



2016 Annual Report

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

Audited Annual Accounts as at December 31, 2016, which have been authorized by the Board of Directors, held on March 22, 2017.

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Directors' report

Dear Shareholder,

The year 2016 of Telecom Italia Finance (the "Company" or "TI Finance") ends with a profit of EUR 137.927.425,46 vs. a positive result of EUR 68.048.586,21 in the year 2015.

As better described hereinafter, the 2016 profit and loss statement comprises the activities of Telecom Italia International N.V. (hereinafter referred as well as to "TII"), a Dutch Telecom Italia subsidiary which has been merged into TI Finance during the year. Therefore, the figures of the twelve months 2016 are not comparable with those of 2015.

Certain values referred to year 2015 reported herein below have been reclassified in order to give better understanding to the Directors' report.

Merger of Telecom Italia International NV into TI Finance

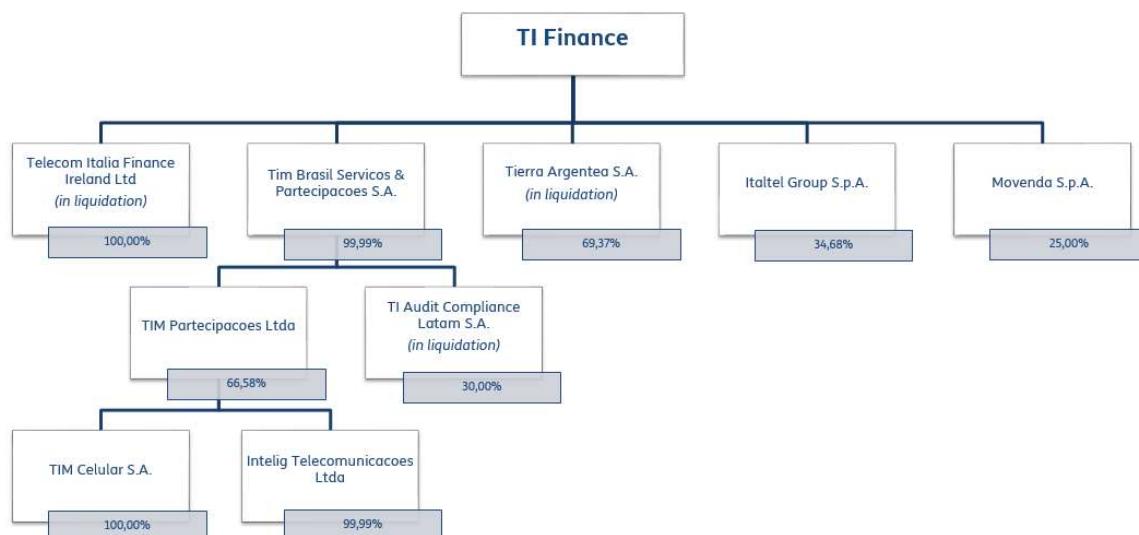
In 2016 the activities of TII have been merged into TI Finance. The merger is effective as of August 1, 2016, date in which the resolution of the TI Finance's sole shareholder have been published on the *Recueil Electronique des Sociétés et Associations* of Luxembourg. However, for accounting purposes, the transfer of the assets and liabilities under universal succession has retroactive effectiveness as of January 1, 2016. TII was a Dutch company active as holding of participations fully owned by Telecom Italia S.p.A. The merger determined the dissolution of TII.

As a consequence of the merger, TI Finance holds 99,99% of Tim Brasil Serviços e Participações S.A. ("Tim Brasil"), which in turns holds 66,58% of TIM Participações S.A., company listed on the Brazilian Stock Exchange and the NYSE and one of the main telecommunications operators in Brazil.

Following the merger of TII into TI Finance, the Company's activities can be segmented into two business: holding of participations and financial assistance to Telecom Italia Group ("TIM Group") companies.

a) Participations

The table here below shows the main shareholdings as at December 31, 2016:



The main operations during year 2016 are the following:

- Tim Brasil distributed a dividend worth EUR 80,7 million, of which EUR 77,2 million have an impact on 2016 profit and loss statement.

- On March 8, 2016, following the approval by the Enacom, the Argentinian communications regulatory authority, the 18,50% shareholding in Sofora Telecommunications S.A. (the holding company for the TIM Group's controlling stake in Telecom Argentina) has been divested recording a gain of EUR 111,2 million net of withholding tax.
- The book value of Telecom Italia S.p.A ordinary shares in portfolio has been reduced for an amount of EUR 35,8 million.
- Tierra Argentea S.A., an Argentinian subsidiary, distributed dividends worth EUR 0,6 million and entered into voluntary liquidation process.
- Telecom Italia Finance Ireland Limited, an Irish subsidiary, entered into voluntary liquidation process.
- Purple Tulip B.V., a fully owned Dutch subsidiary, has been liquidated.

As of December 31, 2016, the overall net book value of the Company's equity investments is EUR 4.647 million (compared to EUR 1.500 million as of December 31, 2015).

b) Financial activity

The borrowing and lending activities as per December 31, 2016 generated a contribution of EUR -6,2 million, vis a vis EUR 38,6 million for the same period 2015.

The contribution of the financial activities decreased by EUR 44,8 million vis a vis the previous year due to reduced lending to TIM Group companies (lower margin for EUR 31,1 million) and to non-recurrent earnings on derivative contracts registered in 2015. Furthermore, the available liquidity has been invested in money market products with returns reflecting the very low levels of the short-term interest rates.

The net financial position as of December 31, 2016 is positive for EUR 3.087 million (EUR 1.670 million as of December 31, 2015).

As of December 31, 2016, the total outstanding nominal amount of notes issued by TI Finance amounts to EUR 1.015 million (EUR 2.315 million as of December 31, 2015). During the year 2016, the 6,125% mandatory convertible bond worth EUR 1.300 million matured and was repaid.

Share Capital

As of December 31, 2016, the authorized, issued and fully paid-up capital is worth EUR 1.818.691.978,50 (EUR 542.090.241,00 as of December 31, 2015), represented by no. 185.960.325 (no. 55.428.450 same date 2015) ordinary shares with a nominal value EUR 9,78 per share.

Risks

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

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

The above-described financial risks are managed through:

- the application of the following guidelines defined at TIM Group level:
 - for market risk: fully hedging the exchange risk and minimizing exposure to interest rates through appropriate diversification of the portfolio, including the use of derivative financial instruments;
 - for credit risk: liquidity management is based on prudential criteria and articulated in investment of temporary cash surplus (money market instruments) and investment of a permanent level of liquidity (bond portfolio management). In both situations, in order to manage the counterparty risk, the counterparties are selected according to their credit rating and the exposure is regulated both by names diversification and by tenor;

- for liquidity risk: an adequate level of financial flexibility is obtained by maintaining a treasury margin that allows the refinancing requirements to be covered for at least the next twelve months.
- the identification of the most suitable financial instruments, including derivatives, to reach prefixed objectives;
- the monitoring of the results achieved.

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

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

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

Events subsequent to December 31, 2016 - Evolution of the year 2017

During the year 2017 it is foreseen to continue the financial assistance to TIM Group Companies and the holding of participation activities.

The Board remarks that the current financial environment characterized by very low level of short-term interest rates will influence earnings of the Company especially the return on liquid assets.

No event after the closing has a material impact on the financials herein reported.

The Company does not perform research and development activities. The Company did not acquire and does not hold its own shares.

Financials as of December 31, 2016 herein reported comprise the balance sheet, the profit and loss account, the cash flow statement and the explanatory notes.

Allocation of the result

The Board reminds that out of the result of EUR 137.927.425,46 at least EUR 6.896.371,27 must be allocated to the legal reserve; the difference of EUR 131.031.054,19 remains at disposal of the shareholder.

