TELECOM ITALIA S P A
Form 20-F
April 15, 2015
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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, 2014

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)

Via Gaetano Negri 1, 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 13,470,955,451

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, 2014 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 2015-2017 period;

- the continuing effects of slow global economic growth 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;

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- 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;
- 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.

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. The following are the main categories of accesses:

- **Physical Accesses:** in the domestic fixed telephony business, includes retail accesses, as well as wholesale accesses directly managed by Telecom Italia, while excluding full-infrastructured OLOs and FWA-Fixed Wireless Accesses;

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

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

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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: 2015-2017 business and strategic plan (the **2015-2017 Plan**); and

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

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

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

On February 20, 2015, we presented our updated 2015 2017 Plan, which envisages an increase in the innovative investment programme.

The main strategic priorities in the Domestic Market are:

- Accelerate the roll out of Next-Generation Networks, with a strong focus on investments relating to innovative networks and services.

- Implement a bundled services offering (**n play offering**) strategy to defend fixed traditional services, drive mobile broadband to fixed broadband substitution and further expand fixed broadband and fiber penetration through video services including basic to premium content.

- Moving to a single brand: simplification of the fixed, mobile and internet offer under the TIM brand.

- Labor cost restructuring to combine efficiency & HR development.

- Further proceed in the structural efficiency path in the 2015-2017 period.

The main strategic priorities in the Brazilian Market are:

- Enhance network quality to increase returns through optimizing capital expenditure, mainly focused on 4G and 3G networks.

- Exploit the mobile internet growth opportunity: innovative investments will enable the growth of innovative revenues (data and content).

- Pursue a business transformation oriented to: improve commercial efficiency; network costs optimization; and process-driven efficiency.

- Increase the economic sustainability of services provided to corporates and accelerate the growth of residential Ultra Broadband (Live TIM).

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 slow economic growth in the principal markets in which we operate, including, in particular, our core Italian market;

[1] CoSO Report-ERM Integrated Framework 2004.

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- the impact of regulatory decisions and changes in the regulatory environment in Italy, Brazil and other countries in which we operate;
- the impact of political developments in Italy, Brazil and other countries in which we operate;
- our ability to successfully 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.

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

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

STRATEGIC RISKS

Continuing weak global economic recovery, in particular the continuing weakness of the Italian economy over the past several years, has adversely affected our business and continuing global and European economic weakness could further adversely affect our business and therefore have a negative impact on our operating results and financial condition.

Our business is dependent to a large degree on general economic conditions in Italy and in our other principal market, Brazil, including levels of interest rates, inflation, taxes and general business conditions. A significant deterioration in economic conditions could adversely affect our business and results of operations. The weak economic conditions of the last several years have had an adverse impact on our business, 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 current stake in the Sofora-Telecom Argentina group and other transactions to exploit the value of certain of our assets (for example, transmission towers in Italy). 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 current 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, 2014 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 22.3 per cent. of the voting rights.

As a result of its stake in Telecom Italia s share capital, Telco may exert a significant influence on all matters to be decided by a vote of shareholders.

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. The presence of Telefónica in Telco could 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 .

On June 26, 2014 the Board of Directors of Telco acknowledged receipt of the notices received from Generali (also in the name and on behalf of the Telco shareholders which are also Generali group companies), Mediobanca and Intesa Sanpaolo on June 16, 2014, stating their intention to exercise their right to request the demerger of Telco under the terms of the shareholders agreement. The Board also unanimously approved the proposed partial demerger of the company (the **Demerger**). According to the terms of the Demerger, four newly-incorporated beneficiary companies, 100%-owned by each shareholder, will be allocated the respective shareholder s stake in Telecom Italia currently held by Telco (equal to approximately 22.3% of Telecom Italia s ordinary share capital), as follows: 14.72% to the newco owned by Telefónica, 4.30% to the newco owned by the Generali Group, and 1.64% to each of the newcos owned respectively by Intesa Sanpaolo and Mediobanca (such stakes consider the dilution subsequent to the issuance of Shares servicing the 2014 Broad-based Employees Share Ownership Plan, which took place in July 2014).

