TELECOM ITALIA S P A
Form 20-F
April 15, 2014
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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

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended: December 31, 2013

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

Telecom Italia S.p.A.

(Exact name of Registrant as specified in its charter)

Italy

(Jurisdiction of incorporation or organization)

Piazza degli Affari 2, 20123 Milan, Italy

(Address of principal executive offices)

Piergiorgio PELUSO

Head of Administration, Finance and Control

Telecom Italia 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*
American Depositary Shares, each representing 10 Savings Shares (the **Savings Share ADSs**)	The New York Stock Exchange
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 13,417,043,525

Savings Shares 6,026,120,661

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act Yes x 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 x

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 x 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 x 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 x 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 x

* 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. 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 Telecom Italia S.p.A. the operating company for fixed and mobile telecommunications services in Italy and the holding company for various businesses, principally telecommunications, and 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, 2013 of the Telecom Italia 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 anticipates or similar expressions or the negative thereof or oth 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 over the 2014-2016 period;

- the continuing effects of the global economic crisis 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 and other countries in which we operate;

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

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- our ability to successfully meet competition on both price and innovation capabilities of new products and services;
- our ability to develop and introduce new technologies which 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 debt reduction and other targets;
- 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 Brazil;
- the amount and timing of any future impairment charges for our authorizations, goodwill or other assets;
- our ability to manage and reduce costs;
- 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. We undertake no obligation to release publicly the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof, including, without limitation, changes in our business or acquisition strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

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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 Telecom Italia.
Parent, Telecom Italia and Company	means Telecom Italia S.p.A.
Savings Shares	means the Savings Shares of Telecom Italia.
Telecom Italia 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 Telecom Italia 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. We present our customer base using this model because the integration of telecommunications services in bundled service packages has changed the way residential and corporate customers contract for our services. Because a single customer may contract for multiple services, we believe it is more accurate to count the number of accesses, or services a customer has contracted for, as opposed to only counting the number of our customers. For example, a customer that has fixed line telephony service and broadband service represents two accesses rather than a single customer. The following are the main categories of accesses:

- Fixed Telephony accesses: includes PSTN lines (public switched telephone network), ISDN lines (integrated services digital network) and circuits. For purposes of calculating our number of fixed line accesses, we multiply our lines to service as follows: PSTN (×1); basic ISDN (×2); primary ISDN (× between 20 and 30 as an average);

- Internet and data accesses: includes broadband accesses (wholesale ADSL and retail ADSL lines), narrowband accesses (internet service through the PSTN) and other accesses (unbundled local loops, circuits and other business data accesses including WiFi and fiber optic cable);

- IP TV (Internet Protocol TV);

- Mobile accesses: number of lines;

- Unbundled local loop: includes accesses to both ends of the copper local loop leased to other operators to provide voice and DSL services (fully unbundled loop, fully UL) or only DSL service (shared unbundled loop, shared UL);

- Wholesale ADSL: means wholesale asymmetrical digital subscriber line; and

- Other: includes other circuits for other operators.

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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 impair 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: 2014-2016 business and strategic plan (the 2014-2016 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 November 7, 2013, we presented our 2014 2016 Plan, which envisages:

· a strong focus on investments relating to innovative networks and services, in order to enable the evolution of the telecommunication business model;

· stabilization of revenues in the Domestic (Italy) business unit, as well as, maintaining revenue growth in Brazil;

- operating expenses efficiency both in Italy and in Brazil;

- certain extraordinary transactions intended to strengthen the Group s financial position, including issuing mandatory convertible bonds, the disposal of the stake in the Sofora-Telecom Argentina group (for further details, please see Note Discontinued operations/Non-current assets held for sale of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report), and other transactions to exploit the value of certain of its assets (transmission towers in Italy and in Brazil and Telecom Italia Media s broadcasting infrastructure); and

- continued deleveraging.

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

- the continuing effects of the global economic crisis 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 and other countries in which we operate;

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

- our ability to successfully meet competition on both price and innovation capabilities of new products and services;

- our ability to develop and introduce new technologies which 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;

[1] CoSO Report-ERM Integrated Framework 2004.

- our ability to successfully achieve our debt reduction and other targets;
- 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 Brazil;
- the amount and timing of any future impairment charges for our authorizations, goodwill or other assets;
- our ability to manage and reduce costs;
- 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.

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

The global economic crisis and the continuing weakness of the Italian economy over the past several years, together with slow global economic growth, has adversely affected our business and continuing global economic weakness in the Eurozone 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, particularly in Italy.

The economic recession that Italy has experienced in recent years has weighed, and may continue to weigh heavily, on the development prospects of our core Italian market.

Continuing uncertainty about global economic conditions poses a significant risk as consumers and businesses 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.

Our strategy includes certain extraordinary transactions intended to strengthen the Group s financial position. Such transactions include the disposal of our stake in the Sofora-Telecom Argentina group and other transactions to exploit the value of certain of our assets (transmission towers in Italy and in Brazil and Telecom Italia Media s broadcasting infrastructure). Our ability to complete these transactions may be adversely impacted by factors outside our control, including political and regulatory developments as well as general economic and market conditions. In particular, the disposal of the stake in the Sofora-Telecom Argentina group is conditional upon obtaining certain required regulatory approvals. We cannot provide assurance that the required governmental and regulatory approvals will be obtained within the expected timeframe and that completion of the disposal of the Sofora-Telecom Argentina group will be made on the agreed terms.

Risks associated with Telecom Italia s ownership chain.

Telco S.p.A. (**Telco**) a company whose capital with voting rights at December 31, 2013 was broken down as follows : Generali group (**Generali**) (30.58 per cent.), Intesa Sanpaolo S.p.A. (**Intesa Sanpaolo**) (11.62 per cent.), Mediobanca S.p.A. (**Mediobanca**) (11.62 per cent.), and Telefónica S.A. (**Telefónica**) (46.18 per cent.) is Telecom Italia s largest shareholder, holding an interest of approximately 22.38 per cent. of the voting rights.

The shareholders of Telco are part of a shareholders agreement that has been significant for Telecom Italia since April 28, 2007. On February 29, 2012 the shareholders of Telco cancelled, by mutual consent, the agreement signed in 2007, as subsequently amended, signing a new agreement at the same terms and conditions as the previous one, with a duration until February 28, 2015 (the **2012 Shareholders Agreement**). On September 24, 2013, Telefónica subscribed an increase in the share capital of Telco for approximately 324 million euros, against the issue of non-voting shares, bringing its share of the capital of Telco to 66%; on the same date, the parties amended the 2012 Shareholders Agreement (the **2012 Amended Shareholders Agreement**).

According to the 2012 Amended Shareholders Agreement and subject to all necessary antitrust and communications authorizations (including, where necessary, those of the authorities in Brazil and Argentina) Telefónica undertook to subscribe a further amount of non-voting shares, increasing its share of the capital of Telco from 66% to 70%, and from January 1, 2014 is entitled (i) to convert the non-voting shares subscribed with the aforementioned increases in capital into voting shares, until it achieves a maximum share of 64.9% of the total voting capital, and (ii) to purchase for cash all the shares of the other Telco shareholders, at certain terms and conditions.

The 2012 Amended Shareholders Agreement identifies, among other things, the criteria for the composition of the slate of candidates for appointment to the Board of Directors of Telecom Italia to be submitted to the Shareholders Meeting, according to the criteria indicated below:

- so long as it holds more than 30% but less than 50% of the voting shares in Telco, Telefónica will be entitled to designate 2 directors of Telecom Italia to be included in the slate; and, so long as the other shareholders hold over 50% of the voting capital of Telco, they shall have the right to designate the other candidates on the slate, of which three candidates would be appointed unanimously and the others on a proportional basis;

- after the conversion of Telefónica s non-voting shares into voting ones takes place, and so long as Telefónica holds more than 50% of the voting shares in Telco: (i) the other shareholders will be entitled to designate the first two members on the slate, unanimously, and half of the remaining candidates (net of the directors to be reserved to the minority shareholders) in proportion to their respective shareholdings in Telco; (ii) Telefónica will be entitled to designate all the remaining candidates (always net of the directors to be reserved to the minority shareholders) to be listed on the Telco slate. The parties have agreed, assuming that the Board of Directors of Telecom Italia is composed of no fewer than 13 directors, that Telefónica shall be entitled to designate at least four Directors. To this end, they will ensure that Telco votes against any proposal to reduce the number of directors of Telecom Italia to less than 13 that might be presented in the Shareholders Meeting.

Based on the foregoing, Telco may exert a significant influence on all matters to be decided by a vote of shareholders, including appointment of directors. In the shareholders meeting held on April 12, 2011, 12 out of 15 Board members were elected from a slate proposed by Telco, while the remaining three Directors were elected from a slate proposed by a group of asset management companies and international institutional investors. In principle, the interests of Telco in deciding shareholder matters could be different from the interests of Telecom Italia s other ordinary shareholders, and it is possible that certain decisions could be taken that may be influenced by the needs of Telco. For further information, please see   Item 6 Directors, Senior Management and Employees   6.1 Directors   .

Telco is a holding company and the sole operating company in which it has an interest is Telecom Italia. Therefore, should Telco be unable to obtain funding from its shareholders, present or future, or from other sources, its cash flows would be entirely dependent upon the dividends paid on the Telecom Italia shares for its funding needs.

In addition, Telefónica is the largest shareholder of Telco. Presently, Telefónica and its associated companies (the **Telefónica Group**) and the Telecom Italia Group are direct competitors outside of their respective domestic markets, including Brazil; nevertheless, the 2012 Amended Shareholders Agreement provides that the Telecom Italia Group and the Telefónica Group will be managed autonomously and independently. In particular, the Board members designated by Telefónica to serve in Telco and Telecom Italia shall be directed by Telefónica to neither participate nor vote in board meetings (and nor will Telefónica itself exercise its right to vote in the Telco shareholders meetings) that examine and propose resolutions regarding the policies, management and operations of companies directly or indirectly controlled by Telecom Italia and that provide their services in countries where legal or regulatory restrictions or limitations concerning the exercise of voting rights by Telefónica are in force. In addition, specific provisions and prohibitions take account of certain regulatory requirements of the respective regulators in Brazil and Argentina. The presence of Telefónica in Telco could, however, result in legal or regulatory proceedings or affect regulatory decisions in countries where Telecom Italia Group may wish to operate if the Telefónica Group is also an operator or competitor in such jurisdictions. For further information, please see Item 7 Major Shareholders and Related-Party Transactions 7.1 Major Shareholders 7.1.1 Shareholders Agreements and Item 10. Additional Information 10.1 Corporate Governance .

Competition Risks

Strong competition in Italy or other countries where we operate may 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, including, most significantly, the fixed-line and mobile voice telecommunications and broadband businesses. Competition has been intense since the liberalization of the Italian telecommunications market in 1998 and there is now entrenched competition from international and other telecommunication operators who have been present in the Italian market for some time and directly compete with our fixed-line and mobile telephony businesses and for broadband services.

Moreover, convergence has enabled lateral competition from IT, 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. We face competition from international competitors who have entered local markets to compete with existing operators as well as from local operators, each of which has increased the direct competition we face in our Italian domestic fixed-line, mobile telephony and broadband businesses.

In our core Italian market, the competitive landscape has resulted in continuous erosion of traditional service revenues in particular due to price competition. Price competition in our principal lines of business has led, and could lead, to:

- price and margin erosion for our traditional products and services;
- a 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 have taken a number of steps to realize additional efficiencies and to rebalance 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 or require us to make substantial additional investments.

Many of the services we offer are technology-intensive and the development or acceptance of new technologies may render such services non-competitive, replace such services or reduce prices for such services. Our markets are characterized by rapid and significant changes in technology, customer demand and behavior, and, as a result feature a constantly changing competitive environment. In addition, as the convergence of services accelerates, we make and will have to make substantial additional investments in new technologies to remain competitive. The new technologies we choose may prove to be commercially unsuccessful. Moreover, we may not receive the necessary authorizations to provide services based on new technologies in Italy or abroad, or may be negatively impacted by unfavorable regulation regarding the usage of these technologies. Furthermore, our most significant competitors in the future may be new entrants to our markets who do not have to maintain an installed base of older equipment.

As a result, if we are unable to effectively anticipate, react to or access technological changes in our telecommunications markets we could lose customers, fail to attract new customers or incur substantial costs in order to maintain our customer base or to maintain revenues from such customer base, all of which could have a material adverse effect on our business, financial condition and results of operations.

In addition to competitive pressures, as a result of the increasing substitution of data services in place of traditional voice and SMS communications, our traditional voice and SMS markets also have been decreasing and are expected to continue to decrease due to increasing competition from alternative modes of telecommunications.

We face increasing competition from non-traditional data services on new voice and messaging over the internet technologies, in particular over-the-top (OTT) applications, such as Skype, Google Talk, FaceTime and WhatsApp. These applications are often free of charge, other than for data usage, accessible via smartphones, tablets and computers and allow their users to have access to potentially unlimited messaging and voice services over the internet, bypassing more expensive traditional voice and messaging services such as short message service (SMS) which have historically been a source of significant revenues for fixed and mobile network operators such as us. With the growing share of smartphones, tablets and computers in Italy as well as our principal international market of Brazil, an increasing number of customers are using OTT applications services in substitution for traditional voice or 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 is likely to continue to have a negative impact on our revenues and profitability. As a result of these and other factors, we face a mobile market in which price pressure remains intense.

In the long term, if non-traditional mobile voice and data services or similar 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 further declines in 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.

The mobile communications markets have matured and competition has increased.

Although mobile communications markets have reached maturity levels in our domestic market in the voice services segment, the mobile broadband business continues to grow. However such change has had an adverse effect on revenues from our mobile services.

The evolution of the mobile telecommunications markets in which we operate will depend on a number of factors, many of which are outside our control. These factors include:

- the activities of our competitors;
- competitive pressures and regulations applicable to retail and wholesale prices;

- the development and introduction of new and alternative technologies for mobile telecommunications products and services and their attractiveness to our customers; and

- the success of new disruptive or substitute technologies.

In addition, as our core domestic Italian market has become increasingly saturated there is a growing focus on customer retention. Such focus could result in increased expenses to retain customer loyalty or, if we are unable to satisfactorily offer better value to our customers, our market share and revenues could decline Furthermore in the last two years we have experienced a significant deterioration in the Italian mobile market, with a strong increase in the level of competition and nearly unprecedented price pressure in comparison with prior periods; a continuation of such price pressure could have an adverse effect on our current and future revenues and results of operations.

If the mobile telecommunications markets in which we operate perform worse than expected, or if we are unable to retain our existing customers or stimulate increases in customer usage, our financial condition and results of operations may be harmed. In particular, our goodwill may be further impaired which could result in further significant write-offs.

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

The continuing development of Internet and broadband services is an important part of our strategic objectives and means to increase the use of our networks in Italy and abroad. Our strategy includes the development of broadband and value added services in order to offset the decline of traditional voice services. Our ability to successfully implement this strategy may be affected if:

- Internet usage in Italy continues to grow more slowly than anticipated, for reasons such as changes in Internet users preferences or lower than expected penetration rate growth for PCs, tablets, smartphones and other Internet connected devices;

- broadband penetration does not grow as we expect;

- competition increases, for reasons such as the entry of new competitors (telcos, OTT players or players from adjacent markets), consolidation in the industry or technological developments introducing new platforms for Internet access and/or Internet distribution or other operators can provide broadband connections superior to those that we can offer; and

- we experience any network interruptions or related problems with network infrastructure.

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 IT-TLC convergence by addressing the ICT market, offering network and infrastructure management, as well as application management.

Moreover as the use of cloud IT services matures and their adoption grows, we may take advantage of the new cloud opportunities especially in the Business customer segment providing a full range of services (from core Infrastructure to Software as a Service through partners ecosystem) integrated with a wide range of connectivity options and end-to-end SLAs. We expect to experience increasing competition in this market as additional competitors (mainly Telco operators through acquisition and partnership with IT operators) also enter this market.

There is no assurance that the services offered will be successful; as a result our revenues could be negatively affected.

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

We may be adversely affected by political developments in Italy and in the countries where we have made significant investments. Certain of these countries have political and legal systems that are less predictable than in Western Europe. Political or economic upheaval or changes in laws or in their application in the countries outside Italy where we have significant investments may harm the operations of the companies in which we have invested and impair the value of these investments.

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

In 2012, regulations relating to the special powers on share ownership in the sectors of defense and national security, and regarding activities of strategic importance in the energy, transport and communication sectors were published and became effective.

Prime Ministerial Decree 129 of October 2, 2013 extended the sphere of application of the special powers in the defense and national security sectors, to *the networks and systems used to supply access to the end users of services that fall within the obligations of universal service and broadband and ultrabroadband services* . As a result there is an obligation to provide the Prime Minister s Office with certain notices, including:

- Telecom Italia is required to provide a notice giving full information on resolutions to be taken regarding the merger or demerger of the company, transfer of the business or a branch of the business, or of subsidiaries, transfer of the registered offices abroad, change of company purpose, dissolution, amendment of clauses in the company bylaws introduced pursuant to the law on privatization, the transfer of property rights or rights to use tangible or intangible assets or the assumption of limitations that affect their use;

- any other person who acquires a stake in the Company s share capital with voting rights is required to provide a notice when the thresholds of 2%, 3%, 5%, 10%, 15%, 20% and 25% are exceeded, which notice gives a general description of the proposed acquisition, the purchaser and its sphere of operations.

Within a 15 day-period from the notice (suspended if further information is requested) a power of veto may be exercised, or prescriptions or conditions may be imposed every time this is sufficient to ensure the protection of the essential interests of defense and national security. Pending exercise of the veto power, the voting rights (and any rights other than the property rights) attaching to the shares that represent the relevant holding shall be suspended. The same rights are suspended in 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, shall be null and void.

In addition, publication in the Official Gazette is pending of the recently adopted decree which includes TLC networks and systems in the scope of the special powers in the energy, transport and communication sectors as well. When this happens the clauses in the Company s bylaws on special powers will cease to have effect and the Italian Government will be provided with:

- the authority to impose conditions and possibly to oppose the purchase by non-EU citizens, of controlling shareholdings in companies which hold strategic assets identified in the regulations. For non-EU citizens, any right to purchase will be permitted solely on condition of reciprocity with the purchaser s home jurisdiction; and

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a power of veto (including through prescriptions or conditions) on any resolution, act or transaction which has the effect of modifying the ownership, control or availability of strategic assets or changing their use, 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, amendment to company s bylaws purpose, company dissolution or amendment in bylaws provisions relating to limitations on voting rights.

The exercise of such powers, or the right or ability to exercise such powers, could make a change of control transaction with respect to Telecom Italia (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.

For further information, please see Item 7 Major Shareholders and Related-Party Transactions 7.1 Major Shareholders 7.1.3 Continuing Relationship with the Italian State .

OPERATIONAL RISKS

We face numerous risks in both the efficiency and effectiveness in resources 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 can turn out as direct or indirect losses and adverse legal and regulatory proceedings, and harm our reputation and operational effectiveness.

We have in place risk management practices 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 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 information technology, 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 information and telecommunication technology failures, power loss, floods, windstorms, fires, terrorism, intentional wrongdoing, human error and similar events. Unanticipated problems at our facilities, system failures, hardware or software failures, computer viruses or hacker attacks 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 the processing and storage of large amounts of customer data on a daily basis and require an 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. Information technology 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 not, or not to the full extent, be available, result in a breach of laws and regulations under which we operate or be associated with 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 churn 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 in relative terms as compared to our competitors, could suffer, resulting in lower customer satisfaction, diminution of brand strength and increased churn.

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.

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

Any illegal, illicit or unethical use of the internet or other data transmission facilities we provide access to by our customers may cause us to be involved in civil liability proceedings or lead to an unfavorable public perception of our brand or services. Any such event could result in direct or indirect losses, legal and/or regulatory proceedings directed against us and materially harm our reputation.

While in most countries in which we operate the provision of internet access, data transmission and hosting services, including the operation of websites with self-generated content, is regulated under a limited liability regime with respect to the content (including in particular, the content protected by copyright or other intellectual property laws) that we transmit or make available to the public in our capacity as a technical service provider, regulatory changes have been introduced in Europe and elsewhere imposing additional obligations upon us in our capacity as a technical service provider, including the duty to block access to certain websites upon certain events. The implementation of such duties is associated with significant cost, and any failure on our part to comply with such duties could have a material adverse effect on our business and reputation.

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 the international credit markets may limit our ability to refinance our financial debt.

Our consolidated gross financial debt was 37,230 million euros at December 31, 2013 compared with 40,241 million euros at December 31, 2012. Our consolidated net financial debt was 27,942 million euros at December 31, 2013 compared with 29,053 million euros at December 31, 2012. 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 ratings in order to determine interest expense, or on its relative cost to us, downgrades could lead to a greater risk with respect to refinancing existing debt or higher refinancing costs. Due to our downgrade below investment grade by Moody s in October 2013 and S&P in November 2013 against the background of concerns with respect to our ability to repay our outstanding debt and gradually reduce our leverage, the hybrid bond in the amount of 750 million euros issued in March 2013 lost its partial treatment as equity for ratings purposes and as a result we early redeemed the bond in February 2014.

Factors which are beyond our control such as deterioration in performance by 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 sovereign level could have a significant effect on our ability to reduce our debt, or our ability to refinance existing debt through further access to the financial markets. As a result of the reduction of debt being a key element of our strategy, the failure to reduce debt could be viewed negatively and adversely affect our credit ratings.

The management and further 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 therefore 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, primarily in U.S. dollars, and have significantly expanded our operations outside of the Euro zone, particularly in Latin America.

We generally hedge our foreign exchange exposure, but do not cover translation risk relating to our foreign subsidiaries. Movements in exchange rates of the Euro relative to other currencies (in particular 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 the U.S. dollar and British pound. 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, we enter into derivative transactions hedging our interest rate exposure to change interest rates in order to manage the volatility of our income statement, while remaining within predefined target levels. However, no assurance can be given that fluctuations in interest rates will not adversely affect our results of operations or cash flows.

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

We may be exposed also 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 the Group companies.

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COMPLIANCE RISKS

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

Our fixed and mobile telecommunications operations, as well as our broadband services, are subject to regulatory requirements in Italy and our international operations are subject to regulation in their host countries. In Italy, we are the only operator subject to universal service obligations, which requires us to provide fixed line public voice telecommunications services in non-profitable areas. As a member of the EU, Italy has adapted its telecommunications regulatory framework to the legislative and regulatory framework established by the EU for the regulation of the European telecommunications market. The last review of the EU common regulatory framework was approved at the end of 2009 and has been transposed into law in Italy in 2012.

Pursuant to this regulatory framework the Italian regulator in charge of supervising the telecommunications, radio and television broadcasting sectors (Autorità per le Garanzie nelle Comunicazioni **AGCom**) is required to identify operators with Significant Market Power (**SMP**) on the basis of a Market Analyses proceedings. The framework established criteria and procedures for identifying remedies necessary to safeguard competition to be imposed on operators with SMP in the relevant markets identified by the corresponding EC recommendation. The general regulatory approach is mainly focused on the regulation of Telecom Italia s wholesale business, while the regulation of retail markets is being gradually withdrawn.

Within this regulatory framework the main risks we are facing are comprised of:

- lack of predictability concerning both the timing of the regulatory proceedings and their outcome;
- decisions with retroactive effects (i.e. review of prices of past years following an administrative judgment); and
- underestimation by AGCom of the permitted regulatory return on capital invested.

A new round of market analyses should be conducted every three years, in order to cope with the evolutions of market conditions and technology developments and set the rules for the subsequent three-years period. The respect of this timetable by AGCom is necessary to grant regulatory predictability.

However, this regulatory review process is not always carried out following the required schedule. For example, the third round of Market Analyses for the access markets was expected to be concluded by of the end of 2012, in order to set the rules for the following period 2013-2015, AGCom launched the third review of the fixed access markets in September 2012, in order to set wholesale access fees for both copper and fiber-based services for the 2013-2015 period. However, at the beginning of 2013, AGCom decided only to set the access fees for 2013, while postponing the decision regarding the 2014-2016 access fees to a separate proceeding. This approach has created a high level of uncertainty for market operators.

In addition, AGCom launched the fourth round of Market Analyses for mobile termination rates only in January 2014 and the schedule for fixed termination rates Market Analysis is not yet decided.

Regulatory uncertainty and regulatory changes imposed on us can have not only an adverse effect on our revenues, but can also make it difficult to take important decisions on investments. Regulation is a key factor in evaluating the likelihood of return on investments and therefore in deciding where to invest limited resources.

For example, the Council of State (Consiglio di Stato) published a number of judgments on fixed and mobile termination rates, as well as on wholesale access prices: according to these judgments, AGCom is conducting a review of already established decisions, potentially leading to a change in the regulation and/or in prices, even with retroactive effects.

