

TIM S.p.A.  
Form 6-K  
May 22, 2018  
Table of Contents

**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 MAY 2018**

**TIM S.p.A.**

**(Translation of registrant's name into English)**

**Via Gaetano Negri 1**

**20123 Milan, Italy**

**(Address of principal executive offices)**

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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-

**Table of Contents**

ANNUAL FINANCIAL REPORT

2017

**Table of Contents**

## CONTENTS

## REPORT ON OPERATIONS

|   |     |
|---|-----|
| <u>TIM Group</u>  | 4   |
| <u>Key Operating and Financial Data - TIM Group</u>   | 9   |
| <u>Financial and Operating Highlights of the Business Units of the TIM Group</u>  | 22  |
| <u>Main Commercial Developments</u>   | 34  |
| <u>Main changes in the regulatory framework</u>   | 37  |
| <u>Competition</u>  | 41  |
| <u>Consolidated Financial Position and Cash Flows Performance</u>   | 44  |
| <u>Consolidated Financial Statements – TIM Group</u>  | 51  |
| <u>Social and environmental impact of operations and their economic aspects</u>   | 59  |
| <u>Research and development</u>   | 63  |
| <u>Consolidated non-financial statement</u>   | 67  |
| <u>Events subsequent to December 31, 2017</u>   | 68  |
| <u>Business Outlook for the Year 2018</u>   | 68  |
| <u>Main risks and uncertainties</u>   | 69  |
| <u>Information for Investors</u>  | 72  |
| <u>Related party transactions and direction and coordination activity</u>   | 75  |
| <u>Alternative Performance Measures</u>   | 77  |
| <u>TIM S.p.A.</u>   | 79  |
| <u>Review of Key Operating and Financial Data - TIM S.p.A.</u>  | 79  |
| <u>Financial Statements – TIM S.p.A.</u>  | 91  |
| <u>Reconciliation of Consolidated Equity</u>  | 97  |
| <u>Corporate Boards at December 31, 2017</u>  | 98  |
| <u>Macro-Organization Chart at December 31, 2017</u>  | 100 |
| <u>TIM GROUP CONSOLIDATED FINANCIAL STATEMENTS</u>  | 102 |
| <u>Contents</u>   | 103 |
| <u>Consolidated Statements of Financial Position</u>  | 104 |
| <u>Separate Consolidated Income Statements</u>  | 106 |
| <u>Consolidated Statements of Comprehensive Income</u>  | 107 |
| <u>Consolidated Statements of Changes in Equity</u>   | 108 |
| <u>Consolidated Statements of Cash Flows</u>  | 109 |
| <u>Notes to the Consolidated Financial Statements</u>   | 111 |
| <u>Certification of the Consolidated Financial Statements pursuant to Article 81-ter of the Consob Regulation 11971 dated May 14, 1999, with Amendments and Additions</u> | 242 |
| <u>Independent Auditors – Report</u>  | 243 |
| <u>TIM S.p.A. SEPARATE FINANCIAL STATEMENTS</u>   | 255 |
| <u>Contents</u>   | 256 |
| <u>Statements of Financial Position</u>   | 257 |
| <u>Separate Income Statements</u>   | 259 |
| <u>Statements of Comprehensive Income</u>   | 260 |
| <u>Statements of Changes in Equity</u>  | 261 |
| <u>Statements of Cash Flows</u>   | 262 |

|   |     |
|---|-----|
| <u>Notes to the Separate Financial Statements of TIM S.p.A.</u>   | 264 |
| <u>Certification of the Separate Financial Statements Pursuant to Article 81-ter of Consob Regulation 11971 dated May 14, 1999, with Amendments and Additions</u> | 385 |
| <u>Independent Auditors Report</u>  | 386 |
| <u>Glossary</u>   | 396 |
| <u>Useful information</u>   | 411 |

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

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

**Table of Contents**

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. CORE DOMESTIC

Consumer

Olivetti, which is now part of the Core Domestic business segment, operates in the area of office products and services for Information Technology.

Business

INWIT S.p.A. operates 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.

Wholesale

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

In the international field, the Business Unit develops fiber optic networks for wholesale customers (in Europe, in the Mediterranean and in South America). 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, with the acquisitions and subsequent integrations into the group of Intelig Telecomunicações (now TIM S.A.), Tim Fiber RJ and Tim Fiber SP, the services portfolio has been extended by offering fiber optic data transmission using full IP technology such as DWDM and MPLS and by offering residential broadband services.

Tim Brasil Serviços e Participações S.A.

Tim Participações S.A.

TIM S.A. (formerly Intelig Telecom. Ltda)

Tim Celular S.A.

Annual Financial Report

The TIM Group 4

as at December 31, 2017

**Table of Contents**

BOARD OF DIRECTORS

|  |                                  |
|--|----------------------------------|
| Chairman                                       | Arnaud Roy de Puyfontaine        |
| Deputy Chairman                                | Giuseppe Recchi                  |
| Chief Executive Officer and<br>General Manager | Amos Genish                      |
| Directors                                      | Camilla Antonini (independent)   |
|  | Franco Bernabè (independent)     |
|  | Ferruccio Borsani (independent)  |
|  | Lucia Calvosa (independent)      |
|  | Francesca Cornelli (independent) |
|  | Frédéric Crépin                  |
|  | Dario Frigerio (independent)     |
|  | Félicité Herzog (independent)    |
|  | Anna Jones (independent)         |
|  | Marella Moretti (independent)    |
|  | Hervé Philippe                   |
|  | Danilo Vivarelli (independent)   |
| Secretary to the Board                         | Agostino Nuzzolo                 |

BOARD OF STATUTORY AUDITORS

|                 |   |
|-----------------|---|
| Chairman        | Roberto Capone  |
| Acting Auditors | Vincenzo Cariello<br>Gabriella Chersicla<br>Gianluca Ponzellini<br>Ugo Rock |



Alternate Auditors

Francesco Di Carlo  
Piera Vitali  
Riccardo Schioppo

Annual Financial Report

Board of Directors and Board of Statutory Auditors 5

as at December 31, 2017

of TIM S.p.A.

**Table of Contents**

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**Table of Contents**

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**Table of Contents**

**INFOGRAFICA GRP**

**Table of Contents**

## KEY OPERATING AND FINANCIAL DATA - TIM GROUP

## Consolidated operating and financial data

| (millions of euros)   |     | 2017   | 2016   | 2015   | 2014   | 2013    |
|---|-----|--------|--------|--------|--------|---------|
| Revenues  |     | 19,828 | 19,025 | 19,719 | 21,574 | 23,443  |
| EBITDA  | (1) | 7,790  | 8,002  | 7,006  | 8,785  | 9,574   |
| EBIT before goodwill impairment loss  |     | 3,291  | 3,722  | 3,203  | 4,529  | 4,939   |
| Goodwill impairment loss  |     |        |        | (240)  |        | (2,187) |
| EBIT  | (1) | 3,291  | 3,722  | 2,963  | 4,529  | 2,752   |
| Profit (loss) before tax from continuing operations                         |     | 1,777  | 2,799  | 453    | 2,350  | 570     |
| Profit (loss) from continuing operations                                    |     | 1,287  | 1,919  | 50     | 1,420  | (556)   |
| Profit (loss) from Discontinued operations/Non-current assets held for sale |     |        | 47     | 611    | 541    | 341     |
| Profit (loss) for the year  |     | 1,287  | 1,966  | 661    | 1,961  | (215)   |
| Profit (loss) for the year attributable to Owners of the Parent             |     | 1,121  | 1,808  | (70)   | 1,351  | (659)   |
| Capital expenditures  |     | 5,701  | 4,876  | 5,197  | 4,984  | 4,400   |

## Consolidated financial position data

| (millions of euros)                         | 12/31/2017 | 12/31/2016 | 12/31/2015 | 12/31/2014 | 12/31/2013 |
|---|------------|------------|------------|------------|------------|
| Total Assets                                | 68,783     | 70,446     | 71,268     | 71,596     | 70,264     |
| Total Equity                                | 23,783     | 23,553     | 21,249     | 21,584     | 20,071     |
| - attributable to Owners of the Parent      | 21,557     | 21,207     | 17,554     | 18,068     | 16,985     |
| - attributable to non-controlling interests | 2,226      | 2,346      | 3,695      | 3,516      | 3,086      |
| Total Liabilities                           | 45,000     | 46,893     | 50,019     | 50,012     | 50,193     |

|  |     |        |        |        |        |        |
|--|-----|--------|--------|--------|--------|--------|
| Total Equity and Liabilities   |     | 68,783 | 70,446 | 71,268 | 71,596 | 70,264 |
| Share capital  |     | 11,587 | 11,587 | 10,650 | 10,634 | 10,604 |
| Net financial debt carrying amount                                     | (1) | 26,091 | 25,955 | 28,475 | 28,021 | 27,942 |
| Adjusted net financial debt  | (1) | 25,308 | 25,119 | 27,278 | 26,651 | 26,807 |
| Adjusted net invested capital  | (2) | 49,091 | 48,672 | 48,527 | 48,235 | 46,878 |
| Debt Ratio (Adjusted net financial debt/Adjusted net invested capital) |     | 51.6%  | 51.6%  | 56.2%  | 55.3%  | 57.2%  |

## Consolidated profit ratios

|                                    |     | 2017  | 2016  | 2015  | 2014  | 2013  |
|------------------------------------|-----|-------|-------|-------|-------|-------|
| EBITDA/Revenues                    | (1) | 39.3% | 42.1% | 35.5% | 40.7% | 40.8% |
| EBIT/Revenues (ROS)                | (1) | 16.6% | 19.6% | 15.0% | 21.0% | 11.7% |
| Adjusted Net Financial Debt/EBITDA | (1) | 3.2   | 3.1   | 3.9   | 3.0   | 2.8   |

(1) Details are provided under Alternative Performance Measures .

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

Report on Operations of the  
TIM Group

Key Operating and Financial Data TIM Group 9

**Table of Contents**Headcount, number in the Group at year end <sup>(1)</sup>

| (number)   | 12/31/2017 | 12/31/2016 | 12/31/2015 | 12/31/2014 | 12/31/2013 |
|--|------------|------------|------------|------------|------------|
| Headcount (excluding headcount relating to Discontinued operations/Non-current assets held for sale) | 59,429     | 61,229     | 65,867     | 66,025     | 65,623     |

|  |  |  |        |        |        |
|--|--|--|--------|--------|--------|
| Headcount relating to Discontinued operations/Non-current assets held for sale |  |  | 16,228 | 16,420 | 16,575 |
| Headcount, average number in the Group <sup>(1)</sup>                          |  |  |        |        |        |

| (equivalent number)  | 2017   | 2016   | 2015   | 2014   | 2013   |
|--|--------|--------|--------|--------|--------|
| Headcount (excluding headcount relating to Discontinued operations/Non-current assets held for sale) | 54,946 | 57,855 | 61,553 | 59,285 | 59,527 |

|  |  |       |        |        |        |
|--|--|-------|--------|--------|--------|
| Headcount relating to Discontinued operations/Non-current assets held for sale |  | 2,581 | 15,465 | 15,652 | 15,815 |
|--|--|-------|--------|--------|--------|

Financial performance measures

TIM S.p.A.

| (euros)                         | 2017    | 2016   | 2015   |
|---------------------------------|---------|--------|--------|
| Share prices (December average) |         |        |        |
| - Ordinary                      | 0.73    | 0.79   | 1.16   |
| - Savings                       | 0.60    | 0.64   | 0.98   |
| Dividends per share             | (2)     |        |        |
| - Ordinary                      |         |        |        |
| - Savings                       | 0.0275  | 0.0275 | 0.0275 |
| Pay Out Ratio                   | (2) (*) | 9%     | 10%    |
|                                 |         | 45%    |        |

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|  |           |        |        |        |
|--|-----------|--------|--------|--------|
| Market capitalization (in million euros)   |           | 14,779 | 15,901 | 21,525 |
| Market to Book Value                       | (**)      | 0.74   | 0.84   | 1.34   |
| Dividend Yield (based on December average) | (2) (***) |        |        |        |
| - Ordinary                                 |           |        |        |        |
| - Savings                                  |           | 4.55%  | 4.27%  | 2.81%  |

TIM Group

| (euros)                              |                 | 2017 | 2016 | 2015 |
|--------------------------------------|-----------------|------|------|------|
| Basic and Diluted Earnings Per Share | ordinary shares | 0.05 | 0.08 | 0.00 |
| Basic and Diluted Earnings Per Share | savings shares  | 0.06 | 0.09 | 0.00 |

(1) Includes employees with temp work contracts.

(2) For 2017, the ratio was calculated on the basis of the proposed resolutions submitted to the shareholders meeting to be held on April 24, 2018. 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, 2017).

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

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

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

Report on Operations of the

Key Operating and Financial Data TIM Group 10

TIM Group



## Table of Contents

### Financial highlights

In terms of economic and financial performance in 2017:

Consolidated revenues amounted to 20 billion euros, up by 4.2% on 2016 (+2.7% in organic terms). The figure for the fourth quarter of 2017 showed growth of 1.2% (+2.8% in organic terms).

EBITDA amounted to 7.8 billion euros, down by 2.6% on 2016 (-3.7% in organic terms). The organic EBITDA margin came to 39.3%, 2.6 percentage points lower than in 2016. EBITDA in 2017 was pulled down by non-recurring expenses for a total of 883 million euros (198 million euros in 2016 at constant exchange rates), without which the organic change in EBITDA would have been +4.6% (+382 million euros), with an EBITDA margin of 43.7%, up by 0.7 percentage points compared to 2016.

EBITDA for the fourth quarter of 2017 amounted to 1.6 billion euros (2.1 billion euros in 2016). In organic terms, and without the impact of the above-mentioned non-recurring expenses, the change would have been an increase of +4.1%.

EBIT amounted to 3.3 billion euros, down by 11.6% compared to 2016 (-12.1% in organic terms), as a result of the negative impact of non-recurring net expenses of 913 million euros (185 million euros in 2016 at constant exchange rates), without which the organic change in EBIT would have been +6.9%.

EBIT for the fourth quarter of 2017 amounted to 457 million euros (954 million euros in the fourth quarter of 2016). In organic terms and without non-recurring net expenses, the change from the fourth quarter of 2016 would have been +12.5%.

Profit for the year attributable to Owners of the Parent amounted to 1.1 billion euros (1.8 billion euros in 2016). On a like-for-like basis i.e. without including the impact of non-recurring net expenses and, in 2016, the positive impact of the fair value measurement of the embedded option in the mandatory convertible bond converted into TIM shares profit for 2017 would have been approximately 270 million euros higher than the figure for 2016.

Capital expenditures for 2017 amounted to 5,701 million euros (4,876 million euros in 2016) and included the outlay of 630 million euros for the renewal of the user rights to the 900 MHz and 1800 MHz (GSM) frequencies by the Domestic Business Unit. In the Domestic Business Unit, the innovation component of total network investments rose to 63% (+6.3 percentage points compared to 2016) thanks to the selective approach taken to investments, which focused on identifying projects delivering higher returns and targeted at raising levels of UBB coverage through innovation or transformation.