For the Board of Directors
The Managing Director
Adriano Trapletti

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Annual Accounts

Balance Sheet – Assets

TELECOM ITALIA FINANCE S.A. BALANCE SHEET AS AT DECEMBER 31,2016			
ASSETS - [EUR]		31.DECEMBER.2016	31.DECEMBER.2015
A. Subscribed capital unpaid		0,00	0,00
I. Subscribed capital not called		0,00	0,00
II. Subscribed capital called but unpaid		0,00	0,00
B. Formation expenses	[n.3]	3.214.589,70	10.554.232,53
C. Fixed assets		5.822.722.456,29	4.362.352.125,36
I. Intangible assets		0,00	0,00
1. Costs of development		0,00	0,00
2. Concessions, patents, licenses, trade marks and similar rights and assets , if they were	[n.4]	41.378,02 0,00 0,00 0,00	0,00 0,00 0,00 0,00
a) acquired for valuable consideration and need not be shown under C.I.3.		41.378,02	0,00
b) created by the undertaking itself		0,00	0,00
3. Goodwill, to the extent that it was acquired for valuable consideration		0,00	0,00
4. Payments on account and intangible fixed assets under development		0,00	0,00
II. Tangible assets		0,00 0,00 108.778,14 0,00	0,00 0,00 152.324,82 0,00
1. Land and buildings		0,00	0,00
2. Plant and machinery		0,00	0,00
3. Other fixtures and fittings, tools and equipment	[n.5]	108.778,14	152.324,82
4. Payments on account and tangible assets in the course of construction		0,00	0,00
III. Financial assets		4.647.223.862,03 1.174.680.790,34 33.826,37 0,00 633.821,39 0,00	1.500.102.114,29 2.859.479.169,08 42.485,23 0,00 2.576.031,94 0,00
1. Shares in affiliated undertakings	[n.6]	4.647.223.862,03	1.500.102.114,29
2. Loans to affiliated undertakings	[n.7]	1.174.680.790,34	2.859.479.169,08
3. Participating interests	[n.6]	33.826,37	42.485,23
4. Loans to undertakings with which the undertaking is linked by virtue of participating interests		0,00	0,00
5. Investments held as fixed assets	[n.8]	633.821,39	2.576.031,94
6. Other loans		0,00	0,00
D. Current assets		3.907.375.237,42	3.906.394.736,01
I. Stocks		0,00 0,00 0,00 0,00	0,00 0,00 0,00 0,00
1. Raw materials and consumables		0,00	0,00
2. Work in progress		0,00	0,00
3. Finished good and goods for resale		0,00	0,00
4. Payments on account		0,00	0,00
II. Debtors		0,00 0,00 0,00	0,00 0,00 0,00
1. Trade debtors		0,00	0,00
a) becoming due and payable within one year		0,00	0,00
b) becoming due and payable after more than one year		0,00	0,00
2. Amounts owed by affiliated undertakings	[n.9]	1.099.916.619,87 17.075.797,22	1.277.662.814,02 23.350.685,59
a) becoming due and payable within one year		1.099.916.619,87	1.277.662.814,02
b) becoming due and payable after more than one year		17.075.797,22	23.350.685,59
3. Amounts owed by undertakings with which the undertaking is linked by virtue of participating interests		0,00 0,00 0,00	0,00 0,00 0,00
a) becoming due and payable within one year		0,00	0,00
b) becoming due and payable after more than one year		0,00	0,00
4. Other debtors	[n.10]	16.123.699,67 343.639.287,48	23.386.161,38 320.333.099,57
a) becoming due and payable within one year		16.123.699,67	23.386.161,38
b) becoming due and payable after more than one year		343.639.287,48	320.333.099,57
III. Investments		0,00 0,00	0,00 0,00
1. Shares in affiliated undertakings		0,00	0,00
2. Own shares		0,00	0,00
3. Other investments	[n.11]	1.117.313.023,11	1.177.764.698,87
IV. Cash at bank and in hand	[n.12]	1.313.306.810,07	1.083.897.276,58
E. Prepayments		946.952,58	531.042,38
TOTAL ASSETS		9.734.259.235,99	8.279.832.136,28

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

Balance Sheet – Liabilities

TELECOM ITALIA FINANCE S.A. BALANCE SHEET AS AT DECEMBER 31,2016			
LIABILITIES - [EUR]		31.DECEMBER.2016	31.DECEMBER.2015
A. Capital and reserves		6.441.851.343,06	1.881.783.248,23
I. Subscribed capital	[n.13]	1.818.691.978,50	542.090.241,00
II. Share premium account	[n.14]	3.147.555.262,50	0,00
III. Revaluation reserves		0,00	0,00
IV. Reserves	[n.15]		
1. Legal reserve		25.201.659,13	21.799.229,82
2. Reserve for own shares		0,00	0,00
3. Reserves provided for by the articles of association		0,00	0,00
4. Other reserves, including the fair value reserve			
a) other available reserves		468.947.819,09	470.964.149,72
b) other non available reserves		394.805.662,41	394.805.662,41
V. Profit or loss brought forward		448.721.535,97	384.075.379,07
VI. Profit or loss for the financial year		137.927.425,46	68.048.586,21
VII. Interim dividends		0,00	0,00
VIII. Capital investment subsidies		0,00	0,00
B. Provisions		3.384.195,66	3.320.395,39
1. Provisions for pensions and similar obligations		0,00	0,00
2. Provisions for taxation	[n.16]	1.883.011,35	1.798.277,58
3. Other provisions	[n.17]	1.501.184,31	1.522.117,81
C. Creditors		3.288.991.787,27	6.366.843.884,91
1. Debenture loans			
a) Convertible loans	[n.18]		
i) becoming due and payable within one year		0,00	1.310.225.068,31
ii) becoming due and payable after more than one year		0,00	0,00
b) Non convertible loans	[n.19]		
i) becoming due and payable within one year		73.770.024,91	73.756.620,86
ii) becoming due and payable after more than one year		1.015.765.709,02	1.015.816.505,78
2. Amounts owed to credit institutions	[n.20]		
a) becoming due and payable within one year		284.544.309,71	347.411.504,84
b) becoming due and payable after more than one year		162.074.554,29	152.590.218,97
3. Payments received on account of orders in so far as they are shown separately as deductions from stocks			
a) becoming due and payable within one year		0,00	0,00
b) becoming due and payable after more than one year		0,00	0,00
4. Trade creditors			
a) becoming due and payable within one year		299.216,54	543.958,70
b) becoming due and payable after more than one year		0,00	0,00
5. Bills of exchange payable			
a) becoming due and payable within one year		0,00	0,00
b) becoming due and payable after more than one year		0,00	0,00
6. Amounts owed to affiliated undertakings	[n.21]		
a) becoming due and payable within one year		1.386.205.716,96	1.821.871.398,44
b) becoming due and payable after more than one year		341.652.597,55	1.609.649.177,08
7. Amounts owed to undertakings with which the undertaking is linked by virtue of participating interests			
a) becoming due and payable within one year		0,00	0,00
b) becoming due and payable after more than one year		0,00	0,00
8. Other creditors			
a) Tax authorities		0,00	0,00
b) Social security autorithies		41.905,58	37.546,99
c) Other creditors	[n.22]		
i) becoming due and payable within one year		7.484.772,49	11.591.199,35
ii) becoming due and payable after more than one year		17.152.980,22	23.350.685,59
D. Deferred income		31.910,00	27.884.607,75
TOTAL LIABILITIES		9.734.259.235,99	8.279.832.136,28