Also the Italian Competition Authority (Autorità Garante per la Concorrenza ed il Mercato AGCM) may intervene in our business, setting fines and/or imposing changes in our service provision operating processes and in our offers. As an example, on March 27, 2013, AGCM initiated a proceeding about an alleged anti-competitive agreement among the companies providing network maintenance services to Telecom Italia, possibly aimed to artificially raise the underlying costs. Subsequently, AGCM extended the proceeding to Telecom Italia in order to determine whether Telecom Italia is involved in the agreement.

In addition there is currently political debate in Italy about Access Network separation which could potentially lead to significant changes in Telecom Italia s organization, as well as in the Italian regulatory framework. The questions around this debate and the potential separation of the Access Network has also resulted in uncertainty and until such debate is settled will continue to impact on investment and other decisions made by the Company.

Our Brazilian Business Unit also is subject to extensive regulation. Our international operations, therefore, confront 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.

In Brazil we operate under authorizations granted by the competent authorities. As a result, we are obliged to maintain minimum quality and service standards. Our failure to comply with all 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.

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 both in Italy and internationally. 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 it is 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 it operates.

There is also a general risk related to the possible imposition of fines by the competent authorities for violations of regulations to which we are subject.

For further information regarding the matters discussed above and other aspects of the regulatory environments in which Telecom Italia Group s businesses operates, see Item 4. Information on the Telecom Italia Group Item 4.3. Regulation .

We operate under authorizations granted by government authorities.

Many of Telecom Italia s 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, however, may be affected by political and regulatory factors.

Many of these authorizations are revocable for public interest reasons. In addition, TI s current authorizations to provide networks and services require to 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 Telecom Italia to expend more resources than otherwise budgeted for a particular network build-out.

Additional authorizations may also need to be obtained 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.

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 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.

3.2 EXCHANGE RATES

We publish our consolidated financial statements in euros. References to , euro and Euro are to the euro, the single unified currency that was introduced in Italy and 10 other member states of the EU on January 1, 1999. References to U.S. dollars , dollars , U.S.$ or $ are to U.S. dollar 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.$ 1.3779, 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 31, 2013.

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 2009 to 2013 and for the beginning of 2014 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**
2009	1.5100	1.2547	1.3936	1.4332
2010	1.4536	1.1959	1.3262	1.3269
2011	1.4875	1.2926	1.3931	1.2973
2012	1.3463	1.2062	1.2859	1.3186
2013	1.3816	1.2774	1.3281	1.3779
2014 (through April 4, 2014)	1.3927	1.3500	1.3707	1.3704

Monthly Rates	**High**	**Low**	**Average(1)**	**At Period end**
October 2013	1.3810	1.349	1.3646	1.3594
November 2013	1.3606	1.3357	1.3491	1.3606
December 2013	1.3816	1.3552	1.3708	1.3779
January 2014	1.3682	1.3500	1.3618	1.3500
February 2014	1.3806	1.3507	1.3665	1.3806
March 2014	1.3927	1.3731	1.3831	1.3753
April 2014 (through April 4, 2014)	1.3804	1.3704	1.3744	1.3704

(1) Average of the rates for each month in the relevant period.

The Ordinary Shares and Savings Shares of Telecom Italia 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 is consolidated financial data of the Telecom Italia Group as of and for each of the years ended December 31, 2013, 2012, 2011, 2010 and 2009, 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 Telecom Italia Group prepared in accordance with IFRS as issued by IASB and which have been audited, with respect to 2013, 2012, 2011 and 2010, by the independent auditor PricewaterhouseCoopers S.p.A., which replaced Reconta Ernst & Young S.p.A., as part of the normal required rotation of auditors. 2009 was audited by the independent auditor Reconta Ernst & Young S.p.A.

In 2013, 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, 2013, described in the Note Accounting Polices of the Notes to the Consolidated Financial Statements included elsewhere herein.

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

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

		Year ended December 31,				
	2013(*)	**2013(*)**	**2012(*)(**)**	**2011(*)(**)**	**2010(*)(**)**	**2009(*)(**)**
	(millions of U.S. dollars, except percentages, ratios, employees and per share amounts)(1)	**(millions of euros, except percentages, ratios, employees and per share amounts)**				
Separate Consolidated Income Statement Data:						
Revenues	**32,253**	**23,407**	**25,759**	**26,772**	**26,781**	**26,894**
Operating profit (loss)	**3,745**	**2,718**	**1,709**	**(1,190)**	**5,748**	**5,493**
Profit (loss) before tax from continuing operations	**733**	**532**	**(293)**	**(3,253)**	**3,765**	**3,339**
Profit (loss) from continuing operations	**(798)**	**(579)**	**(1,379)**	**(4,676)**	**3,250**	**2,218**
Profit (loss) from Discontinued operations/Non-current assets held for sale	470	341	102	310	322	(622)
Profit (loss) for the year	**(328)**	**(238)**	**(1,277)**	**(4,366)**	**3,572**	**1,596**
Profit (loss) for the year attributable to owners of the Parent(2)	*(929)*	*(674)*	*(1,627)*	*(4,811)*	*3,118*	*1,581*
Capital Expenditures	**6,063**	**4,400**	**4,639**	**5,556**	**4,398**	**4,543**
Financial Ratios:						
Operating profit (loss)/Revenues (ROS)(%)	11.6%	11.6%	6.6%	n.s.	21.5%	20.4%
Ratio of earnings to fixed charges(3)	1.27	1.27	0.84	(0.53)	2.68	2.51
Employees, average salaried workforce in the Group, including personnel with temporary work contracts:						
Employees (excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale) (average number)	59,527	59,527	62,758	63,137	66,439	69,964
Employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale (average number)	15,815	15,815	15,806	15,232	3,711	2,168
Basic and Diluted earnings per Share (EPS)(4):						

Ordinary Share	**(0.04)**	**(0.03)**	**(0.08)**	**(0.25)**	**0.16**	**0.08**
Savings Share	**(0.04)**	**(0.03)**	**(0.08)**	**(0.25)**	**0.17**	**0.09**
Of which:						
From continuing operations:						
Ordinary Share	*(0.07)*	*(0.05)*	*(0.09)*	*(0.27)*	*0.15*	*0.11*
Savings Share	*(0.07)*	*(0.05)*	*(0.09)*	*(0.27)*	*0.16*	*0.12*
From Discontinued operations/Non-current assets held for sale:						
Ordinary Share	*0.03*	*0.02*	*0.01*	*0.02*	*0.01*	*(0.03)*
Savings Share	*0.03*	*0.02*	*0.01*	*0.02*	*0.01*	*(0.03)*
Dividends:						
per Ordinary Share(5)			0.020	0.043	0.058	0.050
per Saving Share(5)	0.0379	0.0275	0.031	0.054	0.069	0.061

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	2013 (millions of U.S. dollars, except employees)(1)	2013	As of December 31, 2012	2011	2010	2009
		(millions of euros, except employees)				
Consolidated Statement of Financial Position Data:						
Total assets	**96,756**	**70,220**	**77,555**	**83,886**	**89,040**	**86,267**
Equity:						
Equity attributable to owners of the Parent	23,508	17,061	19,378	22,790	28,819	25,952
Non-controlling interests	4,306	3,125	3,634	3,904	3,736	1,168
Total Equity	**27,814**	**20,186**	**23,012**	**26,694**	**32,555**	**27,120**
Total Liabilities	**68,942**	**50,034**	**54,543**	**57,192**	**56,485**	**59,147**
Total equity and liabilities	**96,756**	**70,220**	**77,555**	**83,886**	**89,040**	**86,267**
Share capital(6)	**14,611**	**10,604**	**10,604**	**10,604**	**10,600**	**10,585**
Net financial debt(7)	**38,501**	**27,942**	**29,053**	**30,819**	**32,087**	**34,747**
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)	65,623	65,623	83,184	84,154	84,200	71,384
Employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale (number at year-end)	16,575	16,575				2,205

	2013	2012	As of December 31, 2011	2010	2009
			(thousands)		
Statistical Data:					
Domestic (Italy) Business Unit					
Physical accesses(8)	20,378	21,153	21,712	22,122	22,256
Of which physical accesses (retail)	*13,210*	*13,978*	*14,652*	*15,351*	*16,097*
Broadband accesses	8,740	8,967	9,089	9,058	8,741
Of which retail broadband accesses	*6,915*	*7,020*	*7,125*	*7,175*	*7,000*
Mobile lines	31,221	32,159	32,227	31,018	30,856
Brazil Business Unit					
Mobile lines	73,417	70,362	64,070	51,015	41,102

(*) On November 13, 2013, Telecom Italia accepted the offer of Fintech Group to acquire the entire controlling interest of Telecom Italia Group in the Sofora Telecom Argentina group. As a result and in accordance with IFRS 5 (*Non-current Assets Held for Sale and Discontinued Operations*), during the fourth quarter of 2013, the Sofora Telecom Argentina group was treated as Discontinued operations/Non-current assets held for sale. As a result of such treatment, prior years have been restated.

(**) Starting from 2012, the Telecom Italia Group early adopted and retrospectively applied revised IAS 19 (Employee Benefits); therefore, the comparative figures for 2011 and 2010 were restated on a consistent basis. The adoption of IAS 19 did not have any effect on the Group s statement of financial position other than for certain reclassifications under Equity . 2009 data was not restated for the adoption of IAS 19 as the company considered the impact immaterial.

(1) For the convenience of the reader, Euro amounts for 2013 have been converted into U.S. dollars using the Euro/Dollar Exchange Rate in effect on December 31, 2013, of 1.00 =1.3779 U.S.$.

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

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

(3) Due to the loss in 2012 and in 2011, the ratio coverage was less than 1:1. The company would have needed to generate additional earnings of 339 million euros in 2012 and 3,226 million euros in 2011 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; and

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.

The calculation of the ratio of earnings to fixed charges excludes discontinued operations. However the impact on the ratio from the inclusion of the interest expenses related to discontinued operations would be immaterial.

(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, including the Telecom Italia shares related to the Mandatory Convertible Bonds issued by Telecom Italia Finance S.A. in November 2013 and excluding treasury shares. Since Telecom Italia 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 13,571,392,501 for the year ended December 31, 2013 (such number includes also the ordinary shares expected to be issued by Telecom Italia upon the conversion of the mandatory convertible bonds issued by Telecom Italia Finance S.A.), 13,277,621,082 for the year ended December 31, 2012, 13,264,375,078 for the year ended December 31, 2011, 13,239,883,276 for the year ended December 31, 2010 and 13,220,792,908 for the year ended December 31, 2009;

Savings Shares was 6,026,120,661 for the years ended December 31, 2013, 2012, 2011, 2010 and 2009.

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, at the Annual Shareholders Meeting to be held on April 16, 2014, Telecom Italia s dividend coupons for its Savings Shares for the year ended December 31, 2013, will be clipped on April 22, 2014, and will be payable from April 25, 2014.

(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, 2013 5.2.3 Non-GAAP Financial Measures .

(8) Physical accesses include Broadband accesses.

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 Telecom Italia 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, 2013.

	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)
2009	0.0500	0.0619	667.16	0.0610	0.0755	367.59
2010	0.0580	0.0846	775.48	0.0690	0.1006	415.80
2011	0.0430	0.0563	575.30	0.0540	0.0707	325.41
2012	0.0200	0.0260	267.59	0.0310	0.0403	186.81
2013(2)				0.0275	0.0377	165.72

(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, 2013, Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on April 4, 2014.

(2) Subject to approval at the Annual Shareholders Meeting to be held on April 16, 2014. Telecom Italia s dividend coupons for its Savings Shares for the year ended December 31, 2013, will be clipped on April 22, 2014, and will be payable from April 25, 2014.

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 Telecom Italia 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, Telecom Italia 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 Telecom Italia, 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 TELECOM ITALIA GROUP

4.1 BUSINESS

4.1.1 BACKGROUND

The legal and commercial name of the company is Telecom Italia S.p.A. Telecom Italia is a joint-stock company established under Italian law on October 29, 1908, with registered offices in Milan at Piazza degli Affari 2. The telephone number is +39 (02) 85951. The company is recorded in the Milan Companies Register at number 00488410010, in the R.E.A. (Repertorio Economico Amministrativo) at number 1580695 and in the 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.

Our largest shareholder is Telco S.A. (**Telco**). The investors in Telco include Assicurazioni Generali S.p.A. (**Generali**), Intesa Sanpaolo S.p.A. (**Intesa Sanpaolo**), Mediobanca S.p.A. (**Mediobanca**) and Telefónica S.A. (**Telefónica**).

As at December 31, 2013, Telco voting rights were held by Generali (30.58%), Intesa Sanpaolo (11.62%), Mediobanca (11.62%) and Telefónica (46.18%).

See Item 7. Major Shareholders and Related-Party Transactions for a description of the existing shareholder arrangements.

4.1.2 DEVELOPMENT

On November 7, 2013, Telecom Italia presented its 2014 2016 Plan. The 2014-2016 Plan sets out the primary strategic objectives of the Telecom Italia Group for 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 Telecom Italia Group is engaged principally in the communications sector and, particularly, the fixed and mobile national and international telecommunications sector.

The operating segments of the Telecom Italia Group are organized according to the respective geographical location of the telecommunications business (Domestic Italy and Brazil) and according to the specific businesses for the other segments.

The principal changes in the scope of consolidation in 2013 are as follows:

· **Sofora Telecom Argentina group:** on November 13, 2013, Telecom Italia accepted the offer of Fintech Group for the acquisition of the entire controlling interest of Telecom Italia Group in the Sofora Telecom Argentina group. Consequently, in accordance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations) the Business Unit Argentina was classified as discontinued operations (Discontinued operations/Non-current assets held for sale) and is no longer separately presented. For further details, please see 4.2.5 Discontinued Operations/Non-current Assets Held For Sale (Sofora Telecom Argentina group) and Item 5. Operating And Financial Review And Prospects 5.2 Results Of Operations For The Three Years Ended December 31, 2013 Discontinued Operations/Non-current Assets Held For Sale (Sofora Telecom Argentina group) ;

· **MTV group Media**: on September 12, 2013 Telecom Italia Media and Viacom International Media Networks (VIMN) finalized the sale of 51% of MTV Italia S.r.l. and of its wholly-owned subsidiary MTV Pubblicità S.r.l. As a result, these companies are no longer consolidated;

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- **La7 S.r.l. Media**: on April 30, 2013, after authorization for the sale was received, as required by law, Telecom Italia Media completed the sale of La7 S.r.l. to Cairo Communication. As a result, the company was excluded from the scope of consolidation.

The principal change in the scope of consolidation in 2012 was:

- **Matrix Other Operations**: the company was sold on October 31, 2012, and consequently excluded from the consolidation area.

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, 2013 5.2.2. Business Segments and Note Form, Content and Other General Information of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

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

Domestic Business Area

Telecom Italia operates as the consolidated market leader in Italy in providing telephone and data services on fixed-line and mobile networks for final customers (retail) and other operators (wholesale). Furthermore the Telecom Italia Sparkle group operates in the international wholesale sector.

Telecom Italia is one of three mobile operators authorized to provide services using GSM 900 technology in Italy and one of three 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.

At December 31, 2013 the Telecom Italia Group had approximately 13.2 million physical accesses (retail) in Italy, a decrease of 0.8 million compared to December 31, 2012, within a market context characterized by a continuing trend of customers replacing fixed lines with mobile, resulting in a continuing fall in fixed line accesses.

The Wholesale customer portfolio in Italy remained at 7.2 million accesses for telephone services at December 31, 2013 (stable compared to December 31, 2012).

The broadband portfolio in Italy was 8.7 million accesses at December 31, 2013 (consisting of approximately 6.9 million retail accesses corresponding to a market share of approximately 50% and 1.8 million wholesale accesses), a decrease of approximately 0.2 million compared to December 31, 2012.

In addition, the Telecom Italia Group had approximately 31.2 million mobile telephone lines in Italy at December 31, 2013, a decrease of approximately 0.9 million compared to December 31, 2012.

Brazil Business Area

The Telecom Italia Group operates in the mobile and fixed telecommunications sector in Brazil through the Tim Brasil group which offers mobile services using UMTS and GSM technologies. Focus is also on continued 2G and 3G expansion while 4G roll-out has begun. Moreover, with the acquisitions of Intelig Telecomunicações, Tim Fiber RJ and Tim Fiber SP, 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, 2013, the Telecom Italia Group had 73.4 million mobile telephone lines in Brazil (70.4 million at December 31, 2012).

4.1.4 Disposals and Acquisitions of Significant Equity Investments in 2013

For a description of disposals and acquisitions of significant equity investments in 2013 please see Note Scope of consolidation and Note Investments of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

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4.1.5 Recent Developments During 2014

For a description of other recent developments please see Item 8. Financial Information 8.2 Legal Proceedings and Note Events Subsequent to December 31, 2013 of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

4.1.6 Overview of the Telecom Italia Group s Major Business Areas

The following is a chart of the Telecom Italia Group s Business Units as of December 31, 2013:

(*) Main subsidiaries: Telecom Italia S.p.A., Telenergia S.p.A., Telecontact Center S.p.A., TI Digital Solutions S.p.A., HR Services S.r.l. and TI Information Technology S.r.l.

For further details about companies which are part of the various Business Units, please see Note List of companies of the Telecom Italia Group of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

For the revenues, operating profit (loss) and number of employees of the Telecom Italia 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, 2013 5.2.5 Business unit financial data .

4.1.7 Updated Strategy

Strategic Priorities and Objectives for the 2014 2016 Plan

On November 7, 2013, Telecom Italia presented its updated 2014 2016 Plan, which envisages:

- a strong focus on investments relating to innovative networks and services, in order to enable the evolution of the telecommunication business model;
- stabilization of revenues in the Domestic (Italy) business unit, as well as, maintaining revenue growth in Brazil;

- operating expenses efficiency both in Italy and in Brazil;

- certain extraordinary transactions intended to strengthen the Group s financial position, including issuing mandatory convertible bonds, the disposal of the stake in the Sofora Telecom Argentina group, and other transactions to exploit the value of certain of its assets (transmission towers in Italy and in Brazil and TI Media broadcasting infrastructure); and

- continued deleveraging.

Moreover, the Plan includes the following strategic priorities over the next three years:

Domestic market

Strong increase in UBB (UltraBroadband) deployment aimed at achieving a distinctive market positioning:

- changing the mix between innovative and traditional capital expenditures to sustain faster UBB deployment and move to adjacent sectors such as content and entertainment, IT services;
- delayering network architecture to gain operational flexibility and reduce running costs; and
- accessing public funds to accelerate fiber deployment in areas with lower market potential.

Revenue stabilization:

- stabilize the revenue trend for traditional services: revenue Market Share defense in a more rational TLC arena; focus on Telecom Italia + TIM distinctive convergent approach; clients segmentation and flat tariffs; offerings targeted to specific Purchasing Groups (e.g. Families, Corporates, Employees);
- foster growth of innovative services: Fixed-Mobile convergence; lever on multidevice approach and foster on BYOD (Bring Your Own Device) strategy to accelerate penetration in business segment; faster UBB development; and
- exploit new revenue streams both in Consumer (enrich UBB with video content, entertainment, advertising) and Business segment (cloud and machine to machine, digital Public Administration and e-health).

Operating expenses efficiency:

- foster and streamline through stronger divisional responsibility;
- industrial costs optimization;
- enhance multi-channel approach and carefully manage Subscriber Acquisition Cost (SAC) policy so tightly linked to revenues;

· increase productivity through process internalization; and

· zero-based budget model on General & Administrative costs.

Brazil

Maintain quality and increase focus on innovative components to capture the full potential of data:

· increase network capital expenditures to fully serve 3G now and progressively 4G; higher focus on network infrastructure and efficiency in terms of quality and coverage;

· continuous deployment of fiber (FTTS) to support data traffic growth; and

· full deployment of Radio Access Network sharing opportunities.

Maintain revenue growth through:

· traditional services: exploit further opportunities in fixed to mobile substitution; focus on quality; postpaid continuous growth, better customer mix; continuous offer evolution backed by innovative approach and attitude and consistent track record, stabilize fixed-segment revenue; and

· innovative services: exploit Brazilian internet market potential; focus on coverage strenghthening; focus on 3G for now and progressively on 4G; focus on quality; lever on smartphone as data penetration enabler.

Operating expenses efficiency Leaner organization, focus on internal processes and strict cost control:

· commercial: low SAC, keeping payback (SAC/ARPU) under control and bad debt stable at low levels; and

· network: increasing Minutes of Use with stable leased lines costs; proprietary infrastructure deployment; Radio Access Network sharing opportunity.

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 Telecom Italia Group as of April 8, 2014:

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4.2 BUSINESS UNITS

4.2.1 Domestic

The Domestic Business Unit operates as the consolidated market leader in 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 Domestic Business Unit is organized as follows as of December 31, 2013:

(*) Main subsidiaries: Telecom Italia S.p.A., Telenergia S.p.A., Telecontact Center S.p.A., TI Digital Solutions S.p.A., HR Services S.r.l. and TI Information Technology S.r.l.

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

- **Core Domestic**: includes all telecommunications activities within the Italian market. The sales market segments defined on the basis of the customer centric organizational model are as follows:
  - Consumer: comprises the aggregate of voice and Internet services and products managed and developed for persons and families in the Fixed and Mobile telecommunications markets and also public telephony;
  - Business: expanded as of the beginning of 2013 to include Top customers, 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;
  - National Wholesale: 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;
  - Other (support structures): includes:
    - Technology & IT: constitutes services related to the development, building and operation of network infrastructures, real estate properties and plant engineering, delivery processes and assurance regarding customer services in addition to the

development and operation of information services;

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

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v MARKETING CHANNELS AND DISTRIBUTION

As a result of the customer centric approach, Telecom Italia utilizes a sales structure as follows 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 23 partners having a total of 3,500 operators supported by 21 Telecom Italia employees and the Agent channel with a network of 40 partners with 800 sales agents assisted by 21 Telecom Italia employees. In addition to these partners, there is the International Ethnic channel, a network of 26 partners focused on International prepaid card services and associated traffic packages. An additional 52 Telecom Italia employees support push sales channels in the following Headquarters areas: Development and Sales Process Management;
- the Pull channel: consisting of the retail network of shops, dealers and large retailers, amounting to a total of approximately 5,800 retail points of sale (at December 31, 2013). 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 also is done through the Public Telephone channel, consisting of 15 technical partners in order to provide maintenance and other related services.

· ***Business***

Business customers are managed by a single Sales Unit which includes both a direct and indirect sales channel. The Sales Channel is organized in five different segments. One 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 and Small customers at the regional level and include both the indirect and direct sales channels.

- ***Indirect Sales Channel***

The business distribution channels are made up of:

- *BP Business Partner* channel (approximately 80): a network focused on standard offers with about 1,500 agents;
- *VAR Value Added Reseller* channel (approximately 70): a network organized geographically focused on VAS and ICT products with 250 agents and 400 ICT Professionist;
- *Outbound Call Center:* 11 partners focused on specific canvass and customer loyalty activities;
- *Senior Agent:* 143 Agents focused on medium enterprise customers; and
- *Shops*: some specific shops (approximately 2,600) offering business products and assistance (14 Key Account).

- ***Direct Sales Channel***

At the end of 2013 around 650 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 voice and mobile, data, ICT services and products); and
- providing support and assistance to the customer.

- ***National Wholesale Services***

The National Wholesale Services (**NWS**) division manages relationships with approximately 300 other telco operators, who can be both customers and competitors of Telecom Italia. These customers purchase Telecom Italia 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 reengineering.

The NWS department is set up as an independent department, which allows Telecom Italia, 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.

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,

	2013	2012	2011
DOMESTIC FIXED			
Physical accesses (thousand)(1)	20,378	21,153	21,712
Of which retail physical accesses (thousand)	*13,210*	*13,978*	*14,652*
Broadband accesses in Italy at year-end (thousand)(2)	8,740	8,967	9,089
Of which retail broadband accesses (thousand)	*6,915*	*7,020*	*7,125*
Network infrastructure in Italy:			
access network in copper (millions of km pair, distribution and connection)	114.9	114.5	112.2
access and carrier network in optical fiber (millions of km fiber)	6.7	5.7	4.6
Network infrastructure abroad:			
European backbone (km of fiber)	55,000	55,000	55,000
Mediterranean (km of submarine cable)	7,500	7,500	7,500
South America (km of fiber)	30,000	30,000	30,000
Atlantic (km of submarine cable)	15,000	15,000	15,000
Total traffic:			
Minutes of traffic on fixed-line network (billions):	91.2	101.8	108.9
Domestic traffic	*75.8*	*85.9*	*93.3*
International traffic	*15.4*	*15.9*	*15.6*
DownStream and UpStream traffic volumes (PBytes):	2,533	2,202	1,937
DOMESTIC MOBILE(3)			
Number of lines at year-end (thousand)	31,221	32,159	32,227
Change in lines (%)	(2.9)	(0.2)	3.9
Churn rate (%)(4)	30.4	26.6	21.9
Total outgoing traffic per month (millions of minutes)	3,581	3,664	3,633
Total average outgoing and incoming traffic per month (millions of minutes)	5,084	4,921	4,843
Mobile browsing volumes (PBytes)(5)	98.1	93.1	75.9
Average monthly revenues per line(6) (euro)	13.1	15.5	17.4

(1) Excludes full-infrastructured OLOs and WIMAX.