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Adjusted net financial debt amounted to 25,308 million euros at December 31, 2017, up by 189 million euros compared December 31, 2016 (25,119 million euros). The positive performance of business operations almost entirely absorbed the cash requirements relating to income taxes, which were much higher than in 2016, the outlay of 630 million euros for the renewal, as reported earlier, of user rights to domestic mobile telephone frequencies, and the payment of 257 million euros by the Brazil Business Unit to the consortium for the clean-up of the 700 MHz spectrum, for which the business unit purchased user rights in 2014.

|                             |   |    |
|-----------------------------|---|----|
| Report on Operations of the | Financial and Operating Highlights of the Business Units of the TIM | 11 |
| TIM Group                   | Group   |    |
|                             | Domestic Business Unit  |    |

**Table of Contents**

Financial highlights for the year

| (millions of euros)   |     | 2017                 | 2016                 | % Change             |         |
|---|-----|----------------------|----------------------|----------------------|---------|
|   |     |                      |                      | Reported             | Organic |
| Revenues  |     | 19,828               | 19,025               | 4.2                  | 2.7     |
| EBITDA  | (1) | 7,790                | 8,002                | (2.6)                | (3.7)   |
| <i>EBITDA Margin</i>  |     | 39.3%                | 42.1%                | (2.8)pp              |         |
| <i>Organic EBITDA Margin</i>  |     | 39.3%                | 41.9%                | (2.6)pp              |         |
| EBIT  | (1) | 3,291                | 3,722                | (11.6)               | (12.1)  |
| <i>EBIT Margin</i>  |     | 16.6%                | 19.6%                | (3.0)pp              |         |
| <i>Organic EBIT Margin</i>  |     | 16.6%                | 19.4%                | (2.8)pp              |         |
| Profit (loss) from Discontinued operations/Non-current assets held for sale |     |                      | 47                   |                      |         |
| Profit (loss) for the year attributable to Owners of the Parent             |     | 1,121                | 1,808                | (38.0)               |         |
| Capital expenditures (CAPEX)  |     | 5,701                | 4,876                | 16.9                 |         |
| Adjusted net financial debt   | (1) | 12/31/2017<br>25,308 | 12/31/2016<br>25,119 | Change Amount<br>189 |         |

Financial highlights for the fourth quarter

| (millions of euros)          |     | 4th Quarter<br>2017 | 4th Quarter<br>2016 | % Change |         |
|------------------------------|-----|---------------------|---------------------|----------|---------|
|                              |     |                     |                     | Reported | Organic |
| Revenues                     |     | 5,149               | 5,086               | 1.2      | 2.8     |
| EBITDA                       | (1) | 1,577               | 2,124               | (25.8)   | (25.1)  |
| <i>EBITDA Margin</i>         |     | 30.6%               | 41.8%               |          |         |
| <i>Organic EBITDA Margin</i> |     | 30.6%               | 42.0%               |          |         |

|   |     |      |       |        |        |
|---|-----|------|-------|--------|--------|
| EBIT  | (1) | 457  | 954   | (52.1) | (52.0) |
| <i>EBIT Margin</i>  |     | 8.9% | 18.8% |        |        |
| <i>Organic EBIT Margin</i>  |     | 8.9% | 19.0% |        |        |
| Profit (loss) for the period                                      |     | 157  | 356   |        |        |
| Profit (loss) for the period attributable to owners of the Parent |     | 88   | 313   |        |        |

Details are provided under Alternative Performance Measures .

|                             |   |    |
|-----------------------------|---|----|
| Report on Operations of the | Financial and Operating Highlights of the Business Units of the TIM Group | 12 |
| TIM Group                   | Domestic Business Unit  |    |

**Table of Contents**

## Non-recurring events

In the years 2017 and 2016, the TIM Group recognized non-recurring net operating expenses connected to events and transactions that by their nature do not occur continuously in the normal course of operations and have been shown because their amount is significant. They include expenses resulting from corporate restructuring and reorganization processes, expenses resulting from regulatory disputes and penalties and the liabilities related to those expenses, expenses for disputes with former employees, and liabilities with customers and/or suppliers.

In detail:

| (millions of euros)   | 2017       | 2016       |
|---|------------|------------|
| <b>Non-recurring net expenses</b>   |            |            |
| Acquisition of goods and services and Change in inventories   |            |            |
| Expenses related to agreements and the development of non-recurring projects  | 10         | 2          |
| <b>Employee benefits expenses (*)</b>   |            |            |
| Expenses related to restructuring and rationalization and other expenses  | 697        | 160        |
| <b>Sundry expenses and provisions</b>   |            |            |
| Expenses related to disputes and regulatory penalties and liabilities related to those expenses, and expenses related to disputes with former employees and liabilities with customers and/or suppliers | 176        | 36         |
| Impact on EBITDA  | 883        | 198        |
| (Gain)/loss from Brazil Towers disposal (*)   |            | (13)       |
| Impairment losses on intangible assets  | 30         |            |
| <b>Impact on EBIT</b>   | <b>913</b> | <b>185</b> |

(\*) The 2016 value of the Brazil Business Unit is stated at constant exchange rates (average 2017 exchange rate). The non-recurring component of the cost of labor at historical exchange rates amounted to 14 million euros, while the gain realized on the disposal of telecommunication towers amounted to 12 million euros.

Non-recurring expenses in 2017 mainly included provisions connected with the commencement of the new company restructuring plan for TIM S.p.A., which will unfold over the entire period of the 2018-2020 Industrial Plan and is designed to support the digitization process by drawing on all measures provided by law. Specifically, the plan will involve, *inter alia*, the application of article 4(1-7) of Law 92 of June 28, 2012 (the Fornero Law) for executive and non-executive personnel (which provides for early retirement arrangements), as well as the use of measures for economic sustainability.

Non - Financial highlights

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 materiality matrix for 2017, which summarizes the point of view of the Company and the stakeholders, also identifies the Sustainable Development Goals (SDGs) to which the Group believes it can make an appreciable contribution through the digitalization of the Country, social inclusion and the protection of human rights, improving the sustainability of the value chain and combating climate change.

Such non-financial reporting stands alongside the company s positioning in major sustainability indices, which in 2017 saw the TIM Group included, for the 14th consecutive year, in the Dow Jones Sustainability Indices World (DJSI World) and Europe (DJSI Europe), its entry into the Euronext Vigeo World 120 index, and its inclusion in the indices Euronext Vigeo, Eurozone 120 and Euronext Vigeo Europe 120.

Information on the TIM Group s contribution to sustainability during 2017 is provided below.

|                             |   |    |
|-----------------------------|---|----|
| Report on Operations of the | Financial and Operating Highlights of the Business Units of the TIM Group | 13 |
| TIM Group                   | Domestic Business Unit  |    |

**Table of Contents**

|  |   |    |
|--|---|----|
| Report on Operations of the<br>TIM Group | Financial and Operating Highlights of the Business Units of the TIM Group<br>Domestic Business Unit | 14 |
|--|---|----|

**Table of Contents**

## CONSOLIDATED PERFORMANCE

## Revenues

Revenues amounted to 19,828 million euros in 2017, 4.2% higher in comparison with 2016 (19,025 million euros). The increase of 803 million euros was driven by the positive performance of the Domestic Business Unit (348 million euros) and the Brazil Business Unit (455 million euros, inclusive of a positive exchange rate effect of 284 million euros).

In terms of organic change, consolidated revenues rose by 2.7% (+526 million euros), and were calculated as follows:

| (millions of euros)                                      | 2017   | 2016   | Change |     |
|--|--------|--------|--------|-----|
|  |        |        | amount | %   |
| <b>REPORTED REVENUES</b>                                 | 19,828 | 19,025 | 803    | 4.2 |
| Foreign currency financial statements translation effect |        | 277    | (277)  |     |
| <b>Changes in the scope of consolidation</b>             |        |        |        |     |
| <b>ORGANIC REVENUES</b>                                  | 19,828 | 19,302 | 526    | 2.7 |

Exchange rate fluctuations<sup>(1)</sup> were essentially attributable to the Brazil Business Unit. There were no material changes in the scope of consolidation<sup>(2)</sup>.

The performance of revenues in each quarter of 2017 is shown below, with comparative data, in percentage terms, provided for the same periods of the previous year.

Consolidated revenues for the fourth quarter of 2017 increased by 63 million euros compared to the fourth quarter of 2016 (+1.2%); in organic terms, the percentage change, without the exchange rate effect relating essentially to the Brazil Business Unit, was +2.8%.

The average exchange rates used for the translation into euro (expressed in terms of units of local currency per 1 euro) were 1.12946 in 2017 and 1.10666 in 2016 for the US dollar. For the Brazilian real, the average exchange rates used were 3.60584 in 2017 and 3.85935 in 2016. 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 change in the scope of consolidation has been calculated by excluding the contribution of the companies that have exited from the comparison figure and adding in the estimated contribution of any companies entering the scope of consolidation.

|  |   |    |
|--|---|----|
| Report on Operations of the<br>TIM Group | Financial and Operating Highlights of the Business Units of the TIM Group | 15 |
|  | Domestic Business Unit  |    |

**Table of Contents**

The breakdown of revenues for 2017 by operating segment is shown below, with comparative data provided for 2016.

| (millions of euros)                 | 2017   |            | 2016   |            | amount | Change |           |
|-------------------------------------|--------|------------|--------|------------|--------|--------|-----------|
|                                     |        | % of total |        | % of total |        | %      | % organic |
| Domestic                            | 15,354 | 77.4       | 15,006 | 78.9       | 348    | 2.3    | 2.4       |
| <i>Core Domestic</i>                | 14,249 | 71.9       | 13,926 | 73.2       | 323    | 2.3    | 2.3       |
| <i>International Wholesale</i>      | 1,349  | 6.8        | 1,351  | 7.1        | (2)    | (0.1)  | 0.4       |
| Brazil                              | 4,502  | 22.7       | 4,047  | 21.3       | 455    | 11.2   | 4.0       |
| Other Operations                    |        |            | 11     | 0.1        | (11)   |        |           |
| <i>Adjustments and eliminations</i> | (28)   | (0.1)      | (39)   | (0.3)      | 11     |        |           |
| Consolidated Total                  | 19,828 | 100.0      | 19,025 | 100.0      | 803    | 4.2    | 2.7       |

**EBITDA**

EBITDA totaled 7,790 million euros (8,002 million euros in 2016), showing a drop of 212 million euros (-2.6%); the EBITDA margin was 39.3% (42.1% in 2016; -2.8 percentage points).

Organic EBITDA was down by 303 million euros (-3.7%) compared to 2016, with a drop in the organic EBITDA margin of 2.6 percentage points, from 41.9% in 2016 to 39.3% in 2017.

The TIM Group recorded non-recurring operating expenses totaling 883 million euros for 2017 (198 million euros in 2016, at constant exchange rates), mainly connected with corporate restructuring and reorganization.

Excluding the expenses, EBITDA would have grown by 4.6% (+382 million euros), with an EBITDA margin of 43.7%, up by 0.7 percentage points compared to 2016. For further details, see the Note Significant non-recurring events and transactions in the Consolidated Financial Statements as at December 31, 2017 of the TIM Group.

Organic EBITDA is calculated as follows:

| (millions of euros)                                      | 2017  | 2016  | Change |       |
|--|-------|-------|--------|-------|
|  |       |       | amount | %     |
| REPORTED EBITDA  | 7,790 | 8,002 | (212)  | (2.6) |
| Foreign currency financial statements translation effect |       | 91    | (91)   |       |
| Changes in the scope of consolidation                    |       |       |        |       |

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|   |       |       |       |       |
|---|-------|-------|-------|-------|
| ORGANIC EBITDA  | 7,790 | 8,093 | (303) | (3.7) |
| of which non-recurring income/(expenses)                            | (883) | (197) | (686) |       |
| Foreign currency non-recurring income/(expenses) translation effect |       | (1)   | 1     |       |
| ORGANIC EBITDA excluding non-recurring component                    | 8,673 | 8,291 | 382   | 4.6   |

Exchange rate fluctuations related almost entirely to the Brazil Business Unit.

|                             |   |    |
|-----------------------------|---|----|
| Report on Operations of the | Financial and Operating Highlights of the Business Units of the TIM Group | 16 |
| TIM Group                   | Domestic Business Unit  |    |

**Table of Contents**

The performance of EBITDA in each quarter of 2017 is shown below, with comparative data provided for the same periods of the previous year.

The performance of EBITDA in each quarter of 2017, stated in millions of euros, is shown below.

EBITDA for the fourth quarter of 2017 amounted to 1,577 million euros, down by 547 million euros (-25.8%) on the same period of the previous year (2,124 million euros). The EBITDA margin came to 30.6% (41.8% in the fourth quarter of 2016).

In organic terms, and without non-recurring expenses (661 million euros in the fourth quarter of 2017 and 43 million euros in the same period of 2016, at constant exchange rates), the change would have been an increase of +4.1%, with an EBITDA margin of 43.5% (42.9% in the fourth quarter of 2016).

|                             |   |    |
|-----------------------------|---|----|
| Report on Operations of the | Financial and Operating Highlights of the Business Units of the TIM Group | 17 |
| TIM Group                   | Domestic Business Unit  |    |

**Table of Contents**

The breakdown of EBITDA by operating segment in 2017 compared to 2016 is shown below, together with the EBITDA margin.

| (millions of euros)                 | 2017       |            | 2016       |       | amount | Change    |         |
|-------------------------------------|------------|------------|------------|-------|--------|-----------|---------|
|                                     | % of total | % of total | % of total | %     |        | % organic |         |
| Domestic                            | 6,171      | 79.2       | 6,698      | 83.7  | (527)  | (7.9)     | (7.8)   |
| <i>EBITDA Margin</i>                | 40.2       |            | 44.6       |       |        | (4.4)pp   | (4.4)pp |
| Brazil                              | 1,635      | 21.0       | 1,325      | 16.6  | 310    | 23.4      | 15.3    |
| <i>EBITDA Margin</i>                | 36.3       |            | 32.7       |       |        | 3.6 pp    | 3.6 pp  |
| Other Operations                    | (16)       | (0.2)      | (18)       | (0.2) | 2      |           |         |
| <i>Adjustments and eliminations</i> |            |            | (3)        | (0.1) | 3      |           |         |
| Consolidated Total                  | 7,790      | 100.0      | 8,002      | 100.0 | (212)  | (2.6)     | (3.7)   |
| <i>EBITDA Margin</i>                | 39.3       |            | 42.1       |       |        | (2.8)pp   | (2.6)pp |

EBITDA was particularly impacted by the change in the line items analyzed below:

Acquisition of goods and services (8,388 million euros; 7,793 million euros in 2016):

| (millions of euros)   | 2017  | 2016  | Change |
|---|-------|-------|--------|
| Acquisition of goods  | 1,863 | 1,614 | 249    |
| Revenues due to other TLC operators and interconnection costs | 2,063 | 2,000 | 63     |
| Commercial and advertising costs                              | 1,386 | 1,231 | 155    |
| Power, maintenance and outsourced services                    | 1,222 | 1,220 | 2      |
| Rent and leases   | 739   | 702   | 37     |
| Other service expenses  | 1,115 | 1,026 | 89     |
| Total acquisition of goods and services                       | 8,388 | 7,793 | 595    |
| <i>% of Revenues</i>  | 42.3  | 41.0  | 1.3pp  |

The rise in Acquisition of goods and services was driven by the Domestic Business Unit, for a total of 450 million euros, primarily by the acquisition of products for resale. The Brazil Business Unit reported an increase of 140 million euros, attributable entirely to the exchange rate effect, without which the item would have shown a drop of around

3 million euros.

