TIM S.p.A.
Form 20-F
April 12, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended: December 31, 2016

OR

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

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

OR

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

Date of event requiring this shell company report

Commission file number 1-13882

TIM S.p.A.

(Exact name of Registrant as specified in its charter)

Italy

(Jurisdiction of incorporation or organization)

Via Gaetano Negri 1, 20123 Milan, Italy

(Address of principal executive offices)

Piergiorgio PELUSO

Head of Administration, Finance and Control

TIM S.p.A.

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

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

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

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

None

(Title of Class)

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

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock

as of the close of the period covered by the annual report.

Ordinary Shares 15,203,122,583

Savings Shares 6,027,791,699

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

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

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

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

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

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INTRODUCTION

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

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

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

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

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

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

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

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

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

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

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

· our ability to successfully implement our strategy in the future;

· a deterioration of the economic environment in the principal markets in which we operate, including, in particular, our core Italian market;

· the impact of regulatory decisions and changes in the regulatory environment in Italy, Brazil and other countries in which we operate;

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Introduction

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

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

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

KEY DEFINITIONS

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

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

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

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

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

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

- **Mobile accesses:** number of lines.

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

Item 2. Offer Statistics and Expected Timetable

PART I

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

Item 3. KEY INFORMATION

3.1 RISK FACTORS

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

We present below:

1) our main objectives as set out in our 2017-2019 three-year strategic plan (the **2017-2019 Plan** or the **Plan**); and

2) factors that may prevent us from achieving our objectives. For purposes of presenting our risk factors we have identified our risks based on the main risk categories, set out in the Committee of Sponsoring Organization of the Treadway Commission[1]:

- strategic risks;
- operational risks;
- financial risks; and
- compliance risks.

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

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

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

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

- in the Domestic Mobile segment, TIM will focus on speeding up the penetration of mobile ultrabroadband, strengthened by the extensive reach of its 4G network and the dissemination of quality content;

- in the Fixed Domestic segment, TIM plans to accelerate the spread and adoption of optic fiber;

- the implementation of efficiency recovery actions, aimed at increasing cash-flow generation; and

- the relaunch of the main subsidiaries of the Group.

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

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

- a deterioration of the economic environment in the principal markets in which we operate, including, in particular, our core Italian market;

- the impact of regulatory decisions and changes in the regulatory environment in Italy, Brazil and other countries in which we operate;

- the impact of political developments in Italy, Brazil and other countries in which we operate;

- our ability to successfully compete on both price and innovation capabilities with respect to new products and services;

- our ability to develop and introduce new technologies that are attractive in our principal markets, to manage innovation, to supply value added services and to increase the use of our fixed and mobile networks;

[1] CoSO Report-ERM Integrated Framework 2004.

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

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

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

STRATEGIC RISKS

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

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

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

Telecommunications operators have generally faced challenging market conditions in recent years, principally as a result of the decline in voice traffic and significant pricing pressures resulting from increased competition among the operators. With respect to the mobile market, by the end of 2017, Iliad SA will launch a new mobile operator in Italy, which, according to Iliad s statements, is aimed at capturing 10 to 15 percent of the Italian mobile-phone market by relying on the same budget tactics that Iliad uses in the French market. TIM expects to launch a new no frills operator, completely independent from TIM, with its own fully-dedicated systems as a way of competing with the new comer.

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

Risks associated with TIM s ownership chain

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

Competition Risks

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

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

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

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

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

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

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

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

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

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

· price and margin erosion for our traditional products and services;

· loss of market share in our core markets; and

· loss of existing or prospective customers and greater difficulty in retaining existing customers.

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

· obsolescence of existing technologies and more rapid deployment of new technologies;

· an increase in costs and payback period related to investments in new technologies that are necessary to retain customers and market share; and/or

· difficulties in reducing debt and funding strategic and technological investments if we cannot generate sufficient profits and cash flows.