(2) Excludes LLU and NAKED, satellite and full-infrastructured OLOs, and WIMAX.

(3) Following review of the systems that manage our Mobile Customer base, it was decided there was a need to update technical configuration and clarify our corporate regulations on rechargeable SIM card extensions (beyond the initial timeline following first activation of 13 or 24 months according to the offering). The Company set up a specific working group to verify and update the framework of rules (Guidelines) that govern the reasons for rechargeable SIM card extensions, with a focus on the reasons for the top-up. The working group established that the only general criterion that could result in the extension of the life of SIM cards concerns sales or after-sales marketing cases, explicitly requested by the customer (free of charge or for-pay), or events resulting in charges to the cards. In application of this criterion, the Guidelines and internal procedures relating to the SIM card extensions were updated. The activities to regularize (including deactivation of) 470,000 SIM cards which were still active at September 30, 2013 as a result of extensions not compliant with the criteria set forth in the new Guidelines were completed at December 31, 2013. The working group continues monthly monitoring and regularization, according to the new guidelines, of the additional rechargeable SIM cards subject to automatic extensions not compliant with said Guidelines.

(4) 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.

(5) National traffic excluding roaming.

(6) 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 2013 that may have a significant impact on the operation of the Domestic Business Unit, please see Item 4. Information On The Telecom Italia Group 4.3 Regulation .

v COMPETITION

The market

· The Italian TLC market continues to be highly competitive with significant use of pricing as a lever an extremely intense strategy during 2013 which has led to an ongoing decline in the traditional service components, particularly voice service.

· In this environment, the key element in the evolution of the market continues to be the increased penetration of broadband, particularly mobile, also facilitated by the greater spread of next-generation handsets, though this is gradually slowing.

· The development of broadband has also led to an evolution towards increasingly complex competition, with more inter-relationships between players of different markets. This has opened the field to competition from non-traditional operators (in particular Over the Top companies OTTs and producers of electronic and consumer devices), as well as giving telecommunication operators the opportunity to develop new over the network services (mainly in the IT and Media fields).

· For the telecommunications operators, in addition to the core competition with the other traditional operators in the sector (including mobile virtual operators (MVOs)), which has confirmed its greater quantitative impact on market trends, there has been increased competition from OTTs and device producers which take advantage of their full understanding of the evolution of consumer trends, consumer electronics and software environments and which operate entirely in the digital world, basing their behavior on competition approaches that are completely different to those of TLC players.

· Over time, therefore, the legacy telecommunications operators business models are changing to meet the challenges from the new entrants and to exploit new opportunities:

  · in Media, broadcasters, who are vertically integrated players, continue to dominate the scene; however, with the Web becoming increasingly important as a complementary distribution, they are increasingly under pressure from consumer electronics companies and OTTs;

- in the Information Technology market, the decline in revenues is driving the various players towards the cloud computing growth oasis , with the goal of developing and protecting their market shares in their core business. Nevertheless, telecommunications operators are expected to strengthen in this sector, including through partnerships;

- in the Consumer Electronics market, producers can develop services that can be used through the Internet, building on handset ownership and management of the user experience, breaking the relationship between customers and TLC operators and competing with the media and OTTs, thanks to game consoles and set-top boxes, for the role of net enabler through the living room screen;

- OTTs have, for some time now, been leading the transformation of the methods of use of TLC services (including voice), increasingly integrating them with Media and IT.

Conversely with regard to the positioning of the telecommunications operators in converging markets, there are a number of aspects at different levels of development:

- initiatives involving innovative services in the IT market, specifically in Cloud services;

- new wireless applications (e.g. Mobile Advertising, Machine to Machine);

- significant presence as enablers of online digital content use on the living room screen using OTT TV multidevice solutions.

Competition in Fixed-Line Telecommunications

The fixed-line telecommunications market continues to see a significant decline in voice revenues due to the reduction in rates and the progressive shift of voice traffic to mobile. In recent years all the operators have attempted to at least partially counter this by concentrating mainly on the ability to innovate their offering by developing the penetration of ADSL and introducing bundled voice, broadband and services deals (double play), in a highly competitive environment with consequent pricing pressure.

The evolution of the competitive product offering has also been influenced by consolidation, among competitors, of an approach based on the control of infrastructure (above all Local Loop Unbundling LLU). The main fixed operators are now also offering mobile services, including as MVOs.

In 2013, 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, e-mail and social network chat) also due to the widespread diffusion of personal computers. For years, both for private consumers and small and medium businesses, mature traditional voice services have been replaced by value-added content and services based on the Internet protocol. This shift has been facilitated by the use of the Internet and changes in user preferences, by the spread of broadband, personal computers and other connected devices, and by the quality of the service.

Competition in the Italian fixed telecommunications market is characterized by the presence, in addition to Telecom Italia, of a number of operators such as Wind-Infostrada, Fastweb, Vodafone-TeleTu, BT Italia and Tiscali, that have different business models focused on different segments of the market.

At the end of 2013, Telecom Italia s fixed accesses in Italy numbered approximately 21.0 million, down from 2012. The growing competition in the access market has led to a gradual reduction in Telecom Italia s market share.

In the broadband market, at December 31, 2013 fixed broadband customers in Italy reached a penetration rate on fixed accesses of about 66%.

The spread of broadband is driven not only by the penetration of personal computers, 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.). In 2013, however, the gradual slowdown in growth of the fixed-line broadband market continued, due both to a general tendency of operators to concentrate on the growth of flat-rate plans (dual play) with higher added value and to the continuing weak macroeconomic environment.

The decline continued in revenues from the data transmission segment, which suffered the effects of competition that has led to a reduction in average prices.

Competition in Mobile Telecommunications

The mobile market, although saturated and mature in its traditional component of voice services, continues to slightly increase the number of mobile lines, driven by multiSIM/multidevice customers and in non-human lines (at December 31, 2013, mobile lines in Italy numbered about 97 million down by about 0.5% over 2012 with a penetration rate of approximately 162% of the population).

The decreasing trend in revenues from components of traditional service such as voice and messaging continues, as these components are impacted by the harsh competition among TLC operators using pricing as a lever an extremely intense strategy during 2013 as well as the growing expansion of communication apps . Mobile Broadband continues to grow, though at slower rates than in previous years. Though it is unable to offset the drop in revenues from traditional services, it represents the main strategic and business opportunity for the mobile TLC industry, also due to the launch of LTE Ultra Broadband.

In 2013, the growth in mobile broadband customers continued, both large and small screen, with a high penetration rate on mobile lines, especially as a result of the increasing spread of smartphones and tablets.

Alongside innovative services that have already been introduced and are under full-scale development, as in the case of mobile apps, there are other market environments, associated with the development of mobile broadband, with major potential for growth in the medium term, such as machine to machine and mobile payment.

Competition in the Italian mobile telecommunications market is dominated by Telecom Italia and also by the other operators who own their networks (Vodafone, Wind, H3G) which are focused on different segments of the market or have different strategies.

In addition to these operators, the field also includes MVOs, of which PosteMobile is the most important player. These operators currently have a limited share of the market, but continue to enjoy significant growth compared to network operators.

Developments in 2014

The initial developments of 2014, in line with the 2014-2016 Plan, confirm a cooling of competition in the Mobile sector. However, through the first three months of 2014 we have seen greater dilution of voice ARPU in the Italian domestic market, both Mobile and Fixed, due to the repositioning of the customer base towards bundle offers that will allow against a short-term reduction in profitability greater stabilization of expenditure and churn in the medium to long term. On the Fixed market this trend is also dictated by the need to respond, with commercial pricing actions, to competitive pressure, which has been greater than expected.

Despite greater pressure on the ARPU and the uncertainty regarding stability of our Revenues, a gradual recovery of our operating performance is expected for the current year in keeping with the dynamics of the 2014-2016 Plan.

4.2.2 Brazil

The Telecom Italia Group operates in the mobile and fixed telecommunications sector in Brazil through the Tim Brasil group which offers mobile services using UMTS and GSM technologies. 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 includes 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 which includes around 95% of Brazil s urban population. Tim Brasil group has approximately 73.4 million mobile lines which covers each of the Brazilian states and the Federal District. As of December 31, 2013, the market combined penetration reached approximately 136.4% of the Brazilian population and its combined market share totaled approximately 27.1%.

Since the Tim Brasil group began operating in the Brazilian market, its intention has been to provide its customers with state-of-the-art technology and services. This goal has been achieved through the offer of edge technology, that has allowed convergence between voice services either mobile or fixed , internet access and data transfer. Management believes this convergence has been made feasible with developments under 3G.

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,		
	2013	**2012**	**2011**
Number of lines at year-end (thousands)	73,417	70,362	64,070
MOU (minutes/months)(*)	147.7	135.8	128.6
ARPU (Reais)	18.6	19.1	21.4

(*) Net of visitors.

v Marketing

During 2013, Tim Brasil intensified promotional activity on voice plans and further expanded data services.

At the same time, a consistent work of consolidation of the Liberty and Infinity plans was implemented, strengthening the concept of smartchoice , with relevant benefits for consumers. Tim Brasil s main plans and services on said platforms are:

- *Infinity* (prepaid): the customer is charged per call of unlimited duration to TIM numbers and local fixed telephones; for SMS and mobile Internet services, clients are charged for day of use, and services are provided without limit;

- *Infinity TRI* (prepaid in Rio Grande do Sul): customers from Rio Grande do Sul are charged per day of use for voice (to TIM numbers and local fixed telephones), SMS and mobile Internet services;

- *TIM Beta* (prepaid): limited plan addressed to young consumers, charged per day for voice (to TIM numbers), SMS and mobile Internet services;

- *Liberty*: for a monthly flat fee, the customer has unlimited talk time with any number on the TIM network, with no restriction on the number or duration of calls. Also, they may add further advantages to this plan using the Liberty Rádios plan to talk without limit to any radio user (SME), without deduction from its package of minutes;

- *Liberty Controle*: for a fixed rate every month, the customer has unlimited talk time with any number on the TIM network, and also receives bonuses related to other out of network calls and services;

- *Liberty Web Light, Tablet, Modem and Modem Plus*: post-paid plans that offer Internet access through dongles (or small pieces of hardware which enable additional functions such as copy protection, audio, video, games, data, or other services) and tablets; and

- *Liberty Web Light Express, Tablet Express, Modem Express and Modem Plus Express*: plans that offer Internet access through dongles and tablets, but with the payment by credit card, with possibility of repurchasing.

Moreover, an innovative music service, an application that allows access to millions of songs with affordable prices to customers of the prepaid and postpaid segments, was launched. In addition Tim Brasil launched a plan for the postpaid segment in which the customer pays invoices through a charge to their credit cards, which is convenient for users of the service and also helps in the reduction of debt delinquency.

Gross acquisitions in 2013 amounted to 39.6 million new lines compared to 38.4 million new lines in 2012, an increase of 3.2%. Net additions in 2013 amounted to 3.1 million lines compared to 6.3 million lines in 2012, a decrease of approximately -51% over 2012.

In 2012 Tim Brasil improved its Combo offerings, which consist of different service plans added to free handsets provided to corporate customers (comodato) or sold in installments, focusing on handsets that encourage the use of internet and value added services, such as smartphones, modems and tablets. We continued that approach in 2013, expanding the Combo offer to other minute package plans. Smartphone sales increased substantially in 2012 and in 2013, with Combos holding a strong commercial appeal.

We continued to aggressively pursue larger companies as potential clients, offering, in addition to customized plan pricing, handset options under loan for use contracts.

The following presents a brief summary of certain key elements of our business plans.

- Liberty Web Empresa Light, Tablet, Modem and Modem Plus: post-paid plans that offer Internet access through dongles and tablets, with possibility of repurchasing.

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Liberty Web Smart: plan that offers Internet access for a fixed monthly flat fee only if the customer uses the service during the billing month, with possibility of repurchasing.

- Liberty Web 20MB, 50MB, 100MB, 300MB, 600MB, 1GB and 3GB: plans that charge a fixed R$6.90, R$9.90, R$14.90, R$21.90, R$34.90, R$49.90 and R$69.90 per month, respectively, for mobile phone Internet access, with possibility of repurchasing. These plans provide new service options for certain users without Internet to complete their service portfolio and provide new pricing options for heavy users of data.

- Liberty Torpedo: plan that offers unlimited SMS to any operator at a fixed monthly rate, only payable in the month used.

v **Distribution**

TIM Brasil broadly distributes its SIM cards and prepaid recharges in all states of Brazil, having consolidated its national presence since 2002. The company has over 12,000 points of sale, between Premium stores and resellers (exclusive or multi-brand), also counting on the capacity of large retail chains. TIM Brasil prepaid customers have, in addition to the traditional points of sale, alternative recharging channels, such as supermarkets and newsstands, totaling over 430,000 points all over Brazil. Most devices are sold on credit card and in 12 installments.

For the corporate market, TIM has over 300 commercial partners focused on servicing small and medium enterprises, as well as a sales team that rely on 60 employees focused on large enterprises.

v MAIN CHANGES IN THE REGULATORY FRAMEWORK

For the main regulatory developments which occurred in 2013 that may have an economic impact on the Brazil Business Unit, please see Item 4. Information On The Telecom Italia Group 4.3 Regulation .

v COMPETITION

At the end of 2013, the Brazilian mobile market reached 271.1 million lines; this is 3.5% more than at the end of 2012 and a penetration rate of 136.4% of the population (132.8% in 2012). Net total line increases in 2013 were 9.3 million lines, 10.3 million fewer net lines than in 2012.

4.2.3 MEDIA

Media operates analog and digital broadcasting networks and accessory services for television broadcasting platforms.

Sale of La7 S.r.l.

On April 30, 2013, after authorization for the sale was received as required by law, Telecom Italia Media completed the sale of La7 S.r.l. to Cairo Communication, on the terms and conditions announced to the market in March 2013.

The agreement followed the transfer, effective as of September 1, 2012, of a business area consisting of television assets held by Telecom Italia Media S.p.A. to La7 S.r.l., which at the time was a wholly-owned subsidiary of Telecom Italia Media S.p.A.

The broadcaster was sold at a price of approximately 1 million euros. Prior to the transfer of the investment, La7 S.r.l. was recapitalized by Telecom Italia Media S.p.A. in order to ensure that, at the date of the sale, the company had a positive net financial position of no less than 88 million euros. The recapitalization also contributed to giving La7 S.r.l. an agreed equity of 138 million euros.

In connection with the transaction, Telecom Italia S.p.A. waived financial receivables due from Telecom Italia Media S.p.A. in the amount of 100 million euros.

Following a price adjustment the Cairo Communication group paid Telecom Italia Media approximately 5 million euros.

Based on the agreements entered into and also taking account of the expected performance of La7 S.r.l. up to the date of disposal, the losses for the period of La7 of around 125 million euros, before amounts due to Non-controlling interests, were recorded on the Group s income statement for 2013.

Sale of the MTV group

On September 12, 2013 the sale of 51% of MTV Italia S.r.l. to Viacom was completed, for a consideration of 13.4 million euros, an amount which also takes into account certain working capital adjustments.

As a result of this transaction, Telecom Italia Media waived financial receivables of 9 million euros, due from MTV Italia at the signing date of the agreement.

Lastly, the parties agreed on the long-term renewal of the supply of transmission capacity and services by Telecom Italia Media Broadcasting S.r.l. to MTV Italia S.r.l.

Based on the agreements entered into and also taking into account the expected performance of MTV Italia S.r.l. and MTV Pubblicità S.r.l. up to the date of the sale, losses for the period of MTV Italia S.r.l. and MTV Pubblicità S.r.l. of around 8 million euros, before amounts due to Non-controlling interests, were recorded on the Group s income statement for 2013.

As of December 31, 2013, the Business Unit was organized as follows:

At December 31, 2013, the three Digital Multiplexes of Telecom Italia Media Broadcasting cover 95.2% of the Italian population.

v **MAIN CHANGES IN THE REGULATORY FRAMEWORK**

For the main regulatory events which occurred in 2013 that may have an economic impact on Media Business Unit, please see Item 4. Information On The Telecom Italia Group 4.3 Regulation .

4.2.4 OLIVETTI

The Olivetti group mainly operates in the manufacture of office products and services for Information Technology. It carries out Solution Provider activities to automate processes and business activities for small and medium-size enterprises, large corporations and vertical markets.

The Business Unit s markets are mainly in Europe, Asia and South America.

On June 13, 2012 the shareholders of the subsidiary Olivetti I-Jet S.p.A. voted to place the company in liquidation. On July 2, 2013 it was resolved to place the Swiss subsidiary Olivetti Engineering S.A. in liquidation. On November 21, 2013, as part of the liquidation process, Olivetti I-Jet sold to SICPA, a Swiss company with headquarters in Lausanne, the Research and Development business unit which develops technology in the thermal inkjet field.

As of December 31, 2013, the Olivetti Business Unit was organized as follows (the main companies are indicated):

v **COMPETITION**

Competition continues to have an adverse effect on Olivetti revenues. It resulted in lower prices for many products and services reflecting a market subject to significant price pressure. This is also attributable to customers having reduced their IT budget.

4.2.5 DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE (SOFORA TELECOM ARGENTINA GROUP)

On November 13, 2013, Telecom Italia accepted the offer of Fintech Group to acquire the entire controlling interest of Telecom Italia Group in the Sofora Telecom Argentina group, held by Telecom Italia and through its subsidiaries Telecom Italia International, Sofora Telecomunicaciones, Nortel Inversora and Tierra Argentea. As a result and in accordance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), during the fourth quarter of 2013 Telecom Argentina was treated as Discontinued operations/Non-current assets held for sale.

As of December 31, 2013, the Sofora Telecom Argentina group was organized as follows (the main companies are indicated):

The operations in Argentina were carried out in two major areas. Voice, data and Internet services (provided through Telecom Argentina) and mobile services (provided through Personal). In Paraguay, there was only a mobile operation (through Núcleo).

v MARKETING

Fixed Services

In the Internet business, the brand Arnet based its growth in a pricing strategy and lower discounts related to acquisition and retention of customers. Also, the offerings of high speed products were expanded and the content of Arnet Play (the video streaming service of Telecom Argentina) was improved.

The growth in the voice business was driven by the increase in the sale of subscription plans with monthly charges and the sale of Value-Added Services (VAS).

During 2013 Telecom Argentina expanded the Broadband and calls bundling, by launching a fixed monthly payment plan that allows making calls from a fixed-line to a mobile phone for residential customers.

Also, the Corporate segment provided converged solutions that integrated voice, data, Internet, multimedia, Information and Communications Technology (ICT), datacenter and fixed and mobile applications.

Mobile Services

Personal reinforced its loyalty strategy for both new and existing customers based on a portfolio of plans, packages and services together with a variety of benefits and promotions for its entire customer base. Personal continued with the strategy of inclusion and innovation, enabling widespread access to mobile Internet through the extension and conversion of third-generation networks, offering plans and service packs that include data together with a wide offer of smartphones.

Personal performed commercial actions such as benefits in the recharge of credit and launching new packages of services (packs) that simplify and optimize the performance of the plans.

As part of the innovation strategy, Personal consolidated the VAS platform Personal Games by offering a new plan that includes the free download of games, and by offering a special promotion related to compatible handsets.

Additionally, Personal Digital Video and Personal Music e- stores were consolidated, with a wide offer of audiovisual and musical content for downloading, from the mobile phone or from the PC. Subscriptions and content via SMS have been boosted, powered by the massification of smartphones.

On the other hand, Núcleo boosted value-added services, mobile financial services and Internet services in order to increase the consumption of those services by its customers. The content was focused on the youth segment (music, games, sports). In relation to Internet services, Núcleo based its communication campaign on the speed and Mega Experience .

v **Distribution**

During 2013 the fixed business continued with the implementation of new customer care channels mainly based on the web channel. Use of digital channels was extended by incorporating social network as a channel of customer care.

For residential, SMEs and major customers, the focus remained on upselling and cross-selling actions offering higher value products that suit the needs of customers and generate greater satisfaction with the service.

During 2013 the network of commercial offices of Personal deepened its management model, client counseling and education from the sale of value added products, upgrade of handsets and improved technology.

The indirect channel Agents continued to grow, especially by the selling of value added plans and smartphones. Likewise, there was a relocation of point of sales in strategic areas by reducing the total number of Agents and improving productivity.

Also, during 2013 Personal continue to strength the strategic alliance with leading retailers mainly through the strategy of focusing on capturing high value customers.

In the Business segment, a new management model was implemented based primarily on the segmentation of sale executives in three different profiles, in order to focus on goals that are aligned to satisfaction and loyalty, database development and capture of value.

v **Competition**

The telecommunications markets in Argentina and Paraguay continue to show strong demand for new services and higher access speed in a fiercely competitive environment in the different business segments.

Specifically, in the mobile segment in Argentina, Personal is one of three operators offering services at the national level and competes with Claro (America Móvil group) and Movistar (Telefónica group). It is expected Personal will continue to grow above the market average in value but with lower rates of expansion in its customer base, along with the consolidation of Personal leadership strengths: the value-added services (especially mobile Internet), positioning in the youth segment, the social network strategy and the brand association with music.

In Paraguay, Núcleo operates in a market featuring strong competition. Its main competitor is Tigo (Millicom group).

In the broadband segment, the Argentina Business Unit operates through the Arnet brand and its competitors are mainly ADSL Speedy (Telefónica group), Fibertel (Clarín group), which offers broadband access services using cable modems, and Telecentro, which offers triple play plans.

4.2.6 Competition

We face domestic competition in all of our businesses. Competition continues to have an adverse effect on our revenues as it resulted in lower tariffs for many of our products and services as well as the introduction of flat-rate pricing plans which have been used to enhance retention efforts but at the same time reducing revenues from such customers.

For details please see Item 4. Information on the Telecom Italia Group 4.1 Business 4.1.7 Updated Strategy , Item 4. Information on the Telecom Italia Group 4.2.1 Domestic and Item 4. Information on the Telecom Italia Group 4.2.2 Brazil and Item 4. Information on the Telecom Italia Group 4.2.5 Discontinued Operations/Non-current assets Held for Sale (Sofora Telecom Argentina group) .

4.3 REGULATION

The EU regulatory framework

Telecom Italia s operations in the European Union (**EU**) are subject to the EU framework on telecommunications regulation which includes directives, regulations, recommendations and communications. As such, being a member of the EU, Italy is required to implement directives issued by the EU. Regulations, however, adopted at the EU level have general application and are binding and directly applicable in each EU 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 the National Regulatory Authorities.

The European Commission began liberalizing the telecommunications market to competition in the late 1980s and early 1990s. In Italy, as well as in all the main EU Member States, liberalization opened up competition for public voice telephony and public network infrastructure in 1998.

The need for a revision of the 1998 framework emerged from the growing convergence between telecommunications, broadcasting and information technology. A new EU Regulatory Framework (consisting of five Directives: the framework; access and interconnection; authorization; the universal service and users rights; privacy and data protection directives) was adopted in 2002, regulating all forms of fixed and wireless telecommunications, data transmission and broadcasting.

A recommendation adopted in February 2003, on relevant product and service markets susceptible of ex ante regulation, completed this set of legal instruments. In December 2007, the European Commission (**EC**) amended this first Recommendation on relevant markets, reducing the previous 18 markets susceptible to ex-ante regulation to 7: 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).

The EU regulatory framework obliges National Regulatory Authorities (**NRAs** , in Italy **AGCom**) to run market analyses before imposing appropriate obligations on individual operators having Significant Market Power (**SMP**) according to the specific EU guidelines. A company is deemed to have SMP when, either individually or jointly with others, it enjoys a position equivalent to dominance, that is to say 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 market analyses carried out by NRAs are subject to the assessment of the EU Commission 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. With respect to remedies, the

EU Commission has no veto power but can raise serious doubts after which the Body of European Regulators for Electronic Communications (**BEREC**) is required to give an opinion. The EU Commission, BEREC and the NRA then have to cooperate to find a solution within three months. Neither the Commission nor BEREC are able to make a binding intervention. Should a NRA decide not to amend or withdraw a draft measure after the EU Commissions expresses serious doubts, it must provide a reasoned justification .