Employee benefits expenses (3,626 million euros; 3,106 million euros in 2016):

| (millions of euros)                      | 2017  | 2016  | Change |
|--|-------|-------|--------|
| Employee benefits expenses - Italy       | 3,248 | 2,744 | 504    |
| Ordinary employee expenses and costs     | 2,551 | 2,600 | (49)   |
| Restructuring and other expenses         | 697   | 144   | 553    |
| Employee benefits expenses Outside Italy | 378   | 362   | 16     |
| Ordinary employee expenses and costs     | 378   | 347   | 31     |
| Restructuring and other expenses         |       | 15    | (15)   |
| Total employee benefits expenses         | 3,626 | 3,106 | 520    |
| % of Revenues                            | 18.3  | 16.3  | 2.0pp  |

The main factors driving the increase of 520 million euros were:

a decrease of 49 million euros in the Italian component of ordinary employee expenses, partly as a result of the reduction in the average salaried workforce (-1,517 average employees). By contrast, in 2016, following the non-fulfillment of the conditions for the payment of the Results Bonus to employees, related accruals made in the 2015 financial statements were reversed;

the recognition of a total of 697 million euros of non-recurring expenses (provisions to Employee benefits and sundry expenses), of which 674 million euros connected with the commencement of the new company restructuring plan for TIM S.p.A., which will unfold over the entire period of the 2018-2020 Industrial Plan and is designed to support the digitization process by drawing on all measures provided by law. Specifically, the plan will involve, *inter alia*, the application of article 4(1-7) of Law 92 of June 28, 2012 (the Fornero Law) for executive and non-executive personnel (which provides for early retirement arrangements), as well as the use of measures for economic sustainability.

In 2016, a total of 144 million euros in provisions for non-recurring expenses were allocated for the application of Article 4 of the Fornero Law and the management restructuring plan.

an increase of 16 million euros in the component outside Italy of employee benefits expenses; the lower cost of labor connected with the drop in the average salaried workforce outside Italy (-1,392 average employees) was offset by both local wage growth and the exchange rate effect, referring essentially to the Brazil Business Unit, which resulted in around 24 million euros of higher costs. In the previous year, the Brazil Business Unit had recognized a total of 16 million euros (at constant exchange rates) in non-recurring

expenses relating to the implementation of the company restructuring plan.

|  |   |    |
|--|---|----|
| Report on Operations of the<br>TIM Group | Financial and Operating Highlights of the Business Units of the TIM Group | 18 |
|  | Domestic Business Unit  |    |

**Table of Contents**

Other operating income (523 million euros; 311 million euros in 2016):

| (millions of euros)  | 2017       | 2016       | Change     |
|--|------------|------------|------------|
| Late payment fees charged for telephone services                       | 59         | 60         | (1)        |
| Recovery of employee benefit expenses, purchases and services rendered | 22         | 33         | (11)       |
| Capital and operating grants   | 51         | 36         | 15         |
| Damage compensation, penalties and sundry recoveries                   | 35         | 24         | 11         |
| Partnership agreements   | 116        | 71         | 45         |
| Release of provisions and other payable items, other income            | 240        | 87         | 153        |
| <b>Total</b>   | <b>523</b> | <b>311</b> | <b>212</b> |

Other income consisted of the impacts of contribution fees resulting from partnership agreements signed with leading technology suppliers. These agreements are aimed at developing the collaboration between the parties, in order to strengthen and stabilize the business and industrial relationship over time, to actively contribute to TIM's marketing plan for the development and use of several strategic services in Italy and in Brazil. The item also included insurance indemnities and the impact of the revised estimate of liabilities towards customers and suppliers.

Other operating expenses (1,208 million euros; 1,083 million euros in 2016):

| (millions of euros)   | 2017         | 2016         | Change     |
|---|--------------|--------------|------------|
| Write-downs and expenses in connection with credit management       | 400          | 335          | 65         |
| Provision charges   | 228          | 144          | 84         |
| TLC operating fees and charges                                      | 356          | 373          | (17)       |
| Indirect duties and taxes   | 111          | 100          | 11         |
| Penalties, settlement compensation and administrative fines         | 33           | 44           | (11)       |
| Association dues and fees, donations, scholarships and traineeships | 15           | 18           | (3)        |
| Sundry expenses   | 65           | 69           | (4)        |
| <b>Total</b>  | <b>1,208</b> | <b>1,083</b> | <b>125</b> |



Other operating expenses included 176 million euros of non-recurring expenses (36 million euros in 2016), incurred entirely by the Domestic Business Unit. The Brazil Business Unit recorded a drop of 4 million euros (including an exchange rate effect of 35 million euros, without which the item would have shown a decrease of 39 million euros), due to lower provisions for risks and lower operating expenses for telecommunications activities. The drop was driven by lower provision charges and lower contribution fees for telecommunications operations.

|                             |   |                        |
|-----------------------------|---|------------------------|
| Report on Operations of the | Financial and Operating Highlights of the Business Units of the TIM Group | 19                     |
| TIM Group                   |   | Domestic Business Unit |

**Table of Contents**

## Depreciation and amortization

Details are as follows:

| (millions of euros)  | 2017         | 2016         | Change     |
|--|--------------|--------------|------------|
| Amortization of intangible assets with a finite useful life    | 1,793        | 1,743        | 50         |
| Depreciation of property, plant and equipment owned and leased | 2,680        | 2,548        | 132        |
| <b>Total</b>   | <b>4,473</b> | <b>4,291</b> | <b>182</b> |

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

In 2017, the item posted a positive 11 million euros, connected with the ordinary asset renewal process.

In 2016, this item amounted to 14 million euros and included the non-recurring gain of 44 million reais (approximately 12 million euros at the 2016 average exchange rate) realized by the Brazil Business Unit from the sale of two further tranches of telecommunications towers to American Tower do Brasil.

## Net impairment losses on non-current assets

The item amounted to 37 million euros in 2017 (3 million euros in 2016) and referred primarily to impairment losses on intangible assets.

In preparing the Annual Report for 2017, the TIM Group carried out an impairment test on the goodwill. The results of that testing, carried out in accordance with the specific procedure adopted by the Group, confirmed the amounts of Goodwill allocated to the Group's individual Cash Generating Units.

## EBIT

EBIT totaled 3,291 million euros (3,722 million euros in 2016), a drop of 431 million euros (-11.6%) compared to 2016; the EBIT margin was 16.6% (19.6% in 2016, -3.0 percentage points).

Organic EBIT was down by 455 million euros (-12.1%), with an organic EBIT margin of 16.6% (19.4% in 2016).

EBIT for 2017 reflected the negative impact of non-recurring net expenses, including impairment losses on assets totaling 913 million euros (185 million euros in 2016, at constant exchange rates). Without these expenses, the organic change in EBIT would have been a positive 273 million euros (+6.9%), with an EBIT margin of 21.2% (up by 0.8 percentage points compared to 2016).

Organic EBIT is calculated as follows:

| (millions of euros)   | 2017  | 2016  | Change |        |
|---|-------|-------|--------|--------|
|   |       |       | amount | %      |
| <b>REPORTED EBIT</b>  | 3,291 | 3,722 | (431)  | (11.6) |
| Foreign currency financial statements translation effect            |       | 24    | (24)   |        |
| <b>Changes in the scope of consolidation</b>                        |       |       |        |        |
| <b>ORGANIC EBIT</b>   | 3,291 | 3,746 | (455)  | (12.1) |
| of which non-recurring income/(expenses)                            | (913) | (185) | (728)  |        |
| Foreign currency non-recurring income/(expenses) translation effect |       |       |        |        |
| <b>ORGANIC EBIT excluding non-recurring component</b>               | 4,204 | 3,931 | 273    | 6.9    |

Exchange rate fluctuations related to the Brazil Business Unit.

EBIT for the fourth quarter of 2017 amounted to around 457 million euros (954 million euros in the fourth quarter of 2016).

In organic terms, and without non-recurring net expenses (661 million euros in the fourth quarter of 2017 and 41 million euros in the same period of 2016, at constant exchange rates), the change on the fourth quarter of 2016 would have been an increase of +12.5%, with an EBITDA margin of 21.7% (19.8% in the fourth quarter of 2016).

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

In 2017, this item amounted to a negative 1 million euros. In 2016, the item showed a negative 23 million euros and referred essentially to the write-down of the investment held in Alfiere S.p.A..

|                             |   |    |
|-----------------------------|---|----|
| Report on Operations of the | Financial and Operating Highlights of the Business Units of the TIM Group | 20 |
| TIM Group                   | Domestic Business Unit  |    |

**Table of Contents**

## Income/(expenses) from investments

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 has now been completed.

In 2016, this item amounted to 7 million euros and mainly included the dividends paid to TIM S.p.A. by the third-party company Emittenti Titoli.

## Finance income (expenses), net

Net finance expenses grew by 588 million euros, rising from 907 million euros in 2016 to 1,495 million euros in 2017.

The balance recorded in 2017 was mainly affected by the absence of the positive impact, of 565 million euros, relating to the fair value measurement through profit and loss performed separately to its liability component of the embedded option included in the mandatory convertible bond issued by Telecom Italia Finance S.A. at the end of 2013, for 1.3 billion euros and converted in November 2016 ( Guaranteed Subordinated Mandatory Convertible Bonds due 2016 convertible into ordinary shares of TIM S.p.A. ).

## Income tax expense

Income tax expense amounted to 490 million euros, down by 390 million euros on 2016 (880 million euros), in part thanks to tax facilities under laws in force and the lower taxable base of the Parent TIM S.p.A.

## Profit (loss) for the year

This item breaks down as follows:

| (millions of euros)   | 2017  | 2016  |
|---|-------|-------|
| Profit (loss) for the year  | 1287  | 1,966 |
| Attributable to:  |       |       |
| Owners of the Parent:   |       |       |
| Profit (loss) from continuing operations                                    | 1,121 | 1,811 |
| Profit (loss) from Discontinued operations/Non-current assets held for sale |       | (3)   |
| Profit (loss) for the year attributable to Owners of the Parent             | 1,121 | 1,808 |
| Non-controlling interests:  |       |       |
| Profit (loss) from continuing operations                                    | 166   | 108   |
|   |       | 50    |

Profit (loss) from Discontinued operations/Non-current assets held for sale

|  |     |     |
|--|-----|-----|
| Profit (loss) for the year attributable to Non-controlling interests | 166 | 158 |
|--|-----|-----|

Profit for 2017 attributable to Owners of the Parent amounted to 1,121 million euros (1,808 million euros in 2016) and was impacted by non-recurring net expenses of 714 million euros. On a like-for-like basis i.e. without including the non-recurring items and, in 2016, the positive impact of the fair value measurement of the embedded option in the mandatory convertible bond Profit attributable to the Owners of the Parent for 2017 would have been around 270 million euros higher than the figure for the same period of the previous year.

|                             |   |    |
|-----------------------------|---|----|
| Report on Operations of the | Financial and Operating Highlights of the Business Units of the TIM Group | 21 |
|-----------------------------|---|----|

|           |                        |
|-----------|------------------------|
| TIM Group | Domestic Business Unit |
|-----------|------------------------|

**Table of Contents**

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

## DOMESTIC

| (millions of euros)            | 2017        | 2016        | amount  | Change         |                |
|--------------------------------|-------------|-------------|---------|----------------|----------------|
|                                |             |             |         | %              | % organic      |
| Revenues                       | 15,354      | 15,006      | 348     | 2.3            | 2.4            |
| EBITDA                         | 6,171       | 6,698       | (527)   | (7.9)          | (7.8)          |
| <i>EBITDA Margin</i>           | <i>40.2</i> | <i>44.6</i> |         | <i>(4.4)pp</i> | <i>(4.4)pp</i> |
| EBIT                           | 2,772       | 3,376       | (604)   | (17.9)         | (17.9)         |
| <i>EBIT Margin</i>             | <i>18.1</i> | <i>22.5</i> |         | <i>(4.4)pp</i> | <i>(4.4)pp</i> |
| Headcount at year end (number) | 49,851      | 51,280      | (1,429) | (2.8)          |                |

| (millions of euros)  | 4th Quarter | 4th Quarter | amount | Change          |                 |
|----------------------|-------------|-------------|--------|-----------------|-----------------|
|                      | 2017        | 2016        |        | %               | % organic       |
| Revenues             | 4,042       | 3,970       | 72     | 1.8             | 2.0             |
| EBITDA               | 1,116       | 1,703       | (587)  | (34.5)          | (34.4)          |
| <i>EBITDA Margin</i> | <i>27.6</i> | <i>42.9</i> |        | <i>(15.3)pp</i> | <i>(15.3)pp</i> |
| EBIT                 | 265         | 801         | (536)  | (66.9)          | (66.9)          |
| <i>EBIT Margin</i>   | <i>6.6</i>  | <i>20.2</i> |        | <i>(13.6)pp</i> | <i>(13.6)pp</i> |

## Fixed

|  | 12/31/2017 | 12/31/2016 | 12/31/2015 |
|--|------------|------------|------------|
| Physical accesses at period end (thousands) <sup>(1)</sup> | 18,995     | 18,963     | 19,209     |
|  | 11,044     | 11,285     | 11,742     |

*of which retail physical accesses at period end  
(thousands)*

|   |              |              |              |
|---|--------------|--------------|--------------|
| Broadband accesses at period end (thousands) <sup>(2)</sup>                 | 10,154       | 9,206        | 8,890        |
| <i>of which Retail broadband accesses at period end<br/>(thousands)</i>     | <i>7,641</i> | <i>7,191</i> | <i>7,023</i> |
| Network infrastructure in Italy:  |              |              |              |
| copper access network (millions of km pair,<br>distribution and connection) | 114.6        | 114.4        | 114.3        |
| access and carrier network in optical fiber (millions<br>of km - fiber)     | 14.3         | 12.6         | 10.4         |
| Total traffic:  |              |              |              |
| Minutes of traffic on fixed-line network (billions):                        | 64.0         | 69.1         | 76.9         |
| Domestic traffic  | 50.7         | 55.6         | 62.5         |
| International traffic   | 13.3         | 13.5         | 14.4         |
| Broadband volumes (PBytes) <sup>(3)</sup>                                   | 7,848        | 5,774        | 4,126        |

(1) Does not include full-infrastructured OLOs and Fixed Wireless Access (FWA).

(2) Does not include LLU and NAKED, satellite and full-infrastructured OLOs and FWA.