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

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

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

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

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

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

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

· broadband/fiber coverage does not grow as we expect;

· competition grows to include players from adjacent markets or technological developments introducing new platforms for Internet access and/or Internet distribution;

Item 3. Key Information **Risk Factors**

- we are unable to provide broadband/fiber connections superior to those of our competitors; we experience any network interruptions or related problems with network infrastructure; and
- we are unable to obtain adequate returns from the investments related to our network development.

Any of the above factors may adversely affect the successful implementation of our strategy, our business and results of operations.

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

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

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

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

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

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

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

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

- allocation of public funds at a local level;

- fulfilment of technical and economic conditions related to the EuroSUD (a European funding telematic counter) tenders awarded to us; and

- the awarding of the tenders for the grant of public funds which unduly penalize TIM by setting wholesale prices considerably lower than the regulated prices for TIM s similar services set in its Reference Offer approved by AGCom.

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

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

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

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

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

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

(1) dedicated networks and access to a public network for final customers in connection with metropolitan networks, service routers and long-distance networks;

(2) assets used for the provision of access for final customers to services that fall within the obligations of universal service and broadband and ultrabroadband services;

(3) dedicated elements, even if not in exclusive use, for connectivity (phone, data, video), security, control and management concerning fixed telecommunication access networks.

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

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

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

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

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

OPERATIONAL RISKS

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

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

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

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

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

Our business depends on the upgrading of our existing networks.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FINANCIAL RISKS

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

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

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

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

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

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

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

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

Our non-current operating assets are located as follows:

- Italy: as of December 31, 2016 and December 31, 2015, respectively, 46,948 million euros (85.1 percent of total non-current operating assets) and 46,144 million euros (87.8 percent of total non-current operating assets); and

- Outside of Italy: as of December 31, 2016 and December 31, 2015, respectively, 8,197 million euros (14.9 percent of total non-current operating assets) and 6,390 million euros (12.2 percent of total non-current operating assets). Non-current operating assets outside of Italy are primarily denominated in Brazilian Real.

We generally hedge our foreign exchange exposure but do not cover conversion risk relating to our foreign subsidiaries. According to our policies, the hedging of the foreign exchange exposure related to the financial liabilities is mandatory. Movements in exchange rates of the euro relative to other currencies (particularly the Brazilian Real) may adversely affect our consolidated results. A rise in the value of the euro relative to other currencies in certain countries in which we operate or have made investments will reduce the relative value of the revenues or assets of our operations in those countries and, therefore, may adversely affect our operating results or financial position.

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

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

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

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

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

COMPLIANCE RISKS

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

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

Pursuant to the EU regulatory framework, the Italian regulator (Autorità per le Garanzie nelle Comunicazioni **AGCom**) is required to identify operators with Significant Market Power (**SMP**) in the releva markets subject to regulation. On the basis of market analyses proceedings (**Market Analyses**), AGCom imposes on TIM requirements necessary to address identified competition problems. Current requirements are mainly focused on the regulation of TIM s wholesale business, while the regulation of retail markets has been largely withdrawn, with the exception of price tests on retail access offers (for telephone, broadband and ultrabroadband services).

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

· lack of predictability concerning both the timing of the regulatory proceedings and their final outcome;

· possible AGCom decisions with retroactive effects (e.g., review of prices of past years following the decisions of Administrative Courts).

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

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

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

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

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

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

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

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

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

We operate under authorizations granted by government authorities.

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

Many of these authorizations are revocable for public interest reasons. In addition, our current authorizations to provide networks and services require that we satisfy certain obligations, including minimum specified quality levels, service and coverage conditions. Failure to comply with these obligations could result in the imposition of fines or even in the revocation or forfeiture of the authorization. In addition, the need to meet scheduled deadlines may require us to expend more resources than otherwise budgeted for a particular network build-out.

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

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

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

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

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

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

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

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

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

3.2 EXCHANGE RATES

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

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

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

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

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

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

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

(1) Average of the rates for each period.