The EU legal framework was revised in November 2007, with the aim of defining a new European regulatory framework for the sector.

The revision of the framework established a set of rules composed of the Better Regulation Directive (Directive 2009/140/EC, amending the Framework , Access and Authorization directives) and the Citizens Rights Directive (Directive 2009/136/EC amending the Universal Servic E-Privacy directives and the

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Regulation 2006/2004 on Consumer Protection Cooperation) to be transposed into national laws of the 27 EU Member States by May 25, 2011 and by the Regulation which was directly applicable establishing the new European Telecoms Authority BEREC . The new EU telecoms rules were officially adopted on December 18, 2009.

The revised directives were transposed into the Italian legal framework by means of the Legge Comunitaria 2010 which was published in the Italian Official Journal on January 2, 2012; the Italian Government was delegated the authority to adopt (within three months) measures aiming at transposing the revised directives. The Legislative Decrees of May 28, 2012 (n. 69 and 70) transposing the EU 2009 regulatory framework entered into force on June 1, 2012.

The EC adopted in 2010 a Communication, the Digital Agenda for Europe (DAE), fixing the long term strategies of the Union for Broadband distribution and development. The DAE sets a list of objectives in term of Broadband coverage, service availability and degree of utilization by customers to be reached between 2013 and 2020.

In parallel the EC undertook many interventions on the regulation aimed at removing any regulatory obstacle to reach the goals of DAE.

In particular during 2013 the EC began revising the list of markets susceptible to ex ante regulation, the revision of the regulatory context concerning: authorizations, harmonization of the radio spectrum, rights of end users and the change of provider (the Single Market Regulation). All these activities are expected to be finalized in 2014.

In September 2013, the EC published a Recommendation on consistent non-discrimination obligations and costing methodologies to promote competition and enhance the broadband investment environment . The Recommendation suggests imposing Equivalence of Input (EoI) for the application of the regulatory remedy of non discrimination and defines the criteria to lift price regulation of NGAN wholesale services as: (a) application of EoI, (b) ability to technically and economically replicate retail offers; and (c) presence of significant competitive constraints exerted by the legacy copper access network or by alternative networks.

The appropriate level of return on capital to be included in regulated wholesale prices for operators investing in new high speed networks is of fundamental importance to reach the objectives of the Digital Agenda. The Commission wants to grant operators regulatory consistency and predictability to incentivize efficient investment and innovation.

The principle of cost recovery to be utilized by the relevant NRA must respect the principle that prices will ensure that operators can cover efficiently incurred costs and receive an appropriate return on invested capital .

Telecommunication Regulatory Framework in Italy

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

(i) 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 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 Electronic Communications Code (**ECC**), which transposed into national law the EU Access, Authorisation, Framework and Universal Service directives; Data Protection Code and 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;

(ii) The Consumer Code ;

(iii) Legislative Decree October 3, 2006, n. 262 which contains Urgent measures regarding taxes and financial issues and partially amended the sanctions regime set by the ECC by introducing further examples of administrative offences, a generalized increase in the fines for each sanction and the elimination of the partial cash settlements of fines;

(iv) Decree Law January 31, 2007, n. 7 containing urgent measures for the protection of consumers, for the promotion of competition, for the development of economic activities. The above mentioned law impacted the electronic communications sector by prohibiting top-up charges and the expiry of phone traffic for prepaid phone cards;

(v) Legislative Decree May 30, 2008, n. 109 transposing into national law the EU Directive2006/24/EC on the retention of data generated or processed in connection with the provision of publicly available electronic communications services or of public communications networks;

(vi) Law June 18, 2009, n. 69 providing measures to simplify the procedures for the installation and development of optical fiber networks (Article 1 Broadband);

(vii) Decree Law July 6, 2011, n. 98, enacted by Law July 15, 2011, n. 111 further simplifying the procedure for the installation of small mobile equipment (0.5 sq. radiator area) and low power equipment (7 watt);

(viii) the 2011 Budget Law (Law December 13, 2010, n. 220), regulating the procedures for the issue of 800, 1800, 2000 and 2600 MHz frequencies rights of use; Decree Law October 18, 2012 n. 179 (enacted by Law December 17, 2012 n. 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;

(ix) Decree Law February 9, 2012 n. 5 (enacted by Law April 4, 2012 n. 35) imposing on Telecom Italia two further obligations: a) the disaggregation of maintenance costs for lines in unbundling; and b) the possibility for OLOs to buy ancillary services from third parties. Law n. 97/2013 (European Law) modified the above mentioned Decree Law, assigning to AGCom the evaluation (replacing the obligation) of imposing the above measures a) and b);

(x) The 2013 Budget Law (Legge di Stabilità 2013) modifying art. 96 of the ECC regarding mandatory services required by public authorities to telecom operators for crime prevention and punishment purposes.

The ECC confirmed the responsibilities of the Ministry of Communications and of AGCom as set by the previous legislation. In particular:

(i) the Ministry is responsible for postal services, telecommunications, multimedia networks, informatics, telematics, radio and television broadcasts and innovative technologies applied to the communications sector. In May 2008, the functions of the Ministry of Communications and its resources were transferred to the Ministry of Economic Development;

(ii) AGCom grants fair competition among operators and protects consumers. It must report on its activities to the Italian Parliament, which set up its powers, defined its bylaws and elected its members.

4.3.1 TELECOMMUNICATION REGULATION IN ITALY

In July 2008, Telecom Italia proposed to AGCom several commitments related to its access network (**Undertakings**) aimed at integrating and strengthening the non-discrimination obligations (imposed by AGCom in 2002) amongst Telecom Italia s own retail divisions and other operators in the provision of wholesale access network services.

AGCom approved Telecom Italia s Undertakings, which are divided into 14 main groups and pursue four main goals:

- offering additional guarantees of equal treatment amongst Telecom Italia s commercial divisions and other electronic communications operators (Operators) when they purchase wholesale access services from Telecom Italia;
- providing benefits to Operators and final users, through the improvement in the quality of the fixed access network and of related services;
- making the evolution of Telecom Italia s fixed access network more transparent for Operators; and,
- ensuring competitive conditions in the migration towards new generation networks.

At the beginning of 2008, Telecom Italia created its Open Access department, a separate business unit focusing its activities on the implementation of the Undertakings. To ensure equal treatment for its own retail divisions and those of the Operators (internal-external equal treatment), Telecom Italia undertook a set of activities focused on three main areas:

· technical-organizational domain: solutions for the improvement of the internal delivery processes;

· cultural-behavioral domain: a Code of Conduct has been adopted and intensive training activities have been carried out in order to spread the principles of internal-external equal treatment; and,

· economic-regulatory domain: service contracts were drafted and transfer charges adopted to implement equality of economic treatment.

The implementation of the Undertakings, their complexity and their impact on the stakeholders system, required the creation of a governance system. In particular, the following bodies were set up: an independent body (the **Supervisory Board**); the AGCom Undertakings Monitoring Group for the monitoring of the work in progress (**GMI**) and the Italian Office of Telecommunications Adjudicator (**OTA Italia**), whose mission is to prevent and settle disputes amongst Operators and the **Next Generation Network Committee** submitting possible solutions to technical, organizational and economic issues raised by the transition to the Next Generation Network.

In November 2011, three years after the formalization of the Undertakings AGCom recognized that Telecom Italia had fully implemented all the Undertakings, and terminated certain Antitrust proceedings against Telecom Italia that were suspended following the approval of the Undertakings.

At the end of 2012, 45 Operators had joined in the New Delivery Process (**NDP**) for Bitstream, 17 Operators for Local Loop Unbundling (**LLU** and 12 Operators for Wholesale Line Rental (**WLR**).

GMI continues to monitor the implementation of the Undertakings.

Telecom Italia s Operational Separation model will continue to ensure equality of treatment (both in economic and technical terms), the promotion of an Equivalence Culture , through personnel formation programs, and transparency to alternative network operators for both Copper and Fiber Access Network.

Following the remedies definition for NGAN services through Decision 1/12/CONS, in July 2012, Telecom Italia communicated to AGCom its undertakings for NGAN services.

Market analyses

Following a first round (2006-2007) and a second round (2008-2009) of market analyses, a third round was started in 2010. As of April 8, 2014 the third round had not been completed. In particular, the market analysis of the fixed interconnection market has not yet started, and with respect to the fixed access and the terminating segments of the leased lines market, the analysis is continuing. With respect to the mobile market, in February 2014, AGCom started the fourth round of market analysis. A description of the market analyses is contained in the following paragraphs together with the main recent developments regarding markets in electronic communications.

· **Retail-fixed markets**

As a result of the first round of fixed retail market analyses, AGCom identified Telecom Italia as an SMP operator and imposed regulatory obligations, including a price cap mechanism and price control.

In particular, the relevant retail fixed regulated markets are: access to the public telephone network provided at a fixed location for residential and business customers (markets 1 and 2 of 2003); local, national and fixed-mobile services markets retention component only for residential and non-residential customers (markets 3 and 5 of 2003, removed from the revised 2007 Recommendation); international telephone services, for residential and non-residential customers, provided at a fixed location (markets 4 and 6 of 2003, removed from the revised 2007 Recommendation); leased lines market (market 7 of 2003, removed from the revised 2007 Recommendation).

At the end of 2009, AGCom concluded the second round of assessment of **the international calls market** and of the minimum **set leased lines market** and deregulated both markets withdrawing all *ex ante* obligations on Telecom Italia starting from 2010.

In 2010 AGCom concluded the second round of market analysis of the **retail national fixed voice services**. As a consequence, AGCom decided to withdraw all regulatory obligations starting from six months after the publication of its final decision. In the transitional six-month period (until January 12, 2011), AGCom maintained the obligation of prior notification of new tariffs.

Since January 12, 2011 Telecom Italia has been allowed to fix retail tariffs without prior notification to or approval by AGCom.

In September 2010, AGCom set new rules for the assessment of Telecom Italia s retail offers, including non-standard offers (public tender and tailored top business offers) and bundles (multiple-play offers). The new price test methodology is based on a replicability test developed on the basis of the following key principles:

(i) a single replicability test valid for offers commercialized in different (both traditional and innovative) contexts, reference to the most efficient technology and network architecture that could be used by AltNets (Alternative Network Operators AltNets) to replicate Telecom Italia s offers and, hence, to a combination of wholesale inputs (ULL, WLR, bitstream, etc.);

(ii) the evaluation of network and downstream AltNets costs on the basis of avoidable or long run incremental costs;

(iii) application of the price test to the whole bundle, taking into account the overall cost of provisioning without considering whether each component of the bundle may be replicated by an alternative operator; and

(iv) ad hoc assessment of offers within tenders, taking into account the most efficient network architecture that could be used by AltNets to compete in a specific context.

In July and in November 2013 AGCom set new rules for the replicability test of Telecom Italia s fiber optic retail offers.

Following the publication of these new rules, Telecom Italia appealed against these decisions: amongst other things, Telecom Italia contests that the new rules have been defined without carrying out a market analysis required by EU regulations (Framework Directive) as a remedy can be applied to a service only after a market analysis has demonstrated the status of competition (market competitive/not competitive) of the market itself.

Meanwhile AGCom opened a public consultation for reviewing all rules for the assessment of Telecom Italia s retail offers.

In 2012, Telecom Italia introduced a set of measures to simplify the tariff structure of the basic offers for both consumer and business customers.

The last step of this simplification path is the new pricing schemes that Telecom Italia introduced early in 2013. For business customers, starting from January 1, 2013, the basic offer consisted of a single charge for all national calls, a price reduction for fixed-to-mobile calls and a connection fee.

For the consumer customers basic offer, starting from April 1, 2013 Telecom Italia introduced price simplification based on the introduction of a single price for all national and fixed-to-mobile calls, a change in the connection fee and the introduction of a discount equal to 50% for all national calls lasting more than three hours per month (the price is per 60 seconds allowances charged in advance).

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The tables below summarize the standard offer schemes described above:

Business prices (VAT not included)

cent/minute (VAT not included)	Prices until 12/31/2012	Prices from 01/01/2013
Local	1.0	0.0
National	7.0	0.0
Fixed-Mobile (TIM, Vodafone, Wind, Tre, ecc.)	8.0	3.0
Set up fee	10.0 cent	20.0 cent

Consumer prices (VAT included)

cent/minute (VAT included)	Prices until 03/31/2013	Prices from 04/01/2013	Prices (**) from 10/01/2013
Local and national	1.90	5.00(*)	5.04(*)
Fixed-Mobile (TIM, Vodafone, Wind, Tre, ecc.)	9.90	5.00	5.04
	(until 03/31/2013)	**(from 04/01/2013)**	**(from 10/01/2013)**
Set up fee	7.94 cent	5.00 cent	5.04 cent

(*) Over 3 hours/month: 50% discount.

(**) VAT increased from 21% to 22% from October 2013.

Beginning April 1, 2013, an increase in the PSTN consumers monthly fee entered into force (from 16.6/month, VAT included, to 17.40/month, VAT included) to adjust the fees for inflation; prices of the ISDN monthly fee and of all business connections monthly fees did not change. Beginning April 1, 2013, Telecom Italia also introduced a single fee for termination of a contract after the first 12 months. This fee applies to all customers (consumer and business), whenever the termination of the contract is not due to Telecom Italia. Such a fee was reduced from 48.40 or 60.50 VAT included (respectively for the single line/ADSL for anticipated or contextual termination of the contract fee of both service components) to 34.90 VAT included.

As of October 1, 2013, VAT increased to 22%. As a result, the price of the PSTN consumer monthly fee became 17.54 (VAT included), while the cost of termination became 35.18 (VAT included).

Wholesale fixed markets

The first round of market analyses for fixed wholesale markets was concluded in 2006. In particular, the following markets were analyzed: Call origination (market 8 of 2003); Call termination (market 9 of 2003); Transit services (market 10 of 2003, removed from the revised 2007 Recommendation); Unbundled access (including shared access) to metallic loops and sub-loops for the purpose of providing broadband and voice services (market 11 of 2003); Broadband access (market 12 of 2003); Terminating segments of leased lines (market 13 of 2003) and Trunk segments of leased lines (market 14 of 2003, removed from the revised Recommendation).

As a result of market analyses, AGCom in 2006 imposed on Telecom Italia, as an SMP operator, regulatory measures including price control in the form of a network cap (except for the wholesale broadband access market).

The network cap mechanism was applied to calculate the prices of wholesale call origination, termination and transit services and of unbundled network-access services (i.e. Local Loop Unbundling and Shared Access). This mechanism was also applied to leased lines, with the aim of ensuring that cost orientation is used to calculate the prices of the termination and long-distance line segments.

Following the conclusion of the second round of market analyses, in December 2009, AGCom confirmed Telecom Italia as having SMP in all wholesale access markets (markets 4 and 5 of 2007), i.e. in the provision of LLU, bitstream and WLR services. As a result, AGCom confirmed all obligations on access copper based services imposing a cost-oriented price based on a network cap mechanism. To implement this obligation, a Bottom-Up LRIC (Bottom-up Long Run Incremental Costs **BU-LRIC**) model was developed by the Italian NRA.

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Item 4. Information On The Telecom Italia Group **Regulation**

AGCom set new wholesale rates for unbundling, bitstream and WLR services and the value of WACC (Weighted Average Cost of Capital **WACC**) to be applied from May 2010 to December 2012.

The WACC was set at a value equal to 9.36% and the LLU monthly rental fees were set as follows: 8.70/month as of May 1, 2010; 9.02/month as of January 1, 2011; and 9.28/month as of January 1, 2012. The increases of the unbundling monthly rental fee and other wholesale services for the 2011-2012 period were, however, subject to AGCom s assessment of the improvement of the following indicators measuring: (i) the quality of the network (percentage of refusal of AltNets wholesale requests, due to problems related to access network); (ii) the fulfillment of TI quality plans; (iii) the percentage of faults requiring on-field intervention by technicians. The final assessment was successfully concluded (see AGCom s Decisions 71/11/CONS and 679/11/CONS) and, therefore, Telecom Italia was authorized to apply the wholesale price increases for both the years 2011 and 2012.

Referring to the **WLR** (Wholesale Line Rental **WLR**) **service**, AGCom required Telecom Italia to provide the service only in the areas where unbundled access services were not offered. The price for the period May 1, 2010-December 31, 2012 was calculated according to the network cap methodology. However, at the end of May 2012, AGCom approved the 2012 WLR Reference Offer with reference only to the technical conditions, launching a public consultation at national level on the monthly rental fee. The Italian NRA proposed a new price equal to 11.90/month to be applied from June 1, 2012 *versus* the 12.88/month previously established. At the end of December 2012, following public consultation activities, AGCom set a monthly rental fee equal to 11.70/month to be applied from June 1, 2012.

With respect to **fixed** call termination, origination and transit services[2] (markets 2 and 3 of 2007), following the serious doubts letter sent by the European Commission on the first draft decision issued by AGCom (the s.c. Phase II investigation) resulted in its withdrawal, in November 2013 AGCom approved the cost model to set the glide path for fixed interconnection rates for the period from July 1, 2013 to July 1, 2015. Termination rates applied to all operators but until July 1, 2013 AGCom confirmed the asymmetrical termination tariffs applied in 2012.

Moreover, the final document set the interconnection fees in both TDM (legacy) and IP modalities and, under the technological neutrality principle, a single tariff applies, regardless of the level of interconnection on the TDM network.

The 2015 prices are set on the basis of a pure BU-LRIC model considering a full IP network while the prices for the years 2013 and 2014 have been calculated considering a mix of IP and TDM networks (% of IP traffic: 33% in 2013 and 66% in 2014).

Interconnection rates (July 2013 2015) **eurocents/min. (VAT not included)**	**From July 2013**	**From July 2014**	**From July 2015**
TI and AltNets Termination	0.104	0.075	0.043
TI Call Origination	0.258	0.205	0.140
TI Transit	0.126	0.111	0.093

Following the Commission comments on the aforesaid final decision, AGCom specified that if a new WACC value were to be adopted under the ongoing market analysis (third round) of markets 1, 4 and 5 of 2007 list (see below), regulated fixed interconnection rates would be modified accordingly. Moreover, a new market analysis of the relevant markets would be launched within the shortest delay possible . The results of this new market analysis could modify the above mentioned measures if deemed necessary.

Starting from 2010, the regulation for the national conveyance and transit service markets (including transit services between two or more switches located in different telephone districts, also when provided jointly with the originating or terminating service) was withdrawn by AGCom.

In September 2012, AGCom launched the 3rd round of market analysis on wholesale and retail access markets (markets 1, 4 and 5 of 2007) and the regulatory framework of the wholesale access services over copper and fiber network was supposed to be set for 2013-2015 period.

[2] The market includes the single transit service involving only one switch and the transit service between two or more switches located in the same telephone district and the transit services provided jointly with the originating or terminating service.

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However, in December 2012, the Authority launched two public consultations on the 2013 pricing of WLR services and of bitstream services, anticipating the results of the analysis to be carried out during the third round of market analyses. As to LLU; in March 2013, a public consultation was also opened aimed at defining 2013 prices.

As a consequence, the third round of market analyses on the wholesale access market on copper and fiber networks (Decision 238/13/CONS) is now focused on setting prices and WACC value for the 2014-2016 period (instead of the 2013-2015 period).

Following the notifications to the European Commission of the two draft statements on the 2013 LLU and bitstream offers, in August 2013 the EC sent the Authority a series of comments, raising serious doubts and opening a so-called Phase II investigation . The related three months investigation process covered a range of both procedural (e.g. the subversion of the path set by Decision no. 476/12/CONS with which the Authority introduced interim measures as to the economic conditions for the year 2013-, non-use of the market analysis outcomes and lack of notification to the EC of the procedure related to WLR for the year 2013), and methodological aspects (e.g. lack of appreciation of the cost of capital WACC notwithstanding the financial crisis of the latter years and the lack of cost orientation for the sub-loop unbundling). In December 2013, the EC issued a Recommendation asking the Authority to amend its decisions, with particular reference to the calculation of the cost of capital.

In December 2013 the Authority approved the final decisions on Telecom Italia s economic and technical conditions for the 2013 copper network access services offer without amendments, deeming its assessments correct, in particular the calculation of the cost of capital set at 9.36%. Therefore, for 2013 LLU fee was set at 8.68 Euro/month (-6.5% compared to 2012) and bitstream fee at 15.14 Euro/month (-22.4% compared to 2012) were ratified. With respect to the WLR fee reduction from 11.70 to 11.14 Euro/month (-4.8%), a final decision has not yet been published.

For the Sub-Loop service (SLU), AGCom set the monthly charge at 5.79/month setting a value not based on a BU-LRIC model but only considering the percentage of 2/3 of the monthly LLU fee. We believe, consistent with serious doubts expressed by the EC on this method, that the fees of the service should be cost-oriented and that a careful assessment is needed, particularly since the SLU service plays a fundamental role in the deployment of Next generation Access Network Fibre to the Cabinet (NGAN-FTTC). According to Company estimates, the result of such approach would have set a SLU price higher than 3/4 of the LLU charge.

Regarding the SLU access regulation, in the final statement on the definition of the wholesale access prices for the year 2013, AGCom enforced new obligations for the sharing and setting up of new street-cabinets besides the obligation to provide technical specifications for the introduction of multi-operator vectoring architectures (the Multi-Operator Vectoring solution MOV) for VDSL2 Vectoring[3] services. Considering the difficulties in setting technical and procedural guidelines of the MOV solution, Telecom Italia asked AGCom to establish a technical working group.

With respect to the third round of market analyses on the wholesale access market on copper and fiber networks, analyses are ongoing; the closing of the procedure is expected within the first half of 2014.

In the context of the Decision by which the third round of market analyses on wholesale and retail access markets was launched, AGCom referred to two obligations for AGCom on Telecom Italia s maintenance services : the breakdown of costs for the supply of LLU lines and the acquisition of maintenance services from third parties (law April 4, 2012 n. 35).

However, AGCom itself underlined within the above decision that the EC had formally opened an infringement procedure against Italy, in relation to the possible breach of the Framework Directive (July 2012) since the above mentioned law violates the autonomy and independence of the NRA.

[3] Very-high-bit-rate digital subscriber line 2 (VDSL2) is an access technology that exploits the existing infrastructure of copper wires that were originally deployed for traditional telephone service as a way of delivering very high speed internet access. Vectoring is a method that employs the coordination of line signals for reduction of crosstalk levels and improvement of VDSL performance.

In February 2013 the EC issued a reasoned opinion concluding that the Italian Government had infringed the European legislation. In August 2013, the Italian Parliament approved a specific provision aimed at withdrawing the AGCom s obligation to impose on Telecom Italia the disaggregated offer for its LLU ancillary services independently of its autonomous decision based on a market analysis which ended the infringement procedure by the EC.

Finally, between March and April 2013, the Council of State (*Consiglio di Stato*) granted the requests filed by Eutelia, Fastweb and WIND, and issued three decisions on the 2010-2012 market analyses.

The Council of State rejected AGCom s decision to set the WLR and bitstream naked fees using a retail minus method rather than a cost-oriented one, stating that the decision lacks proper ground and justification. Moreover, referring to the calculation of the corrective maintenance costs, the Council of State invited the Authority to assess the impact of contracts based on forfeit-terms within the BU-LRIC model.

AGCom has to issue a new decision; however this new decision may not differ from the previous one, i.e. AGCom can confirm the previous decision providing a sounder legal and economic basis.

The regulatory framework of the NGAN is not yet completely defined in Italy. Regulatory activity is underway to establish NGAN regulation with a view of introducing: (a) a cost model for the pricing of passive and active wholesale services; (b) the definition of the so-called NGAN competitive areas where the price of fiber-based bitstream and virtual access services should not be subject to the cost orientation obligation; and (c) potential amendments to the regulation of the copper sub-loop unbundling service in the light of the possible introduction of the vectoring technology on FTTCab-VDSL accesses.

On February 28, 2013, AGCom approved with modifications Telecom Italia s first NGA Reference Offers for passive infrastructure access and wholesale broadband access. Regarding the 2013 fees, AGCom submitted to public consultation the prices of wholesale NGA-based services and the final decision has not yet been formally issued.

In October 2013, for the first time, AGCom extended some access obligations to non-SMP operators, regarding NGA bottleneck infrastructures such as access to FTTH in-building wiring. In particular, starting April 30, 2014, ACGom provides for the access obligation to the terminating and wiring segments with transparent and non-discriminatory conditions while, as for the economic conditions, the cost orientation obligation rests on Telecom Italia whereas the non SMP operators are only required to set fair and reasonable prices .

Price setting for NGA-based services for the 2014-2016 period will be set within the market analyses on wholesale and retail access markets (see above).