The shareholders of Telco have been part of a shareholders agreement since April 28, 2007 that has been significant for Telecom Italia, as it identifies, among other things, the criteria for the composition of the slate of

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candidates for appointment to the Board of Directors of Telecom Italia to be submitted to the Shareholders Meeting. On February 27, 2015 the termination of such agreement (as ultimately amended on February 29, 2012) was postponed to June 30, 2015 or, if earlier, the date of effectiveness of the Demerger.

Completion of the Demerger is subject to the requisite clearances from the following regulatory authorities: Conselho Administrativo de Defesa Econômica CADE (Brazilian antitrust authority); Agência Nacional de Telecomunicações ANATEL (Brazilian regulatory authority); Comision Nacional de Defensa de la Competencia CNDC (Argentine antitrust authority) and, for those matters which fall within its scope of responsibility, Istituto per la Vigilanza sulle Assicurazioni IVASS (Italian insurance regulatory authority).

To date, IVASS, Anatel and CADE have approved the transaction. Both Anatel and CADE conditioned their approval on, among others, (i) the suspension of all political rights of Telefónica in Telecom Italia and its controlled companies and (ii) the sale of all Telecom Italia shares to be held directly or indirectly by Telefónica. No information is available on the status of the authorization proceedings before CNDC.

On the basis of publicly available information, Telefónica has earmarked its future stake in Telecom Italia either to serve its 750 million euros exchangeable bond due July 2017 or to use it as consideration for the benefit of Vivendi S.A., in connection with the purchase of the Brazilian company GVT (August 2014). With respect to the Italian shareholders of Telco, Mediobanca and Intesa have publicly stated their intention to sell their respective stakes in Telecom Italia, while Generali announced it would decide on what it would do with its stake, depending on the opportunities that may arise.

Competition Risks

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

Strong competition exists in all of the principal telecommunications business areas in Italy in which we operate, including, most significantly, the fixed-line and mobile voice telecommunications and broadband businesses. Competition remains intense and there is 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:

- further price and margin erosion for our traditional products and services;
- a continuing loss of market share in our core markets; and
- loss of existing or prospective customers and greater difficulty in retaining existing customers.

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

- obsolescence of existing technologies and more rapid deployment of new technologies;
- an increase in costs and payback period related to investments in new technologies that are necessary to retain customers and market share; and/or
- difficulties in reducing debt and funding strategic and technological investments if we cannot generate sufficient profits and cash flows.

Although we continue to take steps to realize additional efficiencies and to rebalance revenue mix through the continuing introduction of innovative and value added services aimed to maintain and expand our fixed line 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 short message service (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 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 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 keep pace with previous levels of growth. However such change has had an adverse effect on revenues from our mobile services.

The continuing 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 has resulted in increased expenses to retain customer loyalty. In addition, if we are unable to satisfactorily offer better value to our customers, our market share and revenues could decline. Furthermore in the last three 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 will 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/fiber strategy.

The continuing development of Internet and broadband services is a key element 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 continuing 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 and fiber 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/fiber 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 strategic assets in the energy, transport and communication sectors were published and became effective (Law Decree n. 21 of March 15, 2012, converted with modifications by Law n. 56 of May 11, 2012).

Following this law, art. 3 of Presidential Decree n. 85 of March 25, 2014 identified as strategic assets in the communication sector the followings:

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

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

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

Presidential Decree n. 86 of March 25, 2014 set the procedural aspects about the handling of special powers in the communication sector.