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

Profit & Loss

TELECOM ITALIA FINANCE S.A. PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31,2016		
[EUR]	31.DECEMBER.2016	31.DECEMBER.2015
1. Net turnover	150.599,04	200.474,69
2. Variation in stocks of finished goods and in work in progress	0,00	0,00
3. Work performed by the undertaking for its own purposes and capitalised	0,00	0,00
4. Other operating income	81.010,38	9.391,96
5. Raw materials and consumables and other external expenses	4.113.994,67	1.180.080,80
a) Raw materials and consumables	15.747,00	15.032,09
b) Other external expenses	4.098.247,67	1.165.048,71
6. Staff costs	1.405.513,94	1.078.592,19
a) Wages and salaries	1.178.750,56	925.279,30
b) Social security costs	226.763,38	153.312,89
i) relating to pensions	57.044,72	50.789,92
ii) other social security costs	169.718,66	102.522,97
c) Other staff costs	0,00	0,00
7. Value adjustments	7.421.560,55	9.137.805,43
a) in respect of formation expenses and of tangible and intangible fixed assets	7.421.560,55	9.137.805,43
b) in respect of current assets	0,00	0,00
8. Other operating expenses	280.581,00	147.480,19
9. Income from participating interests	[n.23]	202.064.427,33
a) derived from affiliated undertakings	202.064.427,33	29.512.748,86
b) other income from participating interests	0,00	0,00
10. Income from other investments and loans forming part of the fixed assets	[n.24]	130.606.189,85
a) derived from affiliated undertakings	130.606.189,85	153.972.420,76
b) other income not included under a)	0,00	1.219.475,60
11. Other interest receivable and similar income	[n.25]	375.352.983,27
a) derived from affiliated undertakings	119.734.810,93	270.582.723,26
b) other interest and similar income	255.618.172,34	509.433.188,18
12. Share of profit or loss of undertakings accounted for under the equity method	0,00	0,00
13. Value adjustments in respect of financial assets and of investments held as current assets	[n.26]	44.528.963,45
14. Interest payable and similar expenses	[n.27]	498.220.394,92
a) concerning affiliated undertakings	99.194.133,98	156.953.993,08
b) other interest and similar expenses	399.026.260,94	722.359.901,89
15. Tax on profit or loss	[n.28]	13.914.192,82
16. Profit or loss after taxation	138.370.008,52	66.304.828,21
17. Other taxes not shown under items 1 to 16	[n.29]	442.583,06
18. Profit or loss for the financial year	137.927.425,46	68.048.586,21

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

Cash Flow Statement

TELECOM ITALIA FINANCE S.A. CASH FLOW STATEMENT AS AT DECEMBER 31, 2016		
[EUR]	31.DICEMBRE.2016	31.DICEMBRE.2015
Operating Activities		
Profit before tax	137.927.425,46	68.051.796,21
Adjustments for		
Amortization of formation expenses and on tangible and intangible fixed assets	7.421.560,55	9.137.949,27
Amortization and impairment of intangible assets	0,00	0,00
Value adjustments in respect of financial fixed assets	[n.26] 38.985.312,34	1.977.405,16
Value adjustments in respect of investments held as current assets	[n.26] 5.543.651,11	5.258.270,65
Capital gains/losses realised on disposal of non-current assets	[n.23] -124.857.622,17	0,00
Finance Income	-568.665.067,96	-963.879.762,35
Finance Expenses	497.788.940,77	878.882.435,57
Changes in trade and other receivables	5.511.969,26	-2.038.111,60
Changes in trade and other payables	-2.665.374,36	529.721,00
Income Taxes Paid	[n.28] 0,00	-4.012,50
Net cash flows from operating activities	-3.009.205,00	-2.084.308,59
Cash flows from Investing activities		
Changes in Property, plant and equipment	[n.5] -10.324,46	-146.263,58
Changes in Intangible assets	[n.4] -54.495,00	0,00
Changes in Participations, funds and other securities	131.691.577,14	-143.421.202,33
Investments and re-payments in Financial Receivables	1.859.341.200,79	1.215.042.962,92
Interest, commissions and other financial income received	358.520.053,90	630.946.228,48
Dividends received	81.778.717,07	0,00
Income received from participations and funds	111.260.816,05	1.219.475,60
Net cash flows from investing activities	2.542.527.545,49	1.703.641.201,09
Cash flows from Financing activities		
Net change in short-term Financial Payables	-79.030.487,88	-1.840.518.662,21
Proceeds from borrowings	27.166.530,83	0,00
Repayments of borrowings	-1.871.108.575,20	-146.929.180,14
Interest, commissions and other financial expenses paid	-376.210.055,31	-571.951.122,12
Dividends paid	0,00	0,00
Net cash flows from financing activities	-2.299.182.587,56	-2.559.398.964,47
Net Increase / Decrease in Cash and Cash Equivalents	240.335.752,93	-857.842.071,97
Net foreign exchange differences in C&CE	-10.837.301,27	53.859.954,27
Cash and cash equivalents at 01 January	1.083.362.168,37	1.887.344.286,07
Changes do to the merger with TII	444.630,92	
Cash and cash equivalents at 01 January - After Merger	1.083.806.799,29	
Cash and cash equivalents at the end of the period	[n.12] 1.313.305.250,95	1.083.362.168,37

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

Notes to the Annual Account

as at December 31, 2016, which have been authorized by the Board of Directors held on March 22, 2017

Note 1 – General information

Telecom Italia Finance (the “Company”, “TI Finance”) was incorporated on June 2, 2000 for an unlimited duration. The registered office is established at 12, Rue Eugène Ruppert L-2453 Luxembourg. The registered number is B 76.448.

The corporate object is to provide any financial assistance to Telecom Italia S.p.A. (the “Parent Company”) itself as well as to all companies in which the Parent Company has a direct or indirect interest. This is implemented by the provision of loans and the granting of guarantees or securities in any kind or form. The object of the Company is further to provide domiciliation and administration services to companies being part of the Telecom Italia Group and to exercise any activity in relation thereto as provided in the law of May 31, 1999 on the domiciliation of companies, as amended. The Company may acquire and hold interests in Luxembourg and/or in foreign undertakings. The Company may also use its funds to invest in real estate and in intellectual property rights in any kind or form. The Company may participate at the creation and development of any other companies and entities and provide financial assistance in any kind or form. The Company may borrow in any kind or form and issue bonds or notes. Generally, the Company may carry out any commercial, industrial or financial operation, relating directly or indirectly to its object.

The financial year begins on January 1st and ends on December 31st of each year.

Note 2 – Summary of significant accounting policies

Basis of preparation

The accounts in hand are prepared in accordance with the accounting principles and regulations generally accepted in the Grand Duchy of Luxembourg (“Luxembourg GAAP”) under the historical cost convention.

As allowed by the amended law of December 19, 2002, the Board of Directors of the Company has decided to include the cash flow statement based on the indirect method.

Euro (EUR) is the book accounting currency.

Use of estimates

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

Foreign currency translation

The Company follows the multi-currency accounting policy that consists in recording the assets and the liabilities in their original currencies, the same being converted into EUR at the balance sheet date.

The exchange differences arising from the transactions expressed in currencies other than EUR are hedged either by balanced deposits and loans or through derivative instruments, such as Cross Currency Interest Rate Swaps (“CCIRS”) or foreign exchange agreements, all hereby referred to as “currency swaps”.

Currency swaps combine two positions that are represented by the amounts that will be exchanged with the counterparty at the maturity of the contract. They are recorded as assets or liabilities to the net between the payable and the receivable amount. Generally, one is in EUR and the other in currencies other than EUR. This latter is converted into EUR at the balance sheet date.

The unrealized exchange differences that arise from all these conversions are reflected in the profit and loss account in the items “Other interest and similar expenses/Other interest and similar income”.

The realized income and charges in currencies other than EUR are recorded in their respective currencies and converted at the exchange rate prevailing on the respective transaction dates.

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

<i>Local currency against 1 EUR</i>	December 31, 2016	December 31, 2015
BRL (Brazilian real)	3,435420	4,25116
CHF (Swiss franc)	1,07390	1,08350
GBP (Pound sterling)	0,85618	0,73395
JPY (Japan Yen)	123,40000	131,07000
RON (Romanian Leu)	4,53900	4,52400
USD (U.S. dollar)	1,05410	1,08870

Formation expenses

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

Tangible fixed assets

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

Financial fixed assets

Equity investments and securities held as fixed assets in non-current assets are evaluated according to the historical cost method. The contingent write-downs are recorded in case of a permanent impairment loss of the investments estimated by the Board of Directors while comparing the net book value with the market value or with the net equity of the company. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

Debtors

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

Other investments

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

Cash at bank and in hand

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

Accrued interest

Accrued interest are shown with their principal amount.

Prepayments/Deferred income

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

Derivative instruments

The commitments related to derivative instruments are recorded off-balance sheet at their nominal value as of transaction date.

In case of negative Mark to Market value of non-hedging instruments at the financial statements closing date, a provision is recorded.

Creditors

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

Provisions

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

Provisions for taxation

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

Note 3 – Formation expenses

All the formation expenses consist of issuance expenses related to long-term debts.