With respect to migration between operators, AGCom revised fixed-line customer migration rules, substantially reducing the processing time to five days for the donating operator to verify the recipient s migration request (so called Phase II). Moreover, in cases where migration is not requested, the user will have the right to restore, free of charge, the previous configuration within five working days. Furthermore, in order to prevent the activation of services not requested by retail customers, fixed-line operators provide an individual security code to the customer when they sign the contract for the access service. Finally, with Decision 62/11/CIR, published in July 2011, the daily capacity of each operator for migration order management has been increased by 60%.

The regulatory framework should gradually reduce the above-mentioned timeframe.

On October 28, 2013, AGCom launched the third round of market analysis on terminating segments of leased lines. Through March 2014, although the AGCom activities related to (qualitative and quantitative) data gathering among all operators is complete, the draft decision for the public consultation has not yet been issued. The wholesale markets of trunk segments of leased lines and of circuits provided between a Telecom Italia node and a mobile operator s base station in 2010. AGCom stated the markets were competitive and removed all ex-ante obligations.

· **Mobile markets**

In February 2009, AGCom confirmed that the wholesale market for access and call origination on mobile networks should not be subject to ex-ante regulation.

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With respect to the wholesale market for voice call termination on mobile networks (market 7 of 2007), in November 2011, AGCom published its final decision (decision 621/11/CONS) containing the glide path for the period from July 1, 2012 to July 1, 2013 and thereafter with the commencement of a symmetric termination rate for all mobile operators (0.98 eurocents/min).

Mobile networks voice termination eurocents/min.		Glide path	
	from 7.1.2012	from 1.1.2013	from 7.1.2013
Termination on H3G network	3.5	1.7	0.98
Termination on Telecom Italia, Vodafone and Wind networks	2.5	1.5	0.98

AGCom s final decision on wholesale prices was challenged before the Administrative Court by Vodafone/Wind/H3G complaining that it introduced a very steep reduction of MTR; Telecom Italia appealed only against the provision stating that asymmetry for H3G should end as of July 1, 2013. In January 2013, AGCom, after providing evidence of the rationale of the above asymmetry in favor of H3G, following two orders of the Administrative Court, confirmed the application of asymmetry to H3G up to June 30, 2013. Telecom Italia challenged this decision with the Regional Administrative Court of Lazio.

In February 2014, the Council of State granted the appeal filed by H3G regarding the above decision 621/11/CONS in which AGCom had established that, starting from 1 July 2013, the full symmetry between H3G termination fees and all other mobile operators fees should be achieved, anticipating by six months the date originally set in the AGCom draft decision submitted to public consultation (Decision 254/11/CONS). The Council of State ruled for the withdrawal of the decision, thus restoring de facto the maintenance of asymmetry in favor of H3G. It is expected that the AGCom will start a new procedure in compliance with the above court ruling to issue a new decision.

In February 2013, following an appeal filed by H3G, the Council of State cancelled, for lack of reasoning and investigation , the 2008 decision to reduce the termination tariff over the H3G network from 16.26 c/min to 13.00 c/min in the period November 2008-June 2009. In particular, AGCom was requested to justify the reduction pending the conclusion of the second round of wholesale call termination market analysis and also better substantiate its methodological choice to set the rate. In order to comply with the court ruling, AGCom submitted to public consultation three alternative approaches and four alternative values to set H3G s MTR for this period. The activities related to the public consultation have been completed. AGCom s final decision should be published within the first half of 2014.

In the wholesale market for SMS termination, as a consequence of a public consultation concluded in October 2012, AGCom decided not to regulate this market because it tends towards competition over time, and therefore the second criterion of the three criteria test for ex ante regulation was not met. Consequently the SMS termination prices continue to be commercially negotiated on a reciprocity basis among operators.

International roaming

The roaming Regulation 531/2012 (the so called Roaming III Regulation) entered into force on July 1, 2012.

The Roaming III Regulation provides for the following measures applicable to roaming services within the EU (extended to European Economic Area countries):

1. transparency measures such as info SMS to customers on the applied retail tariffs;

2. the adoption of retail and wholesale price caps for voice, SMS and data services. The retail caps will remain in force until 2017 and the wholesale caps until the expiry of the new regulation in 2022;

3. the unbundling/decoupling of the roaming services from the domestic services starting from July 2014 (decoupling solution). With the decoupling solution, the customer can buy roaming services separately from domestic services from an alternative roaming provider (mobile network operator-MNO or mobile virtual network operator-MVNO/reseller);

4. the obligation to provide wholesale roaming access to MNO/MVNO/resellers at regulated prices.

The price caps established under the Roaming III Regulation are:

at wholesale level:	**ROAMING III**		
	July 1, 2012	**July 1, 2013**	**July 1, 2014**
Voice (Euro Cents/Min)	14	10	5
SMS (Euro cents/sms)	3	2	2
DATA (Euro Cents/MB)	25	15	5

at retail level:	**ROAMING III**		
	July 1, 2012	**July 1, 2013**	**July 1, 2014**
Voice out (Euro Cents/Min	29	24	19
Voice in (Euro Cents/Min)	8	7	5
SMS (Euro Cents/sms)	9	8	6
DATA (Euro Cents/MB)	70	45	20

In December 2012 the European Commission published the implementing regulation (EU n. 1203/2012) indicating Single IMSI (International mobile subscriber identity reselling of all roaming services) and LBO (local break out direct access to roaming data service of the visited network) as the decoupling solutions to be implemented by MNOs.

In September 2013 the EC published a proposal for a Regulation (TSM - Telecom Single Market Regulation) which, among other things, proposed to make certain amendments to the Roaming III Regulation. In particular, the EC proposed to reduce roaming charges to zero for retail incoming calls from July 1, 2014 and to exempt those operators which offer roaming services at domestic rates within the EU from the obligation to implement the separate sale of roaming services. On April 3, 2014 the European Parliament approved, in its first reading, a set of amendments to the TSM Regulation proposal, including abolishing any roaming service surcharge on top of domestic service prices for a fair use consumption starting from December 15, 2015. This would result in charges billed to the user being the same for usage in any EU country as for usage in his or her home country. The amended version of the TSM Regulation must now be submitted to the vote of the EU Council. In accordance with EU legislation procedure the TSM Regulation will be approved and will enter into force on the basis of a full agreement on the final text among the Commission, the European Parliament and the EU member States meeting in the EU Council. The new TSM Regulation is expected to be approved not before the fourth quarter 2014.

Quality of service: 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:

· ISP Measurements: measures of the access quality of the most common retail offers made by an independent body, in the geographical areas of the main towns, for each ISP;

· End-user measurements: allows a user to measure his own fixed broadband line performances with software called Ne.Me.Sys. Each customer can formally certify the quality of his own fixed-line broadband access using this software and compare the results with the promised performances. Obtained results could be used by customers to terminate the contract without penalties or to claim QoS parameters levels to be restored. The results reported in the final certificate, in fact, can be compared with the minimum promised values, indicated by an operator in the contract. If the results are less than promised values, the user may submit a claim to the operator, and if the operator does not improve the quality in 30 days, the user after a second measure may terminate the contract without paying penalties.

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

Quality of service: Drive test campaigns to test the quality of the data service on mobile networks

- In relation to the Decision AGCom 154/12/CONS, every six months drive test campaigns are made in the main towns of each of the 20 Italian regions. From 2014, 40 towns will be involved (the two largest towns of each region).

- During the campaigns the major aspects that characterize the quality of a data service on 3G HSDPA mobile networks are measured: Throughput (FTP UL e HTTP DL); Duration (HTTP/HTTPS Browsing); Packet Delay; Packed Loss, Unsuccessful Data Transmission; Jitter.

· From 2014, services used in video streaming mode will also be tested.

· To date, the results for the Campaign of the 1st half 2013 are available and they are currently being processed those related at the Campaign of the 2nd half 2013.

· In 2013 the data services accessible by internet key have been measured, while in 2014 the object of measurement will be the data services accessible by smartphones.

· From 2015 measurements will be extended to 4G networks.

Universal Service

The Universal Service is a minimum set of services of a certain quality, which shall be made available to all customers, regardless of their geographical location and shall be offered at a reasonable price, taking into account the specific national conditions. To date, Telecom Italia is the only operator with the obligation of providing the Universal Service (**USO**) throughout Italy.

A fund, set up by the Ministry of Communications, is used to contribute to finance the net cost for the provision of Universal Service. All the main companies in the sector including Telecom Italia contribute to the above fund.

The net cost of providing the Universal Service is calculated as the difference between the company s cost when it is subject to the obligation of providing the Universal Service and the cost of the same operation should the obligation not exist. It is AGCom s responsibility to verify the net cost of the Universal Service.

In March 2008, AGCom published a Decision which introduced a new method of calculating the net cost based on historical cost accounting (the previous was based on current cost accounting) in order to reduce the net cost for the provision of Universal Service. Such a calculation affected credits related to the Universal Service net cost for the years 2004, 2005 and 2006 which were re-calculated and submitted to AGCom under the new methodology. Telecom Italia and Vodafone appealed against this decision.

In September 2011, with Decisions 106, 107, 108 and 109/11/CIR, the AGCom confirmed the amounts to be paid by Vodafone for the years 1999-2003. Vodafone filed new appeals against those decisions before the Council of State and before the Administrative regional Court of Lazio.

With Decision 153/11/CIR, AGCom assessed the 2004 net cost for universal service. The Authority decided the applicability of the sharing mechanism and assessed the net cost for the year 2004 was 25.9 million euros. The contribution rate due by other operators (Vodafone, Wind and Fasteweb, Teletu Italia and BT) amounted to 8.7 million euros. Vodafone and Fastweb filed an appeal before the administrative regional court.

With Decision 139/12/CIR AGCom completed the process for the evaluation of the 2005 net cost of universal service. The Authority established the applicability of the sharing mechanism and determined the net cost for the year 2005 in total as 25.6 million euros. The contribution rate due by other operators (Vodafone, Wind and Fastweb, Italy TeleTu and BT) amounted to 10.3 million euros. Vodafone, Fastweb and H3G filed an appeal before the administrative regional court.

With Decision 46/13/CIR AGCom did not concede any contribution rate for the 2006 net cost.

Net costs calculations for the years 2007, 2008, 2009, 2010, 2011 and 2012 have been submitted by Telecom Italia to AGCom. AGCom is currently auditing the 2007 costs and has planned the closure of the 2008 and 2009 net cost at the end of 2014.

Public Telephony

In April 2010 AGCom confirmed that the criteria regarding the distribution of public telephones in Italy was no longer consistent with current social needs and removed quantitative obligations for Telecom Italia. As a result, Telecom Italia was authorized to remove public telephones after consultation with local municipalities and interested citizens. At the end of 2013 the total number of public telephones in place amounted to around 84,000.

Accounting separation and fixed network cost accounting

SMP operators are required to have a transparent accounting system as to their costs. These operators annually provide AGCom with both a description and a report on their cost accounting system 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 detailed rules set out in periodical market analyses.

The weighted average cost of capital employed (WACC) was set by AGCom at 9.36% nominal pre-tax in December 2010; Telecom Italia stated that this underestimated the cost and caused regulated service s costs to be undervalued and asked that the decision be reviewed.

Since 2008 the regulatory asset base includes Telecom Italia s goodwill which amounts (according to the 2012 statement of financial position) to 30.6 billion euros (approximately 45.8% of the total assets). Since the services provided by Telecom Italia are capital intensive, decisions related to the perimeter and the cost of capital are material: according to the regulatory accounting for 2010 (the last one audited by the NRA) the average employed capital for the sole regulated wholesale services amounts to approximately 11 billion euros. As a consequence, increasing WACC by 1% would increase by 110 million euros the reference cost base for the calculation of prices for wholesale services.

The regulatory accounting report for the year 2011 was produced during 2012 and delivered to AGCom in January 2013.

The regulatory accounting report for the year 2012 was produced in the first half 2013 and delivered to AGCom in November 2013.

At present, Telecom Italia is fully compliant with its regulatory accounting obligations.

Accounting separation and mobile network cost accounting

In connection with AGCom s second round of market analyses concerning the market for the termination of voice calls on individual mobile networks, AGCom requested SMP operators to produce economic and quantitative data related to regulatory accounting methodologies for the purpose of setting new network cap values. Consultation on the main assumptions of Mobile LRIC model was closed in November 2010.

The regulatory accounting report for the year 2011 was produced during 2012 and delivered to AGCom in January 2013.

The regulatory accounting report for the year 2012 was produced in the first half 2013 and delivered to AGCom in November 2013.

At present, Telecom Italia is fully compliant with its regulatory accounting obligations.

AGCom s 2011-2013 annual contribution fees

In January 2011, AGCom carried out an assessment of the compliance by Telecom Italia and all other telecommunications companies with respect to their obligation to pay annual contribution fees to the Authority for the years 2006 through 2010. On March 1, 2011, AGCom notified Telecom Italia that the Company had not fully paid its operating expenses due for the relevant periods, listing additional accounting items which, in its opinion, should have been included in the cost base used to calculate the fee. Telecom Italia was therefore required by AGCom to pay an extra sum for amounts not paid in the five years 2006-2010. Telecom Italia appealed this decision with the Lazio Regional Administrative Court which suspended the terms of the payment until the end of the proceeding.

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On March 3, 2011, AGCom published its decision on the payment of the annual contribution fee for the year 2011 with which the Authority raised the contribution share from 1.5 to 1.8 of 2009 communications sector revenues. On April 30, 2011, Telecom Italia paid (under reserve) 24.2 million euros, calculated consistently with the reasoning on which it calculated its fees for the 2006-2010 period and, at the same time, contested the 2011 decision with the Lazio Regional Administrative Court in relation both to the increase in the level of the contribution and to the broadening of the accounting items to be considered in the cost basis.

Regarding the two appeals filed by the Company, two orders were published by the Lazio Regional Administrative Court in December 2011. These orders suspended the above-mentioned rulings and referred to the EU Court of Justice a preliminary question, i.e. the assessment of AGCom s national financing system consistency with the principles deriving from the EU sectorial Directives.

With the Decisions 650/11/CONS and 478/12/CONS on the payment of the fees for the years 2012 and 2013, AGCom set the calculation methodology respectively at 2.0 and on 1.9 for 2010 and 2011, respectively of communications sector revenues. Telecom Italia paid (under reserve) the contributions for the two years (for 2012: 23.0 million Euros; for 2013: 22.0 million euros) and challenged both decisions before the Regional Administrative Court of Lazio.

On July 18, 2013, the EU Court of Justice issued a judgment affirming the principle of Art. 12 of the Authorization Directive (Directive 2002/20/EC) stating that any administrative charges imposed on undertakings, providing a service or a network under the general authorization or to whom a right of use has been granted, shall, in total, cover only the administrative costs which will be incurred in the management, control and enforcement of the general authorization scheme. Moreover, there should be balance between these administrative costs imposed on undertakings and the total cost related to these activities. The European Court of Justice confirmed also that any administrative charges imposed on undertakings shall be objective, transparent and proportionate.

On March 5, 2014 the Lazio Regional Administrative Court in response to Telecom Italia s appeals, annulled the following decisions:

- Decision 99/11/CONS, concerning the non-payment by Telecom Italia of part of the AGCom contribution (equal to 26.6 million euros not paid by Telecom Italia for which there is a specific provision for liabilities and charges) for the period 2006-2010;
- Decision 599/10/CONS, which established the bases and the extent of the contribution to be paid for the year 2011 in which the contribution rate was raised from 1.5 (set for 2010) to 1.8 (the paid contribution of 24.2 million euros was calculated consistently with the appeal against Decision 99/11/CONS and was paid with a reservation).

On March 11, 2014, Decision 547/13/CONS on the payment of AGCom contribution for the year 2014 (calculated on the 2012 financial statement data) was issued.

The guidelines for the calculation and the bases of payment of the 2014 contribution were changed compared to the ones carried out in the previous years. In particular: a) the amount to be paid was set at a level equal to 1.4 of revenues resulting from the voice A1 (revenues for sales and services) of the income statement for the year 2012 (thus, contrary to 2013, it includes revenues for the sale of equipment and terminals and the revenues paid back to third party operators); and b) there is less time to make the payment (payments due by April 30 together with the calculation model).

Broadband and digital divide

Over the last few years, AGCom has introduced several measures aimed at endorsing the development of fixed and mobile broadband through the provision of simplified procedures to build the relevant networks.

Particularly important in this respect were laws introducing:

- a lighter authorization procedure for the deployment of broadband mobile equipment; and,
- simplified rules for the use of innovative digging techniques (mini-trench) for the deployment of optical fiber equipment.

In 2010 the simplification process also affected the authorization procedure for the deployment of electronic communication equipment in protected areas. Since half of Italy is considered a protected area (*area di conservazione*), provisions aiming at accelerating digging authorizations are important levers for broadband expansion throughout the country.

In 2011 new laws were implemented to simplify the administrative procedure for the expansion of small mobile equipment (0.5 sqm area) and of low power equipment (7 watt). The deployment of mobile equipment falling within the above-mentioned thresholds was actually exempted from the DIA regime (*Denuncia di Inizio Attività* Commencement Notice) previously provided for by the Electronic Communications Code and subject to a simple notification, to be made at the time of commencement of the works.

Further important measures to promote the development of fixed and mobile networks were introduced by means of art. 14 of the Decree Law. 179/2012 Further urgent measures for the economic development of the Country enacted by Law 221/2012. Particularly regarding the deployment of optical fiber and cables the measures provide for:

- reducing the terms already established by the Code of the Electronic Communications for the release of authorizations to dig by reducing the period of the administrative procedure through introduction of the tacit approval principle;
- modifying the rules of the roads (Codice della Strada) by introducing the use of techniques aimed at limiting the environmental impact by reducing the depth of excavations; and
- established that telecommunication operators can access common parts of buildings also without the consent of the condominium in order to lay optical fiber.

With reference to the diffusion of the mobile digital technologies, art. 14 modified the criteria for calculation of electromagnetic field allowing a better use of the available electromagnetic power. The implementation of this rule is subject to the adoption of a further regulation which is, at present, under discussion.

The new law also improved the simplification introduced by the Law 211/11 granting the possibility to install equipment up to 10 watts after the provision to City Hall and the Regional Agency for the Environment of a mere self-certification of activation.

4.3.2 Privacy and Data Protection

Telecom Italia must comply with Italy s Personal Data Protection Code (Legislative Decree June 30, 2003 n. 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. Consent of the data subject is necessary 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.

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 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. At present, data retention terms for crime prevention and prosecution are: 24 months for telephony traffic (fixed and mobile); 12 months for electronic communications traffic; and 30 days for unsuccessful call attempts.

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 electronic communication operators 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 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 of object by having the respective telephone numbers entered in a public opt-out register , which came into force on February 1, 2011.

Recent amendments

Legislative decrees, which transposed the EU 2009 regulatory framework into Italian law, including the revised e-Privacy Directive, have been effective since June 1, 2012.

Notably, legislative decree no. 69/2012 amended the Privacy Code with reference to the use of cookies and to data breaches.

These amendments set out that storing information, or accessing information already stored in the terminal equipment of subscriber/user (i.e. by cookies) shall only be permitted on condition that the subscriber/user has given his consent after being informed by simplified arrangements, that are not yet defined by the Italian Data Protection Authority which is currently discussing this issue with the consumer associations and other stakeholders (i.e. industry associations involved). Consent may be given through the use of specific computer programs or devices which may be easily managed by the users.

Cookies are exempted from the requirement of informed consent, if they satisfy one of the following criteria: (i) are used exclusively for the purpose of carrying out the transmission of a communication on an electronic communications network; or (ii) are strictly necessary to the provider of an information society service that has been explicitly requested by the subscriber/user to provide the above service.

Moreover, providers of publicly available electronic communications services 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 of 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.

Further developments

On December 12, 2013, the Data Protection Authority issued a draft provision relating to the processing of personal data in the context of mobile remote payment services, which sets the rules for the processing of information about users who purchase digital services and products, paying remotely via their phone bills. Before issuing the final version of the provision, the Data Protection Authority has submitted it to a public consultation, which ended on March 4, 2014.

As indicated by the Authority, this initiative aims to protect those who use smartphones and tablets to buy services, to subscribe to online newspapers, to buy e-books, or to download movies or games. It is a new form of payment, which is expected to expand rapidly, emphasizing the process of dematerialization of money transfers.

The Data Protection Authority s provisions address the three main actors of mobile payment services: the electronic communications providers, which provide customers with an electronic payment service via their mobile phone (through the use of a prepaid telephone card or through the telephone bill), the aggregators (hub), which provide the technology platform for the supply of digital products and services; and the merchants, who offer and sell digital services, online newspapers, e-books, games and other services, including those intended for an adult audience.

In brief, all three categories of economic operators are required to provide a detailed notice, to explain to customers what personal data will be processed and for what purposes. Marketing activities, profiling, or disclosure of data to third parties may be carried out only with a specific consent of the customer. A specific consent is also necessary in case of processing of sensitive data, for example in relation to services intended for adults.

Electronic communications providers, aggregators and merchants are also required to adopt security measures to ensure the confidentiality of the data, such as strong authentication mechanisms for accessing information systems, logging procedures for tracking the data processing operations, cryptographic systems to protect data confidentiality. Furthermore, technical and organizational measures should be put in place to avoid the possibility of cross-referencing the different types of data available to the telephone operator, with a view to enhance customer profiling programs. Users should be given an easy option to disable the services intended for an adult audience. User data processed by the operators, aggregators and merchants must be deleted after six months.

4.3.3 ANTITRUST IN ITALY

Legislation on competition

Telecom Italia is subject to Italian competition law, and namely the Law of October 10, 1990 n. 287 (Provisions aiming at protecting competition and the market) set up the *Autorità Garante della Concorrenza e del Mercato*, or Antitrust Authority .

The Antitrust Authority is responsible for:

(i) applying Law 287/1990 and supervising: (a) restrictive agreements; (b) abuses of a dominant position; and (c) concentrations of enterprises;

(ii) applying, whenever the necessary conditions are met, the relevant EU provisions (i.e., Articles 101 and 102 of the Treaty on the Functioning of the European Union);

(iii) applying Legislative Decree September 6, 2005 n. 206 concerning unfair commercial practices; and,

(iv) monitoring conflicts of interest in the case of individuals holding government positions.

In addition, the Antitrust Authority may:

(i) adopt interim measures; and

(ii) enforce commitments binding upon the proposing parties in order to dispel identified anticompetitive concerns closing the investigation without any finding of a violation.

Antitrust Proceedings

For a discussion of the significant antitrust proceedings to which the Telecom Italia Group is a party please see Note-Contingent Liabilities, Other Information, commitments and Guarantees of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

4.3.4 Antitrust issues at the European level

Legislation on competition

Telecom Italia is subject to the European competition law. European competition policy was developed from the three central rules set out in the Treaty on the Functioning of the European Union:

· agreements between two or more independent market operators which restrict competition are prohibited by Article 101 of the Treaty on the Functioning of the European Union (TFEU or Treaty). This provision covers both horizontal agreements (between actual or potential competitors operating at the same level of the supply chain) and vertical agreements (between firms operating at different levels, i.e. agreement between a manufacturer and its distributor). Only limited exceptions are foreseen in the general prohibition. The most flagrant example of illegal conduct infringing Article 101 is the creation of a cartel between competitors (which may involve price-fixing and/or market sharing).

· Article 102 of the Treaty prohibits firms holding a dominant position on a determined market to abuse that position, for example by charging unfair prices, by limiting production, or by refusing to innovate to the prejudice of consumers.

· State aid distorting competition and trade within the EU are prohibited (art. 107 of the Treaty). State aid is defined as an advantage in any form whatsoever conferred on a selective basis to undertakings by national public authorities. Therefore, subsidies granted to individuals or general measures open to all enterprises are not covered by Article 107 of the Treaty and do not constitute State aid. Furthermore, the EC Treaty provides that in some circumstances, government interventions are necessary for a well-functioning and equitable economy, stating some exceptions and sector specific rules. The Guidelines for the application of State aid rules in relation to rapid development of broadband networks establish that public funding of broadband projects is not considered state aid if one of three exemptions are used:

- the public authority invests under the same conditions that would be applied to a private investor (MEIP principle);

- the public contribution is limited to the compensation of the provision of a service of general economic interest (SGEI principle);

- it meets certain conditions (promoting the economic development of underdeveloped areas, promoting the execution of an important project of common European interest or to remedy a serious disturbance in the economy of a Member State, facilitating the development of certain activities or areas, promoting culture and heritage conservation.

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

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

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

Main Antitrust proceedings pending before the European Commission

In February 2011, Telecom Italia and the Autonomous province of Trento (PAT) signed a Memorandum of Understanding (MoU) to establish a Public-Private Partnership for NGAN (fiber optics) deployment in the Trentino region (around 150,000 households). The Public-Private Partnership was based on a market-driven approach (no state aid) and intended to allow a shorter time to deployment for the Trentino region an area where only one broadband network operator is present). The project included the participation of PAT, Telecom Italia and other industrial partners.