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

· a power of the Italian Government to impose conditions and possibly to oppose the purchase, for any reason whatever, by non-EU citizens, of controlling shareholdings in companies which hold the aforementioned type of assets. A purchase will be permitted solely on condition of reciprocity. Until the end of the 15 day period from the notice of the purchase, within which conditions may be imposed, or the power to oppose the initiative exercised, the voting rights (and any rights other than the property rights) connected to shares whose sale entails the transfer of control, are 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;

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

The exercise of such powers, or the right or ability to exercise such powers, could make a change of control transaction with respect to 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 result in 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 and network failures could result in reduced user traffic and reduced revenue and could harm our reputation. In addition, our operations and reputation could be materially negatively affected by cyber-security threats or our failure to comply with data protection legislation.

Our success largely depends on the continued and uninterrupted performance of our 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 37,054 million euros at December 31, 2014 compared with 37,230 million euros at December 31, 2013. Our consolidated net financial debt was 28,021 million euros at December 31, 2014 compared with 27,942 million euros at December 31, 2013. 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.

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 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 Group companies.

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.

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 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 has been largely withdrawn.

Within this regulatory framework the main risks we face include:

- 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 (**Market Analyses**), in order to cope with the evolutions of market conditions and technology developments and set the rules for the subsequent three-year period. The respect of this timetable by AGCom is necessary to provide 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 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 but, as of April 8, 2015, the market analysis process, extended several times by AGCom, is still in progress. At the beginning of 2013, AGCom only set the access fees for 2013, while postponing the decision regarding the 2014-2016 access fees to a separate proceeding. Meanwhile, AGCom launched two public consultations (on April 2013 and on February 2014) and on February 13, 2015, AGCom launched its third public consultation about a completely new proposal on wholesale access prices for the period 2014-2017. This approach has created a high level of uncertainty for market operators and the lack of certainty about price development leads inevitably to uncertainties about the willingness to invest.

In addition, AGCom is primarily focusing its regulatory efforts on the development of FTTCab competition, while the recent ultrabroadband Plan approved by the Italian Government aims to the realization of FTTB/FTTH solutions. This adds uncertainty to the whole scenario.

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

As a result, AGCom is late on all Market Analyses processes (i.e. on all seven markets of the 2007 Recommendation). This delay unequivocally is against the regulatory principles established by the European Framework, including the transparency and predictability of the rules.

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.

Moreover, rules and economic conditions are uncertain and unstable also due to long and undefined administrative disputes.

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 following complaints by some alternative operators. According to these judgments, AGCom has conducted a review of already established decisions, considered as closed (e.g. 2010-2012 access charges), leading to a change in the regulation and in prices, with retroactive effects.

Also the Italian Antitrust 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 was involved in the agreement. Telecom Italia proposed a number of undertakings in order to make clear the correctness of its behavior, These proposed commitments included, inter alia, the provision of information, the implementation of new procedures, and certain additional measures. However AGCM did not accept these undertakings. To date, the proceeding remains pending. The closing of the proceeding has been postponed to July 31, 2015.

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

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, Telecom Italia s current authorizations to provide networks and services require that it satisfies 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.$ 1.2101, 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, 2014.

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 2010 to 2014 and for the beginning of 2015 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**
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	1.3927	1.2101	1.3297	1.2101
2015 (through April 8, 2015)	1.2101	1.0524	1.1226	1.0818

Monthly Rates	**High**	**Low**	**Average(1)**	**At Period end**
October 2014	1.2812	1.2517	1.2677	1.2530
November 2014	1.2554	1.2394	1.2472	1.2438
December 2014	1.2504	1.2101	1.2329	1.2101
January 2015	1.2015	1.1279	1.1615	1.1290
February 2015	1.1462	1.1197	1.1350	1.1197
March 2015	1.1212	1.0524	1.0819	1.0741
April 2015 (through April 8, 2015)	1.1008	1.0768	1.0885	1.0818

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

The Ordinary Shares (the **Ordinary Shares**) and Savings Shares (the **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.