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

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

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3.3 SELECTED FINANCIAL AND STATISTICAL INFORMATION

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

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

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

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

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Item 3. Key Information **Selected Financial And Statistical Information**

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

Employees (excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale) (average number)						
Employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale (average number)	2,581	2,581	15,465	15,652	15,815	15,806
Basic and Diluted earnings per Share (EPS)(4):						
Ordinary Share	**0.08**	**0.08**		**0.06**	**(0.03)**	**(0.08)**
Savings Share	**0.09**	**0.09**		**0.07**	**(0.03)**	**(0.08)**
Dividends:						
per Ordinary Share(5)						0.020
per Saving Share(5)	0.029	0.0275	0.0275	0.0275	0.0275	0.031

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Item 3. Key Information **Selected Financial And Statistical Information**

	2016 (millions of U.S. dollars, except employees)(1)	2016	2015 (Revised)	2014 (Revised)	2013 (Revised)	2012 (Revised)
		As of December 31, (millions of euros, except employees)				
Consolidated Statement of Financial Position Data:						
Total Assets	**74,335**	**70,446**	**71,268**	**71,596**	**70,264**	**77,621**
Equity:						
Equity attributable to owners of the Parent	22,378	21,207	17,554	18,068	16,985	19,269
Non-controlling interests	2,475	2,346	3,695	3,516	3,086	3,580
Total Equity	**24,853**	**23,553**	**21,249**	**21,584**	**20,071**	**22,849**
Total Liabilities	**49,481**	**46,893**	**50,019**	**50,012**	**50,193**	**54,772**
Total Equity and liabilities	**74,335**	**70,446**	**71,268**	**71,596**	**70,264**	**77,621**
Share capital(6)	**12,227**	**11,587**	**10,650**	**10,634**	**10,604**	**10,604**
Net financial debt(7)	**27,388**	**25,955**	**28,475**	**28,021**	**27,942**	**29,053**
Employees, number in the Group at year-end, including personnel with temporary work contracts:						
Employees (excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale) (number at year-end)	61,229	61,229	65,867	66,025	65,623	83,184
Employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale (number at year-end)	0	0	16,228	16,420	16,575	

	2016	2015	2014	2013	2012
	As of December 31, (thousands)				

Statistical Data:					
Domestic (Italy) Business Unit					
Physical accesses(8)	18,963	19,209	19,704	20,378	21,153
Of which physical accesses (retail)	*11,285*	*11,742*	*12,480*	*13,210*	*13,978*
Broadband accesses	9,206	8,890	8,750	8,740	8,967
Of which retail broadband accesses	*7,191*	*7,023*	*6,921*	*6,915*	*7,020*
Mobile lines	29,617	30,007	30,350	31,221	32,159
Brazil Business Unit					
Mobile lines(9)	63,418	66,234	75,721	73,431	70,376

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

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

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

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

- Earnings is calculated by adding:

  profit (loss) before tax from continuing operations;

  fixed charges (as defined below);

  amortization of capitalized interest and debt issue discounts or premiums;

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

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

  capitalized interest for the applicable period; and

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

- Fixed charges is calculated by adding:

  interest expenses (both expensed and capitalized);

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

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

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

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

Ordinary Shares was:

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

Savings Shares was:

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

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

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

(6) Share capital represents share capital issued net of the accounting par value of treasury shares; accounting par value is the ratio of total share capital and the number of issued shares.

(7) Net Financial Debt is a Non-GAAP Financial Measure as defined in Item 10(e) of Regulation S-K under the 1934 Act. For further details please see Item 5. Operating and Financial Review and Prospects 5.2 Results of Operations for the Three Years Ended December 31, 2016 5.2.3 Non-GAAP Financial Measures .

(8) Excludes full-infrastructured OLOs and FWA-Fixed Wireless Access.

(9) Starting from 2014, data also includes company lines (active SIM cards used by the TIM Brasil group and its employees). The comparative data for the prior years have been appropriately restated.

3.4 DIVIDENDS

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

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

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

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

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

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

According to the Italian Civil Code, before dividends may be paid with respect to any year, an amount equal to 5% of the profit of the Company for such year must be set aside to the legal reserve until the legal reserve, including amounts set aside during prior years, is at least equal to one-fifth of the par value of the Company s issued share capital. This legal reserve is not available for payment of dividends. Such restriction on the payment of dividends applies, on a non-consolidated basis, to each Italian subsidiary of the TIM Group. The Company may also pay dividends out of available retained earnings from prior years or other reserves.