EUR	Convertible loans	Non convertible loans	Total formation expenses
Balance as at 31.12.2015	7.139.107,63	3.415.124,90	10.554.232,53
Movements of the period			
Depreciation during the period	-7.139.107,63	-200.535,20	-7.339.642,83
Balance as at 31.12.2016	0,00	3.214.589,70	3.214.589,70

Note 4 – Concessions, patents, licenses, trade marks and similar right and assets

EUR	December 31, 2016	December 31, 2015
Acquisitions at the beginning of the period	0,00	0,00
Acquisitions during the period	54.495,00	0,00
Acquisition cost at the end of the period	54.495,00	0,00
Value adjustments at the beginning of the period	0,00	0,00
Value adjustments during the period	13.116,98	0,00
Value adjustments at the end of the period	13.116,98	0,00
	41.378,02	0,00

Note 5 – Other fixtures and fittings, tools and equipment

EUR	December 31, 2016	December 31, 2015
Acquisitions at the beginning of the period	368.798,97	224.319,97
Acquisitions during the period	10.324,46	146.263,58
Acquisition due to the merger with TII	37.362,58	0,00
Disposal or reductions during the period	-3.829,50	-1.784,58
Acquisition cost at the end of the period	412.656,51	368.798,97
Value adjustments at the beginning of the period	216.474,15	200.174,16
Value adjustments during the period	53.871,14	17.940,73
Acquisition due to the merger with TII	37.362,58	0,00
Disposal or reduction during the period	-3.829,50	-1.640,74
Value adjustments at the end of the period	303.878,37	216.474,15
	108.778,14	152.324,82

Note 6 – Shares in affiliated undertakings and Participating interests

		Ownership (%)	Number of shares	Net Book value at the beginning of the period	at the beginning of the period	Gross book value changes due to the merger with TII	other changes during the period	at the end of the period	at the beginning of the period	Value Adjustments changes due to the merger with TII	other changes during the period	at the end of the period	Net Book value at the end of the period	Fair Value at the end of the period
1. Shares in affiliated undertakings														
Telecom Italia S.p.A.	[1]	Via Negri 1, Milan (Italy)	0,59	126.082.374	140.057.604,06	518.876.962,83	.	518.876.962,83	378.819.358,77	.	35.831.449,79	414.650.808,56	104.226.154,27	105.984.843,58
Telecom Italia Finance Ireland Ltd (in liquidation)	[2]	3 Harbours master place, International financial Services Centre, Dublin 1 (Ireland)	100,00	1.360.000.000	1.360.000.000,00	1.360.000.000,00	.	1.360.000.000,00	.	.	.	.	1.360.000.000,00	.
Italtel Group S.p.A.	[2][3]	Via Reiss Romoli, Località Castelletto Settimo Milanese (Italy)	34,68	6.160.999	.	145.993.930,23	.	145.993.930,23	145.993.930,23	.	145.993.930,23	.	.	.
Movenda S.p.A.	[2]	Via Pian Di Sco 82, Rome (Italy)	25,00	33.333	44.510,23	44.510,23	.	44.510,23	.	44.510,23	.	44.510,23	44.510,23	.
TIM Brasil Serviços e Participações S.A.	[2][4]	Avenida das Américas 3434, Rio de Janeiro (Brazil)	99,99	15.865.086,849	.	6.203.645.986,87	.	6.203.645.986,87	.	3.020.648.279,11	.	3.020.648.279,11	3.182.997.707,76	3.182.997.707,76
Tierra Argentea S.A. (in liquidation)	[5]	Avenida Alicia Moreau de Justo 50, Buenos Aires (Argentina)	69,37	8.225.043	.	41.412.600,46	-483.484,56	40.929.115,90	.	39.950.678,60	978.437,30	40.929.115,90	.	.
Sofora Telecommunications S.A.	[6]	Avenida Alicia Moreau de Justo 50, Buenos Aires (Argentina)	18,50	81.344.870	.	79.641.179,18	-79.641.179,18	.	.	.	.	.	.	.
Purple Tulip BV (liquidated on July 25, 2016)		Strawinskylaan 1627, Amsterdam (The Netherlands)	100,00	18.000	.	38.000,00	-38.000,00	.	.	20.000,00	-20.000,00	.	.	.
Total				1.500.102.114,29	2.024.915.403,29	6.324.737.766,51	-80.162.663,74	8.269.490.506,06	524.813.289,00	3.060.618.957,71	36.834.397,32	3.622.266.644,03	4.647.223.862,03	
3. Participating interests														
Venture Investors Property Recovery LLC (ex Consolidated IP Holdings Inc.)	c/o Sherwood Partners 101 University Avenue, Suite 100 Palo Alto (California - United States)	0,50	99.164	0,01	0,01	.	.	0,01	.	.	.	.	0,01	.
Infomaster S.p.A.	Via V maggio 81 Genova (Italy)	2,93	19.412	42.485,21	413.304,84	.	.	413.304,84	370.819,63	.	8.658,86	379.478,49	33.826,35	.
Docunet Inc.	400 Oyster Pt Blvd Ste 111 South San Francisco (California - United States)	0,18	124.528	0,01	0,01	.	.	0,01	.	.	.	.	0,01	.
TT-2 (in liquidation)	Avenida Afrônio de Melo Franco 135, Rio de Janeiro (Brazil)	2,86	200.000	.	.	171.392,79	.	171.392,79	.	.	171.392,79	171.392,79	.	.
Total				42.485,23	413.304,86	171.392,79	.	584.697,65	370.819,63	.	180.051,65	550.871,28	33.826,37	

[1] The Net Book value of Telecom Italia S.p.A. corresponds to the VWAP (Volume Weighted Average Price). This method takes in consideration prices and volumes exchanged during the last twelve months.

[2] The amount of capital and reserves, as well as the result for the latest financial year available of the entities held for more than 20% are not disclosed as considered as having negligible importance for the purposes of art. 26 paragraph 3 of the law December 19, 2002 except for the following:

– TIM Brasil Serviços e Participações S.A. - Capital : 7.169 ; Reserves : 6.092 ; Result of the year : 99 in millions of BRL as of December 31, 2016.

[3] The held percentage of Ordinary Share Capital is 19,373% (No. 1.720.634 Ordinary shares). 34,68% is the fully diluted percentage taking into account the No. 4.440.365 Preferred shares having limited voting rights. All the shares of Italtel Group S.p.A. are pledged in favour of a group of banks in order to guarantee the performance of Italtel S.p.A. (100% controlled by Italtel Group) under certain financing agreements.

[4] The fair value is determined through DCF ("Discounted Cash Flow") method following an integrated approach that takes in consideration both market parameters/indexes and future operating and financial estimates pertaining to the Company.

[5] On November 4, 2016 Tierra Argentea reimbursed part of the share capital.

[6] On March 8, 2016 TII sold the 18,50% of the share capital of Sofora Telecommunications S.A.

Note 7 – Loans to affiliated undertakings

This item is composed by EUR 1.174.680.790,34 being the total amount of medium-long term loans granted to the Parent Company and other TIM Group companies (2015 – EUR 2.859.479.169,08). The detail by final payment date is as follows:

EUR	December 31, 2016	December 31, 2015
Nominal value: EUR 1.000.000.000,00		
Expiring July 29, 2033		
Fixed rate: 8,0000%	1.000.000.000,00	1.000.000.000,00
Nominal value: JPY 20.000.000.000		
Expiring October 29, 2029 [^]		
Floater rate: JPYLibor 6m + 0,9463%	162.074.554,29	152.590.218,97
Nominal value: EUR 950.000.000,00		
Expiring August 01, 2017 [**]		
Floater rate: Euribor 6m + 1,7000%	Classified in short term portion	1.700.000.000,00
Total to Parent Company	1.162.074.554,29	2.852.590.218,97
Telecom Italia Latam Participações e Gestão Administrativa Ltda		
Nominal value: BRL 18.337.533,70		
Expiring October 30, 2018		
Fixed rate: 16,8700%	5.337.785,10	0,00
Accrued interest	153.376,49	0,00
TI Sparkle Turkey Telekomünikasyon Anonim Şirketi		
Nominal value: USD 7.500.000,00		
Expiring July 30, 2018 [^] [***]		
Fixed rate: 4,31222%	7.115.074,46	6.888.950,11
Total to TIM Group companies	12.606.236,05	6.888.950,11
	1.174.680.790,34	2.859.479.169,08

[^] Differences between December 31, 2016 and December 31, 2015 are due to exchange rate impact.