3.3 SELECTED FINANCIAL AND STATISTICAL INFORMATION

The selected financial data set forth below are consolidated financial data of the Telecom Italia Group as of and for each of the years ended December 31, 2014, 2013, 2012, 2011 and 2010, 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 by the independent auditor PricewaterhouseCoopers S.p.A.

In 2014, 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, 2014, 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.

	2014(*) (millions of U.S. dollars, except percentages, ratios, employees and per share amounts)(1)	Year ended December 31, 2014(*)	2013(*)	2012(*)(**)	2011(*)(**)	2010(*)(**)
		(millions of euros, except percentages, ratios, employees and per share amounts)				
Separate Consolidated Income Statement Data:						
Revenues	**26,105**	**21,573**	**23,407**	**25,759**	**26,772**	**26,781**
Operating profit (loss)	**5,482**	**4,530**	**2,718**	**1,709**	**(1,190)**	**5,748**
Profit (loss) before tax from continuing operations	**2,840**	**2,347**	**532**	**(293)**	**(3,253)**	**3,765**
Profit (loss) from continuing operations	**1,717**	**1,419**	**(579)**	**(1,379)**	**(4,676)**	**3,250**
Profit (loss) from Discontinued operations/Non-current assets held for sale	655	541	341	102	310	322
Profit (loss) for the year	**2,372**	**1,960**	**(238)**	**(1,277)**	**(4,366)**	**3,572**
Profit (loss) for the year attributable to Owners of the Parent(2)	*1,634*	*1,350*	*(674)*	*(1,627)*	*(4,811)*	*3,118*
Capital Expenditures	**6,031**	**4,984**	**4,400**	**4,639**	**5,556**	**4,398**
Financial Ratios:						
Operating profit (loss)/Revenues (ROS)(%)	21.0%	21.0%	11.6%	6.6%	n.s.	21.5%
Ratio of earnings to fixed charges(3)	2.18	2.18	1.27	0.84	(0.53)	2.68
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)	59,285	59,285	59,527	62,758	63,137	66,439
Employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale (average number)	15,652	15,652	15,815	15,806	15,232	3,711
Basic and Diluted earnings per Share (EPS)(4):						
Ordinary Share	**0.08**	**0.07**	**(0.03)**	**(0.08)**	**(0.25)**	**0.16**
Savings Share	**0.09**	**0.08**	**(0.03)**	**(0.08)**	**(0.25)**	**0.17**

Of which:						
From continuing operations:						
Ordinary Share	*0.06*	*0.05*	*(0.05)*	*(0.09)*	*(0.27)*	*0.15*
Savings Share	*0.07*	*0.06*	*(0.05)*	*(0.09)*	*(0.27)*	*0.16*
From Discontinued operations/Non-current assets held for sale:						
Ordinary Share	*0.02*	*0.02*	*0.02*	*0.01*	*0.02*	*0.01*
Savings Share	*0.02*	*0.02*	*0.02*	*0.01*	*0.02*	*0.01*
Dividends:						
per Ordinary Share(5)				0.020	0.043	0.058
per Saving Share(5)	0.0333	0.0275	0.0275	0.031	0.054	0.069

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

	2014 (millions of U.S. dollars, except employees)(1)	2014	As of December 31, 2013	2012	2011	2010
		(millions of euros, except employees)				
Consolidated Statement of Financial Position Data:						
Total Assets	**86,584**	**71,551**	**70,220**	**77,555**	**83,886**	**89,040**
Equity:						
Equity attributable to owners of the Parent	21,957	18,145	17,061	19,378	22,790	28,819
Non-controlling interests	4,301	3,554	3,125	3,634	3,904	3,736
Total Equity	**26,258**	**21,699**	**20,186**	**23,012**	**26,694**	**32,555**
Total Liabilities	**60,326**	**49,852**	**50,034**	**54,543**	**57,192**	**56,485**
Total Equity and liabilities	**86,584**	**71,551**	**70,220**	**77,555**	**83,886**	**89,040**
Share capital(6)	**12,868**	**10,634**	**10,604**	**10,604**	**10,604**	**10,600**
Net financial debt(7)	**33,908**	**28,021**	**27,942**	**29,053**	**30,819**	**32,087**
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)	66,025	66,025	65,623	83,184	84,154	84,200
Employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale (number at year-end)	16,420	16,420	16,575			