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

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

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

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

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

Item 4. INFORMATION ON THE TIM GROUP

4.1 BUSINESS

4.1.1 BACKGROUND

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

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

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

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

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

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

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

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

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

4.1.2 DEVELOPMENT

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

For more details, please see 4.1.7 Updated Strategy .

4.1.3 BUSINESS

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

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

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

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

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

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

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

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

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

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

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

Domestic Business Area

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

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

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

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

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

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

Brazil Business Area

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

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

4.1.4 Disposals and Acquisitions of Significant Equity Investments in 2016

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

4.1.5 Recent Developments During 2017

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

4.1.6 OVERVIEW OF THE TIM GROUP S MAJOR BUSINESS AREAS

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

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

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

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

4.1.7 UPDATED STRATEGY

Strategic Priorities and Objectives for the 2017 2019 Plan

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

Domestic (Italian) market

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

- Excellent network infrastructure, the roll out of which will be further accelerated over the Plan period. By the end of 2019, TIM s business plan aims to reach over 99% of the population with the LTE mobile network (4G) and 95% of the population (household passed) with optic fiber. Moreover, on March 23, 2017 TIM s Board of Directors approved a project to create a company dedicated exclusively to the selective development of new fiber infrastructure in the areas included in the cluster classifications C and D (the rural or so-called white areas) based on EU regulations. The Project is in line with the 2017-2019 Strategic Plan and does not envisage an increase in the level of investment that the TIM Group has already planned. In fact, the project is expected to be carried out through the creation of a company in collaboration with a financial partner that will act as majority shareholder in such company. Through this partnership TIM will aim to achieve its targets to cover the country with ultrabroadband almost 2 years ahead of the schedule set out in the three year plan.

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

· A commercial approach focused on convergent offers and content, also thanks to the launch of national and international co-productions through TIMVision. Such commercial approach is expected to strengthen the business model, further exploiting best infrastructure and excellent customer services with an increased focus on the dissemination of premium digital services and content, including on an exclusive basis.

· In the Domestic Mobile segment, in a context characterized by data consumption that is expected to continue to grow, TIM will focus on speeding up the penetration of mobile ultrabroadband, strengthened by the extensive reach of its 4G network and the dissemination of quality content.

· In the Fixed Domestic segment, TIM plans to accelerate the spread and adoption of optic fiber. The commercial strategy is expected to play a key role, aimed at retaining current customers through, for example, the supply of technologically evolved home devices connected to the domestic network Internet of Things which can be paid for directly in the bill.

· The implementation of efficiency recovery actions, aimed at increasing cash-flow generation through three levers: cost optimization, streamlined organization and processes transformation.

· Relaunch of the main subsidiaries of the Group: synergies with INWIT will be targeted for maximization; Olivetti is expected to be able to leverage the value of its brand to offer products with a cutting-edge design and ICT services; Telecom Italia Sparkle is expected to continue its growth phase by identifying synergies with the Business department of TIM for the management of international customers and through other growth options.

Brazil

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

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

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4.1.8 The Organizational Structure

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

4.2 BUSINESS UNITS

4.2.1 Domestic

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

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

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

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

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

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

- **Core Domestic**: includes all telecommunications activities within the Italian market. The sales market segments established on the basis of the customer centric organizational model are as follows:

  - **Consumer**: the segment consists of all Fixed and Mobile voice and Internet services and products managed and developed for individuals and families and of public telephony; customer care, operating credit support, loyalty and retention activities, sales within its remit, and administrative management of customers; the segment includes the companies 4G and Persidera;

  - **Business**: the segment consists of voice, data, and Internet services and products, and ICT solutions managed and developed for small and medium-size enterprises (SMEs), Small Offices/Home Offices (SOHOs), Top customers, the Public Sector, Large Accounts, and Enterprises in the Fixed and Mobile telecommunications markets; following the merger of TIM Digital Solutions in Olivetti, the latter was incorporated into the Business segment as of January 1, 2016;