[**] During the year a total amount of EUR 750.000.000,00 has been reimbursed in advance.

[***] The company name has changed from Mediterranean Nautilus Telekomünikasyon Hizmetleri TAS to TI Sparkle Turkey Telekomünikasyon Anonim Şirketi during the year.

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

Note 8 – Investments held as fixed assets

The amount of EUR 633.821,39 (EUR 2.576.031,94 as of December 31, 2015) is related to the investment in the fund Clessidra Capital Partners. The movements occurred during 2016 are entirely attributable to value adjustments.

Moreover, the Company holds financial participation instruments (“FPI”) that have been converted on March 2013 from a loan granted to Italtel S.p.A. on the basis of a financial restructuring agreement under the Italian bankruptcy law. The FPI have been originally booked for EUR 4.500.000,00 and entirely adjusted to zero at the end of the year 2013.

To the best of its knowledge, the board of Director is of the opinion that the net book value of the investments is fully recoverable and no further impairments need to be recorded.

Note 9 – Amounts owed by affiliated undertakings

- a) becoming due and payable within one year

EUR	December 31, 2016	December 31, 2015
Loans - Principal and accrued interest and commissions		
Olivetti S.p.A.	73.541.117,73	88.570.188,56
Telecom Italia Capital S.A.	62.500,00	0,00
Telecom Italia Latam Participações e Gestão Administrativa Ltda	152,49	3.994.517,93
Telecom Italia S.p.A.	994.409.695,85	1.145.131.574,07
TI Sparkle Greece S.A. [^]	14.970.002,21	14.969.493,31
TI Sparkle Ireland Telecommunications Ltd [^]	0,00	5.860.862,89

TI Sparkle Singapore P.T.E.	5.881.505,93	5.593.546,13
TI Sparkle Slovakia S.r.o.	352.235,06	403.121,68
TI Sparkle Turkey Telekomünikasyon Anonim Şirketi [†]	6.439,60	4.496,67
Dividend receivables		
Tierra Argentea S.A.	81.192,11	0,00
TIM Brasil Serviços e Partecipações S.A.	1.153.155,65	0,00
Derivatives		
Accruals on derivatives with Parent Company	6.376.598,32	6.237.077,66
Accruals on derivatives with TIM Group companies	3.082.024,92	6.877.071,04
Currency swaps with TIM Group companies	0,00	20.864,08
	1.099.916.619,87	1.277.662.814,02

[†] The companies have changed name during 2016. In particular, Mediterranean Nautilus Greece S.A. became TI Sparkle Greece S.A., Latin American Nautilus Ltd became TI Sparkle Ireland Telecommunications Ltd and Mediterranean Nautilus Telekomünikasyon Hizmetleri TAS became TI Sparkle Turkey Telekomünikasyon Anonim Şirketi.

b) becoming due and payable after more than one year

EUR	December 31, 2016	December 31, 2015
Currency swaps with Parent Company	17.075.797,22	23.350.685,59
	17.075.797,22	23.350.685,59

Note 10 – Other debtors

a) becoming due and payable within one year

EUR	December 31, 2016	December 31, 2015
Accruals on derivatives	13.421.341,09	17.367.247,83
Currency swaps	2.701.021,22	1.670.438,60
Tax receivables [†]	18,16	4.348.474,95
Other receivables	1.319,20	0,00
	16.123.699,67	23.386.161,38

[†] On November 2015, the Italian tax administration recognized the recovery of withholding tax unduly paid in 2007 and 2008 on dividends distributed by Telecom Italia S.p.A. and consequently TI Finance booked a credit for the corresponding amount (EUR 3.685.268,00) plus legal overdue interest.

On November 2016, the Italian tax administration proceeded to the reimbursement of the credit along with the interest incurred.

b) becoming due and payable after more than one year

EUR	December 31, 2016	December 31, 2015
Receivables from Lehman Brothers Special Financing Inc. in liquidation ("LBSF")	1.986.689,93	2.664.008,74
Currency swaps	341.652.597,55	317.649.177,08
Other receivables	0,00	19.913,75
	343.639.287,48	320.333.099,57

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

As of December 31, 2016 the following amounts have been distributed to TI Finance and the receivable has been reduced consequently:

On October 01, 2012	USD	9.902.109,46
On April 04, 2013	USD	904.595,34
On April 05, 2013	USD	1.029.741,89
On October 03, 2013	USD	2.359.453,91
On April 03, 2014	USD	2.442.185,91
On October 02, 2014	USD	1.642.017,14
On April 02, 2015	USD	1.114.712,60
On October 01, 2015	USD	838.577,06
On March 31, 2016	USD	173.026,77

On June 16, 2016	USD	799.565,99
On October 06, 2016	USD	551.778,41
	USD	21.757.764,48

In accordance with market evaluations, the receivable is registered at its recoverable value of 5,87% (USD 2.094.169,85) of the principal value before distributions. The credit in hands is supported by the guarantee from Lehman Brothers Holding Inc. in liquidation.

Note 11 – Other investments

This item refers to the accrued value of the securities in portfolio and can be detailed as follows:

EUR	December 31, 2016	December 31, 2015
Notes from other issuers	1.117.313.023,11	759.163.823,98
Commercial papers	0,00	68.822.559,35
SICAV	0,00	349.778.315,54
	1.117.313.023,11	1.177.764.698,87

Note 12 – Cash at bank and in hand

EUR	December 31, 2016	December 31, 2015
Cash in hand	178,72	110,62
Bank current accounts	811.963.365,21	609.373.451,17
Bank term deposit accounts	500.948.676,60	473.960.025,72
Other Liquid Assets	393.030,42	28.580,86
Cash and cash equivalent as shown in Cash Flow Statement	1.313.305.250,95	1.083.362.168,37
Accruals	1.559,12	535.108,21
	1.313.306.810,07	1.083.897.276,58

Note 13 – Subscribed capital

As of December 31, 2016, the authorized, issued and fully paid capital of 1.818.691.978,50 EUR is represented by 185.960.325 ordinary shares with a nominal value EUR 9,78 per share.

The extraordinary shareholders meeting held on July 28, 2016 that approved the merger with TII decided to increase the share capital of the Company by EUR 1.276.601.737,50 (from EUR 542.090.241,00 in 2015) through the creation and issue of 130.531.875 shares with a nominal value of EUR 9,78 each.

As of December 31, 2016 and December 31, 2015 the Company is 100% held by Telecom Italia S.p.A.

Note 14 – Share premium account

The issue of new shares decided by the extraordinary shareholders meeting held on July 28, 2016 and described in Note 13 has been made together with a share premium of EUR 3.147.555.262,50, in exchange for all the assets and liabilities of the absorbed company, as they appear in the year-end accounts.

Note 15 – Reserves

Reserves are split as follows:

EUR	December 31, 2016	December 31, 2015
Legal reserve	25.201.659,13	21.799.229,82
Other reserves:		
Reserves unavailable for distribution	394.805.662,41	394.805.662,41
Other distributable reserves	468.947.819,09	470.964.149,72
Total other reserves	863.753.481,50	865.769.812,13

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

shareholders meeting of April 4, 2008	EUR	1.584.401,26
shareholders meeting of April 28, 2010	EUR	3.228.314,61
shareholders meeting of April 11, 2011	EUR	6.351.000,00
shareholders meeting of April 4, 2012	EUR	3.495.988,92
shareholders meeting of April 3, 2013	EUR	1.053.103,05
shareholders meeting of April 2, 2014	EUR	913.935,61
shareholders meeting of April 1, 2015	EUR	5.172.486,37
shareholders meeting of April 6, 2016	EUR	3.402.429,31
	EUR	25.201.659,13

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

EUR	Legal Reserve	Other reserves	Profit or Loss brought forward	Profit or Loss for the financial year
Balance as at 31.12.2015	21.799.229,82	865.769.812,13	384.075.379,07	68.048.586,21
<u>Movements for the year:</u>				
Allocation of prior year's profit	3.402.429,31	0,00	64.646.156,90	-68.048.586,21
Profit for the year	0,00	0,00	0,00	137.927.425,46
Other ⁽¹⁾	0,00	-2.016.330,63	0,00	0,00
Balance as at 31.12.2016	25.201.659,13	863.753.481,50	448.721.535,97	137.927.425,46

⁽¹⁾In order to harmonize Dutch GAAP with Luxembourg GAAP, some adjustments have been done to TII figures before merging the balances into TI Finance accounts. These adjustments have been booked vs. Other Reserves.