(3) DownStream and UpStream traffic volumes.

|                             |   |    |
|-----------------------------|---|----|
| Report on Operations of the | Financial and Operating Highlights of the Business Units of the TIM Group | 22 |
| TIM Group                   | Domestic Business Unit  |    |

**Table of Contents**

## Mobile

|  | 12/31/2017 | 12/31/2016 | 12/31/2015 |
|--|------------|------------|------------|
| Lines at period end (thousands) <sup>(1)</sup>                     | 30,755     | 29,617     | 30,007     |
| Change in lines (%)  | 3.8        | (1.3)      | (1.1)      |
| Churn rate (%) <sup>(2)</sup>                                      | 26.2       | 22.8       | 23.4       |
| Total traffic:   |            |            |            |
| Outgoing retail traffic (billions of minutes)                      | 51.4       | 44.9       | 43.6       |
| Incoming and outgoing retail traffic (billions of minutes)         | 78.1       | 69.6       | 66.1       |
| Browsing traffic (PBytes) <sup>(3)</sup>                           | 417.5      | 258.5      | 182.6      |
| Average monthly revenues per line (in euros) - ARPU <sup>(4)</sup> | 12.5       | 12.4       | 12.1       |

- (1) The figure includes the SIM cards used on platforms for delivering Machine-to-Machine services.  
(2) 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.  
(3) National traffic excluding roaming.  
(4) 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

The performance of revenues in each quarter of 2017 is shown below, with comparative data provided for the same periods of the previous year.

## Domestic revenues 2017 by quarter

(% change)

Revenues for 2017 came to 15,354 million euros, showing an increase of 348 million euros (+2.3%) on 2016 and confirming the progressive recovery begun in the previous year. The fourth quarter recorded growth of +1.8% compared to the same period of 2016, showing improvement on the performance of the previous quarter (+0.8%).



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Revenues from services totaled 14,000 million euros, up by 122 million euros (+0.9%) on 2016 and showing stronger growth than for total revenues. The figure recorded growth of 2.1% year on year in the fourth quarter, posting the strongest performance in over 10 years, driven by growth in the customer base of both the Mobile and Fixed Broadband segments and the resilience of ARPU levels, buoyed by growth in the penetration of ultra-broadband connectivity services (Fiber and LTE) and digital and ICT services.

|                             |   |    |
|-----------------------------|---|----|
| Report on Operations of the | Financial and Operating Highlights of the Business Units of the TIM Group | 23 |
| TIM Group                   | Domestic Business Unit  |    |

**Table of Contents**

Domestic Fixed 2017 by quarter  
(% change)

Domestic Mobile 2017 by quarter  
(% change)

In detail:

revenues from services in the Fixed-line market remained largely stable compared to 2016 at 9,952 million euros (-0.1%), but showed major recovery and improvement in the fourth quarter of 2017 (+1.2% compared to the same period of 2016). The natural decline in revenues from traditional voice services (-279 million euros), due to falling traditional accesses and the cut in regulated prices for certain wholesale services (-72 million euros), was more than offset by higher revenues from ICT solutions (+56 million euros, +9%) and, above all, by higher revenues from innovative data connectivity services (+284 million euros, +15%), driven by growth in the Ultra-Broadband customer base (+1.2 million on 2016), which reached a total of 2.1 million customers (3.1 million including wholesale lines).

revenues from Mobile services came to 4,655 million euros, an increase of 75 million euros compared to the previous year (+1.6%). Growth was driven by the positive competitive performance, which led to growth in the customer base without diluting ARPU levels. Growth in the previous three quarters was confirmed in the fourth quarter (+0.5% compared to the fourth quarter of 2016), despite the impact of new roaming rules in the European Union.

Revenues from product sales, including the change in work in progress, amounted to 1,354 million euros in 2017 (+226 million euros compared to 2016) and reflected growth in sales of smartphones and other connected devices (smart TVs, Smart Home products, modems, set-top boxes, etc.).

**EBITDA**

EBITDA for the Domestic Business Unit totaled 6,171 million euros in 2017, down by 527 million euros compared to 2016 (-7.9%), with an EBITDA margin of 40.2% (-4.4 percentage points compared to the previous year). The figure for 2017 was brought down by non-recurring expenses totaling 882 million euros (182 million euros in the previous year), relating to the corporate restructuring and reorganization expenses reported earlier, as well as disputes and business transactions, which peaked in the fourth quarter of 2017.

Without those expenses, the organic change in EBITDA would have posted growth of 2.5%, with an EBITDA margin of 45.9%, in line with the 2016 figure, despite the higher share of revenues from products, which have lower margins than revenues from services.

EBITDA was boosted by the positive performance in sales, and hence in revenues, as well as by the cost optimization plan, which lowered industrial and general operating costs without reducing support for sales drives.

Organic EBITDA is calculated as follows:

| (millions of euros)                                      | 2017  | 2016  | Change |       |
|--|-------|-------|--------|-------|
|  |       |       | amount | %     |
| <b>REPORTED EBITDA</b>                                   | 6,171 | 6,698 | (527)  | (7.9) |
| Foreign currency financial statements translation effect |       | (2)   | 2      |       |
| <b>Changes in the scope of consolidation</b>             |       |       |        |       |
| <b>ORGANIC EBITDA</b>                                    | 6,171 | 6,696 | (525)  | (7.8) |
| <b>of which non-recurring income/(expenses)</b>          | (882) | (182) | (700)  |       |
| <b>ORGANIC EBITDA excluding non-recurring component</b>  | 7,053 | 6,878 | 175    | 2.5   |

|                             |   |    |
|-----------------------------|---|----|
| Report on Operations of the | Financial and Operating Highlights of the Business Units of the TIM Group | 24 |
| TIM Group                   | Domestic Business Unit  |    |

**Table of Contents**

The performance of EBITDA in each quarter of 2017 is shown below, with comparative data provided for the same periods of the previous year.

## Domestic EBITDA 2017 by quarter

(% change)

Other income amounted to 471 million euros, showing an increase of 212 million euros compared to 2016. This item includes contribution fees resulting from partnership agreements, insurance indemnities and the impact of the revised estimate of liabilities towards customers and suppliers.

The changes in the main cost items are shown below:

| (millions of euros)               | 2017  | 2016  | Change |
|-----------------------------------|-------|-------|--------|
| Acquisition of goods and services | 6,235 | 5,785 | 450    |
| Employee benefits expenses        | 3,266 | 2,759 | 507    |
| Other operating expenses          | 704   | 574   | 130    |

|                             |   |    |
|-----------------------------|---|----|
| Report on Operations of the | Financial and Operating Highlights of the Business Units of the TIM Group | 25 |
| TIM Group                   | Domestic Business Unit  |    |

**Table of Contents**

The Acquisition of goods and services rose by 450 million euros compared to the previous year and was broken down as follows:

| (millions of euros)   | 2017         | 2016         | Change       |
|---|--------------|--------------|--------------|
| Acquisition of goods  | 1,628        | 1,352        | 276          |
| Revenues due to other TLC operators and interconnection costs | 1,603        | 1,541        | 62           |
| Commercial and advertising costs                              | 751          | 656          | 95           |
| Power, maintenance and outsourced services                    | 951          | 982          | (31)         |
| Rent and leases   | 427          | 444          | (17)         |
| Other service expenses  | 875          | 810          | 65           |
| <b>Total acquisition of goods and services</b>                | <b>6,235</b> | <b>5,785</b> | <b>450</b>   |
| <i>% of Revenues</i>  | <i>40.6</i>  | <i>38.6</i>  | <i>2.0pp</i> |

Employee benefits expenses totaled 3,266 million euros, up by 507 million euros, substantially due to the same factors that affected employee benefits expenses at Group level, details of which can be found in the relevant section;

Other operating expenses, amounting to 704 million euros, were up by 130 million euros. The breakdown of the item is reported in the table below:

| (millions of euros)   | 2017 | 2016 | Change |
|---|------|------|--------|
| Write-downs and expenses in connection with credit management       | 313  | 266  | 47     |
| Provision charges   | 155  | 51   | 104    |
| TLC operating fees and charges                                      | 55   | 54   | 1      |
| Indirect duties and taxes   | 91   | 94   | (3)    |
| Penalties, settlement compensation and administrative fines         | 33   | 44   | (11)   |
| Association dues and fees, donations, scholarships and traineeships | 13   | 16   | (3)    |
| Sundry expenses   | 44   | 49   | (5)    |

Total 704 574 130

## EBIT

EBIT for the Domestic Business Unit totaled 2,772 million euros in 2017 (3,376 million euros in 2016), showing a drop of 604 million euros (-17.9%) and an EBIT margin of 18.1% (22.5% in 2016).

EBIT was pulled down in 2017 by non-recurring expenses totaling 912 million euros (182 million euros in 2016).

Without these expenses, the organic change in EBIT would have been 3.6%, with an EBIT margin of 24.0%.

The EBIT performance reflected the increase in depreciation and amortization (50 million euros).

Organic EBIT is calculated as follows:

| (millions of euros)                                      | 2017         | 2016         | Change       |               |
|--|--------------|--------------|--------------|---------------|
|  |              |              | amount       | %             |
| <b>REPORTED EBIT</b>                                     | <b>2,772</b> | <b>3,376</b> | <b>(604)</b> | <b>(17.9)</b> |
| Foreign currency financial statements translation effect |              | (1)          | 1            |               |
| <b>Changes in the scope of consolidation</b>             |              |              |              |               |
| <b>ORGANIC EBIT</b>                                      | <b>2,772</b> | <b>3,375</b> | <b>(603)</b> | <b>(17.9)</b> |
| <b>of which non-recurring income/(expenses)</b>          | <b>(912)</b> | <b>(182)</b> | <b>(730)</b> |               |
| <b>ORGANIC EBIT excluding non-recurring component</b>    | <b>3,684</b> | <b>3,557</b> | <b>127</b>   | <b>3.6</b>    |

Report on Operations of the Financial and Operating Highlights of the Business Units of the TIM Group 26  
 TIM Group Domestic Business Unit

**Table of Contents**

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 4GR, 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, Telsy, Trust Technologies and Alfabook.

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, TIM San Marino and Telefonía 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.

|                             |   |    |
|-----------------------------|---|----|
| Report on Operations of the | Financial and Operating Highlights of the Business Units of the TIM Group | 27 |
| TIM Group                   | Domestic Business Unit  |    |



**Table of Contents**

Key results for 2017 for the Domestic Business Unit are presented in the following tables, broken down by market/business segment and compared to the same period of 2016.

## Core Domestic

| (millions of euros)                | 2017   | 2016   | Change  |         |
|------------------------------------|--------|--------|---------|---------|
|                                    |        |        | amount  | %       |
| Revenues                           | 14,249 | 13,926 | 323     | 2.3     |
| <i>Consumer</i>                    | 7,737  | 7,389  | 348     | 4.7     |
| <i>Business</i>                    | 4,656  | 4,531  | 125     | 2.8     |
| <i>Wholesale</i>                   | 1,690  | 1,780  | (90)    | (5.1)   |
| <i>Other</i>                       | 166    | 226    | (60)    | (26.5)  |
| EBITDA                             | 6,029  | 6,528  | (499)   | (7.6)   |
| <i>EBITDA Margin</i>               | 42.3   | 46.9   |         | (4.6)pp |
| EBIT                               | 2,736  | 3,309  | (573)   | (17.3)  |
| <i>EBIT Margin</i>                 | 19.2   | 23.8   |         | (4.6)pp |
| Headcount at year end (number) (*) | 49,095 | 50,527 | (1,432) | (2.8)   |

(\*) Includes employees with temp work contracts: 0 employees at 12/31/2017 (1 employee at 12/31/2016).

Core Domestic revenues for the fourth quarter

| (millions of euros) | 4th Quarter | 4th Quarter | Change |     |
|---------------------|-------------|-------------|--------|-----|
|                     | 2017        | 2016        | amount | %   |
| Revenues            | 3,749       | 3,687       | 62     | 1.7 |
| <i>Consumer</i>     | 2,024       | 1,985       | 39     | 2.0 |
| <i>Business</i>     | 1,259       | 1,235       | 24     | 1.9 |

|                  |     |     |      |        |
|------------------|-----|-----|------|--------|
| <i>Wholesale</i> | 431 | 410 | 21   | 5.1    |
| <i>Other</i>     | 35  | 57  | (22) | (38.6) |

In detail:

Consumer: revenues for the Consumer segment in 2017 amounted to 7,737 million euros, an increase of 348 million euros compared to the previous year (+4.7%). This performance continued the recovery trend begun in 2016.

Revenues from services amounted to 6,947 million euros, up by +153 million euros on 2016. The performance of each quarter is shown below, with comparative data provided for the same periods of the previous year.

Consumer revenues 2017 by quarter

(% change)

The performance of Consumer revenues in each quarter of 2017, for both the Fixed-line and Mobile segments, is shown below, with comparative data provided for each quarter of 2016.

|                             |   |    |
|-----------------------------|---|----|
| Report on Operations of the | Financial and Operating Highlights of the Business Units of the TIM Group | 28 |
| TIM Group                   | Domestic Business Unit  |    |

**Table of Contents**

Consumer Fixed 2017 by quarter

(% change)

Consumer Mobile 2017 by quarter

(% change)

In particular:

revenues for the Mobile segment amounted to 3,893 million euros, up by 134 million euros (+3.6%) on 2016. Revenues from services rose by 105 million euros (+3.2% on 2016), confirming the growth trend observed in previous quarters (+2.9% in the fourth quarter). The figure was driven by steady growth in mobile Internet and digital services, which underpinned ARPU levels;

revenues for the Fixed-line segment amounted to 3,809 million euros, rising by 225 million euros compared to 2016 (+6.3%). Revenues from services also confirmed the recovery underway since 2016, driven in particular by growth in the Broadband and Ultra-broadband customer bases and the overall resilience of ARPU levels.

Business: revenues for the Business segment amounted to 4,656 million euros, rising by 125 million euros compared to 2016 (+2.8%), of which 21 million euros (+0.5%) in the services segment and 104 million euros (+22%) in the equipment and products segment. The performance of each quarter is shown below, with comparative data provided for the same periods of the previous year.

Business revenues 2017 by quarter

(% change)

The performance of Business revenues in each quarter of 2017, for both the Fixed-line and Mobile segments, is shown below, with comparative data provided for each quarter of 2016.

|                             |   |    |
|-----------------------------|---|----|
| Report on Operations of the | Financial and Operating Highlights of the Business Units of the TIM Group | 29 |
| TIM Group                   | Domestic Business Unit  |    |

**Table of Contents**

Business Fixed 2017 by quarter

(% change)

Business Mobile 2017 by quarter

(% change)

In detail:

Mobile revenues posted positive growth compared to 2016 (+1.2%), driven by steady improvement in the services segment (+4.5% in the fourth quarter). In particular, growth in new digital services (+13% on the previous year) more than offset the continuing decline in traditional services (-9% in 2016, mainly in relation to voice services);

Fixed-line revenues rose by 111 million euros (+3.2% on 2016), driven mainly by the equipment and product segment. Revenues from services remained substantially in line with the 2016 figure, as lower prices and revenues from traditional services (connected with the technological shift towards VoIP systems) were offset by steady growth in revenues from ICT services (+9.3%).