- **Wholesale**: the segment consists of the management and development of the portfolio of regulated and unregulated wholesale services for Fixed and Mobile telecommunications operators in the domestic market and Open Access operations connected with delivery and assurance processes for customer services;

- **Other INWIT S.p.A. and support structures**: includes:

  - **INWIT S.p.A.**: since April 2015 the company has been operating within the Operations area in the electronic communications infrastructure sector, specifically relating to infrastructure for housing radio transmission equipment for mobile telephone networks, both for TIM and other operators;

- **Other Operations units**: covering technological innovation and the processes of development, engineering, building and operating network infrastructures, real estate properties and plant engineering; development of the information technology strategy, guidelines and plan;

- **Staff & Other**: services carried out by Staff functions and other support activities performed by minor companies of the Group, also offered to the market and other Business Units.

- **International Wholesale Telecom Italia Sparkle group**: includes the activities of the Telecom Italia Sparkle group, which operates in the market for international voice, data and Internet services for fixed and mobile telecommunications operators, ISPs/ASPs (Wholesale market) and multinational companies through its own networks in the European, Mediterranean and South American markets.

v **MARKETING CHANNELS AND DISTRIBUTION**

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

Distribution

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

- ***Consumer***

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

- the Push channel consisting of an outbound telephone channel called Telesales with a network of 27 partners having a total of approximately 4,000 operators and the Agent channel with 100 Direct Agents and a network of 71 partners with approximately 1,400 sales agents;

- the Pull channel: consisting of the retail network of shops, dealers and large retailers, amounting to a total of approximately 5,000 retail points of sale (at December 31, 2016). Points of sale are geographically widespread and they are of different types: direct (flagship stores and 4G mall stores); franchisee; monobrand; multibrand; organized and specialized large-scale distribution.

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

- ***Business***

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

- ***Indirect Sales Channel***

The business distribution channels are comprised of:

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

- ***Direct Sales Channel***

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

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

- ***National Wholesale Services***

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

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

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

- caring and business process re-engineering.

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

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v CUSTOMER AND LINES

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

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

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

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

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

(4) DownStream and UpStream traffic volumes.

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

(6) The data refers to total lines. The churn rate represents the number of mobile customers who discontinued service during the period expressed as a percentage of the average number of customers.

(7) National traffic, excluding roaming.

(8) The values are calculated on the basis of revenues from services (including revenues from prepaid cards) as a percentage of the average number of lines.

v **MAIN CHANGES IN THE REGULATORY FRAMEWORK**

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

v **COMPETITION**

The market

The competitive market remains characterized by the opening of the TLC market to competition from non-traditional operators (in particular Over the Top companies (OTTs) and producers of electronic and consumer devices) and by the development of new over the network services (mainly in the IT and Media fields) by traditional telecommunications operators. As such, traditional telecommunications operators not only face core competition from other operators in the sector (including Mobile Virtual Operators), which remain the primary competitive force in the market, but must also deal with the emergence of OTTs and device producers, which operate in the digital world, using a difference set of assets and competitive strategies. OTTs have been leading the transformation of the methods of use of TLC services (including voice), increasingly integrating them with Media and IT.

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

- Media: with the web becoming increasingly more important as a complementary distribution platform, broadcasters are feeling greater competitive pressure from consumer electronics companies, telecommunications operators and OTTs;

- Information Technology: the decline in traditional revenues is driving various players towards cloud computing, with the goal of protecting their core business. Traditional telecommunications operators are strengthening in this sector, including through partnerships;

- Consumer Electronics: producers can develop services that can be used through the Internet, building on handset ownership and management of user experience, breaking the relationship between customers and TLC operators;

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

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

- development of new Digital Services, especially in the areas of Entertainment (e.g. TV, Music, Gaming), Smart Home, Digital Advertising, Mobile Payment-Digital Identity.

Competition in Fixed-Line Telecommunications

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

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

Group 4.3 Regulation Broadband and Digital Divide).