Note 16 – Provisions for taxation

EUR	December 31, 2016	December 31, 2015
Provisions for Net Wealth Tax	1.649.618,25	1.613.450,00
Provisions for Value Added Tax	43.573,87	30.652,26
Provisions for Chamber of Commerce subscription	162.402,03	128.041,85
Other provisions for taxes	27.417,20	26.133,47
	1.883.011,35	1.798.277,58

Note 17 – Other provisions

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

EUR	December 31, 2016	December 31, 2015
Provisions for future expenses	1.501.184,31	1.522.117,81
	1.501.184,31	1.522.117,81

Note 18 – Convertible loans

On November 15, 2013 TI Finance issued a bond mandatorily exchangeable in Telecom Italia S.p.A. ordinary shares ("TI Shares") for a nominal amount of EUR 1,3 billion. The minimum conversion price had been fixed at EUR 0,6801 (equal to VWAP of the TI Shares between the open and close of Borsa Italiana on Friday 8 November 2013), the maximum conversion price at EUR 0,8331 (equal to 122,5% of the minimum conversion price).

On September 22, 2016 a reimbursement of EUR 300.000,00 has been paid in advance upon request of bondholders.

On November 15, 2016 the bond expired and TI Finance provided, along with the accrued interest, to the fully reimbursement to the bondholders of the outstanding amount.

- a) becoming due and payable within one year

EUR	December 31, 2016	December 31, 2015
Nominal value: EUR: 1.300.000.000,00		
Expiring November 15, 2016		
Fixed rate: 6,1250%	0,00	1.300.000.000,00
Accrued interest	0,00	10.255.068,31
	0,00	1.310.255.068,31

Note 19 – Non convertible loans

- i) becoming due and payable within one year

EUR	December 31, 2016	December 31, 2015
Issue premiums on notes - Current portion	285.581,80	286.364,22
Issue discounts on notes - Current portion	-234.785,04	-235.428,29
Accrued interest on notes	73.719.228,15	73.705.684,93
	73.770.024,91	73.756.620,86

- ii) becoming due and payable after more than one year

EUR	December 31, 2016	December 31, 2015
Nominal value: EUR 800.000.000,00		
Expiring January 24, 2033		
Fixed rate: 7,7500%	765.000.000,00	765.000.000,00
Nominal value: EUR 250.000.000,00		
Expiring January 24, 2033		
Fixed rate: 7,7500%	250.000.000,00	250.000.000,00
Issue premiums on notes - Long term portion	4.304.852,28	4.590.434,08
Issue discounts on notes - Long term portion	-3.539.143,26	-3.773.928,30
	1.015.765.709,02	1.015.816.505,78

Note 20 – Amounts owed to credit institutions

- a) becoming due and payable within one year

EUR	December 31, 2016	December 31, 2015
Payables to banks	280.228.438,47	342.735.569,21
Accrued interest	4.315.871,24	4.675.935,63
	284.544.309,71	347.411.504,84

- b) becoming due and payable after more than one year

EUR	December 31, 2016	December 31, 2015
Nominal value: Jpy 20.000.000.000		
Expiring October 29, 2029 ^[1]		
Fixed rate: 6,7500%	162.074.554,29	152.590.218,97
	162.074.554,29	152.590.218,97

^[1] Differences between December 31, 2016 and December 31, 2015 are due to exchange rate impact.

Note 21 – Amounts owed to affiliated undertakings

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

a) becoming due and payable within one year

EUR	December 31, 2016	December 31, 2015
Borrowings - Principal and accrued interest		
Mediterranean Nautilus Israel Ltd	6.692.808,09	6.439.332,60
Telecom Italia Finance Ireland Ltd [^]	1.358.000.000,00	66.000.000,00
Telecom Italia S.p.A.	439.957,99	431.459,43
TI Deutschland Holding GmbH	0,00	16.482.925,47
TI International N.V. [**]	0,00	1.710.478.814,68
TI Sparkle Americas Inc. [***]	3.950.490,68	3.587.903,19
TI Telecom Italia Austria GmbH [***]	400.577,59	400.455,43
Others	945,12	989,19
Derivatives		
Accruals on derivatives with Parent Company	3.368.207,05	3.288.742,60
Accruals on derivatives with TIM Group companies	10.698.498,67	14.758.627,46
Currency swaps with Parent Company	2.654.231,77	0,00
Currency swaps with TIM Group companies	0,00	2.148,39
	1.386.205.716,96	1.821.871.398,44

[^] The amount represents a Promissory Note for EUR 66.000.000,00 and a short term payable of EUR 1.292.000.000,00 to Telecom Italia Ireland Ltd which corresponds to the unpaid portion of the share capital in this company.

[**] The amount vs. TII has been compensated with the correspondent receivable booked in TII accounts.

[***] The companies have changed name during 2016. In particular, TI Telecom Italia Austria Telekommunikationdienste GmbH became TI Telecom Italia Austria GmbH and Latin America Nautilus USA Inc. became TI Sparkle Americas Inc.

b) becoming due and payable after more than one year

EUR	December 31, 2016	December 31, 2015
Telecom Italia Finance Ireland Ltd	Classified in short term portion	1.292.000.000,00
Currency swaps with Parent Company	89.209.608,89	91.425.879,30
Currency swaps with TIM Group companies	252.442.988,66	226.223.297,78
	341.652.597,55	1.609.649.177,08

Note 22 – Other creditors

a) becoming due and payable within one year

EUR	December 31, 2016	December 31, 2015
Accruals on derivatives	7.478.053,32	11.132.602,48
Currency swaps	0,00	458.137,36
Others	6.719,17	459,51
	7.484.772,49	11.591.199,35

b) becoming due and payable after more than one year

EUR	December 31, 2016	December 31, 2015
Currency swaps	17.152.980,22	23.350.685,59
	17.152.980,22	23.350.685,59

Note 23 – Income from participating interests

- a) derived from affiliated undertakings

EUR	December 31, 2016	December 31, 2015
Reversal of adjustments on shares in Telecom Italia S.p.A.	0,00	29.512.748,86
Dividend received		
Tierra Argentea S.A.	647.490,57	0,00
TIM Brasil Serviços e Partecipações S.A.	76.559.314,59	0,00
Gain on participation disposal [1]	124.857.622,17	0,00
	202.064.427,33	29.512.748,86

[1] On March 8, 2016 TII sold the 18,50% of the share capital of Sofora Telecommunications S.A. (book value EUR 79.641.179,18) for a total consideration of EUR 204.498.801,05 (USD 225.828.026,00). The buyer paid the sale price net of withholding tax of EUR 13.596.806,12 (USD 15.014.953,00).

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

- a) derived from affiliated undertakings

EUR	December 31, 2016	December 31, 2015
Interest on long term loans to Parent Company	129.498.855,24	152.690.941,12
Interest on long term loans to TIM Group companies	1.107.334,61	1.281.479,64
	130.606.189,85	153.972.420,76

- b) other income not included under a)

EUR	December 31, 2016	December 31, 2015
Income from investment funds	0,00	1.219.475,60
	0,00	1.219.475,60

Note 25 – Other interest receivable and similar income

- a) derived from affiliated undertakings

EUR	December 31, 2016	December 31, 2015
Interest and commissions on receivables from Parent Company	1.833.014,39	6.097.522,38
Interest and commissions on receivables from TIM Group companies	2.956.258,60	5.835.082,26
Income on derivatives with Parent Company	46.043.326,31	149.925.878,00
Income on derivatives with TIM Group companies	41.209.919,32	77.137.719,70
MEB Option premium amortization [1]	27.692.292,31	31.586.520,92
	119.734.810,93	270.582.723,26

b) other interest and similar financial income

EUR	December 31, 2016	December 31, 2015
Interest on other securities	9.605.852,67	17.582.386,62
Interest on banks	1.871.832,38	4.670.392,65
Other interest, income and commissions	207.331,35	185.431,15
Accrued interest on tax receivables [**]	-106.291,68	663.206,95
Income on derivatives with banks	101.814.103,49	172.418.723,53
Gain on exchange rates	135.719.455,80	301.198.062,65
Reversal of value adjustments on securities	221.065,00	10.430,00
Reversal of value adjustments on receivables from Lehman Brothers	693.009,18	0,00
Gain on securities disposal	5.591.814,15	12.704.554,63
	255.618.172,34	509.433.188,18

[†] Please refer to Note 31 - Off balance sheet commitments.