Under the MoU a newly established corporation (Newco the Trentino NGN Joint Venture) was to deploy a fiber network (dark fiber) based on a FTTH 3-GPON architecture and sell accesses to any Telco/ISP operator based on equivalence principles. Telecom Italia was to confer network assets useful for NGAN deployment and have the possibility to acquire a majority stake or 100% stake of Newco by exercising a call option awarded to it by a shareholders agreement that governs the public-private partnership.

On July 25, 2012, the European Commission opened an investigation aiming at assessing compliance of the Trentino NGN Joint Venture with European rules on State aid.

In February 2014, PAT officially announced its exit from the capital of Trentino NGN, the public-private company in which Telecom Italia held a shareholding of 41.07%.

The decision was made considering the extended period of waiting and inactivity following the investigation of the European Commission which started in July 2012.

PAT s exit from the capital was announced to the European Commission and, therefore, the reasons that triggered the start of proceedings no longer exist.

On the basis of the agreements between the parties, on February 28, 2014 Telecom Italia acquired the shareholding held by PAT (52.2%) and a part (4.2%) of the shareholding held by one of the minority shareholders (La Finanziaria Trentina S.p.A.), for a total outlay of around 17 million euros. As a result, Telecom Italia now has control of the company.

4.3.5 Telecommunication Regulatory Framework in Brazil

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

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

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

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

With regard to the operational activity of TIM, Intelig and TIM Fiber, ANATEL developed regulations for mobile communication services (**SMP** Personal Mobile Services), fixed communications services (**STFC**) and data transmission and multimedia services (**SCM**).

In October 2008, ANATEL approved the proposed General Update Plan in Telecommunications Regulation (**PGR**) aiming at planning the actions to be promoted by ANATEL for the next ten years, in order to update the regulation of telecommunications in Brazil. Implementation of the Local Loop Unbundling and Virtual Mobile Operators were included in the expected short-term actions by the PGR.

The exploitation of mobile services by Mobile Virtual Operators, based on commercial agreements between established operators and virtual operators was introduced in 2010.

Authorizations

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

Since the launch of GSM mobile services in 2002, four main players operate in the mobile market (Claro, Vivo, Oi and TIM) and compete nationwide. Third generation mobile services were introduced in 2008 while fourth generation mobile services started in 2012.

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

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

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

Interconnection rules

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

The interconnection charges for fixed network (**TU-RL**) amount to a percentage of retail prices for the incumbent operators. Alternative operators (including TIM) can apply asymmetrical interconnection rates exceeding up to 20% the one applied by the incumbents.

The values of mobile interconnection rates (**VU-M**) are freely negotiated by operators. The National Regulatory Authority has, however, arbitration power in case of disagreement being able to determine a reference value according to criterion set up by regulation.

Interconnection agreements are subject to prior approval by ANATEL.

National Broadband Plan

In May 2010, the Brazilian government approved a National Broadband Program to extend national broadband coverage by 2014. The plan includes the reactivation of Telebras, responsible for managing and operating a national fiber network, and a new framework aimed at reducing the wholesale connectivity price and consequently allowing a more affordable price of entry level broadband residential connections.

Other measures in the plan are represented by fiscal incentives to induce the operators to offer broadband access to low income families, public investments in research and financial support to national industries.

Main regulatory developments

· **Fixed Termination Rates**

In May 2012, ANATEL approved a new regulation on fixed termination rates setting local interconnection rates in case of a traffic unbalance of at least 75% of traffic exchanged amongst fixed network operators. Fixed networks will only remunerate each other when there is a 75%-25% imbalance of interconnection traffic (previously, it was 55% versus 45%). Below that threshold a system of bill and keep applies.

ANATEL also decided that starting from January 2014, the Bill and Keep system will generally apply, i.e., all operators take rights of tariffs generated on their networks, and no interconnection remuneration will be in place.

· **Mobile interconnection rate glide path**

As a result of a November 2012 decision by ANATEL on market analysis (PGMC), the full billing of the exchanged traffic was maintained amongst the undertakings considered as having SMP in the market of mobile interconnection (Claro, Oi, TIM and Vivo), whereas the partial bill and keep will be applied amongst operators being designated as having SMP and operators not designated (Sercomtel, CTBC and Nextel).

The imbalance between incoming and outgoing traffic over which the termination fee will be paid amongst operators being designated as having SMP and operators not being designated will be 80% from January 2013 to February 2015. From that date, it will decline to 60% until February 2016, when the full billing methodology will be applied again.

ANATEL also modified the October 2011 glide path to be applied to the reference value of the mobile termination for calls coming from the fixed networks.

As a result, the expected reduction of MTR was confirmed: current levels are at 0.25 R$/min (~0.1 /min) and the subsequent expected reduction should set the value at 0.17 R$/min (~0.07 /min) in 2015. From 2016, the values will be cost-oriented and, according to the statement by the ANATEL rapporteur, should converge to approximately R$$0.10/min (approximately 0.04/min).

· **Leased Lines**

In May 2012, ANATEL approved new regulations on Wholesale Leased Lines (EILD).

Operators holding a SMP are obliged to provide EILD at a reference price 30% lower than the one previously practiced. The provision of special Leased Lines, at a higher price than the standard lines, should be amply justified and limited to requests requiring larger investments or, only in case of copper lines, when the premises are located far from the central offices. Existing contracts shall be adapted to the new ANATEL provisions.

· **Assignment of frequencies in the 2.5GHz and 450MHz bands**

In June 2012, the auction for the allocation of radio frequencies in the 2.5GHz band was held. Together with the 2.5GHz frequencies, enabling 4G/LTE applications, a portion of frequencies in the range of 450MHz was assigned.

TIM Brasil was awarded a 10MHz block of national spectrum and 6 regional licenses in the 2.5GHz band bidding approximately 148 million euros.

Coverage obligations:

- 450MHz: by December 31, 2015, rural areas within 30 km from the City Hall covered with voice and data services;

- 2.5 GHz: by December 31, 2016, gradual coverage by means of 4G services of the cities with more than 100,000 inhabitants (starting from the cities involved in the 2014 FIFA World Cup).

- **New allocation of the 700 MHz band**

A public consultation proposed by ANATEL on the new allocation of the 700 MHz band was held from February 21 to April 14, 2013. The draft Regulation on Conditions for Use of Radio Frequencies concerns the allocation of the range of frequency from 698MHz to 806MHz (the so called 700 MHz band), allowing the allocation of the band for the provision of fourth generation telecommunication services and high speed internet.

Currently, the 700 MHz band is used for broadcasting. The new destination will be possible due to the transition from analogue TV to digital TV, which allows greater density in the frequency range dedicated to broadcasting, freeing up more space for the provision of telecommunications services.

In October 2013, after a public consultation held in April 2013, ANATEL approved the Resolution and Regulation on Conditions for the allocation of the 700 MHz band (from 698 MHz to 806 MHz). The 700 MHz auction is expected to be held by 2014, after the publication of the Regulation against interferences and to the conclusion of the replanning of broadcasting channels.

- **Cost models implementation**

In 2005, ANATEL issued a ruling for Accounting Separation and Cost Accounting , introducing for license holders and groups holding SMP in the offering of fixed and/or mobile network interconnection and wholesale leased lines (Exploração Industrial De Linha Dedicada EILD) the obligation to present the Accounting Separation and Allocation Document (Documento de Separação e Alocação de Contas DSAC). Starting from 2006 (for fixed operators) and 2008 (for mobile operators), operators (TIM included) are providing ANATEL with the requested information.

In August 2011, ANATEL launched a project called Modelo de Custos , setting up a consortium of consultants in charge of developing, within two years, the cost model for fixed and mobile networks for communications services. In summary, the cost modeling in Brazil that will support ANATEL´s decisions regarding termination rates will be composed of 4 main systems of information: (i) FAC-HCA to analyze cost recovery, (ii) FAC CCA to analyze new entrants, (iii) Top Down LRIC to improve competition and new products launch and (iv) Bottom Up LRIC to establish the termination rates values. As a result of the beginning of this project, ANATEL approved the adoption of MTR reference values using the PGMC (as defined below), with annual tariff decreases and established that from 2016, the cost model results will be applied.

Between July and August 2012, ANATEL held a public consultation on the conceptual approach and recommendations for the construction of the LRIC model for fixed and mobile networks.

In August 2013, ANATEL revised all the cost models methodology, increasing the level of information that should be sent to the Agency and standardizing the models used by the operators in order to have comparable results. In October 2013, ANATEL launched a consultation regarding a proposal for the development of criteria for the setting of maximum levels of fixed and mobile termination rates and wholesale leased lines (EILD), on the basis of cost models that should be applied starting from 2016.

On February 10, 2014, ANATEL approved the decision (Resolução Nº 630) regarding the methodology of the Weighted Average Cost of Capital (WACC) to be applied to the Telecommunication sector.

· **General Competition Plan (PGMC)**

In November 2012, ANATEL published the General Competition Target Plan (PGMC), introducing tools for market analysis, for the identification of operators with market power and for the consequent imposition of asymmetric measures.

The approval of the PGMC represents a milestone in the development of Brazilian regulation, which is gradually evolving towards a model based on market analysis and towards the application of ex ante regulatory obligations in presence of obstacles to the development of competition.

The decision opens significant market power operators fixed networks to unbundling and wholesale broadband access, and improves transparency measures by the creation of a Supervisory Board to ensure the respect of the wholesale service quality levels.

Fixed networks in fiber optics will benefit from a regulatory holiday of nine years, which will have to be confirmed in four years, when PGMC will be revised.

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

The most important measure imposed in the fixed access market is the further opening of wholesale fixed networks through the introduction of access obligations on copper networks (eg, Leased Lines, bitstream unbundling) for the vertically integrated, fixed operators having SMP: Oi, Telefónica and Telmex.

TIM Brasil was designated as having SMP in the wholesale markets of mobile termination, national roaming and the access to ducts and trenches. The measures applied to an SMP operator in those markets include:

- a glide path on mobile termination rates for the 2013-2015 period, based on a price cap system, with a decrease of almost 50% in the next three years;
- the obligation to offer the service of national roaming to operators not having SMP: regional licensed CTBC and Sercomtel and national licensed Nextel;
- the obligation to offer the access to own ducts and trenches.

4.3.6 Broadcasting Regulatory Framework in Italy

Consolidated Act on Broadcasting

Broadcasting in Italy is mainly regulated by the Legislative Decree July 31, 2005 n. 177 and subsequent modifications. It defines the general principles for the provision of audiovisual media services and the rules to be followed by:

· Content provider both for linear and on demand contents;

· Service provider for interactive services, conditional access (including pay- per-view) and electronic programs guide;

· Network operators.

Following the sale of La7 S.r.l. and MTV Italia S.r.l. the Group acts with Telecom Italia Media Broadcasting Srl (**TIMB**) as a pure network operator, not integrated with any content provider. TIMB operates three national terrestrial networks hosting more than 20 independent TV channels.

Broadcasting frequencies

In response to the EU infringement procedure 2005/5086, in 2008 the Government approved Law n. 101/08, replacing the special licensing regime for digital terrestrial network operators with an authorization regime compliant with EU Directives.

Following these modifications, all licenses have been converted to general authorizations.

The European Commission approved the changes introduced by Law 101/08, but asked more spectrum resources to be assigned to new entrants (the Digital Dividend). In response to these further requests, AGCom resolution 181/09/CONS set up the criteria for the complete digital conversion of the television terrestrial networks.

In this conversion, Telecom Italia Media Group has been wrongly assimilated to RAI and Mediaset. For this reason TIMB has been assigned only 3 out of the 4 networks managed by the Group before the switch off, even if all other network operators have been assigned networks on a one-to-one basis. In 2009, TIMB presented an appeal against this decision in order to safeguard its interests. The administrative court of lazio (TAR Lazio) rejected the appeal. TIMB is going to present the appeal to the Council of State.

On June 28, 2012, MISE formally finalized to TIMB the assignment of 3 digital rights for national broadcasting with a duration of twenty years.

AGCom resolution 351/13/CONS and subsequent modifications established the National Assignment Plan for Broadcasting Frequencies (PNAF Piano Nazionale di Assegnazione delle Frequenze) which identifies 22 national terrestrial networks with 80% coverage of national territory.

The PNAF reserved channels 57-60 UHF for mobile services. Consequently TIMB has to re-farm from the originally assigned channels 55-60 UHF. The re-farming must be completed by June 30, 2015.

Out of the 22 PNAF networks, 3 will constitute the Digital Dividend to be assigned on the basis of an economic bidding procedure. These frequencies shall be assigned for a period of 20 years. The starting price is approximately 30 million euros each. Rai, Mediaset and TIMB cannot participate the bid, SKY can participate only for one lot, existing networks operators with two networks can participate for two lots and new entrants and small operators for all the three lots.

The bid is expected to be finalized by summer 2014.

In response to EU Commission request, AGCom will verify that each network operator will not reach the cap of 5 multiplexers.

The Law 44/12 requires AGCom to define the administrative contribution for frequency rights, to be applied from January 1, 2013. This regulation is still pending.

4.4 DISCLOSURE PURSUANT TO SECTION 219 OF THE IRAN THREAT REDUCTION AND SYRIA HUMAN RIGHTS ACT OF 2012 (ITRSHRA)

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 added Section 13(r) to the Exchange Act. Section 13(r) requires an issuer to disclose in its annual or quarterly reports filed with the SEC whether the issuer or any of its affiliates has knowingly engaged in certain activities, transactions or dealings with the Government of Iran, relating to Iran or with designated natural persons or entities involved in terrorism or the proliferation of weapons of mass destruction during the period covered by the annual or quarterly report. Disclosure is required even when the activities were conducted outside the United States by non-U.S. entities and even when such activities were conducted in compliance with applicable law.

In accordance with our Code of Ethics and Conduct, we seek to comply with all applicable international trade laws including applicable sanctions and embargoes.

Activities relating to Iran

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

i. roaming agreements with the following Iran mobile phone operators: Taliya, KFZO TKC, Irancell (MTN) and Mobile Company of Iran (MCI);

ii. commercial relationship for the delivery of traffic from Iran to our networks and from our networks to Iran (**International Carrier Agreements**). To this end, our subsidiary Telecom Italia Sparkle S.p.A. (**TI Sparkle**) entered into agreements with Telecommunication Company of Iran. In addition, also Telecom Italia S.p.A. has entered into certain agreements (of a small amount) for the provision of TLC services (marine radio traffic) with Telecommunication Company of Iran and Islamic Republic of Iran Shipping Lines.

Roaming agreements

We operate one of the largest mobile networks in Italy. Through our foreign subsidiaries, we also have large mobile operations in Brazil (Tim Participações S.A. by means of its subsidiary TIM Celular S.A.) and Argentina (Telecom Argentina S.A. by means of its subsidiary Telecom Personal S.A.). It is pursuant to roaming agreements that a mobile customer is able to use his or her mobile phone on a network different from such mobile subscriber s home network. The following is the definition of roaming that we provide in the glossary of this Annual Report (see 4.5 Glossary of Selected Telecommunications Terms):

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

Like all major mobile networks, in response to the competition and customers demands, Telecom Italia, Tim Participações S.A. and Telecom Argentina S.A. have entered into roaming agreements with many foreign mobile networks, so as to allow their customers to make and receive calls abroad.

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

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

The calls made and received by our customers who use the services of the Foreign Network are billed by the Foreign Network to us at the roaming rate agreed upon in the applicable roaming agreement. Then, we will bill our end customers according to the specific tariff plan of the subscription they have signed with us. Likewise, we bill the Foreign Network at the roaming rate agreed upon in the applicable roaming agreement. The Foreign

Network will bill its clients for the calls made and received using our networks according to their specific offer to their customer base. Roaming contracts do not, generally, contemplate other fees or disbursements.

In 2013, the impact on net profit (loss) arising from such Roaming contracts is analyzed as follows:

- our total revenues from roaming agreements with Iranian networks were approximately 182 thousand euros (of which 159 thousand euros recorded by Telecom Italia S.p.A.);

- our total charges from roaming agreements with Iranian networks were approximately 212 thousand euros (of which 210 thousand euros recorded by Telecom Italia S.p.A.).

The purpose of all of these roaming agreements is to provide our customers with coverage in areas where we do not own networks. For that purpose, we intend to continue maintaining these agreements.

International Carrier Agreements

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

In 2013, the impact on net profit (loss) arising from the above International Carrier Agreements is analyzed as follows:

- our total revenues from traffic from networks located in Iran to our networks were approximately 1.4 million euros; and

- our total charges from traffic to networks in Iran from our networks were approximately 0.5 million euros.

The purpose of this agreement is to allow exchange of international traffic. Consequently, we intend to continue maintaining this agreement.

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All such amounts of revenues and charges are deminimis with respect to our consolidated revenues and operating expenses, respectively.

4.5 GLOSSARY OF SELECTED TELECOMMUNICATIONS TERMS

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

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

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

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

ADSL (Asymmetric Digital Subscriber Line). A modem technology which converts existing twisted-pair telephone lines into access paths for multimedia and high-speed data communications. ADSL can transmit up to 6 Mbps to a subscriber, and as much as 832 Kbps or more in both directions. Such rates expand existing access capacity by a factor of 50 or more without new cabling.

Analog. A transmission which is not digital, e.g., the representation of voice, video or other not in digital form.

ANOs (Alternative Network Operators). Companies other than the incumbent operator which operate telecommunications systems in a national market.

Backbone. Portion of telecommunication network with the highest traffic intensity and from which the connections for services in the local areas depart.

Bitstream. Wholesale broadband access service which consists of supplying an access to XDSL Telecom Italia network and transmission capacity to the network of another Operator.

Broadband services. Services characterized by a transmission speed of 2 Mbit/s or more. According to international standards, these services are divided into two categories: (i) Interactive services, including videotelephone/videoconferencing (both point-to-point and multipoint); videomonitoring; interconnection of local networks; file transfer; CAD; highspeed fax; e-mail for moving images or mixed documents; broadband videotex; Video on demand; retrieval of sound programs or fixed and moving images; and (ii) Broadcast services, such as sound programs, television programs (including high-definition TV and pay TV) and selective document acquisition.

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

BSC (Base Station Controller). Interface with the MSC switching exchange. Has the task of supervising and controlling radio resources, both during the phase when a call is being set up and during the maintenance phase.

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

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

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

Carrier. Company that makes available the physical telecommunication network.

CDMA (Code Division Multiple Access). A digital wireless technology used in radio communication for transmission between a mobile phone and a radio base station. CDMA was developed by Qualcomm, and commercially introduced in 1995. It enables the simultaneous transmission and reception of several messages, each of which has a coded identity to distinguish it from the other messages.

Cell. Geographical portion of the territory illuminated by a BTS: 900MHz / 1800MHz.

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

Channel. The portion of a communications system that connects a source to one or more destinations. Also called circuit, line, link or path.

Closed User Group. A group of telecommunications users that share a longstanding economic interest. This definition has arisen in a regulatory context; it permits the partial liberalization of some telecommunications services.

Community. A group of customers who have subscribed to specific offers which include special pricing for traffic towards other customers of the same telco.

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

CPS (Carrier Pre-selection). Permits a customer to pre-select another operator as an alternative to Telecom Italia without dialing an identifying code.

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

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

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

Digital divide. The gap between people with effective access to digital and information technology and those with very limited or no access at all. The term encompasses among others: gaps in ownership of or regular access to a computer, internet access today primarily broadband, and related skills.

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

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

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

DVB H (Digital Video Broadcasting Handheld). DVB H technology combines digital video with the Internet Protocol (IP): contents are subdivided into packets using the same basic technology employed by the Internet. The use of IP technology allows the transmission of TV and radio programs, web pages, music and video games to smartphones/PDA s.

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

EDGE (Enhanced Data for GSM Evolution). This is a powerful technology that increases the data transmission rate of the GPRS standard from rates of 30-40 kbit/s to more than 100 kbit/s and even up to 200 kbit/s with optimal radio conditions.

Exchange. See Switch.

FTT HOME, FTT CURB, FTT (*Fiber to the*)**.** It is the term used to indicate any network architecture that uses fiber optic cables in partial or total substitution of traditional copper cables used in telecommunications networks. The various technological solutions differ in the point of the distribution network where the fiber connection is made, with respect to the end-user s location. In the case of **FTT Curb** (Fibre to the Curb) the fiber connection reaches the equipment (distribution cabinet) located on the pavement, from where copper connections are run to the customer; in the case of **FTT Home** (Fibre to the Home), the fiber connection terminates inside the customer premises.

Gateway. A connection between the LANs and WANs of one or more suppliers. Can also mean the access nodes to international networks of various kinds.

GGSN (**Gateway GPRS Support Node**). Junction connecting an external packed network or GPRS system of a different mobile network.

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

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

GSM (Global System for Mobile Communication). A standard for digital cellular telephony used in the world and working on 900MHz and 1800MHz band.

HDSL (High-bit-rate Digital Subscriber Line). Technology for business customers which allows the provision of local loop circuits at higher speeds and lower cost than through conventional means.

Home Access Gateway Access Gateway Home gateway Residential Gateway. A residential gateway is a home networking device, used as a gateway to connect devices in the home to the Internet or other WAN.

HSDPA (High-Speed Downlink Packet Access/UMTS Hi Speed Universal Mobile Telecommunications System). UMTS evolution allows broadband connections up to 3.6 Mbps.

HLR (**Home Location Register**). Database where are recorded the customer data.

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

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IEEE (Institute of Electrical and Electronics Engineers). An organization of engineers, scientists and students involved in electrical, electronics and related fields. IEEE also functions as a publishing house and standards body.

IMSI (International Mobile Subscriber Identity). The International Mobile Subscriber Identity is a unique identification associated with all cellular networks. It is stored as a 64 bit field and is sent by the phone to the network.

Interactive. Allowing the user to change some aspect of the program.

Internet. The world s best-known data network. Initially used by the U.S. Department of Defense, the Internet now provides an interface for networks based on different technologies (LANs, WANs, data networks, etc.), but which use the TCP/IP protocol platform.

Internet Protocol TV or IPTV. The service provides the distribution of television channels over Internet connections using the IP protocol. More than just duplicating a distribution means, IPTV enables interactive services so that the viewer can interact with the show as it is broadcast.

IP (Internet Protocol). A set of communications protocols for exchanging data over the Internet.

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

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

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

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

ITU (International Telecommunication Union). The worldwide policy, spectrum regulation and standardization body in telecommunication operating under the auspices of the United Nations.

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

LLU (Local Loop Unbundling). System through which OLO can rent the last mile of local loop, connecting to their equipments.

Local Loop. Copper wire-couple, through which the telephone connection reaches users; it is the foundation of traditional telephone lines and it is often called last mile .

LTE (Long Term Evolution). Represents the fourth generation (4G) mobile phone systems. LTE belongs to the standard 3GPP (Third Generation Partnership Project) and it is the latest evolution of GSM / UMTS / HSPA standard. LTE offers a higher spectral efficiency in bits per Hertz and download bandwidth up to 150 Mbit / s per cell reducing the latency time. LTE enabled services that require high interactivity (eg, gaming, video conferencing). A further development of LTE, called LTE Advanced , will perform bitrates even higher.

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

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

MGW (Media GateWay). Junction for the connections which carry user traffic.

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

MS SPRING. A form of traffic protection mechanism for the equipment.

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

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

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

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

NGAN (New Generation Access Network). New generation network access that can be realized with different technological solutions, typically fiber optic and VDSL pairs.

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

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

NGN2 (Next Generation Network). New generation network created by Telecom Italia to meet the demands of corporates, public administrations and citizens. The new network architecture guarantees an infrastructure designed to face multiple offers by increasing customisation levels and bandwidth availability, removing bandwidth limits and providing an impressive capacity along with a wide selection of access systems.

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

Node B (counterpart of BTS in GSM). This is the Radio Base Station in UMTS technology which, via an antenna, sends the UMTS radio signal which creates the coverage of the cell (typically 3 for Node B). It also performs functions which are strictly associated with managing the radio connection.

Optical fiber. Thin glass, silica or plastic wires, building the interstructure base for data transmission. An optical fiber cable contains several individual fibers, and each of them is capable of driving a signal (light impulse) at illimited bandwidth. Optical fibers are usually employed for long-distance communication: they can transfer heavy data loads, and the signal reaches the recipient, protected from possible disturbances along the way. The driving capacity of optical fibers is higher than the traditional cable ones.

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

OTT (Over the Top) players. Operators offering content and services on the internet without owning the proprietary TLC network infrastructure.

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

Packet-Switched Services. Data services based on parceling or breaking the data stream into packets and switching the individual packets. Information transmitted (whether voice or data) is segmented into cells of a standardized length, which are then transmitted independently of one another, allowing maximization of available capacity and usage of single transmission path for multiple communications. The cells are then reassembled upon reaching their destination.