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

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

Competition in Mobile Telecommunications

In the mobile market, which is saturated and mature in the traditional voice services segment, the second and third Human SIM cards continued to follow a rationalization trend while the Not Human SIM cards continued to grow. Revenues from traditional services, such as voice and messaging, continued to decline as a result of competition among operators and the increasing spread of over the internet communication apps, such as WhatsApp. In 2016, however, the gradual improvement that had begun in the second half of 2014 consolidated. This, combined with the growth of mobile broadband, which has continued at a sustained rate, caused spending on services to be back to modest growth in 2016.

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

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

4.2.2 BRAZIL

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

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

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

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

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

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

(**) Net of visitors.

v **MARKETING**

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

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

v **DISTRIBUTION**

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

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

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

v MAIN CHANGES IN THE REGULATORY FRAMEWORK

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

v COMPETITION

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

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Agreement for the sale of telecommunications towers

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

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

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

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

4.2.3 COMPETITION

We face competition in all of our businesses.

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

4.3 REGULATION

4.3.1 THE EU REGULATORY FRAMEWORK

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

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

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

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

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

1. Broadband coverage at 30 Mbit/s or more for 100% of EU citizens; and

2. 50% of EU households having subscriptions above 100Mbps.

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

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

- connectivity of 100 Mbps download for all European households and businesses; and

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

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

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

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

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

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

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

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

v ***International Roaming***

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

at retail level:

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

at wholesale level:

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

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

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

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

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

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

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

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

- establishes the right of end-user access to distribute information and content, use and provide applications and services and use terminal equipment of their choice and forbids internet service providers from blocking or slowing down specific content, applications or services, except in a very limited set of circumstances;
- allows reasonable traffic management aimed at improving the quality of the network based on objectively different technical quality of service requirements for specific categories of traffic. However, such traffic management must be transparent, non-discriminatory and proportionate and it must not be based on commercial considerations;
- allows operators to offer services, other than internet access services, that are optimized for specific content, applications or services only if the network capacity is sufficient to provide them in addition to any internet access services provided and the offering of such services is not to the detriment of the availability or general quality of internet access services for end-users; and
- allows commercial practices such as zero rating[2] subject to monitoring by the National Regulatory Authority.

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

4.3.2 THE ITALIAN REGULATORY FRAMEWORK

v ***The legal Basis***

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

- the Electronic Communications Code (**ECC**), which transposed into national law the EU Access, Authorization, Framework and Universal Service directives;

- the Data Protection Code ;

- the Consolidated Law on Radio-Television containing the principles regulating the organization of radio-television system and its convergence with different means of interpersonal and mass communications;

- Law 36 of February 22, 2001 aimed at protecting the population from the effects of the exposure to electric, magnetic and electromagnetic fields and the decree of the President of the Council of Ministers (Decreto del Presidente del Consiglio dei Ministri; the **DPCM**) of July 8, 2003, which sets up Exposure limits, attention values and quality goals to protect the population against electric, magnetic and electromagnetic fields generated by frequencies between 100 KHz and 300 GHz ;

- the Consumer Code ;

- Law June 18, 2009, no. 69 providing measures to simplify the procedures for the installation and development of optical fiber networks (Article 1 Broadband);

[2] Zero-rating (also called toll-free data or sponsored data) is the practice of mobile network operators (MNO), mobile virtual network operators (MVNO), and Internet Service Providers (ISP) not to charge end customers for data used by specific applications or internet services through their network, in limited or metered data plans. It allows customers to use provider-selected content sources or data services like an app store, without worrying about bill shocks, which could otherwise occur if the same data was normally charged according to their data plans and volume caps. This has especially become an option to market 4G networks, but has also been used in the past for SMS or other content services.