Wholesale: revenues for the Wholesale segment in 2017 came to 1,690 million euros, down by 90 million euros compared to 2016 (-5.1%). Negative growth was due to the absence of non-recurring income from the sale of infrastructure (cable ducts and dark fiber/Backbone) to other operators, which had a positive impact on revenues for 2016. Nevertheless, growth in revenues from access and ultra-broadband services in 2017 (+88 million euros) more than offset the cut in regulated prices (-72 million euros).

International Wholesale Telecom Italia Sparkle group

| (millions of euros)                | 2017         | 2016         | amount    | Change<br>% | % organic  |
|------------------------------------|--------------|--------------|-----------|-------------|------------|
| Revenues                           | 1,349        | 1,351        | (2)       | (0.1)       | 0.4        |
| <i>of which third party</i>        | <i>1,152</i> | <i>1,136</i> | <i>16</i> | <i>1.4</i>  | <i>2.0</i> |
| EBITDA                             | 154          | 182          | (28)      | (15.4)      | (14.4)     |
| EBITDA Margin                      | 11.4         | 13.5         |           | (2.1)pp     | (2.0)pp    |
| EBIT                               | 37           | 67           | (30)      | (44.8)      | (43.9)     |
| EBIT Margin                        | 2.7          | 5.0          |           | (2.3)pp     | (2.2)pp    |
| Headcount at year end (number) (*) | 756          | 753          | 3         | 0.4         |            |

(\*) Includes employees with temp work contracts: 0 employees at 12/31/2017 (3 employees at 12/31/2016). Revenues for the Telecom Italia Sparkle group - International Wholesale in 2017 totaled 1,349 million euros, up by 0.4% on 2016 in organic terms, and by 2.0% excluding intercompany revenues from other Group companies. Specifically, revenues from Voice and Mobile services rose by 50.7 million euros in organic terms, which more than offset the drop in revenues from IP/Data/Other services, which were affected by the non-renewal of long-term contracts that expired in May 2017 (-33.7 million euros); net of the expired contracts, the IP/Data/Other component would have posted organic growth of 4.0 million euros.

Report on Operations of the Financial and Operating Highlights of the Business Units of the TIM Group 30

TIM Group Domestic Business Unit

**Table of Contents**

## BRAZIL

|                                | (millions of euros) |             | (millions of reais) |             | Change          |              |
|--------------------------------|---------------------|-------------|---------------------|-------------|-----------------|--------------|
|                                | 2017<br>(a)         | 2016<br>(b) | 2017<br>(c)         | 2016<br>(d) | amount<br>(c-d) | %<br>(c-d)/d |
| Revenues                       | 4,502               | 4,047       | 16,234              | 15,617      | 617             | 4.0          |
| EBITDA                         | 1,635               | 1,325       | 5,894               | 5,114       | 780             | 15.3         |
| <i>EBITDA Margin</i>           | 36.3                | 32.7        | 36.3                | 32.7        |                 | +3.6pp       |
| EBIT                           | 535                 | 368         | 1,931               | 1,418       | 513             | 36.2         |
| <i>EBITDA Margin</i>           | 11.9                | 9.1         | 11.9                | 9.1         |                 | 2.8pp        |
| Headcount at year end (number) |                     |             | 9,508               | 9,849       | (341)           | (3.5)        |

|                      | (millions of euros)        |                            | (millions of reais)        |                            | Change          |              |
|----------------------|----------------------------|----------------------------|----------------------------|----------------------------|-----------------|--------------|
|                      | 4th Quarter<br>2017<br>(a) | 4th Quarter<br>2016<br>(b) | 4th Quarter<br>2017<br>(c) | 4th Quarter<br>2016<br>(d) | amount<br>(c-d) | %<br>(c-d)/d |
| Revenues             | 1,113                      | 1,125                      | 4,257                      | 4,043                      | 214             | 5.3          |
| EBITDA               | 465                        | 425                        | 1,758                      | 1,548                      | 210             | 13.6         |
| <i>EBITDA Margin</i> | 41.3                       | 38.3                       | 41.3                       | 38.3                       |                 | +3.0pp       |
| EBIT                 | 195                        | 158                        | 729                        | 586                        | 143             | 24.4         |
| <i>EBITDA Margin</i> | 17.1                       | 14.5                       | 17.1                       | 14.5                       |                 | +2.6pp       |

|                                     |        |        |
|-------------------------------------|--------|--------|
|                                     | 2017   | 2016   |
| Lines at period end (thousands) (*) | 58,634 | 63,418 |
| MOU (minutes/month) (**)            | 109.7  | 116.6  |
| ARPU (reais)                        | 20.2   | 18.0   |

(\*) Includes corporate lines.

(\*\*) Net of visitors.  
Revenues

Revenues for 2017, amounting to 16,234 million reais, were up by 617 million reais (+4.0%) on the previous year. Revenues from services totaled 15,474 million reais, an increase of 754 million reais compared to 14,720 million reais for 2016 (+5.1%).

Mobile Average Revenue Per User (ARPU) for 2017 was 20.2 reais, up on the figure of 18.0 reais for 2016 (+12.2%), due to the general repositioning towards the postpaid segment and new commercial initiatives aimed at increasing data usage and the average spend per customer.

The total number of lines at December 31, 2017 was 58,634 million, representing a decrease of 4,784 thousand compared to December 31, 2016 (63,418 thousand). The decline was entirely attributable to the prepaid segment (-7,701 thousand) and was only partially offset by growth in the postpaid segment (+2,918 thousand), also as a result of the consolidation underway in the market for second SIM cards. Postpaid customers represented 30.4% of the customer base at December 31, 2017, up 6.9 percentage points on December 2016 (23.5%).

|                             |   |    |
|-----------------------------|---|----|
| Report on Operations of the | Financial and Operating Highlights of the Business Units of the TIM Group | 31 |
| TIM Group                   | Brazil Business Unit  |    |



**Table of Contents**

Revenues from product sales came to 760 million reais (897 million reais for 2016; -15.3%). The decline reflected a change in the sales policy, which is now focused more on value than on increasing sales volumes. The main goals of the new strategy are to increase purchases of new connected devices giving TIM customers access to broadband services on 3G/4G networks and to support new loyalty offerings for higher-value postpaid customers.

The performance of total revenues in each quarter of 2017 is shown below, with comparative data provided for the same periods of the previous year.

**EBITDA**

EBITDA amounted to 5,894 million reais, up by 780 million reais on 2016 (+15.3%). The 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, launched in the second half of the previous year.

The EBITDA margin stood at 36.3%, 3.6 percentage points higher than in 2016.

As reported, employee benefits expenses for 2016 included non-recurring expenses for termination benefits of 56 million reais. Excluding the impact of the non-recurring expenses, EBITDA for 2017 showed growth of +14.0% when compared to 2016.

The changes in the main cost items are shown below:

|                                   | (millions of euros) |             | (millions of reais) |             | Change<br>(c-d) |
|-----------------------------------|---------------------|-------------|---------------------|-------------|-----------------|
|                                   | 2017<br>(a)         | 2016<br>(b) | 2017<br>(c)         | 2016<br>(d) |                 |
| Acquisition of goods and services | 2,168               | 2,028       | 7,816               | 7,826       | (10)            |
| Employee benefits expenses        | 353                 | 336         | 1,274               | 1,296       | (22)            |
| Other operating expenses          | 500                 | 505         | 1,805               | 1,948       | (143)           |
| Change in inventories             | 6                   | (1)         | 20                  | (2)         | 22              |

The performance of EBITDA in each quarter of 2017 is shown below, with comparative data provided for the same periods of the previous year.

|  |   |                      |    |
|--|---|----------------------|----|
| Report on Operations of the<br>TIM Group | Financial and Operating Highlights of the Business Units of the TIM Group | Brazil Business Unit | 32 |
| Table of Contents                        |   |                      | 57 |

**Table of Contents**

The performance of EBITDA in each quarter of 2017 is shown below.

EBITDA in the fourth quarter of 2017 amounted to 1,758 million reais, showing progressive improvement on the figures posted in the previous quarters. The EBITDA margin came to 41.3%, 3.0 percentage points higher than for same period of the previous year.

**EBIT**

EBIT amounted to 1,931 million reais, up by 513 million reais (+36.2%) on 2016 (1,418 million reais). This result benefited from the greater contribution from EBITDA (+780 million reais), which was offset by higher depreciation (+228 million reais) relating to the development of industrial infrastructure, and a lower impact of net gains from disposals of assets (-39 million reais), mainly attributable to the sale of telecommunication towers. In this regard, we note that the last partial sale of telecommunications towers to American Tower do Brasil took place in the second quarter of 2017. This transaction resulted in proceeds and an income effect of an immaterial amount.

EBIT for the fourth quarter of 2017 totaled 729 million reais (586 million reais for the fourth quarter of 2016), up by 24.4% on the same period of 2016; the EBIT margin was 17.1% (14.5% in the fourth quarter of 2016).

|                             |   |    |
|-----------------------------|---|----|
| Report on Operations of the | Financial and Operating Highlights of the Business Units of the TIM Group | 33 |
| TIM Group                   | Brazil Business Unit  |    |

## Table of Contents

### MAIN COMMERCIAL DEVELOPMENTS

#### DOMESTIC

##### Consumer

Growth in the Fixed-line Consumer market continued to be driven in 2017 by the convergent and quadruple play offers of TIM SMART, a TIM family deal that combines Internet access, fixed-line phone service, mobile service and on-demand TIMVISION content all in one, and by continuing innovation in commercial deals, with promotional formulas reproposed in 2017 offering particularly competitive prices, including:

local promotions: in Milan, for instance, starting from 19.90 euros for 1 year, and then 29.90 euros until the fourth year; and in other select cities starting from 24.90 euros for 4 years;

TIM SMART welcome promo: a 10 euro discount for 3 renewals in April and May, and a promotional deal towards the start of summer offering 2 free renewals ( TIM summer gift ).

To help drive the adoption of fiber, TIM continued to give customers reached by the fiber-optic network a free trial of the new superfast fiber-optic services.

Building on the high service standards of its offers, in 2017 TIM introduced major improvements to customer experience for new TIM fixed-line customers, with the launch in April of new next-generation delivery services which:

enable customers to make service appointments on their own by SMS;

extend appointment times and days for TIM technical service calls, which can now be made Saturdays.

In 2017, TIM confirmed its commitment to the constant technological development of its network by accelerating deployment of fiber-optic connections, retaining its leadership for best fiber-optic coverage in Italy with over 2,000 municipalities served at the end of 2017 and the release in June of new ultrafast connections, running at 200Mbit/s over FTTCab and at 1000Mbit/s over FTTH.

Business strategy in the Mobile market in 2017 focused strongly on a direct debit campaign in an effort to reduce churn rates and stabilize 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. In June 2017, the TIM direct debit campaign was given a further boost with the launch of TIM Ricarica Automatica, a new option for customers to top-up their credit automatically the day before a deal is renewed or when their credit falls below 3 euros. Other initiatives to reduce the churn rate involved the launch of special deals, in March 2017, offering a discount on activation fees for

customers, providing their TIM Card remains activated for 24 months. If not, the discount applied will be reversed and charged. In addition, in an effort to differentiate itself from its competitors, TIM introduced new features to its portfolio of mobile deals that build on the competitive advantages of the quality of its 4G and 4.5G networks, with new offers launched to maximize customer retention (such as exclusive smartphone deals for customers of more than one year) and exclusive PREMIUM content unlocked for all customers, including TIM Show, featuring the best TIMMUSIC playlists, Gameloft games and STUDIO+ TV series. The introduction of distinctive offers like these underpins a value strategy and a focus on the quality of our deals that have allowed us to maintain our premium positioning on the market.

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.

The customer retention drive in 2017 once again included a wide-ranging program of commercial initiatives and promotions coinciding with major holidays (e.g. Christmas, International Women's Day, Valentine's Day, Halloween, etc.), to show our care for customers and boost brand loyalty and satisfaction levels.

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.

The year 2017 also saw significant progress in the technological evolution of the TIM mobile network. At national level, 4G LTE technology has now reached more than 7,100 municipalities, covering over 97% of the population. Moreover, TIM has also confirmed its technological leadership through the development of its 4G Voce service (VoLTE technology), which allows all customers with a compatible smartphone to experience the quality of high-definition (HD) voice calls. 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. In July, TIM gave a world preview of the exceptional download speeds of up to 1 Gigabit per second of its live 4.5G network.

The 5G for Italy program underscores TIM's commitment to the digital transformation of the country, with infrastructure and applications set to have a positive impact on all market sectors and lifestyles, playing a leading role in spearheading Italy into the future Gigabit society.

## Business

TIM's work in the Business market during 2017 focused on four main areas:

restoring positive growth in the Fixed-line and Mobile customer bases, in line with trends in the various segments (fixed-line, mobile and IT) and turning around the decline in revenues;

TIM Group

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**Table of Contents**

consolidating the customer retention process through structural initiatives targeting both the proposal of deals and customer experience;

streamlining and simplifying internal processes through their progressive digitization, to further improve the flexibility and effectiveness of our approach to the market;

extending our leadership in the ICT market through a portfolio of over-the-network service and data deals targeted at the large customer segment, and through off-the-shelf cloud computing solutions for SMEs. Initiatives were directed towards the commercial front end, accelerating the progressive enhancement of the assets that make TIM an integrated operator: fixed-mobile convergence, innovation driven by significant investment and IT which, in support of the core business, helps the traditional offering to stand out. At the same time, additional investments were targeted at further expanding the reach of our widespread and dominant direct and indirect commercial networks, which are a key asset for our business. The primary objective pursued over the year was to defend the customer base (by stemming line losses in the fixed-line segment and achieving net growth in Mobile users) and to strengthen TIM's position as the key national player in steering the IT needs of small and medium enterprises, corporates and the public sector. Major efforts were also focused on boosting ARPU through bundle propositions combining different types of services, and by leveraging professional services that are distinctive and highly visible. This stronger commercial presence also helped to drive greater use of core connectivity services, speeding up the spread of fixed-line fiber and VoIP services and the adoption of LTE/VoLTE on the mobile network, thanks to significant increases in the coverage of both during the course of the year. The M2M customer base was expanded greatly, which, together with technological innovation towards 5G networks, will lay the groundwork for the development of new next-generation services (IoT).

In the Fixed-line market, in particular for the SOHO-SME segment, TIM radically simplified its entire portfolio of deals by rationalizing and steering it closer to changing market demands, with the focus squarely placed on fiber-optic and VoIP solutions. Most notably, a dual-line fiber-optic solution was launched to enable the migration of ISDN customers. To support ARPU growth and boost customer retention, the range of offers was enriched with bundle deals for Unified Communication services (Nuvola IT Comunicazione Integrata Smart) and IT services, delivering major opportunities for end users in terms of efficiency and new business development. In all segments, the emphasis was on differentiating TIM to stand out in terms of its range of deals, the professionalism of its services and their exclusivity, to ensure the identification as a Premium player (also supported, for the first time, with dedicated radio and television campaigns).