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

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

PCS. Personal communications services.

PDA (Personal Digital Assistant). A handheld computer with a memory size up to several megabytes and a touch-sensitive screen, often using a stylus to input data. The PDA is mainly used for calendar, address book and memoranda functions, but can incorporate advanced office or multimedia functions such as voice calls, messaging, video, mp3 player, etc.

Penetration. The measurement of the take-up of services. As of any date, the penetration is calculated by dividing the number of subscribers by the population to which the service is available and multiplying the quotient by 100.

Platform. The total input, including hardware, software, operating equipment and procedures, for producing (production platform) or managing (management platform) a particular service (service platform).

POP (Point Of Presence). Internet provider locations for network connection, often through dial-up phone lines. When a Pop is within a specific local area, users can connect to the Internet by dialing a local phone number.

POTS (Plain Old Telephone Service). Refers to the basic telephony service (homes use) supplying standard, single-line telephones, fixed-line services and access to public voice telephony network. In contrast, telephone services based on digital communications lines, such as ISDN, are not POTS. The main distinctions between POTS and non-POTS services are speed and bandwidth. POTS is generally restricted to about 52 Kbps.

PSTN (Public Switched Telephone Network). The public telephone network delivering the basic telephone service and, in certain circumstances, more advanced services.

RNC (Radio Network Controller counterpart of BSC in GSM). Supervises and controls radio resources, both during the phase of setting up the call, and during the maintenance phase (for example, handover between different cells). Furthermore, it handles connectivity from and towards: Node B, MSC*, and other RNC.

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

RTG. Is the network of the world s public circuit-switched telephone networks in much the same way that the Internet is the network of the world s public IP-based packet-switched networks.

SDH Standard (Synchronous Digital Hierarchy). The European standard for high-speed digital transmission.

Service Provider. The party that provides end users and content providers with a range of services, including a proprietary, exclusive or third-party service center.

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

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

Shared Access. Methods of shared access, through the user s duplex cable, with another TLC service provider. This method permits the retention of voice telephony from Telecom Italia (or other operators) alongside ADSL on the proprietary network of the shared access operator, that is, not passing through the Telecom Italia networks but travelling directly along the operator s channels at the substation.

SME. The small- and medium-size enterprise market which consists of businesses having between 3 and 50 employees.

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

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

Switch. These are used to set up and route telephone calls either to the number called or to the next switch among the path. They may also record information for billing and control purposes.

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

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

TRX. Radio transceivers located in BTS.

ULL (Unbundling of the Local Loop). System through which ANO can rent the last mile of local loop, connecting to their equipments.

UMTS (Universal Mobile Telecommunications System). Third-generation mobile communication standard. It consist of a broadband system in which data travel at 2Mb-per-second, communication is faster, quality is better and multimedia contents can travel trough the Net.

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

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

Unbundling. A process which allows telephone carriers (other than Telecom Italia) to lease the last part of the telephone loop, that is to say, the copper wire-cable, connecting Telecom Italia central station to the user s home, disconnecting the user from Telecom terminals and connecting him/her to the telephone carrier s terminals.

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

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Item 4. Information On The Telecom Italia Group **Glossary of Selected Telecommunications Terms**

VAS (Value Added Services). Value Added Services provide a higher level of functionality than the basic transmission services offered by a telecommunications network for the transfer of information among its terminals, which include wired or wireless switched-circuit analog voice communications; direct unrestricted digital point-to-point service at 9,600 bit/s; packet switching (virtual call); direct broadband analog transmission of TV signals, and supplementary services, such as closed user groups; call waiting; collect calls; call forwarding, and identification of number called. Value Added Services performed by the network, the terminals or the specialized centers include message handling services (MHS) (which can be used, among other things, for commercial documents in predetermined formats); electronic directories listing users, network addressees and terminals; e-mail; fax; teletex; videotex and videotelephone. Value Added Services could include also value added voice telephony services such as Freephone or Premium Rate Services.

VDSL (Very-high-data-rate Digital Subscriber Line). Access technology that allows providers to give clients, by means of an apparatus installed in their homes, access to voice and TV services on the traditional telephone line with a speeds of up to 50 Mbps in downstream (VDSL2).

VOD (Video On Demand). TV-programme supply on user s request, with payment of a fee for each purchased programme (a movie, a soccer match, etc). Broadcast in a special method for cable and satellite TV.

VoIP (Voice Over IP). Transmission of voice communications over Internet Protocol (IP) data networks, such as IP-based LANs, intranets or the Internet.

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

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

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

WLL (Wireless Local Loop). The means of configuring a local loop without the use of wiring.

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

WLR (Wholesale Line Rental). The WLR Service consists in the resale to wholesale of the basic telephony services and advanced ISDN associated with the fees paid by certified residential and non-residential customers of Telecom Italia s public telephone network.

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

4.6 DESCRIPTION OF PROPERTY, PLANT AND EQUIPMENT

GENERAL

As of December 31, 2013 and 2012, property, plant and equipment owned and leased are detailed as follows:

	As of December 31, 2013				As of December 31, 2012			
	Owned	Leased	Total property, plant and equipment	% of total property, plant and equipment	Owned	Leased	Total property, plant and equipment	% of total property, plant and equipment
	(millions of euros, except percentage)							
Land	135		135	1.0	232		232	1.5
Civil and industrial buildings	380	883	1,263	9.6	698	972	1,670	10.8
Plant and equipment	10,594		10,594	80.1	11,837		11,837	76.5
Manufacturing and distribution equipment	41		41	0.3	39		39	0.2
Other	454	5	459	3.5	677	17	694	4.5
Construction in progress and advance payments	695	32	727	5.5	982	25	1,007	6.5
Total	**12,299**	**920**	**13,219**	**100.0**	**14,465**	**1,014**	**15,479**	**100.0**

The principal categories of our equipment are exchanges and transmission equipment, cable networks, base stations for cellular networks and equipment for radio communications. There are no encumbrances that may affect our utilization of our property or equipment.

Real Estate (Land, Civil and Industrial Buildings)

As of December 31, 2013, the Company owned many buildings located throughout Italy. Specialized buildings for telecommunications services account for the majority of properties both in number and book value. Such buildings house mainly exchange equipment and transmission equipment, and are used as part of our continuing telecommunications operations. General purpose properties consist chiefly of offices, depots and computer centers.

Network Infrastructure (Plant and Equipment)

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

Domestic Fixed Network

At December 31, 2013, the domestic (Italian) fixed network had the following figures:

Central Offices	approximately 10,400
Switching areas	608
Gateway areas (TDM)	33
Aggregation areas	12
Copper network	114,99 million kilometers-pair
Fiber optic access/carrier network	6,66 million kilometers-fiber
Long Distance VC4	4,788
Long Distance Lambda (l)	86 l at 2.5 Gbps and 688 l at 10 Gbps
BroadBand/ADSL network	9,312 Central Offices covered
Main PoP data networks	32

DOMESTIC FIXED VOICE NETWORK. The Domestic (Italian) Fixed Voice Network dedicated to serving traditional voice (**TDM**) consists of 608 main local switches (**SGU**). Concerning the OLO interconnection, local switches are divided in 33 gateway areas.

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

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

In terms of cable infrastructures, the domestic fixed network includes 114.99 million km of copper pairs, mainly in the distribution network, and also 6.66 million km of fiber, both in access and trunk network.

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

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

The fixed long-distance transport network routes 4.788 VC-4 on the SDH Arianna and Phoenix networks. It supports also 86 2.5 Gbps point to point optical channels and 688 10 Gbps point to point optical channels on the optical DWDM systems and on the **Kaleydon** network. Kaleydon is the new national optical transport platform that allow to set up a completely photonic optical mesh network. Kaleydon supports optical channels at 40 Gbit/s and 100 Gbit/s with protection and restoration mechanisms at photonic level.

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

The OPB network support:

· Internet traffic of residential, business and Wholesale customers;

· VPN traffic (Virtual Private Network) of business customers;

· Voice traffic;

· Video traffic;

· Mobile data traffic.

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

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

In 2013, the xDSL services for residential and business customers (retail and wholesale) covers more than 98% of the population and have been extended to 7,482 towns**,** including S. Marino (compared to 7,351 at the end of 2012).

At the end of 2013 9,313 local switching areas were covered by ADSL technology (compared to 9,135 at the end of 2012).

NGAN (Next Generation Access Network). In 2013 Telecom Italia continued to deploy a **NGAN** , based on optical fiber cables. NGAN deployment started in 2009 in Milan based on Fiber-To-The-Home (**FTTH**) architecture. Since 2012 the deployment have been extended to main cities with Fiber-To-The-Cabinet (**FTTCab**) architecture using fiber to street cabinets equipped with VDSL2 cards.

More than 4,000,000 households had been passed by the end of 2013, mainly in the distribution areas of 340 central offices.

Domestic Mobile Network

The domestic mobile network consists of:

- GSM network (2G: second generation network);
- UMTS network (3G: third generation network);
- LTE network.

On December 31, 2013 Telecom Italia s domestic mobile network had the following figures:

GSM/EDGE network

- 17,861 BTS (Base Transceiver Station) GSM radio station (16,778 BTS at the end of 2012) +6.4%;
  - 1,400 of them are µBTS;
- 871,582 radio channels (807,664 at the end of 2012) +7.9%;
- 116 BSC (Base Station Controller) (280 at the end of 2012), -58.5% due to the adoption of new generation, better performing equipment;
- GSM Core Network: 10 Transit Exchange (TR-STP Signaling Transfer Point TDM) and 13 MSC/GTW (Gateway GPRS Support Node).

UMTS/HSPA network

· 14,602 node B UMTS radio base station (13,643 node B at the end of 2012) +7.0%;

· 2,152,452 radio channels (2,017,232 radio channels at the end of 2012) +6.7%;

· 122 RNC (Radio Network Controller) +5 new RNC compared to total at the end of 2012;

· GSM/UMTS Core Network: 64 MSC-server (Mobile Switching Center/Gateway), 93 MGW (Media Gateway), 42 HLR (Home Location Register), 23 GGSN (Gateway GPRS Support Node), 31 SGSN (Serving GPRS Support Node).

In 2013 Telecom Italia continued the implementation plan to distribute the High Speed Downlink Packet Access (**HSDPA**) and the High Speed Uplink Packet Access (**HSUPA**); these systems aim to increase the overall data transmission speed offered by UMTS.

In particular the deployment of HSDPA at 42 Mbit/s reached the coverage level of more than 42% of the resident population.

LTE network

After an auction, in September 2011, additional frequency blocks on 800 MHz, 1800 MHz and 2600 MHz were acquired by Telecom Italia.

The three bands are used for LTE deployment to provide ultrabroadband services to mobile customers.

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At the end of 2013, LTE network coverage was 49% of the national population:

- 4,575 enode B;
- LTE core network includes: 6 SPGW (Packet Data Network/Serving Gateway), 4 MME (Mobility Management Entity), 2 HSS (Home Subscriber Server).

International Fixed Network

Telecom Italia Sparkle provides voice, IP and data connectivity services to national and international wholesale customers and to multinational corporates relying on an international network made of a proprietary cross-border backbone and bilateral connections.

The coverage of the Mediterranean and of Central and South America is provided by the interconnection with LANMED NAUTILUS regional backbones.

Telecom Italia Sparkle international backbone spans 450,000 km covering all of the major regions worldwide and connects over 500 international voice operators.

The cross-border backbone integrates 4 regional networks:

- Pan European backbone (**PEB**);
- Latin American backbone;
- Mediterranean backbone;
- USA backbone.

In detail:

·

Pan European Backbone. Proprietary fiber optic network spanning the main European countries: Italy, France, United Kingdom, Netherlands, Belgium, Germany, Switzerland, Austria, Spain, Czech Republic, Slovakia and Romania. The overall length is 55,000 km.

· **Latin American backbone.** High-capacity backbone based on fiber optic ring networks, both terrestrial and submarine, with an overall length of 30,000 km, including the Miami-New York section. The ring connects the main cities of South and Central America to North America having a design capacity up to 4 Tbit/sec with automatic traffic protection.

· **Mediterranean backbone**. Submarine ring network with a highly reliable configuration, a total length of 7,500 km and a design capacity close to 4 Tbit/sec per fiber pair. Connects the major markets of the Mediterranean area: Italy, Greece, Cyprus, Turkey and Israel. Currently, the main landing points are Catania, Athens, Chania-Crete, Haifa, Tel Aviv and Istanbul.

· **USA backbone**. Proprietary high capacity terrestrial backbone with POPs in: Newark, New York, Miami, Ashburn, Atlanta, Chicago, Palo Alto, Los Angeles and Dallas.

The services supplied include Voice, IP and Managed Bandwidth in Europe and in the USA, Managed Bandwidth and IP in the Mediterranean and in South America.

Telecom Italia Sparkle network is an integrated multi-service backbone based on an IP-MPLS core handling differentiated classes of services. The transport layer is based over DWDM with 10, 40 and 100 Gbit/s optical lambdas while voice services are provided by Class 4 switches.

Traffic protection is implemented by MS SPRING, SNCP, OTN, MSP 1+1 and meshed technologies.

In 2013 capacity upgrades were carried out on all of the major routes of the international backbone in order to cope with increasing IP and Managed Bandwidth sales.

In Amsterdam and London the Pan European Backbone (PEB) was connected to additional telehouses: Telecity 5, Equinix, Vancis, Global Switch.

A 20G transatlantic upgrade was carried out on the IP backbone among London, New York and Newark. Capacity was made available due to the SDH network rationalization plan in progress.

In Catania and Paris new IP routers were deployed to keep up with traffic growth. In Marseille, Catania and Milan new Juniper MX 960 edge routers were added to the existing architecture. In Palermo the existing POP design was reviewed. The core Terabit Routers were significantly expanded in terms of traffic and can now act also as MPLS edge handling customers circuits at 10 Gbit/sec and 2.5 Gbit/sec allowing for a reduction of outdated Gigabit Routers.

A new 100G DWDM network was deployed on the Milan-Zurich-Frankfurt route. The POP in Zurich InterXion was closed for network optimization reasons.

As regards international submarine systems, the Catania-Malta cables was upgraded while ITUR was decommissioned. TI Sparkle has also joined consortia upgrades on the Sea-Me-We3 e Sea-Me-We4 cables in order to strongly increase available capacity to Middle and Far East.

All of the major routes of TI Sparkle s US IP backbone were significantly upgraded.

In the Far East, capacity from Singapore to Hong Kong was expanded and a new Carrier Ethernet router was added in the Hong Kong POP in order to enrich the offer with the full set of MEF (Metro Ethernet Forum) compliant services either on Gigabit or 10 Gigabit Ethernet interfaces.

In 2013 TI Sparkle has been further developing its carrier grade Cloud services offer with reference mainly to IaaS (Infrastructure as a Service). A new data center in Athens has been deployed being the second after the Istanbul data center launched in 2011. Available services are: physical hosting, virtual hosting, storage, backup, VPN access. It is also possible to address specific customers requirements such as Disaster Recovery projects.

As for mobile services, a new platform was deployed to enrich TI Sparkle offer with LTE (Long Term Evolution) international roaming capabilities. In Milan and Rome, the signaling network was upgraded to cope with traffic growth. End-to-end testing has been extended to SMS (Short Message Services).

In Rome, an upgrade has been carried out also on the VoIP (Voice over IP) platform.

With reference to Multinational Customers, new routers have been deployed in the Milan and Frankfurt POPs to keep up with service offer development and handle IPv6.

Mediterranean Backbone

In 2013 a new Data Centre specific for Cloud Services has been launched in Athens. On the IP backbone, a new Juniper MX960 routes has been added to the Sofia POP with an upgrade of the Sofia-Frankfurt route.

Latin American Backbone

In 2013 an agreement with Telefonica was finalized in order to purchase the new infrastructure in the Caribbean over the SAM-1 and PCCS cables. This will provide connectivity from Puerto Rico to Miami. No more purchase of IRU capacity from St Croix to Miami will therefore be needed.

The 100G DWDM platform has been deployed over the SAC ring bringing the system s design capacity up to 4 Terabit/s. Upgrades have also been completed on MAC (St Croix to Miami), Cooks (Panama to St Croix), TAC (Chile to Argentina). A new POP was also opened in Fortaleza (Brazil) while the IP offer has been made available also in Panama.

Brazilian Network

Telecom Italia Group s principal properties in Brazil consist of transmission equipment, switching equipment, which connect calls to and from customers, and radio base stations, which comprise certain signal transmission and reception equipment covering a defined area. At our radio base stations we have also installed antennas and certain equipment to connect these antennas with our switching equipment.

As of December 31, 2013, we had 118 mobile switches for voice capacity, 235 thousand TRXs, 9,078 Node B and approximately 47,000 kilometers in fiber optic cable networks. We generally lease or buy the sites where our mobile telecommunications network equipment is installed.

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Item 4A. UNRESOLVED STAFF COMMENTS

None.

Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion should be read in conjunction with the Consolidated Financial Statements included elsewhere in this Annual Report. Such financial statements have been prepared in accordance with IFRS as issued by the IASB.

5.1 CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analyses of our financial condition and results of operations is based upon our Consolidated Financial Statements, which have been prepared in accordance with IFRS as issued by the IASB (designated as **IFRS**). Our reported financial condition and results of operations as reported under IFRS are based on the application of accounting methods which involve the use of subjective assumptions and estimates that underlie the preparation of our financial statements. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available. Actual results could differ, even significantly, from these estimates owing to possible changes in the factors considered in the determination of such estimates. Estimates are reviewed periodically.

In the absence of a Standard or an Interpretation that specifically applies to a particular transaction, management carefully considers subjective valuation techniques and uses its judgment as to the accounting methods to adopt with a view to providing financial statements which faithfully represent the economic substance of the transactions, are neutral, prepared on a prudent basis and complete in all material respects and in accordance with IFRS.

Since our selection and application of accounting policies involve judgments and other assumptions affecting the application of those policies, reported results are sensitive to changes in conditions or assumptions of management and these are factors to be considered when reading our Consolidated Financial Statements. We believe the critical accounting policies described below involve the most significant subjective assumptions and estimates used in the preparation of our Consolidated Financial Statements under IFRS.

Revenue recognition

Revenues are recognized to the extent that it is probable that economic benefits will flow to the Group and their amount can be measured reliably. Revenues are stated net of discounts, allowances, and returns.

- *Revenues from services rendered*

Revenues from services rendered are recognized in the separate consolidated income statement according to the stage of completion of the service and only when the outcome of the service rendered can be estimated reliably.

Traffic revenues from interconnection and roaming are reported gross of the amounts due to other TLC operators.

Revenues for delivering information or other content are recognized when the information or content is delivered to the customer. In the event that the Group is acting as agent, only the commission received from the content provider is recognized as revenue.

In Italy, revenues from the activation of telephone services (as well as the related costs) are deferred over the expected duration of the relationship with the customer (generally 8 years for retail customers and 3 years for wholesale customers). In particular, costs from the activation of telephone services are deferred taking also into account the reasonable expectations of cash flows arising from these services. To determine the expected duration of the relationship with customers we perform an analysis of our historical customer relationship trends.

Revenues from prepaid traffic are recorded on the basis of the minutes used at the contract price per minute. Deferred revenues for unused minutes are recorded in Trade and miscellaneous payables and other current liabilities in the consolidated statement of financial position.

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· *Revenues from sales and bundled offerings*

Revenues from sales (telephone and other equipment) are recognized when the significant risks and rewards of ownership are transferred to the buyer.

For offerings which include the sale of mobile handsets and service contracts, we recognize revenues related to the sale of the handset when it is delivered to the final customer whereas traffic revenues are recorded on the basis of the minutes used; the related subscriber acquisition costs, including handset subsidies and sales commissions, are expensed as incurred. The revenues allocated to the handset sale are limited to the contract amount that is not contingent upon the rendering of telecommunication services, i.e. the residual of the amount paid by the customer exceeding the services value. The determination of fair values in the telecommunications business is complex, because some of the components are price-sensitive and, thus, volatile in a competitive marketplace.

A small portion of our bundled offerings in the mobile and broadband businesses are contracts with a minimum contractual period between 18 and 30 months which include an enforced termination penalty. For these contracts, the subscriber acquisition costs are capitalized under Intangible assets with a finite useful life if the conditions for capitalization as described in the related accounting policy are met.

· *Revenues on construction contracts*

Revenues on construction contracts are recognized based on the stage of completion (percentage of completion method).

Revenue recognition is subject to estimation in respect of the expected duration of customer relationships, the estimate of relative fair values and estimates of discounts, returns and allowances. Revisions to such estimates may significantly affect our future operating results.

Allowance for doubtful accounts

Management maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of our customers to make required payments. Management bases its estimates on the ageing of our accounts receivable balances and our historical write-off experience with similar receivables, customer credit-worthiness and changes in our customer payment history when evaluating the adequacy of our allowance for doubtful accounts. If the financial condition of our customers were to deteriorate, our actual write-offs might be higher than we estimate.

Accounting for tangible and intangible non-current assets

Accounting for tangible and intangible non-current assets involves the use of estimates for determining fair value at the acquisition date in the case of assets acquired in a business combination and the expected useful lives of assets with a finite useful life. The determination of the fair values of assets, as well as the useful lives of the assets is based on management s judgment. Changes in the economic conditions of the markets in which we operate, technology and competitive forces could significantly affect the estimated useful lives of these assets and may lead to a difference in the timing and amount of depreciation and amortization expense.

Acquisition accounting, goodwill and purchase price allocation

We have entered into certain acquisitions and in the future may make further acquisitions. The calculation of the purchase price, and the subsequent allocation of that purchase price to the fair value of the assets acquired and liabilities assumed, is critical due to the long-term impact on the separate consolidated income statement.

Under IFRS, we are required to perform a purchase price allocation and, consequently, as part of that allocation, all consideration, including the fair value of exchanged shares, shall be valued. When equity instruments are issued as part of the consideration, under IFRS we measure them at their fair value as of the date of exchange.

The purchase price is then allocated to the fair value of the assets acquired and liabilities assumed.

The purchase price allocation requires that all assets and liabilities be recorded at fair values which requires significant estimates and judgments to be made. A change in any of these estimates or judgments could change the amount allocated to the assets and liabilities. The resulting change in the purchase price allocation to assets or liabilities has a direct impact on the final amount of the purchase price that is allocated to goodwill.

If actual results differ from these estimates, or we adjust the estimated economic useful lives in future periods, operating results could be significantly affected by these estimates and judgments which involve:

· the definition of the purchase price;

· the identification of the assets acquired and liabilities assumed in the acquisition;

· the valuation of these assets and liabilities in the purchase price allocation; and

· the assessment of whether selected assets have a finite or indefinite useful life.

These could have a significant impact on both the level of total goodwill and ultimately on the separate consolidated income statement.

Accounting for transactions involving interests in group companies

We have entered into certain transactions involving interests in Group companies, and in the future we may make further similar transactions.

Under IFRS 10 (*Consolidated Financial Statements)*, changes in a parent s ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the Parent.

Impairment of assets

The determination of impairment of intangible and tangible assets involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment.

- ***Goodwill.*** Goodwill is tested for impairment at least annually or more frequently whenever events or changes in circumstances indicate that goodwill may be impaired, as set forth in IAS 36 (*Impairment of Assets*); however, when the conditions that gave rise to an impairment loss no longer exist, the original amount of goodwill is not reinstated.

The test is generally conducted at the end of every year so the date of testing is the year-end closing date of the financial statements. Goodwill acquired and allocated during the year is tested for impairment at the end of the year in which the acquisition and allocation took place.

To test for impairment, goodwill is allocated, at the date of acquisition, to each cash-generating unit or groups of cash-generating units which is expected to benefit from the acquisition.

Allocation is made to the lowest level at which goodwill is monitored for management purposes and that lowest level is not larger than the operating segment determined in accordance with IFRS 8 (*Operating Segments*).

If the carrying amount of the cash-generating unit (or group of cash-generating units) exceeds the recoverable amount, an impairment loss is recognized in the separate consolidated income statement. The impairment loss is first recognized as a deduction of the carrying amount of goodwill allocated to the cash-generating unit (or group of cash-generating units) and then only applied to the other assets of the cash-generating unit in proportion to their carrying amount, up to the recoverable amount of the assets with a finite useful life. The recoverable amount of a cash-generating unit (or group of cash-generating units) to which goodwill is allocated is the higher of fair value less costs to sell and its value in use.

In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The future cash flows are those arising from an explicit time horizon between three and five years as well as those extrapolated to estimate the terminal value. The long-term growth rate used to estimate the terminal value of the cash-generating unit (or group of cash-generating units) is assumed not to be higher than the average long-term growth rate of the segment, country or market in which the cash-generating unit (or group of cash-generating units) operates.