[**] Please refer to Note 10 - Other debtors.

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

EUR	December 31, 2016	December 31, 2015
Adjustments on shares in undertakings:		
Infomaster S.p.A.	8.658,86	1.465,52
Movenda S.p.A	44.510,23	0,00
Purple Tulip N.V.	8.652,82	0,00
Telecom Italia Media S.p.A.	0,00	1.169.091,35
Telecom Italia S.p.A.	35.831.449,79	0,00
Tierra Argentea S.A.	978.437,30	0,00
TT-2 Telecommunicacoes Ltda	171.392,79	0,00
Adjustments on Clessidra Capital Partners fund	1.942.210,55	806.848,29
Value adjustments on receivables from Lehman Brothers	0,00	351.268,35
Value adjustments on notes from other issuers	5.543.651,11	5.036.486,89
Value adjustments on SICAV	0,00	221.783,76
	44.528.963,45	7.586.944,16

Note 27 – Interest payable and similar expenses

a) concerning affiliated undertakings

EUR	December 31, 2016	December 31, 2015
Guarantee fee due to Parent Company	431.454,15	431.459,40
Charges on derivatives with Parent Company	33.921.794,95	59.350.351,03
Charges on derivatives with TIM Group companies	64.771.984,75	90.136.084,78
Interest due to TIM Group companies	68.900,13	7.036.097,87
	99.194.133,98	156.953.993,08

b) other interest and similar expenses

EUR	December 31, 2016	December 31, 2015
Interest and charges to banks	20.609.385,97	22.301.664,11
Interest and charges on debentures	148.007.950,98	160.930.547,71
Interest on other loans and debts [†]	4.616.010,53	0,00
Charges on derivatives	84.530.469,88	223.349.489,60
Losses on exchange rates	136.417.116,25	300.503.716,04
Other financial charges and commissions	144.360,52	314.958,22
Losses on securities disposal	4.700.966,81	14.959.526,21
	399.026.260,94	722.359.901,89

[†] Interest paid on a bond issued by TI International N.V. to Fintech Telecom LLC as a collateral of performance related to the selling of Sofora. The bond has been fully repaid during the year 2016.

Note 28 – Tax on profit or loss

EUR	December 31, 2016	December 31, 2015
Withholding tax on interest received	265.884,10	177.587,36
Withholding tax on dividends and income received from equity investments ^[*]	13.648.308,72	0,00
Income tax	0,00	3.210,00
	13.914.192,82	180.797,36

^[*] Of which the amount of EUR 13.596.806,12 concerns the withholding tax paid on the gain of Sofora disposal. Please refer to Note 23

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

The amount of EUR 442.583,06 (EUR -1.743.758,00 – 2015) includes mainly payments and provisions for the Net Wealth Tax (EUR 436.740,00).

Note 30 – Warranties

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

Note 31 – Off balance sheet commitments

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

EUR	December 31, 2016	December 31, 2015
Foreign exchange agreements	8.480.628,20	22.972.137,53
Cross Currency Interest Rate Swaps (“CCIRS”) ^[*]	438.938.731,78	429.454.396,46
Options	2.386.634,84	0,00
	449.805.994,82	452.426.533,99

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

EUR	December 31, 2016	December 31, 2015
Foreign exchange agreements	110.210,02	1.191.852,72
Cross Currency Interest Rate Swaps (“CCIRS”) ^[*]	66.719.303,68	69.661.141,25
Options	237.864,52	0,00
	67.067.378,22	70.852.993,97

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

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

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

EUR	December 31, 2016	December 31, 2015
Cross Currency Interest Rate Swaps (“CCIRS”)	2.595.680.880,20	3.574.031.740,86
Foreign exchange agreements	0,00	1.918.160,44
Interest Rate Swaps (“IRS”)	1.289.605.112,34	1.360.962.695,04
Options	0,00	315.600.041,80
	3.885.285.992,54	5.252.512.638,14

On December 20, 2013 the Telecom Italia S.p.A. shareholders’ meeting approved to increase the share capital at the service of the mandatory exchangeable bond (“MEB”) issued by TI Finance. Following Telecom Italia S.p.A. resolution, the intercompany option embedded in the terms and conditions of the exchangeable has been valued EUR 91.903.795,13. Such premium represented for TI Finance deferred income to be amortized until the maturity of the bond on November 15, 2016. This amortization is reflected in the Profit and Loss in Note 25 a) line “MEB Option premium amortization”.

The Company has the commitment to subscribe up to EUR 25.000.000,00 in the investment fund Clessidra Capital Partner. As of December 31, 2016 payments of EUR 24.621.128,04 have been made.

TI Finance has the commitment to subscribe up to EUR 2.400.000,00 in the investment fund Golden Mouse. As of December 31, 2016 payments of EUR 2.399.814,83 have been made.

Furthermore, the Company pledged its Italtel Group S.p.A. shares and its Italtel S.p.A. financial participation instruments in favor of a pool of banks financing both companies.

Note 32 – Tax situation

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

Note 33 – Consolidation

The accounts of the Company are included in the consolidated accounts of Telecom Italia S.p.A., which are available at its registered office located in Milano, Via Negri 1 and on the website <http://www.telecomitalia.com>. Telecom Italia S.p.A. accounts are not consolidated in the accounts of any other company.

Starting from 2016 the Company produces a set of consolidated accounts according to IFRS as adopted by the European Union.

Note 34 – Directors remuneration

The Directors have not been remunerated in their capacity as Director during 2016.

Note 35 – Staff

As of December 31, 2016 the Company had on its payroll 10 employees (December 31, 2015 - 10). The average of employees during the fiscal period has been of 10 persons (December 31, 2015 – 9,83).

Note 36 – Litigation

The litigation in which the Company is involved as per December 31, 2016 are described here below. The Company has not recognised provisions in connection with the litigations.

- Brazil - Opportunity Arbitration**

In May 2012, Telecom Italia S.p.A. and Telecom Italia International N.V. were served with an arbitration brought by the Opportunity Group, claiming restoration of damages allegedly suffered as a consequence of the presumed breach of a certain settlement agreement signed in 2005. Based on claimant's allegations, such damages would be related to matters emerging in the context of the criminal proceedings pending before the Court of Milan regarding, among others, unlawful activities of former employees of Telecom Italia.

The investigatory phase has been completed and the hearing took place in November 2014, after which the parties filed their concluding arguments in preparation for the decision on the case.

In September 2015, the Board of Arbitration declared the proceedings closed. Subsequently, the Board of Arbitration allowed the parties to exchange short arguments and the ICC Court extended the term for the filing of the award.

On 6 September 2016, the Arbitral Tribunal notified the final award to the Parties, dismissing all claimants' claims and determining that each Party shall bear its own legal and experts costs, as well as half of the ICC administrative expenses and Tribunal fees and expenses.

- Brazil - CAM JVCO Arbitration**

In September 2015, JVCO Participações Ltda. filed an application for arbitration before the *Camara de Arbitragem do Mercado* (CAM), based in Rio de Janeiro, against Telecom Italia S.p.A., Telecom Italia International N.V., Tim

Brasil Serviços e Participações S.A. and Tim Participações S.A., claiming compensation for damages due to an alleged abuse of controlling power over Tim Participações.