For high-end Business customers, the portfolio of offers for professional connectivity services was overhauled to privilege fiber-optic connectivity deals. The proposition of cloud computing services was stepped up with new offers launched for VoIP and advanced Collaboration services and the introduction of a mixed cloud-on premise deal alongside the full-cloud deal, offering SIP trunking as part of the Nuvola IT Comunicazione Integrata offer. This type of strategy will help promote the development of IT services.

Information Technology offers underpinned major growth in revenues for the segment as a whole and in revenues from cloud services. Developments in services were focused primarily 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 2016 to promote the adoption of SPC Cloud Lotto 1 solutions for the Public Sector, in particular cloud-based IaaS, PaaS, SaaS solutions. To drive the more widespread adoption of cloud services by Local Public Sector bodies, cloud-based SPC solution packages were developed offering data protection, server virtualization, website management/development and statutory document archiving. Development of the OTT IT offering also continued.

The Digital Store Market Place now features around 100 solutions for SMEs, of which around 70 were developed by partners in the TIM Open environment, using both horizontal and vertical approaches for new e-commerce, e-payment, security, and video control solutions, to give just a few examples.

In terms of Mobile services, the Business market in 2017 also saw further development of the Mobile Ultra-Broadband service over the LTE and VoLTE networks, while also expanding our offering with VAS and IT solutions. Growth was posted over the year in the total acquisition of lines and the churn rate improved. The overall performance of MNP was also positive and solid growth was witnessed in the M2M segment. Data and IT bundles were promoted through a more value for more money approach, balanced by the need to improve retention rates.

For our top-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 while also adding a suite of extra services to our standard All-Risk Assistance priced at a monthly fee per line. Business with this particular segment improved in terms of effectiveness, thanks to the greater efficiency of processes/systems and bidding initiatives.

Finally, in 2017, Olivetti, now integrated into the Business Unit in organizational terms, focused on the optimization of its traditional Enterprise Services and Specialist Assistance business, and on expanding its foothold in innovative areas such as Metering & Tracking, Connected Cars, Smart Retail, Digital Schools, Business Intelligence (through the TIM Visual Insight and Tim City Forecast offers), Smart Agriculture and Industry 4.0.

## BRAZIL

In 2017, TIM Brazil fully renewed its range of offers to reposition the brand with high-value customers, leveraging its leadership in the 4G network.

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

the launch of a new range of recurring bundle offers (TIM Pre) for the Prepaid segment, which offer comprehensive and differentiated solutions for voice and data services;

the introduction of TIM's innovative More for More approach for the Controle segment, which gives customers more value in terms of calls, data and unlimited content. The approach has underpinned constant growth in the customer base as increasing numbers of prepaid customers migrate to higher value recurring offers, which has positively impacted growth in ARPU generated;

the launch of new offers for the Postpaid Consumer segment including the TIM Black brand, consisting of differentiated data offers bundled with add-on packages to access specific content (Netflix, Cartoon Network, Esporte Interativo, etc.) and a dedicated plan for households (TIM Black Família);

the overhaul of the customer acquisition strategy for the Postpaid Corporate SMB segment, where TIM is the market leader. The new strategy does away with trade-ins as a sales practice, to ensure the growth and retention of the high-value customer base and avoid arbitrage by sales channels;

greater commercial development of the brand TIM Live in the Residential Fixed-line Broadband segment, which posted strong growth in the customer base thanks to service levels that are among the highest on the market. The launch of FTTH offers is planned for the first half of 2018;

Report on Operations of the

Main Commercial Developments 35

TIM Group



**Table of Contents**

in addition, in a select number of smaller cities without fixed-line UBB networks, WTTX was launched to provide mobile access to limited broadband services, building on the potential of the 700 Mhz 4G network.

|  |                              |    |
|--|------------------------------|----|
| Report on Operations of the<br>TIM Group | Main Commercial Developments | 36 |
|--|------------------------------|----|

## Table of Contents

### MAIN CHANGES IN THE REGULATORY FRAMEWORK

#### DOMESTIC

In this section we report the main changes in the regulatory framework in 2017 in the Domestic region. For more information on various proceedings pending with regulatory authorities, see the Note "Contingent liabilities, other information, commitments and guarantees" in the Tim Group Consolidated Financial Statements as at December 31, 2017.

#### Wholesale fixed-line markets

#### Wholesale access services

At the end of the proceeding initiated through Resolution 623/15/CONS, in December 2016, AGCM and AGCom approved TIM's New Equivalence Model (NEM) aimed at structurally improving the effectiveness of the equal treatment in the supply of wholesale access services provided to its competitors and its commercial divisions. AGCom has set up a technical panel to monitor the implementation process, involving TIM and other licensed operators affected.

In the same Resolution 623/15/CONS, AGCom asked TIM to submit two alternative proposals (unbundling and outsourcing models) regarding greater autonomy for the other licensed operators in the provision of delivery and assurance for the local loop unbundling (LLU) and sub-loop unbundling (SLU). On August 23, 2017, by Resolution 321/17/CONS, AGCom approved an unbundling model that gives other licensed operators the possibility of choosing between TIM and external companies, selected by TIM, for provisioning and assurance services, while still fully meeting the requirements of integrity, functional operation and security of the network.

#### Infratel Tenders for the subsidizing of the Ultra Broadband networks

In March 2017, Infratel Italia awarded the company Open Fiber (OF) the five lots of the tender for the construction and operation of networks enabling the offering of Ultra Broadband services (from 30 to 100 Mbit/s) in the so-called "White Areas" (in which the private operators had not envisaged the independent construction of Ultra Broadband infrastructure in the next three years) of the municipalities of six Italian regions (Abruzzo, Molise, Emilia Romagna, Lombardy, Tuscany and Veneto).

On March 20, 2017, the Lazio Regional Administrative Court rejected the appeal filed by TIM concerning the tender and, consequently, TIM lodged an appeal on June 20, 2017 with the *Consiglio di Stato*.

In July 2017, OF was awarded the six lots of the second Infratel tender, for the white areas of 10 regions (Piedmont, Valle d'Aosta, Liguria, Friuli Venezia Giulia, Marche, Umbria, Lazio, Campania, Basilicata and Sicily) and the autonomous province of Trento. TIM's appeal against the outcome of the second tender was rejected by the Lazio Regional Administrative Court.

On October 2, 2017, Infratel started a public consultation process on the capital expenditure programs of private operators in the white areas of the regions of Calabria, Apulia and Sardinia, with a view to publishing the third and

final direct tender call for ultra-broadband coverage in such white areas of these regions.

#### Retail fixed-line markets

##### 28-day invoicing

On March 24, 2017, by Resolution 121/17/CONS, AGCom ordered all TLC providers to set their invoicing cycles on a monthly or multiple month basis for fixed-line and convergent (fixed-line and mobile bundles) services, with the deadline for compliance set at June 23, 2017. Resolution 121 marks the definitive conclusion of a regulatory dispute whose sole purpose has always been to ensure price transparency and the comparability of economic terms and conditions.

TIM has filed an appeal against the decision with the Lazio Regional Administrative Court on the grounds that AGCom is not vested with such power given that neither European nor national legislation contemplate limits on the invoicing cycles chosen by fixed-line and mobile service providers. ASSTEL (the association of TLC providers) has also appealed the decision on behalf of the sector as a whole. A ruling is expected between March and April 2018.

On the basis of the Resolution, in September 2017, AGCom initiated penalty proceedings against TIM and other TLC operators, which ended with the handing down of Resolution 499/17/CONS in December 2017, under which TIM (and other TLC operators) was fined 1.16 million euros and ordered to refund, when restoring the monthly (or multiple month) invoicing cycle, additional amounts charged for the corresponding number of days of service not utilized by customers, from June 23, 2017 onwards, resulting from the realignment of the 28-day invoicing cycle to a monthly cycle. At the end of January 2018, TIM filed an appeal with the Regional Administrative Court against the decision, requesting its suspension.

In December 2017, the Italian parliament approved Law 172/17 introducing mandatory monthly invoicing for all electronic communication services, with the deadline for compliance set at April 5, 2018.

On February 12, 2018, the Lazio Regional Administrative Court rejected the appeal of TIM (and similar appeals filed by Wind Tre, Fastweb, Assotelecomunicazioni, Eolo and Postemobile) against Resolution AGCom 121/17/CONS. TIM will challenge the ruling with the *Consiglio di Stato*. Instead, the Lazio Regional Administrative Court suspended the effect of AGCom Resolution 499/17/CONS as concerns the order to refund customers amounts corresponding to the number of days of service not utilized, from June 23, 2017 onwards, under the 28-day invoicing cycle. The merits hearing has been set for November 14, 2018. On March 7, 2018, TIM was notified of the decision by AGCOM (Resolution 112/2018/CONS) to (i) order the Company, in relation to fixed-line telephone services only, to postpone the commencement of invoices issued after the restoral of the monthly invoicing cycle by a number of days equal to those presumed gnawed since June 23, 2017 under the 28-day invoicing cycle; and (ii) cancel part of its previous Resolution 499/17/CONS in which TIM was ordered to refund amounts presumed gnawed since June 23, 2017 under the 28-day invoicing cycle. The decision will be appealed by TIM with the Lazio Regional Administrative Court.

Finally, we report that on February 19, 2018, AGCM initiated proceeding I820 to investigate alleged collusion among major operators in an agreement to restrict competition in complying with the provisions laid down by Law 172/17.

#### Universal Service

By Resolution 46/17/CONS of January 26, 2017, AGCom introduced new measures regarding the subsidized financial conditions for access to fixed-line and mobile services for particular categories of disabled customers. The provisions of the measure, which apply to the deaf and the totally and partially blind, broaden the current subsidies, both in terms of discounted services (e.g. flat voice and data offers) and categories of disabled people covered (e.g. the partially

blind). In February 2017, TIM submitted an appeal to the Lazio Regional Administrative Court against Resolution 456/16/CONS of October 2016, through which AGCom rejected TIM's

Report on Operations of the  
TIM Group

Main changes in the regulatory framework 37

## Table of Contents

proposal for a price adjustment on the Voice offering (the basic voice telephony offering), and introduced a strict procedure for future changes of Universal Service prices, by providing, for example, a minimum time interval of a year between two successive tariff changes and the possibility to only change prices with reference to: (i) increase in *wholesale* costs; (ii) offsetting inflation; (iii) socio-economic conditions. On February 21, 2018, the Lazio Regional Administrative Court rejected the appeal. TIM is considering challenging the decision with the *Consiglio di Stato*.

By Resolution 163/17/CONS of April 18, 2017, AGCom imposed a fine of 232,000 euros on TIM for the failure to deliver 4 of the Universal Service quality objectives for 2015.

As a result of ruling no. 4616/2015 of October 2, 2015, in which the *Consiglio di Stato* canceled resolution 1/08/CIR solely with respect to the application of the new methodological criteria for the calculation of the net cost of the Universal Service (USO) for the period 2004-2007, AGCom initiated the renewal proceedings for those annual periods and appointed an independent consultant to revise the calculation of the USO, by Resolution 145/17/CONS for the years 2006 and 2007 and by Resolution 207/17/CONS for the years 2004 and 2005. Audit activities were started in October 2017 and should end by mid-2018.

Wholesale mobile network markets

International roaming

On June 15, 2017, the provision of European Regulation 2015/2120 of November 25, 2015 (Telecom Single Market - TSM Regulation) entered into force, which requires for the application of the national tariff for intra-EU voice, SMS and roaming data traffic.

On April 25, 2017, the European Parliament and the Council adopted a regulation establishing new wholesale caps for roaming traffic valid from June 15, 2017 to June 30, 2022 (Voice: 3.2 euro cents per minute; SMS 1 euro cents per SMS, data: 7.7 euro/GByte in 2017; 6 euro/GByte in 2018; 4.5 euro/GByte in 2019; 3.5 euro/GByte in 2020; 3 euro/GByte in 2021; and 2.5 euro/GByte in 2022).

AGCom contribution fee

On March 31, 2017, TIM paid an amount of 19.3 million euros, with reservation, for the 2017 AGCom contribution fee. The value was calculated by applying the rate of 0.0014 to the revenues recorded in the Company's 2015 Financial Statements. The guidelines for the calculation of the contribution fee, set out in the AGCom Resolutions 463/16/CONS and 62/17/CONS, have not changed with respect to those established for the calculation of the 2016 contribution fee.

Antitrust

Case A500B

On December 13, 2017, AGCM concluded proceeding A500B, finding that the Company, with the assistance of Telecom Italia Sparkle S.p.A., had abused its dominant market position by forcing an equally efficient downstream competitor that purchases SMS termination for the mobile network to reduce its margins.

AGCM imposed an administrative fine on TIM of 3.7 million euros. TIM lodged an appeal against the decision with the Regional Administrative Court on February 26, 2018.

#### Case I799

On February 1, 2017, AGCM initiated investigation proceedings for possible breaches of Article 101 TFEU (ban on competition-restricting agreements) against TIM S.p.A. and Fastweb S.p.A., following the signing of an agreement aimed at establishing a joint cooperative enterprise Flash Fiber S.r.l.. In agreement with Fastweb, TIM has submitted several amendments to the agreements signed to the AGCM, in the form of proposed commitments, aimed at settling the proceedings without accepting the violation and, therefore, without any financial penalty. On December 20, 2017, AGCM decided to extend the deadline for the evaluation of the proposed commitment to February 28, 2018, and the deadline for the conclusion of the proceedings to July 31, 2018. If the commitments undertaken by TIM are approved, AGCM will announce its decision after hearing the mandatory opinions of AGCom and the European Commission. If instead the commitments are rejected, the proceedings will continue and be concluded by July 31, 2018.

#### Case A514

On June 28, 2017, AGCM initiated proceedings against TIM for alleged competition breaches of Article 102 of the TFEU, following complaints made by Infratel, Enel, Open Fiber, Vodafone and Wind-Tre. The charges against TIM include behavior aimed at: (i) hindering Infratel tender processes in an effort to delay or render less profitable the entry of another operator on the wholesale market; and (ii) locking in ultra-broadband customers in advance, to reduce the market space available to competitors. On February 14, 2018, AGCM decided to extend the scope of the proceeding to investigate other alleged behavior by TIM concerning its wholesale price strategy for broadband and ultra-broadband wholesale access services and the use of privileged information concerning the customers of alternative operators. The proceeding is due to end by October 31, 2018.

#### Case 1820

On February 19, 2018, AGCM initiated a preliminary proceeding against the companies TIM, Vodafone, Fastweb and Wind Tre and the industry association ASSTEL to investigate the alleged existence of an agreement among the major fixed-line and mobile telephone operators to restrict competition by coordinating their respective commercial strategies, in breach of Article 101 of the TFUE.

According to the AGCM decision initiating the procedure, collusion is alleged to have consisted of coordination by the operators in their compliance with the obligation introduced by Article 19-quinquiesdecies of Italian Decree Law 148/2017 (converted into Law 172/2017) for providers of electronic communication services to invoice and renew fixed-line and mobile services on a monthly (or multiple month) basis. The proceeding is due to end by March 31, 2019.

#### Disputes with AGCom

On August 9, 2017, AGCom provided notification of Resolution 88/17/CIR in which it had ruled on the dispute initiated on August 2, 2016 by TIM against Enel Distribuzione ( ED ) regarding the conditions of access to ED s infrastructure. AGCom recognized the validity of most of the objections raised by TIM and ordered the amendment of the Technical and Financial Rules for access to the electricity infrastructure of ED .