The value in use of a cash-generating unit which operates in a foreign currency is estimated in the local currency by discounting cash flows to their present value on the basis of an appropriate rate for that currency. The present value obtained is translated to Euro at the spot rate on the date of the impairment test (in the case of the Telecom Italia Group, the date of the financial statements).

Future cash flows are estimated by referring to the current operating conditions of the cash generating unit (or group of cash-generating units) and, therefore, do not include either benefits originating from future restructuring for which the entity is not yet committed, or future investments for the improvement or optimization of the cash-generating unit.

For the purpose of calculating impairment, the carrying amount of the cash-generating unit is established based on the same criteria used to determine the recoverable amount of the cash-generating unit, excluding surplus assets (that is, financial assets, deferred tax assets and net non-current assets held for sale) and includes the goodwill attributable to non-controlling interests.

After conducting the goodwill impairment test for the cash-generating unit (or groups of cash-generating units), a second level of impairment testing is carried out which includes the corporate assets which do not generate positive cash flows and which cannot be allocated by a reasonable and consistent criterion to the single units. At this second level, the total recoverable amount of all cash-generating units (or groups of cash-generating units) is compared to the carrying amount of all cash-generating units (or groups of cash-generating units), including also those cash-generating units to which no goodwill was allocated, and the corporate assets.

See Note Goodwill of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

- ***Intangible and tangible assets with a finite useful life***. At every annual or interim closing date, the Group assesses whether there are any indications of impairment of intangible and tangible assets with a finite useful life. Both internal and external sources of information are used for this purpose. Internal sources include obsolescence or physical damage, and significant changes in the use of the asset and the economic performance of the asset compared to estimated performance. External sources include the market value of the asset, changes in technology, markets or laws, trend in market interest rates and the cost of capital used to evaluate investments, and an excess of the carrying amount of the net assets of the Group over market capitalization. When indicators of impairment exist, the carrying amount of the assets is reduced to the recoverable amount. The recoverable amount of an asset is the higher of fair value less costs to sell and its value in use. In calculating the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, we estimate the recoverable amount of the cash-generating unit to which the asset belongs. Impairment losses are recognized in the separate consolidated income statement. When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, up to the carrying amount that would have been recorded had no impairment loss been recognized. The reversal of an impairment loss is recognized as income in the separate consolidated income statement.

The identification of impairment indicators, the estimation of future cash flows and the determination of fair values of assets or groups of assets (or cash-generating units) require management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. These estimates can have a material impact on fair value and the amount of any write-downs.

Financial assets

Financial assets include in particular investments, some of which are publicly traded and have highly volatile share prices. Generally, an impairment charge is recorded when an investment s carrying amount exceeds the present value of its estimated future cash flows. The calculation of the present value of estimated future cash flows and the determination of whether an impairment is other than temporary involve judgments and rely heavily on assessments by management regarding the future development and prospects of the investee company. In determining value, quoted market prices are used, if available, or other valuation methodologies. To determine whether an impairment is other than temporary, we consider the ability and intent to hold the investment for a reasonable period of time to ascertain whether a forecasted recovery of fair value exceeds the carrying amount, including an assessment of factors such as the length of time and magnitude of the excess of carrying value over market value, the forecasted results of the investee company, the regional economic environment and state of the industry. Future adverse changes in market conditions, particularly a downturn in the telecommunications industry, or poor operating results could result in losses or an inability to recover the carrying amount of the investment, which could result in impairment charges.

Derivative financial instruments

We have entered into several different types of derivative contracts in order to manage our exposure to exchange rate and interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to within pre-established operational limits. The changes in the fair value of derivatives which do not qualify for hedge accounting, fair value hedge derivatives and the ineffective portion of cash flow hedge derivatives are recognized in the separate consolidated income statement in the period of change. The gain or loss on the effective portion of qualifying cash flow hedges is recognized directly in a specific equity reserve. The cumulative gain or loss is removed from equity and recognized in the separate consolidated income statement at the same time the hedged transaction affects the separate consolidated income statement. The assessment of the fair value of a derivative contract requires the use of quoted market prices, banker price quotations, price quotations for similar instruments traded in different markets and, where applicable, pricing models. Pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized. We rely on these pricing models when external fair values are unavailable. The estimates regarding future prices require estimating several factors, including interest rates, currency values and cash flows. Prices realized in the future could differ from these estimates, therefore producing different financial results.

Provision for employee severance indemnity

Employee severance indemnity, mandatory for Italian companies pursuant to art. 2120 of the Italian Civil Code, is a deferred compensation and is based on the employees years of service and the compensation earned by the employee during the service period.

Under IAS 19 (*Employee Benefits*), the employee severance indemnity is considered a Defined benefit plan , except when employees, starting from the year 2007, choose to direct their accruing indemnity portions to supplementary pension funds or to the Treasury Fund managed by the Italian Social Security Institute (INPS); in such case the employee severance indemnity is classified as a Defined contribution plan .

The obligation for the employee severance indemnity classified as a defined benefit plan is determined in accordance with actuarial methods. In the event that changes in assumptions are required, the future amounts of the post employment benefit may be materially affected.

Provisions and contingent liabilities

We exercise considerable judgment in determining our exposure to and recognizing provisions for contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation as well as other contingent liabilities.

Judgment is necessary in assessing the likelihood that a pending claim will succeed or a liability will arise and to quantify the possible range of the final settlement. Provisions are recorded for liabilities when losses are considered probable and can be reasonably estimated. Because of the inherent uncertainties in making such judgments, actual losses may be different from the originally estimated provision. Significant estimates are involved in the determination of provisions related to taxes, environmental liabilities, our workforce reduction initiative and litigation risks. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or outside consultants, such as actuaries or legal counsel. Adjustments to loss provisions may significantly affect future operating results.

Income tax expense

The Group calculates income tax expense in each of the tax jurisdictions in which it operates. This process involves a jurisdiction-by-jurisdiction calculation of the current tax charge and an assessment of temporary differences resulting from the different treatment of certain items for consolidated financial and tax reporting purposes. Temporary differences result in the recognition of deferred tax assets or liabilities in the consolidated financial statements. Deferred tax assets are recognized to the extent that their realization is probable. The realization of deferred tax assets depends, among other things, on the company s ability to generate sufficient taxable income in future years and the reversal of taxable temporary differences, taking into account any restrictions on the carry-forward of tax losses. Various factors are used to assess the probability of the future realization of deferred tax assets, including future reversals of existing taxable temporary differences, past operating results, operational plans, loss carry-forward periods, and tax planning strategies. If actual results differ from these estimates or, if these estimates must be adjusted in future periods, the financial position and results of operations may be affected. In the event of a change in the assessment of future utilization of deferred tax assets, the recognized deferred tax assets must be increased or decreased, as the case may be, and the consequent effects recognized in the separate consolidated income statement.

5.2 RESULTS OF OPERATIONS FOR THE THREE YEARS ENDED DECEMBER 31, 2013

5.2.1 Significant Trends Impacting Our Core Businesses

Increased competition continues to have a significant impact on the development of our business. Key trends affecting our core businesses are:

Domestic Business Unit

Telecommunications continue to play a central role in society, driven by the growing importance of broadband, both fixed and mobile. The ongoing convergence of telecommunications, Information Technology, Media and Consumer Electronics has led to greater competition and faster innovation, thus increasing the industry s complexity. These macro factors have, and continue to have a material impact on how we plan for and manage our business.

In the Italian telecommunications market there has been a reduction in consumer and business customers spending on both fixed and mobile services, driven by a decline of traditional voice services, only partially offset by the growth of new Broadband services.

The main strategic priorities and objectives of Telecom Italia in its Domestic market are:

· strong increase in UBB (UltraBroadband) deployment aimed at achieving a distinctive market positioning;

· revenue stabilization: stabilize the revenue trend for traditional services, foster growth of innovative services and exploit new revenue streams such as content and entertainment, advertising and cloud services; and

· operating expenses efficiency.

Brazil Business Unit

The Brazilian telecommunications market is characterized by a large but declining voice market, especially in the wireline segment, and an emerging data/internet user population. The mobile sector continues to benefit from fixed-mobile substitution.

Mobile broadband represents in Brazil a competitive alternative to fixed broadband, considering the country s geography, fixed network characteristics and price premium.

In light of these market trends, TIM Brasil s main strategic priorities and objectives are to:

- continue to expand its customer base;
- pursue high potential in mobile broadband penetration;
- focus investments on quality improvement and on innovative components to capture the full potential of data;
- pursue a leaner organization and focus on internal processes and strict cost control.

5.2.2 BUSINESS SEGMENTS

The Telecom Italia Group reports its financial results on the basis of the following operating segments:

- **Domestic**: includes operations in Italy for voice and data services on fixed and mobile networks for final customers (retail) and other operators (wholesale), the operations of the Telecom Italia Sparkle group (International wholesale) as well as the related support activities;
- **Brazil**: includes mobile (TIM Celular) and fixed (TIM Celular and Intelig) telecommunications operations in Brazil;
- **Media**: includes the management of analog and digital broadcasting networks and accessory services of television broadcasting platforms;

- **Olivetti**: includes manufacture of office products and services for Information Technology. It carries out Solution Provider activities to automate processes and business activities for small and medium-size enterprises, large corporations and vertical markets;

- **Other Operations**: includes finance companies and other minor companies not strictly related to the core business of the Telecom Italia Group.

The principal changes in the scope of consolidation in 2013 are as follows:

- **Sofora Telecom Argentina group**: on November 13, 2013, Telecom Italia accepted the offer of Fintech Group for the acquisition of the entire controlling interest of Telecom Italia Group in the Sofora Telecom Argentina group. Consequently, under IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), the Business Unit Argentina was classified as discontinued operations (Discontinued operations/Non-current assets held for sale). For further details, please see Note Discontinued operations/Non-current assets held for sale of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report;

- **MTV group Media**: on September 12, 2013 Telecom Italia Media and Viacom International Media Networks (VIMN) finalized the sale of 51% of MTV Italia S.r.l. and of its wholly-owned subsidiary MTV Pubblicità S.r.l. As a result, these companies are no longer consolidated;

- **La7 S.r.l. Media**: on April 30, 2013, after authorization for the sale was received as required by law, Telecom Italia Media completed the sale of La7 S.r.l. to Cairo Communication. As a result, the company was excluded from the scope of consolidation.

The principal change in the scope of consolidation in 2012 was:

- **Matrix Other Operations**: the company was sold on October 31, 2012, and consequently excluded from the consolidation area as of such date.

For a description of certain of these businesses, see Item 4. Information on the Telecom Italia Group 4.2 Business Units .

For purposes of the following discussion selected financial data of each Business Unit has been provided for 2013, 2012, and 2011 consistent with the structure of each Business Unit at December 31, 2013.

5.2.3 Non-GAAP Financial Measures

In this Annual Report on Form 20-F, in addition to figures presented in accordance with IFRS as issued by IASB, we disclose figures derived from IFRS that are non-GAAP financial measures (**Non-GAAP Measures**).

Such financial data is considered Non-GAAP financial measures as defined in Item 10(e) of Regulation S-K under the 1934 Act.

In this Annual Report the Non-GAAP Measure used relates to Net Financial Debt.

Net Financial Debt is a Non-GAAP financial measure as defined in Item 10(e) of Regulation S-K under the 1934 Act, but is widely used in Italy by financial institutions to assess liquidity and the adequacy of a company s financial structure. We believe that Net Financial Debt provides an accurate indicator of our ability to meet our financial obligations (represented by gross debt) by our available liquidity, represented by the other items shown in the reconciliation table. Net Financial Debt allows us to show investors the trend in our net financial condition over the periods presented. The limitation on the use of Net Financial Debt is that it effectively assumes that gross debt can be reduced by our cash and other liquid assets. In fact, it is unlikely that we would use all of our liquid assets to reduce our gross debt all at once, as such assets must also be available to pay employees, suppliers, and taxes, and to meet other operating needs and capital expenditure requirements. Net Financial Debt and its ratio to equity (including Non-controlling Interest), or leverage, are used to evaluate our financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether our financial structure is adequate to achieve our business plan and our financial targets. Our management believes that our financial structure is sufficient to achieve our business plan and financial targets. Our management monitors the Net Financial Debt and leverage or similar measures as reported by other telecommunications operators in Italy and outside Italy, and by other major listed companies in Italy, in order to assess our liquidity and financial structure relative to such companies. We also monitor the trends in our Net Financial Debt and leverage in order to optimize the use of internally generated funds versus funds from third parties. Net Financial Debt is reported in our Italian Annual Report to shareholders and is used in presentations to investors and analysts. Net Financial Debt is calculated as follows:

	As of December 31,	
	2013	**2012**
	(millions of euros)	
Non-current financial liabilities	31,084	34,091
Current financial liabilities	6,119	6,150
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale	27	
Gross financial debt (A)	**37,230**	**40,241**
Non-current financial assets (B)	**(1,256)**	**(2,496)**
Current financial assets:		
Securities other than investments	(1,348)	(754)
Financial receivables and other current financial assets	(283)	(502)
Cash and cash equivalents	(5,744)	(7,436)
Total current financial assets (C)	**(7,375)**	**(8,692)**
Financial assets relating to Discontinued operations/Non-current assets held for sale (D)	**(657)**	
Financial assets (E=B+C+D)	**(9,288)**	**(11,188)**
Net financial debt (A+E)	**27,942**	**29,053**

5.2.4 Overview of 2013 Results of Operations

In 2013, the following characterized the results in our domestic market:

- in the **Domestic Fixed Telecommunications Service Business** the continuing erosion of the access market, the decrease in market share (768 thousand fixed line losses in 2013 compared to 674 thousand fixed line losses in 2012 and 699 thousand fixed line losses in 2011) and lower traditional services demand and prices (both voice and data) continued in 2013. The line loss was due to, apart from churn in favor of OLOs, disconnection of fixed lines without migration to other operators (a trend that is currently observed with respect to second homes or clients who abandon their landline and rely on mobile communications). On the revenue side these dynamics are partially offset by actions aimed to preserve the value of our customer base focused on the upselling of high value solutions, especially in the Broadband area, and by the development of ICT and cloud services for the business market;

- the **Domestic Mobile Telecommunications Service Business** is still characterized by aggressive competitive behavior that has resulted in a decrease in prices, especially for traditional services (voice and messaging). This dynamic, in combination with the sharp reduction in Mobile Termination Rates (MTR) (from 2.5 euro cent to 0.98 euro cent) resulted in a drop of service revenues (-16.4% vs. -9.0% in 2012), only partially offset by growth of Mobile Internet and by the sales of enabling devices (tablets and smartphones).

In 2013, the following characterized the results in our Brasil Business Unit:

- **Brazil**. Tim Brasil s customer base grew in 2013 by 4.3% compared to 2012 (adding 3.1 million net new customers); its market share expanded to 27.1% from 26.9% in 2012. Based on value market share (share in service revenues) Tim Brasil was the second largest Brazilian mobile operator. The company also recorded growth in its pre-paid segment which increased by 2.5% year over year (reaching 61.1 million customers), while the post-paid clients increased 14.6% year over year (totaling 12.3 million subscribers).

Tim Brasil continued to focus on growth and profitability, through cost discipline and initiatives to increase revenue from value-added services, increased traffic volumes/usage and network service quality. In particular, revenues from services increased in 2013 by 1.7% compared to 2012 and revenues from handsets grew in 2013 by 37.4% compared to 2012, reflecting the company s strategy of market penetration with high-end handsets (smartphones/webphones and tablets) as a lever to grow mobile data services.

On the cost side, Tim Brasil adopted a disciplined approach to client acquisition, credit analysis and operating expenses.

The following table sets forth our consolidated income statement for the years ended December 31, 2013, 2012 and 2011.

On November 13, 2013, Telecom Italia accepted the offer of Fintech Group to acquire the entire controlling interest of Telecom Italia Group in the Sofora Telecom Argentina group, held by Telecom Italia and through its subsidiaries Telecom Italia International, Sofora Telecomunicaciones, Nortel Inversora and Tierra Argentea. As a result and in accordance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), during the fourth quarter of 2013 Telecom Argentina was treated as Discontinued operations/Non-current assets held for sale. The data for prior periods have been restated.

	Year ended December 31,		
	2013	**2012**	**2011**
		(millions of euros)	
Revenues	23,407	25,759	26,772
Other income	324	285	294
Total operating revenues and other income	**23,731**	**26,044**	**27,066**
Acquisition of goods and services	(10,377)	(11,289)	(11,495)
Employee benefits expenses	(3,087)	(3,333)	(3,514)
Other operating expenses	(1,318)	(1,474)	(1,528)
Change in inventories	48	(4)	40
Internally generated assets	543	581	569
Depreciation and amortization	(4,553)	(4,689)	(4,974)
Gains (losses) on disposals of non-current assets	(82)	52	4
Impairment reversals (losses) on non-current assets	(2,187)	(4,179)	(7,358)
Operating profit (loss)	**2,718**	**1,709**	**(1,190)**
Share of profits (losses) of associates and joint ventures accounted for using the equity method		(6)	(39)
Other income (expenses) from investments	(3)	2	16
Finance income	2,003	1,983	2,400
Finance expenses	(4,186)	(3,981)	(4,440)
Profit (loss) before tax from continuing operations	**532**	**(293)**	**(3,253)**
Income tax expense	(1,111)	(1,086)	(1,423)
Profit (loss) from continuing operations	**(579)**	**(1,379)**	**(4,676)**
Profit (loss) from Discontinued operations/Non-current assets held for sale	341	102	310
Profit (loss) for the year	**(238)**	**(1,277)**	**(4,366)**
Attributable to:			
Owners of the Parent	*(674)*	*(1,627)*	*(4,811)*
Non-controlling interests	*436*	*350*	*445*

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5.2.5 Business Unit Financial Data

The table below sets forth revenues, operating profit (loss), capital expenditures and number of employees by Business Units, for the periods indicated.

On November 13, 2013, Telecom Italia accepted the offer of Fintech Group to acquire the entire controlling interest of Telecom Italia Group in the Sofora Telecom Argentina group (which made up the Argentina Business Unit), held by Telecom Italia and through its subsidiaries Telecom Italia International, Sofora Telecomunicaciones, Nortel Inversora and Tierra Argentea. As a result and in accordance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), during the fourth quarter of 2013 Telecom Argentina was treated as Discontinued operations/Non-current assets held for sale. The data for prior periods have been restated.

		Domestic	Brazil	Media	Olivetti	Other Operations	Adjustments and eliminations	Consolidated Total
		(millions of euros, except number of employees)						
Revenues(1)	2013	16,175	6,945	124	265		(102)	23,407
	2012	17,884	7,477	222	280	62	(166)	25,759
	2011	18,991	7,343	238	343	119	(262)	26,772
Operating profit (loss)	2013	1,993	858	(132)	(8)	1	6	2,718
	2012	1,078	966	(263)	(65)	(3)	(4)	1,709
	2011	(1,996)	984	(88)	(43)	(38)	(9)	(1,190)
Capital expenditures on an accrual basis	2013	3,027	1,349	20	4			4,400
	2012	3,072	1,500	57	3	7		4,639
	2011	4,184	1,290	61	5	16		5,556
Number of employees at year-end(2)	2013	52,695	12,140	84	682	22		65,623
	2012	53,224	11,622	735	778	22		66,381
	2011	55,047	10,539	765	1,075	378		67,804

(1) Revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

(2) The number of employees at year-end excludes employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale, and includes personnel with temporary work contracts.

5.2.6 Year Ended December 31, 2013 compared With Year Ended December 31, 2012

v **REVENUES**

Revenues amounted to 23,407 million euros in 2013, a decrease of 2,352 million euros, or 9.1%, compared to 25,759 million euros in 2012.

The table below sets forth for the periods indicated gross revenues by Business Unit and consolidated revenues.

	Year ended December 31, 2013		2012		Changes	
	Revenues(1) (a)	% of Consolidated revenues	Revenues(1) (b)	% of Consolidated revenues	(a-b)	%
	(millions of euros, except percentages)					
Domestic	16,175	69.1	17,884	69.4	(1,709)	(9.6)
Core Domestic	*15,269*	*65.2*	*16,933*	*65.7*	*(1,664)*	*(9.8)*
International Wholesale	*1,263*	*5.4*	*1,393*	*5.4*	*(130)*	*(9.3)*
Brazil	6,945	29.7	7,477	29.0	(532)	(7.1)
Media, Olivetti and Other Operations(2)	389	1.7	564	2.2	(175)	(31.0)
Adjustments and eliminations	*(102)*	*(0.5)*	*(166)*	*(0.6)*	*64*	*(38.6)*
Total Revenues	**23,407**	**100.0**	**25,759**	**100.0**	**(2,352)**	**(9.1)**

(1) Revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

(2) The Other Operations of the Telecom Italia Group consist of the financial companies and other minor companies not associated with the core business of the Telecom Italia Group.

The **Domestic Business Unit** (divided into Core Domestic and International Wholesale) reported a decline of 1,709 million euros (-9.6%) in revenues in 2013, compared to 2012.

The performance and results of the domestic market were affected by the worsening macroeconomic environment and increasing competition, especially in Mobile services.

This revenue decline was also impacted by several significant regulatory factors, such as the entry into force, starting from July 1, 2013, of the new mobile termination rates (**MTR**), 0.98 euro cents compared to 1.5 euro cents in the first half of 2013 and 2.5 euro cents in the second half of 2012. The new rates were 35% lower compared to the rates of the first half of 2013 and 61% lower compared to the rates of the second half of 2012, with a negative impact on revenues of -364 million euros in 2013 (-429 million euros just on Mobile revenues). Furthermore, the recent decisions of AGCom regarding copper network access rates, with retroactive effect as of January 1, 2013, resulted in an additional revenue reduction of -111 million euros compared to 2012. In addition, revenues were adversely impacted by the introduction in July 2012 at the European level of a cap on the price of roaming traffic.

With respect to the **Brazil Business Unit**, revenues from services continued their positive trend, driven by the growth of the customer base (reaching approximately 73.4 million mobile lines at December 31, 2013, up 4.3% compared to December 31, 2012). Handset revenues also increased compared to 2012. However, the revenue increase was impacted by a negative exchange rate effect, which resulted in a decrease of 7.1% in 2013 compared to 2012.

For a more detailed analysis of revenue performance by individual Business Units, reference should be made to Item 4. Information On The Telecom Italia Group 4.2 Business Units .

v **OTHER INCOME**

The following table sets forth other income for the years ended December 31, 2013 and 2012:

	Year ended December 31,			
	2013	2012	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			

Late payment fees charged for telephone services	63	69	(6)	(8.7)
Recovery of employee benefit expenses, purchases and services rendered	28	35	(7)	(20.0)
Capital and operating grants	27	18	9	50.0
Damage compensation, penalties and sundry recoveries	64	40	24	60.0
Other income	142	123	19	15.4
Total other income	**324**	**285**	**39**	**13.7**

v **Operating Expenses**

Operating expenses amounted to 21,013 million euros in 2013, a decrease of 3,322 million euros, or 13.6% compared to 24,335 million euros in 2012. Operating expenses declined primarily as a result of the reduced impairment losses on non-current assets which decreased from 4,179 million euros in 2012 to 2,187 million euros in 2013. The components of our operating expenses include the following:

· **Acquisition of goods and services** amounted to 10,377 million euros in 2013, a decrease of 912 million euros compared to 2012 (11,289 million euros). The reduction was mainly due to the Domestic Business Unit, which had a decrease of 560 million euros compared to 2012, largely attributable to lower amounts payable to other operators and to the Brazil Business Unit (-245 million euros, including an effect of 564 million euros due to the strengthening of the Euro against the Brazilian reais).

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Item 5. Operating And Financial Review And Prospects **Results Of Operations For The Three Years Ended December 31, 2013**

The following table sets forth the acquisition of goods and services for the years ended December 31, 2013 and 2012:

	Year ended December 31,			
	2013	2012	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
Purchase of goods	2,358	2,203	155	7.0
Portion of revenues to be paid to other operators and interconnection costs	2,949	3,797	(848)	(22.3)
Commercial and advertising costs	1,565	1,697	(132)	(7.8)
Power, maintenance and outsourced services	1,353	1,436	(83)	(5.8)
Rent and leases	755	649	106	16.3
Other service expenses	1,397	1,507	(110)	(7.3)
Total acquisition of goods and services	**10,377**	**11,289**	**(912)**	**(8.1)**
% on Revenues	*44.3*	*43.8*		

· **Employee benefits expenses**

The following table sets forth employee benefits expenses for the years ended December 31, 2013 and 2012:

	Year ended December 31,			
	2013	2012	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
Employee benefits expenses Italian companies:				
Ordinary employee expenses and costs				