; the user rights to 694 790 MHz frequencies will be made available in July 2022. The awarded rights will be paid in six annual installments, the first of which was paid at the end of October 2018 for the amount of 477 million euros.

(2) the amount of the user rights for the 700 MHz frequencies, equal to 461 million euros, acquired in 2014 by the Tim Brasil group for a total of 2.9 billion reais (equal to around 1 billion euros), but not yet in operation. In 2018, part of the user rights, amounting to 261 million euros, came into operation and was consequently reclassified under the item Concessions, licenses, trademarks and similar rights . The finance expenses directly attributable to the purchase of these rights have been capitalized since 2014. In 2018, the capitalized finance expenses totaled 37 million euros, at an annual interest rate of 8.37%; expenses capitalized were deducted directly in the income statement from Finance expenses .

In 2018, the Parent also carried out an adjustment of 4 million euros for Construction contracts previously subject to impairment.

Work in progress and advance payments at December 31, 2017 included the payment of 630 million euros for the extension of the user rights to the 900 and 1800 MHz band from July 1, 2018 until December 31, 2029. As a result, in 2018 the value of the license extension was reclassified under the line item Concessions, licenses, trademarks and similar rights .

Depreciation and impairment losses have been recorded in the income statement as components of EBIT.

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

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	12/31/2017			
(millions of euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Industrial patents and intellectual property rights	12,266	(7)	(10,066)	2,193
Concessions, licenses, trademarks and similar rights	7,044	(273)	(4,021)	2,750
Other intangible assets	522		(388)	134
Work in progress and advance payments	2,145	(30)		2,115
Total intangible assets with a finite useful life	21,977	(310)	(14,475)	7,192

	12/31/2018			
(millions of euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Industrial patents and intellectual property rights	10,832		(8,737)	2,095
Concessions, licenses, trademarks and similar rights	7,839	(277)	(4,301)	3,261
Other intangible assets	241		(208)	33
Work in progress and advance payments	3,526	(26)		3,500
Total intangible assets with a finite useful life	22,438	(303)	(13,246)	8,889

Impairment losses on Concessions, licenses, trademarks and similar rights, mainly relating to reporting periods prior to 2004, refer to the Indefeasible Rights of Use (IRU) for the transmission capacity and cables for international connections acquired by the Telecom Italia Sparkle group.

With regard to the gross carrying amounts of intangible assets with a finite life, in 2018 disposals were made by the Parent for a total amount of 2,195 million euros, mainly in relation to obsolete releases of software systems of the Parent; consequently, where present, the accumulated impairment losses and the accumulated depreciation related to them were also canceled.

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NOTE 6

TANGIBLE ASSETS (OWNED AND UNDER FINANCE LEASES)

PROPERTY, PLANT AND EQUIPMENT OWNED

Property, plant and equipment owned increased by 35 million euros compared to December 31, 2017. The breakdown and movements are as follows:

(millions of euros)	12/31/2016	Capital expenditures	Depreciation and amortization	Impairment (losses) / reversals	Disposals	Exchange differences	Other changes	12/31/2017
Land	203	6				(2)	6	213
Buildings (civil and industrial)	509	10	(39)			(3)	11	488
Plant and equipment	11,709	2,601	(2,286)	(8)	(8)	(332)	373	12,049
Manufacturing and distribution equipment	38	12	(16)				2	36
Other	391	88	(159)		(2)	(18)	76	376
Construction in progress and advance payments	1,097	541		1	(1)	(41)	(543)	1,054
Total	13,947	3,258	(2,500)	(7)	(11)	(396)	(75)	14,216

(millions of euros)	12/31/2017	Capital expenditures	Depreciation and amortization	Impairment (losses) / reversals	Disposals	Exchange differences	Other changes	12/31/2018
Land	213	6				(1)	32	250
Buildings (civil and industrial)	488	79	(36)			(2)	59	588
Plant and equipment	12,049	2,013	(2,229)		(7)	(217)	487	12,096
Manufacturing and distribution equipment	36	8	(14)				1	31

Other	376	94	(162)		(2)	(13)	65	358
Construction in progress and advance payments	1,054	488			(4)	(21)	(589)	928
Total	14,216	2,688	(2,441)		(13)	(254)	55	14,251

Land comprises both built-up land and available land and is not subject to depreciation. The figure for December 31, 2018 refers primarily to TIM S.p.A. (209 million euros).

Buildings (civil and industrial) almost exclusively includes buildings for industrial use hosting telephone exchanges, or for office use and light constructions. The figure for December 31, 2018 referred primarily to TIM S.p.A. (555 million euros). It is noted that in the course of 2018, as part of the project to rationalize industrial and office space in progress, during the year the Parent signed an agreement with a primary real estate firm that entailed the acquisition of owned property previously leased and the release of other properties no longer considered strategic; the transaction entailed a 69 million-euro net investment for a financial disbursement of 158 million euros and the reclassification of the residual value of assets owned in leased property and of the improvements introduced to owned buildings.

Plant and equipment includes the technological infrastructure used for the functioning of voice and data telephone traffic. The figure at December 31, 2018 was mainly attributable to TIM S.p.A. (9,162 million euros) and to companies of the Brazil Business Unit (1,947 million euros).

Manufacturing and distribution equipment consists of instruments and equipment used for the operation and maintenance of plant and equipment and refers mainly to TIM S.p.A..

The item 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.

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Construction in progress and advance payments refer to the internal and external costs incurred for the acquisition and internal production of tangible assets, which are not yet in use.

Capital expenditures in 2018 decreased by 570 million euros compared to the previous year, driven mainly by a greater selectivity in capex dedicated to network infrastructure, and include 322 million euros of internally generated assets (354 million euros in 2017); Further details are provided in the Note Internally generated assets .

Depreciation, impairment losses and reversals have been recorded in the income statement as components of EBIT.

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

Buildings (civil and industrial)	2 5.55%
Plant and equipment	3 50%
Manufacturing and distribution equipment	20%
Other	10 50%

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

	12/31/2017			
(millions of euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	218	(5)		213
Buildings (civil and industrial)	1,717		(1,229)	488
Plant and equipment	68,964	(62)	(56,853)	12,049
Manufacturing and distribution equipment	310	(1)	(273)	36
Other	3,988	(2)	(3,610)	376
Construction in progress and advance payments	1,054			1,054
Total	76,251	(70)	(61,965)	14,216

12/31/2018

(millions of euros)

	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	253	(3)		250