	2014	2013	As of December 31, 2012 (thousands)	2011	2010
Statistical Data:					
Domestic (Italy) Business Unit					
Physical accesses(8)	19,704	20,378	21,153	21,712	22,122
Of which physical accesses (retail)	*12,480*	*13,210*	*13,978*	*14,652*	*15,351*
Broadband accesses	8,750	8,740	8,967	9,089	9,058
Of which retail broadband accesses	*6,921*	*6,915*	7,020	*7,125*	*7,175*
Mobile lines	30,350	31,221	32,159	32,227	31,018
Brazil Business Unit					
Mobile lines(9)	75,721	73,431	70,376	60,083	51,028

(*) 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*), as of the fourth quarter of 2013, the Sofora Telecom Argentina group has been treated as Discontinued operations/Non-current assets held for sale. The 2012, 2011 and 2010 comparative data have been appropriately 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 have been restated on a consistent basis. The adoption of IAS 19 does not have any effect on the Group s statement of financial position other than for certain reclassifications under Equity .

(1) For the convenience of the reader, Euro amounts for 2014 have been converted into U.S. dollars using the Euro/Dollar Exchange Rate in effect on December 31, 2014, of 1.00 = 1.2101 U.S.$.

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

(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;

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

capitalized interest for the applicable period; and

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

· Fixed charges is calculated by adding:

interest expenses (both expensed and capitalized);

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

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

(4) In accordance with IAS 33 (*Earnings per share*), basic earnings per Ordinary Share is calculated by dividing the Group s profit (loss) available to shareholders by the weighted average number of shares outstanding during the year, 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:

- 14,851,380,060 for the year ended December 31, 2014 (such number includes 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.);
- 13,571,392,501 for the year ended December 31, 2013 (such number includes 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; and
- 13,239,883,276 for the year ended December 31, 2010.

Savings Shares was 6,026,120,661 for the years ended December 31, 2014, 2013, 2012, 2011 and 2010.

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 May 20, 2015, Telecom Italia s dividend coupons for the year ended December 31, 2014, will be clipped on June 22, 2015, and will be payable from June 24, 2015.

(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, 2014 5.2.3 Non-GAAP Financial Measures .

(8) Physical accesses include Broadband accesses.

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

3.4 DIVIDENDS

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

The following table sets forth the dividends per Ordinary Share and per Savings Share declared by 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, 2014.

	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)
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				0.0275	0.0377	165.72
2014(2)				0.0275	0.0298	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, 2014, Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on April 8, 2015.

(2) Subject to approval at the Annual Shareholders Meeting to be held on May 20, 2015. Telecom Italia s dividend coupons for its Savings Shares for the year ended December 31, 2014, will be clipped on June 22, 2015, and will be payable from June 24, 2015.

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.

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Item 3. Key Information **Dividends**

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 Via Gaetano Negri 1. The telephone number is +39 (02) 85951. The company is recorded in the Milan Companies Register at number 00488410010, R.E.A. (Repertorio Economico Amministrativo) at number 1580695 and R.A.E.E. (Rifiuti di Apparecchiature Elettriche ed Elettroniche) register at number IT08020000000799.

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

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

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**).

Based on publicly available information, on June 16, 2014 the Italian shareholders of Telco exercised their right to request the demerger of the company, pursuant to the shareholders agreement. As a result, on June 26, 2014 the Board of Directors of Telco approved a transaction consisting of a non-proportional partial demerger, by assignment of the Telco stake in Telecom Italia to four newly constituted companies, each wholly controlled by one of the Telco shareholders, in proportion to their respective shareholdings in Telco, namely, 14.72% of the newco controlled by Telefónica, 4.30% to the newco controlled by the Generali group, and 1.64% to each of the newcos controlled by Intesa Sanpaolo and Mediobanca respectively. The demerger was approved by an extraordinary meeting of the Telco shareholders on July 9, 2014.