TIM Group

## Table of Contents

On October 12, by Resolutions 149/17/CIR, 151/17/CIR, 152/17/CIR, and 150/17/CIR, and on October 30, by Resolution 153/17/CIR, AGCom concluded 5 disputes brought by TIM against Fastweb to obtain full payment for a series of services billed to the provider (WLR ISDN PRA, ATM ABR band for VP Bitstream, TDM interconnection flows, ULL and Bitstream termination, and activation of symmetric accesses), ruling in favor of TIM.

Potential use of frequencies for mobile technology

Under Decision (EU) 2017/899 of the European Parliament and of the Council of May 17, 2017, all frequencies in the 700 MHz band (694-790 MHz frequencies, corresponding to television channels 49-60 on the UHF band), are to be allocated on a primary basis to mobile broadband services by 2020, or by 2022 if justified reasons exist. In Italy, Article 1 (1026-1045) of Law 205 of December 27, 2017 sets out how the 700 MHz band, together with the 3.6-3.8 GHz and 26.5-27.5 GHz bands, is to be released and auctioned. The 700 MHz band will be available to mobile service providers as of July 1, 2022, after its release by television broadcasters. The auctioning of the band is expected to raise at least 2.5 billion euros in revenues for the State, of which 1.25 billion euros in 2018 alone (payment of user rights to 700 MHz frequencies will be spread over 2018 to 2022).

On September 30, 2017, TIM paid up approximately 630 million euros for the renewal of its licenses to the 900 and 1800 MHz bands until December 31, 2029. AGCom has approved the renewal of the licenses and the Ministerial Decree assigning the extensions is now pending.

As concerns the television frequencies, the 2018 Budget Law provides for the re-farming of lower frequencies or their return for an indemnity. Specifically, for television broadcasters holding frequency rights to specific frequencies that are transformed into shared MUX capacity rights, the law envisages an indemnity to compensate for the technological change of:

approx. 277 million euros in total for national broadcasters (including Persidera, holder of national frequency rights on 5 MUX), equal to an average 7 million euros per channel;

approx. 304 million euros in total for local broadcasters, equal to an average 7.6 million euros per channel.

## 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, the bill PLC 79/2016 was referred back to the Senate, where it is expected to be debated again over the course of 2018.

In October and November 2017, the Ministry of Science, Technology, Innovation and Communications (MCTIC) held a public consultation to review the general telecommunications policy, which is expected to lead to the issue and publication of a new Presidential Decree in 2018. The public consultation process proposed the setting of guidelines and objectives for the provision of telecommunications services, for the technological development of digital services and broadband infrastructure, and for the spread of smart cities .

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

#### Revision of Competition Rules

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

Currently, TIM has SMP in (i) passive infrastructure (towers); (ii) mobile network termination, and (iii) national roaming. A public consultation on reforms to the PGMC was begun on December 7, 2016 and concluded on March 22, 2017. Alongside the re-identification of relevant markets, work is underway for the classification of towns on the basis of specific competition levels (1: competitive, 2: moderately competitive, 3: not very competitive, 4: uncompetitive) before any asymmetric regulatory measures are applied. Under the regulatory agenda, the new regulation is expected to be introduced in 2018.

#### 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, whereas the final installment (142 million reais) is due in January 2018.

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**Table of Contents**

Since the switch-off process was launched, 3,592 municipalities have released the 700 Mhz spectrum, including major cities such as Rio de Janeiro and São Paulo. The municipalities represent 51.7% of the Brazilian population (105.6 million people) and 89% of national territory.

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.

|                             |  |    |
|-----------------------------|--|----|
| Report on Operations of the | Main changes in the regulatory framework | 40 |
| TIM Group                   |  |    |

## Table of Contents

### COMPETITION

#### DOMESTIC

##### The market

The Italian TLC market witnessed a turnaround in 2017, posting low but positive growth levels after years of uninterrupted decline, despite high competition levels in the 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.

At the same time, telecommunications providers not only face core competition with other operators in the sector still the factor that has the greatest impact on market trends but must also deal with the invasion by Over-the-Top service providers (OTTs) and device manufacturers, which operate entirely in the 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.

#### 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).

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 to invest 3.9 billion euros in the development of Fiber to the Home (FTTH) in 271 large Italian towns by 2022, reaching around 9.6 million real estate units.

The service is already available in some districts of major cities, such as Milan, Turin and Bologna, where Metroweb (which was acquired in December 2016) had previously expanded its network, but also in other cities such as Bari, Cagliari, Catania, Naples, Padua, Perugia, Venice, Genoa, Palermo and others.

Open Fiber announced that it would be extending the network to another 40 towns by the end of 2017, with another 40 to be added in 2018.

In the meantime, according to media reports, a number of our competitors in the TLC retail market have signed an agreement with Open Fiber to link their new ultra-broadband 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 two public calls for tenders over 2016 and 2017 for the development of a UBB network to deliver services to a total of 9.3 million real estate units in over 6,000 municipalities across 16 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 and 4.6 million real estate units.

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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 and 4.7 million real estate units.

Infratel is now preparing a third call for tenders for the remaining areas in Calabria, Apulia and Sardinia (the public consultation process was brought to a close on November 20, 2017).

Report on Operations of the

Competition 41

TIM Group

## Table of Contents

As such, Open Fiber's development plan and the coverage of the public contracts awarded by Infratel stepped up competition in the infrastructure sector in a major way, by introducing new ultra-broadband networks that overlap and have a different reach to existing 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.

After years of market decline, driven by the migration of fixed-line customers to mobile services and alternative telecommunications solutions (Voice over IP, e-mail, Social Media chat services), fixed-line accesses grew slightly in 2017, reaching approximately 20.6 million at December 31, 2017 (including Infrastructured OLO accesses and FWA-Fixed Wireless Access). Competition in the access market led to a gradual reduction in TIM's market share.

As concerns the Broadband market, at December 31, 2017, 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 80% 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.

The spend on services showed slight growth in 2017, although signs of weakness appeared in the second half of the year. Revenues from traditional service components, such as voice and messaging services, continued to decline, while mobile broadband revenues grew strongly.

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 in the Italian telecommunications market in 2017 was shaped by the merger of Wind and H3G, which became effective during the year, creating the biggest single player on the market in terms of SIM card numbers. During the year, TIM launched Kena Mobile, a new virtual operator on the market. In 2018, the French provider Iliad is expected to enter the Italian market, where it will become the fourth infrastructured operator alongside TIM, Vodafone and, now, Wind-Tre.

At the same time, mobile virtual operators (MVO), of which PosteMobile is the most important player, have continued to enjoy significant growth, taking market share away from infrastructured operators.

## BRAZIL

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

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

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

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

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

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

Report on Operations of the  
TIM Group

Competition 42



**Table of Contents**

The residential fixed-line broadband market posted growth of approximately 7% in 2017 compared to 2016, driven mainly by smaller market players, which tend to offer faster download speeds and/or service in areas in which the incumbents have limited infrastructure. Penetration rates across the population are still quite low when compared to the United States or Europe, which means there are good opportunities for medium-term growth, underpinned by the improving macroeconomic situation.

In this context, in 2017, TIM adopted a new business strategy based on a differentiated approach between the big cities, where it has the fiber network infrastructure to offer FTTC/FTTH through TIM Live, and small cities, where it has leveraged the availability of the 700 MHz 4G network to launch a new WTTX service offering limited access to broadband. At end of 2017, TIM Live had a customer base of 392 thousand users, up by 28% on the end of 2016. Its download speeds and customer satisfaction rates rank it among the top broadband providers in the country.

Report on Operations of the

Competition 43

TIM Group

**Table of Contents**

CONSOLIDATED FINANCIAL POSITION AND CASH FLOWS PERFORMANCE

NON-CURRENT ASSETS

Goodwill: this decreased by 150 million euros, from 29,612 million euros at the end of 2016 to 29,462 million euros at December 31, 2017 due to the decline in exchange rates for the Brazilian companies<sup>(1)</sup>. Further details are provided in the Note "Goodwill" in the Consolidated Financial Statements as at December 31, 2017 of the TIM Group.

Other intangible assets: these rose by 241 million euros, from 6,951 million euros at the end of 2016 to 7,192 million euros at December 31, 2017, representing the balance of the following items:

capex (+2,292 million euros);

amortization charge for the year (-1,793 million euros);

disposals, exchange differences, reclassifications and other changes (for a net negative balance of 258 million euros).

Tangible assets: these rose by 187 million euros, from 16,360 million euros at the end of 2016 to 16,547 million euros at December 31, 2017, representing the balance of the following items:

capex (+3,409 million euros);

changes in finance leasing contracts (+68 million euros);

depreciation charge for the year (-2,680 million euros);

disposals, exchange differences, reclassifications and other changes (for a net negative balance of 610 million euros).

CONSOLIDATED EQUITY

Consolidated equity amounted to 23,783 million euros (23,553 million euros at December 31, 2016), of which 21,557 million euros attributable to Owners of the Parent (21,207 million euros at December 31, 2016) and 2,226 million euros attributable to non-controlling interests (2,346 million euros at December 31, 2016). In greater detail, the changes in equity were the following:

| (millions of euros)  | 12/31/2017 | 12/31/2016 |
|--|------------|------------|
| At the beginning of the year   | 23,553     | 21,249     |
| Total comprehensive income (loss) for the year                                 | 457        | 2,801      |
| Dividends approved by:   | (230)      | (204)      |
| <i>TIM S.p.A.</i>  | (166)      | (166)      |
| <i>Other Group companies</i>   | (64)       | (38)       |
| Issue of equity instruments  | (6)        | 1          |
| Conversion of the Guaranteed Subordinated Mandatory Convertible Bonds due 2016 |            | 1,300      |
| Disposal of the Sofora Telecom Argentina group                                 |            | (1,582)    |
| Other changes  | 9          | (12)       |
| At the end of the year   | 23,783     | 23,553     |

- (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 3.96728 at December 31, 2017 and 3.43542 at December 31, 2016.

**Table of Contents**

## CASH FLOWS

Adjusted net financial debt stood at 25,308 million euros, up by 189 million euros compared to December 31, 2016 (25,119 million euros).

The table below summarizes the main transactions that had an impact on the change in adjusted net financial debt for 2017:

## Change in adjusted net financial debt

| (millions of euros)   | 2017         | 2016         | Change         |
|---|--------------|--------------|----------------|
| <b>EBITDA</b>   | 7,790        | 8,002        | (212)          |
| Capital expenditures on an accrual basis  | (5,701)      | (4,876)      | (825)          |
| <b>Change in net operating working capital:</b>   | <b>(126)</b> | <b>(98)</b>  | <b>(28)</b>    |
| <i>Change in inventories</i>  | <i>(30)</i>  | <i>(10)</i>  | <i>(20)</i>    |
| <i>Change in trade receivables and net amounts due from customers on construction contracts</i> | <i>379</i>   | <i>(310)</i> | <i>689</i>     |
| <i>Change in trade payables (*)</i>   | <i>(217)</i> | <i>445</i>   | <i>(662)</i>   |
| <i>Other changes in operating receivables/payables</i>  | <i>(258)</i> | <i>(223)</i> | <i>(35)</i>    |
| Change in employee benefits   | 437          | (131)        | 568            |
| <b>Change in operating provisions and Other changes</b>   | <b>96</b>    | <b>(41)</b>  | <b>137</b>     |
| Net operating free cash flow  | 2,496        | 2,856        | (360)          |
| <b>EBITDA Margin</b>  | <b>12.6</b>  | <b>15.0</b>  | <b>(2.4)pp</b> |
| Sale of investments and other disposals flow  | 33           | 745          | (712)          |
| <b>Share capital increases/reimbursements, including incidental costs</b>                       | <b>16</b>    | <b>1,304</b> | <b>(1,288)</b> |
| Financial investments flow  | (12)         | (15)         | 3              |
| <b>Dividends payment</b>  | <b>(235)</b> | <b>(227)</b> | <b>(8)</b>     |

|  |         |         |         |
|--|---------|---------|---------|
| Change in finance leasing contracts  | (68)    | (232)   | 164     |
| Finance expenses, income taxes and other net non-operating requirements flow                             | (2,419) | (2,234) | (185)   |
| Reduction/(Increase) in adjusted net financial debt from continuing operations                           | (189)   | 2,197   | (2,386) |
| Reduction/(Increase) in net financial debt from Discontinued operations/Non-current assets held for sale |         | (38)    | 38      |
| Reduction/(Increase) in adjusted net financial debt  | (189)   | 2,159   | (2,348) |

(\* ) 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 2017 was particularly impacted by the following:

Capital expenditures on an accrual basis

The breakdown of capital expenditures by operating segment is as follows:

| (millions of euros)                 | 2017  |            | 2016  |            | Change |
|-------------------------------------|-------|------------|-------|------------|--------|
|                                     |       | % of total |       | % of total |        |
| Domestic                            | 4,551 | 79.8       | 3,709 | 76.1       | 842    |
| Brazil                              | 1,150 | 20.2       | 1,167 | 23.9       | (17)   |
| <i>Adjustments and eliminations</i> |       |            |       |            |        |
| Consolidated Total                  | 5,701 | 100.0      | 4,876 | 100.0      | 825    |
| <i>EBITDA Margin</i>                | 28.8  |            | 25.6  |            | 3.2pp  |

Capital expenditures in 2017 totaled 5,701 million euros, up by 825 million euros on 2016. In particular:

the Domestic Business Unit posted capital expenditures of 4,551 million euros, an additional 842 million euros compared to 2016. Higher capex was driven by the outlay of 630 million euros to renew GSM frequency user rights and the fast-tracking of innovation expenditure for infrastructure development (+395 million euros compared to 2016). In particular, expenditure on network development and next-generation services accounted for 63% of total network expenditure in 2017 (+6.3 percentage points compared to 2016). The decrease in other types of expenditure continued thanks to the selectivity and attention given to capital allocation choices based on strategic priorities and profit optimization.

the Brazil Business Unit posted capital expenditures in 2017 of 1,150 million euros, down by 17 million euros on 2016. Without the impact of fluctuations in exchange rates, which amounted to 82 million euros, the change was a negative 99 million euros and mainly reflected lower expenditure for renewals of TLC licenses (-52 million euros) and for developments in Information

|  |  |    |
|--|--|----|
| Report on Operations of the<br>TIM Group | Consolidated Financial Position and Cash Flows Performance | 45 |
|--|--|----|

## **Table of Contents**

Technology projects (-47 million euros), following the strong growth recorded in 2016 due to the launch of new commercial offers and the introduction of the new billing system. Capital expenditure in network infrastructure in 2017 amounted to 806 million euros (-3 million euros at constant exchange rates compared to 2016), and was mainly aimed at developing the 4G mobile broadband network, reaching 3,003 towns (+1,748 compared to 2017), with a urban population coverage rate of 91.2%.