In October, all the companies entered appearances and filed statements of defence and TIM Participações filed a counterclaim asking for JVCO condemnation for abuse of minority rights.

Subsequently, the Arbitral Tribunal was formed and in the month of May 2016 the preliminary hearing was held, wherein the Terms of Reference were signed. After the hearing, the Arbitral Tribunal issued a procedural order, accepting the request of the TIM Group about the preliminary examination of the question of standing to sue of JVCO and setting the provisional calendar of arbitration.

In June 2016, the parties exchanged their submissions and in their defences Telecom Italia S.p.A., Telecom Italia International N.V., Tim Brasil Serviços e Participações S.A. and Tim Participações S.A. contested the standing to sue of the counterparty, to be sued of Tim Participações and disputed the existence of the abuse of power.

In July, the parties filed their statements of defence.

On October 19, 2016 the Arbitral Tribunal issued a procedural order on the preliminary issues regarding the lack of standing to sue of the parties, founding the standing to sue of JVCO and to be sued of TIM Participações and fixing the calendar for the subsequent filings of the parties. On November 21, 2016 and on December 19, 2016 the parties filed their further replies.

On January 31, 2017, the Arbitral Tribunal issued a procedural order on procedural matter, summarizing the main controversial issues of the proceedings and setting forth the step of the evidentiary phase. The parties have then indicated the means of proof they intend to produce in the proceedings; subsequently, the Arbitral Tribunal fixed the dates for the hearings.

Note 37 – Auditor's fees

During the 2016 a total of EUR 54.104,27 (Net without taxes) has been paid to PricewaterhouseCoopers, Société cooperative for the audit activity (December 2015 – EUR 36.097,68). No other amount has been paid to the Auditor.

Note 38 – Adjustment on the comparison period

According to the Grand Duchy Law of 18 December 2015 modifying the first book of the Commercial Code and the amended versions of the G.D Law of the 10 August 1915 on commercial companies and G.D. Law of the December 19, 2002 the Company has drawn the Balance Sheet and the Profit and Loss as at December 31, 2016 under the new layout.

The changes implemented did not impact particularly the layout of the Balance Sheet of the Company. In the following page you can find the details concerning the reclassification made-up for the comparison period (December 31, 2015) of the Profit and Loss account.

TELECOM ITALIA FINANCE S.A. PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31, 2016 - OLD vs. NEW OUTLINE					
Old outline	New outline	Values December 2015 Old outline	Values December 2015 New outline	Delta	Notes
CHARGES					
1. Use of merchandise, raw materials and consumable materials	5. Raw materials and consumables and other external expenses	—	1.180.080,80		
2. Other external charges	a) Raw materials and consumables	15.032,09	15.032,09		
	b) Other external expenses	1.165.048,71	1.165.048,71		
3. Staff costs	6. Staff costs	1.078.592,19	1.078.592,19		
a) Salaries and wages	a) Wages and salaries	925.279,30	925.279,30		
b) Social security on salaries and wages		98.895,43	98.895,43		Value reclassified to b) Social security costs i) relating to pensions
c) Supplementary pension costs		50.789,92	50.789,92		Value reclassified to b) Social security costs ii) other social security costs
d) Other social costs		3.627,54	3.627,54		Value reclassified to b) Social security costs iii) other social security costs
	b) Social security costs	—	—		
	i) relating to pensions	—	50.789,92	-50.789,92	Value reclassified from c) Supplementary pension costs
	ii) other social security costs	—	102.522,97	-102.522,97	Value reclassified from b) Social security on salaries and wages and d) Other social costs
4. Value adjustments	7. Value adjustments	9.137.805,43	9.137.805,43		
a) on formation expenses and on tangible and intangible fixed assets	a) in respect of formation expenses and of tangible and intangible fixed assets	9.137.805,43	9.137.805,43		
5. Other operating charges	8. Other operating expenses	146.787,75	147.480,19	-692,44	Value reclassified from 11. Extraordinary charges
6. Value adjustments and fair value adjustments on financial fixed assets		1.977.405,16	—	1.977.405,16	Value reclassified to 13. Value adjustments in respect of financial assets and of investments held as current assets
7. Value adjustments and fair value adjustments on financial current assets. Loss on disposal of transferable securities	13. Value adjustments in respect of financial assets and of investments held as current assets	20.569.065,21	7.586.944,16	12.982.121,05	Value reclassified from 6. Value adjustments and fair value adjustments on financial fixed assets and to 14. Interest payable and similar expenses b) other interest and similar
8. Interest and other financial charges	14. Interest payable and similar expenses	864.354.368,76	879.313.894,97		
a) concerning affiliated undertakings	a) concerning affiliated undertakings	156.953.993,08	156.953.993,08		
b) other interest and similar financial charges	b) other interest and similar expenses	707.400.375,68	722.359.901,89	-14.959.526,21	Value reclassified from 7. Value adjustments and fair value adjustments on financial current assets. Loss on disposal of transferable securities
11. Extraordinary charges		692,44	—	692,44	Value reclassified to 8. Other operating expenses
11. Income tax	15. Tax on profit or loss	180.797,36	180.797,36		
	16. Profit or loss after taxation	—	34.552.650,06		
12. Other taxes not included in the previous caption	17. Other taxes not shown under items 1 to 16	-1.743.758,00	-1.743.758,00		
13. Profit for the financial year	18. Profit or loss for the financial year	68.048.586,21	68.048.586,21		
INCOME					
1. Net turnover	1. Net turnover	200.474,69	200.474,69		
5. Other operating income	4. Other operating income	900,00	9.391,96	-8.491,96	Value reclassified from 7. Extraordinary income
	9. Income from participating interests	—	29.512.748,86		
	a) derived from affiliated undertakings	—	29.512.748,86	-29.512.748,86	Value reclassified from 6. Income from financial fixed assets a) derived from affiliated undertakings
6. Income from financial fixed assets	10. Income from other investments and loans forming part of the fixed assets	184.704.645,22	155.191.896,36		
a) derived from affiliated undertakings	a) derived from affiliated undertakings	183.485.169,62	153.972.420,76	29.512.748,86	Value reclassified to 9. Income from participating interests a) derived from affiliated undertakings
b) other income from participating interests	b) other income not included under a)	1.219.475,60	1.219.475,60		
7. Income from financial current assets		12.714.984,63	—		
b) other income from financial current assets		12.714.984,63	—	12.714.984,63	Value reclassified to 11. Other interest receivable and similar income b) other interest and similar expenses
8. Other interest and other financial income	11. Other interest receivable and similar income	767.300.926,81	780.015.911,44		
a) derived from affiliated undertakings	a) derived from affiliated undertakings	270.582.723,26	270.582.723,26		
b) other interest and similar financial income	b) other interest and similar income	496.718.203,55	509.433.188,18	-12.714.984,63	Value reclassified from 7. Income from financial current assets
7. Extraordinary income		8.491,96	—	8.491,96	Value reclassified to 4. Other operating income

Declaration of the manager responsible for financial reporting

Pursuant to paragraph 3 of Luxembourg's Transparency Law, the undersigned Adriano Trapletti, Managing Director of the Company, to the best of his knowledge, hereby declares that the above financial statements prepared in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and that the management report includes a fair review of the development and performance of the business and the position of the issuer as at and for the period ended December 31, 2016, together with a description of the principal risks and uncertainties that the issuer faces.

Adriano Trapletti
Managing Director



Audit report

To the Shareholder of
Telecom Italia Finance S.A.

Report on the annual accounts

We have audited the accompanying annual accounts of Telecom Italia Finance S.A., which comprise the balance sheet as at 31 December 2016, the profit and loss account for the year then ended and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the annual accounts

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

Responsibility of the "Réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgment of the "Réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the "Réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors as well as evaluating the overall presentation of the annual accounts.

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



Opinion

In our opinion, the annual accounts give a true and fair view of the financial position of Telecom Italia Finance S.A. as of 31 December 2016, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Directors' report but does not include the annual accounts and our audit report thereon.

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

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

Report on other legal and regulatory requirements

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

PricewaterhouseCoopers, Société coopérative
Represented by

A blue ink signature of the name "Fabrice Goffin".

Luxembourg, 12 April 2017

Fabrice Goffin