- Decree Law July 6, 2011, no. 98, enacted by Law July 15, 2011, no. 111 further simplifying the procedure for the installation of small mobile equipment (0.5 sq. meters of radiator area) and low power equipment (7 watt);

- Decree Law October 18, 2012 no. 179 (enacted by Law December 17, 2012 no. 221) providing for further broadband networks funding to cancel the digital divide, measures to accelerate the roll-out of mobile fourth generation networks and administrative simplifications for optical fiber layout;

- implementation Decrees for Golden Power rules (Law no. 56/2012) redefining the State powers for the safeguard of national interest in the strategic sectors of energy, transports and telecommunications;

- Legislative Decree no. 21/2014 (implementation of Directive 2011/83/UE on consumers rights) defining the rules for distance contracts, with specific reference to the right of withdrawal and the acquisition of consumer s express consent to be bound to the contract. Furthermore the Decree attributes to the Antitrust Authority (Autorità Garante della Concorrenza e del Mercato; the **AGCM**) the evaluation of sanctions for unfair commercial practices;

- Law no. 183/2014 (Legislative decree of the Italian Jobs Act) and its implementing Decree no. 148/2015, setting forth measures to reform the labor market and safety nets in order to secure a generational turnover;

- Decree of December 2, 2014 of the Ministry of Environment, implementing the Decree Law no. 179/2012, setting forth certain guidelines in the area of electromagnetic emissions. Two further decrees on this matter are expected to be published;

- Law no. 115 of 2015 (European Law 2014), amending the contribution fees paid to AGCom by the Operators;

- Legislative Decree no. 33/2016 (implementing 2014/61/UE Directive), setting forth measures for costs reductions in UBB networks installations and promoting the use of existing infrastructures, enabling more efficient deployment of new infrastructures to reduce installation costs of UBB networks;

- Ministry Decree May 11, 2016 (Institution of SINFI Sistema informativo nazionale federato delle infrastrutture), implementing Legislative Decree no. 33/2016, through the establishment of a single infrastructures directory;

- Legislative Decree no. 179/2016 (Modifications to Digital Administration Code), which set users right to use the phone credit for electronic micro-payments towards PA;

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

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

v ***The Italian regulatory framework***

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

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

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

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

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

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

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

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

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

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

4.3.3 Market analyses

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

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

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

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

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

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

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

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

4.3.4 WHOLESALE MARKETS

v ***Wholesale fixed access markets***

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

The main regulatory measures are the following:

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

- introduction of new equivalence measures, according to the New Equivalence Model (NEM);

- stricter constraints on the quality of wholesale services (SLAs and penalties);

- commitment to define switch-off rules in case of decommissioning of TIM local exchanges of the copper access network:

  - 5 years for the switch-off of local exchanges where LLU is available;

  - 3 years for local exchanges where LLU is not available, or for local exchanges where LLU is available as long as TIM provides competitors with a service that is technically equivalent to copper LLU for at least 2 years after the switch-off.

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

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

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

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

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

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

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

Ø **Terminating segment of leased lines**

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

[3] New Generation Access.

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

Ø **Wholesale fixed interconnection markets**

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

AGCom established:

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

Ø **Wholesale mobile markets**

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

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

4.3.5 ACCOUNTING SEPARATION AND NETWORK COST ACCOUNTING

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

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

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

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

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

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

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

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

4.3.6 RETAIL FIXED MARKETS

v ***Retail Offers***

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

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

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

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

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

4.3.7 QUALITY OF SERVICES

v ***The measures to test the quality of the data service on fixed networks***

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

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

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

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

4.3.8 THE UNIVERSAL SERVICE

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

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

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

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

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

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

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

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

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

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

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

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

v ***Public Telephony***

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

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

4.3.9 CONTRIBUTION FEES FOR THE FUNCTIONING OF AGCOM

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

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

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

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

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

4.3.10 BROADBAND AND DIGITAL DIVIDE

v ***Government s plans for UBB networks***

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

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

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

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

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

Despite TIM was pre-qualified also for this second tender, the Company didn t submitted any bids in line with what it communicated to the Ministry of Economic Development and Infratel Italia. In fact, TIM updated its investment plan at the end of 2016, planning to roll-out ultrabroadband network coverage selectively to some white areas of the Regions included in the Infratel tender process. This choice was confirmed in the 2017-2019 Strategic Plan already presented by the company to the financial community too.

4.3.11 PRIVACY AND DATA PROTECTION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

v ***Regulation EU 2016/679***

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

The GDPR will:

- apply both to companies established in the EU and to companies not established in the EU but that offer their services in the EU or that monitor the behavior of individuals in the EU;