### Change in net operating working capital

The change in net operating working capital for 2017 was a decrease of 126 million euros (decrease of 98 million euros in 2016). In particular:

the change in inventories generated a negative impact of 30 million euros; the management of trade receivables had a positive impact of 379 million euros, also thanks to the performance of the Brazilian Real, which resulted in an exchange rate differential of 118 million euros, without which trade receivables would have shown a change of 261 million euros;

the change in trade payables (-217 million euros) included a negative impact of almost 180 million euros due to the performance of the Brazilian Real; it also included the payment of around 257 million euros made by the Brazil Business Unit to the consortium that is carrying out the clean up of the 700 MHz spectrum, which the Business Unit purchased the user rights to in 2014;

other changes in operating receivables/payables (-258 million euros) included the effects of the increase in prepaid expenses related to the acquisition of TIM S.p.A. customers, which was partially offset by higher VAT payable.

### Change in employee benefits

The change in employee benefits was driven mainly by provisions allocated in 2017 for non-recurring expenses, as reported earlier (689 million euros), offset by drawdowns totaling 177 million euros in relation to restructuring plans previously in place.

### Sale of investments and other disposals flow

The item posted a positive balance of 33 million euros for 2017 and mainly reflected the sale of non-current assets during the normal operating cycle (17 million euros) and the collection of a deferred portion of the price of a non-controlling interest sold in previous years (13 million euros).

In 2016, the item posted a positive figure of 745 million euros and essentially related to the sale of the Sofora Telecom Argentina group on March 8, 2016.

## Share capital increases/reimbursements, including incidental costs

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

In 2016, the item amounted to 1,304 million euros and included the effect of the conversion of the Mandatory Convertible Bond into TIM shares for 1,300 million euros of November 2016.

## Financial investments flow

In 2017, the item amounted to 12 million euros and included 4 million euros in subscriptions of new units issued by the Northgate Fund.

In 2016, this item amounted to 15 million euros and included 6 million euros for the payment made by INWIT S.p.A., net of cash acquired, for the acquisition of the investments in Revi Immobili S.r.l., Gestione Immobili S.r.l. and Gestione Due S.r.l., 5 million euros for the subscription of the capital increase in the company Northgate held as a non-controlling interest, and 4 million euros for the payment made, net of cash acquired, for the acquisition of the equity interest in Noverca S.r.l..

## Change in leasing contracts

In 2017, the item totaled 68 million euros, of which:

54 million euros referred to the Parent Company, mainly in relation to new leases on industrial vehicles and the renegotiation of property leases;

14 million euros referred to the Brazil Business Unit, in relation to the lease-back of parts of telecommunications towers.

In 2016, the item amounted to 232 million euros and essentially referred to contractual renegotiations by TIM S.p.A. within the real estate transformation project, new rental agreements made by TIM S.p.A. for industrial vehicles, and a finance lease entered into by the Tim Brasil group on telecommunication towers.

Report on Operations of the

Consolidated Financial Position and Cash Flows Performance 46

TIM Group



**Table of Contents**

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

The item amounted to 2,419 million euros and mainly included payments, during 2017, of income taxes (1,100 million euros), net finance expenses, as well as the change in non-operating receivables and payables.

|  |  |    |
|--|--|----|
| Report on Operations of the<br>TIM Group | Consolidated Financial Position and Cash Flows Performance | 47 |
|--|--|----|

**Table of Contents**

Net financial debt

Net financial debt is composed as follows:

| (millions of euros)   | 12/31/2017<br>(a) | 12/31/2016<br>(b) | Change<br>(a-b) |
|---|-------------------|-------------------|-----------------|
| <b>Non-current financial liabilities</b>  |                   |                   |                 |
| Bonds   | 19,981            | 20,369            | (388)           |
| Amounts due to banks, other financial payables and liabilities  | 5,878             | 7,656             | (1,778)         |
| Finance lease liabilities   | 2,249             | 2,444             | (195)           |
|   | 28,108            | 30,469            | (2,361)         |
| <b>Current financial liabilities (*)</b>  |                   |                   |                 |
| Bonds   | 2,221             | 2,595             | (374)           |
| Amounts due to banks, other financial payables and liabilities  | 2,354             | 1,269             | 1,085           |
| Finance lease liabilities   | 181               | 192               | (11)            |
|   | 4,756             | 4,056             | 700             |
| Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale |                   |                   |                 |
| Total Gross financial debt  | 32,864            | 34,525            | (1,661)         |
| <b>Non-current financial assets</b>   |                   |                   |                 |
| Securities other than investments   |                   | (1)               | 1               |
| Financial receivables and other non-current financial assets  | (1,768)           | (2,697)           | 929             |
|   | (1,768)           | (2,698)           | 930             |
| <b>Current financial assets</b>   |                   |                   |                 |
| Securities other than investments   | (993)             | (1,519)           | 526             |
| Financial receivables and other non-current financial assets  | (437)             | (389)             | (48)            |

|   |         |         |         |
|---|---------|---------|---------|
| Cash and cash equivalents   | (3,575) | (3,964) | 389     |
|   | (5,005) | (5,872) | 867     |
| Financial assets relating to Discontinued operations/Non-current assets held for sale             |         |         |         |
| Total financial assets  | (6,773) | (8,570) | 1,797   |
| Net financial debt carrying amount  | 26,091  | 25,955  | 136     |
| <i>Reversal of fair value measurement of derivatives and related financial assets/liabilities</i> | (783)   | (836)   | 53      |
| Adjusted net financial debt   | 25,308  | 25,119  | 189     |
| <i>Breakdown as follows:</i>  |         |         |         |
| Total adjusted gross financial debt   | 31,149  | 32,574  | (1,425) |
| Total adjusted financial assets   | (5,841) | (7,455) | 1,614   |
| <i>(*) of which current portion of medium/long-term debt:</i>                                     |         |         |         |
| <i>Bonds</i>  | 2,221   | 2,595   | (374)   |
| <i>Amounts due to banks, other financial payables and liabilities</i>                             | 1,371   | 670     | 701     |
| <i>Finance lease liabilities</i>  | 181     | 192     | (11)    |

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.

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 the exchange and interest rate 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.

|  |  |    |
|--|--|----|
| Report on Operations of the<br>TIM Group | Consolidated Financial Position and Cash Flows Performance | 48 |
|--|--|----|

**Table of Contents**

## Sales of receivables to factoring companies

Non-recourse sales of trade receivables to factoring companies finalized in 2017 resulted in a positive effect on net financial debt at December 31, 2017 of 2,000 million euros (1,091 million euros at December 31, 2016). The increase was driven by new revolving securitization programs (handsets, modems, and billed mobile) and by the identification of greater volume of receivables factored.

## Gross financial debt

*Bonds*

Bonds at December 31, 2017 totaled 22,202 million euros (22,964 million euros at December 31, 2016). Their nominal repayment amount was 21,775 million euros, down by 642 million euros compared to December 31, 2016 (22,417 million euros).

Changes in bonds over 2017 are shown below:

| <i>(millions of original currency)</i>                               | Currency | Amount | Issue date     |
|--|----------|--------|----------------|
| <b>New issues</b>  |          |        |                |
| Telecom Italia S.p.A. 1,000 million euros 2.500% maturing 7/19/2023  | Euro     | 1,000  | 1/19/2017      |
| Telecom Italia S.p.A. 1,250 million euros 2.375% maturing 10/12/2027 | Euro     | 1,250  | 10/12/2017     |
| <b>Repayments</b>  |          |        |                |
| <i>(millions of original currency)</i>                               | Currency | Amount | Repayment date |
| Telecom Italia S.p.A. 545 million euros 7.000% <sup>(1)</sup>        | Euro     | 545    | 1/20/2017      |
| Telecom Italia S.p.A. 628 million euros 4.500% <sup>(2)</sup>        | Euro     | 628    | 9/20/2017      |
| Telecom Italia S.p.A. 750 million British pounds 7.375%              | GBP      | 750    | 12/15/2017     |

(1) Net of buybacks by the Company of 455 million euros during 2015.

(2) Net of buybacks by the Company of 372 million euros during 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, 2017 was 204 million euros, up by 3 million euros compared to December 31, 2016 (201 million euros).

*Revolving Credit Facility and Term Loan*

The following table shows the composition and the draw down of the committed credit lines available at December 31, 2017:

| (billions of euros)       |                     | 12/31/2017 |            | 12/31/2016 |            |
|---------------------------|---------------------|------------|------------|------------|------------|
|                           |                     | Agreed     | Drawn down | Agreed     | Drawn down |
| Revolving Credit Facility | expiring May 2019   | 4.0        |            | 4.0        |            |
| Revolving Credit Facility | expiring March 2020 | 3.0        |            | 3.0        |            |
| <b>Total</b>              |                     | <b>7.0</b> |            | <b>7.0</b> |            |

At December 31, 2017, TIM had two syndicated Revolving Credit Facilities of 4 billion euros and 3 billion euros expiring May 24, 2019 and March 25, 2020 respectively, both not yet drawn down. On January 16, 2018, the two Revolving Credit Facilities were closed and replaced by a new Revolving Credit Facility for a total of 5 billion euros, expiring in 5 years.

TIM also has:

a bilateral Term Loan from UBI Banca (former Banca Regionale Europea) expiring July 2019 for 200 million euros, drawn down for the full amount;

two bilateral Term Loans from Mediobanca, respectively for 134 million euros expiring in November 2019 and 75 million euros expiring in July 2020, drawn down for the full amount;

a bilateral Term Loan from ICBC expiring July 2020 for 120 million euros, drawn down for the full amount;

a bilateral Term Loan from Intesa Sanpaolo expiring August 2021 for 200 million euros, drawn down for the full amount;

an overdraft facility with Banca Popolare dell' Emilia Romagna for 250 million euros, drawn down for the full amount and repaid in full at expiry on February 15, 2018;

an overdraft facility with Intesa Sanpaolo expiring December 2018 for 200 million euros, drawn down for the full amount;

## Table of Contents

a bilateral Term Loan from Intesa Sanpaolo expiring December 2018 for 2 billion euros, not yet drawn down. On December 21, 2017, TIM S.p.A. notified Mediobanca of its decision to exercise the early repayment option on the 150 million euro bilateral term loan expiring July 2020, with the full repayment of the residual principal of 75 million euros on January 3, 2018.

On January 16, 2018, TIM S.p.A. exercised the early repayment option on the 2 billion euro bilateral Term Loan with Intesa Sanpaolo expiring December 2018, with repayment made on January 17, 2018.

### *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 7.75 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, stands at approximately 4.8%.

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 as at December 31, 2017 of the TIM Group.

### *Current financial assets and liquidity margin*

The TIM Group's available liquidity margin amounted to 9,568 million euros, equal to the sum of:

Cash and cash equivalents and Current securities other than investments for a total of 4,568 million euros (5,483 million euros at December 31, 2016);

the new Revolving Credit Facility opened in January 2018 for 5,000 million euros. This margin is sufficient to cover Group financial liabilities due at least for the next 24 months.

In particular:

Cash and cash equivalents amounted to 3,575 million euros (3,964 million euros at December 31, 2016). 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 993 million euros (1,519 million euros at December 31, 2016). These forms of investment represent alternatives to the investment of liquidity with the aim of improving returns. They included 276 million euros of Italian treasury bonds purchased respectively by TIM S.p.A. (256 million euros) and Telecom Italia Finance S.A. (20 million euros), 524 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 193 million euros of investments in two 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 2017, the adjusted net financial debt fell by 920 million euros on the September 30, 2017 figure (26,228 million euros); cash flow generated by the positive operating and financial performance covered the cash requirements to meet tax liabilities.

| (millions of euros)   | 12/31/2017<br>(a) | 9/30/2017<br>(b) | Change<br>(a-b) |
|---|-------------------|------------------|-----------------|
| Net financial debt carrying amount  | 26,091            | 26,958           | (867)           |
| <i>Reversal of fair value measurement of derivatives and related financial assets/liabilities</i> | (783)             | (730)            | (53)            |
| Adjusted net financial debt   | 25,308            | 26,228           | (920)           |
| <i>Breakdown as follows:</i>  |                   |                  |                 |
| Total adjusted gross financial debt   | 31,149            | 31,173           | (24)            |
| Total adjusted financial assets   | (5,841)           | (4,945)          | (896)           |



## Table of Contents

### CONSOLIDATED FINANCIAL STATEMENTS – TIM GROUP

*The TIM Group Consolidated Financial Statements for 2017 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 policies and consolidation principles adopted in the preparation of the Consolidated Financial Statements as at December 31, 2017 are the same as those adopted in the Consolidated Financial Statements as at December 31, 2016, except for the use of the new Standards and Interpretations adopted by the Group starting as of the Consolidated Financial Statements as at December 31, 2017, whose effects are described in the notes to the Consolidated Financial Statements as at December 31, 2017 of the TIM Group, to which the reader is referred.*

*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 2018 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 2017.

The following changes in the scope of consolidation occurred during 2016:

*TIMVISION S.r.l.* (Domestic Business Unit): established on December 28, 2016;

*Noverca S.r.l.* (Domestic Business Unit): On October 28, 2016 TIM S.p.A. acquired 100% of the company;

*Flash Fiber S.r.l.* (Domestic Business Unit): established on July 28, 2016;

*Sofora - Telecom Argentina group*: classified as Discontinued Operations (Discontinued operations/Non-current assets held for sale) was sold on March 8, 2016;

Revi Immobili S.r.l., Gestione Due S.r.l. and Gestione Immobili S.r.l. (Domestic Business Unit): on January 11, 2016, INWIT S.p.A. purchased 100% of these companies, which were subsequently merged by acquisition.

Report on Operations of the  
TIM Group

Consolidated Financial Statements TIM Group 51

**Table of Contents**

## Separate Consolidated Income Statements

| (millions of euros)   | 2017<br>(a)   | 2016<br>(b)   | Change<br>(a-b)<br>amount | %            |
|---|---------------|---------------|---------------------------|--------------|
| Revenues  | 19,828        | 19,025        | 803                       | 4.2          |
| Other income  | 523           | 311           | 212                       | 68.2         |
| <b>Total operating revenues and other income</b>  | <b>20,351</b> | <b>19,336</b> | <b>1,015</b>              | <b>5.2</b>   |
| Acquisition of goods and services   | (8,388)       | (7,793)       | (595)                     | (7.6)        |
| Employee benefits expenses  | (3,626)       | (3,106)       | (520)                     | (16.7)       |
| Other operating expenses  | (1,208)       | (1,083)       | (125)                     | (11.5)       |
| Change in inventories   | 35            | 9             | 26                        |              |
| Internally generated assets   | 626           | 639           | (13)                      | (2.0)        |
| <b>Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)</b> | <b>7,790</b>  | <b>8,002</b>  | <b>(212)</b>              | <b>(2.6)</b> |
| Depreciation and amortization   | (4,473)       | (4,291)       | (182)                     | (4.2)        |
| Gains/(losses) on disposals of non-current assets   | 11            | 14            | (3)                       | (21.4)       |
| Impairment reversals (losses) on non-current assets   | (37)          | (3)           | (34)                      |              |
| <b>Operating profit (loss) (EBIT)</b>   | <b>3,291</b>  | <b>3,722</b>  | <b>&amp;nbsp;</b>         |              |