The demerger process requires authorization from a number of regulators including CADE, Anatel, CNDC and IVASS before the transaction can be completed. To date, IVASS, Anatel and CADE have approved the transaction, subject to certain conditions in the case of CADE and Anatel.

On February 27, 2015, Telco fully repaid the bank loan facility and the subordinated bonds held by the shareholders; as a consequence the pledge over the ordinary shares of Telecom Italia granted by Telco in favor of the lending banks has been cancelled and, thus, the option agreement concerning the right to acquire such ordinary shares. On the same date, given that certain authorizations necessary for the completion of the Demerger had to date not yet been granted by the competent Authorities, the shareholders postponed the termination of the Shareholders Agreement to June 30, 2015 or, if earlier, the date of effectiveness of the Demerger.

As at December 31, 2014, Telco voting rights were held by Telefónica (46.18%), Generali (30.58%), Intesa Sanpaolo (11.62%), and Mediobanca (11.62%).

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

4.1.2 Development

On February 20, 2015, Telecom Italia presented its 2015 2017 Plan. The 2015-2017 Plan sets out the primary strategic objectives of the Telecom Italia Group over the next three years as well as a number of strategic priorities to achieve these objectives.

For more details, please see 4.1.7 Updated Strategy .

4.1.3 Business

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

The 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 2014 are as follows:

- **Telecom Italia Ventures S.r.l. Domestic Business Unit**: was established in July 2014;
- **Rete A Media Business Unit**: on June 30, 2014, Persidera S.p.A. (formerly called Telecom Italia Media Broadcasting S.r.l.) acquired 100% of the company Rete A; as a result Rete A entered the Group s scope of consolidation and was consolidated on a line-by-line basis. The merger of Rete A by absorption into Persidera was completed on December 1, 2014;
- **TIMB2 S.r.l. Media Business Unit**: was established in May 2014;
- **Trentino NGN S.r.l. Domestic Business Unit**: on February 28, 2014 the Telecom Italia Group acquired the controlling stake in the company Trentino NGN; consequently such company is now part of the Group s scope of consolidation.

These changes did not have a significant impact on the Consolidated Financial Statements of the Telecom Italia Group as at and for the year ended December 31, 2014.

The principal changes in the scope of consolidation in 2013 were 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 Sofora Telecom Argentina group was classified in discontinued operations (Discontinued operations/Non-current assets held for sale) and it is no longer separately presented as a Business Unit. For further details, please see 4.2.4 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, 2014 Discontinued Operations/Non-current Assets Held For Sale (Sofora Telecom Argentina group) ;
- **MTV group Media Business Unit**: on September 12, 2013 Telecom Italia Media completed 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 Business Unit**: on April 30, 2013, 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.

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, 2014 5.2.2. Business Segment 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. Since 2014, the operations of Olivetti group have been consolidated under the Domestic Business Unit. This different presentation reflects the commercial and business placement of the Olivetti group and the process of integrating its products and services with those offered by Telecom Italia in the Italian market.

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, 2014 the Telecom Italia Group had approximately 12.5 million physical accesses (retail) in Italy, a decrease of 0.7 million compared to December 31, 2013, 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 was approximately 7.2 million accesses for telephone services at December 31, 2014 (stable compared to December 31, 2013).

The broadband portfolio in Italy was 8.8 million accesses at December 31, 2014 (consisting of approximately 6.9 million retail accesses and 1.9 million wholesale accesses), substantially stable compared to December 31, 2013 (8.7 million accesses).

In addition, the Telecom Italia Group had approximately 30.4 million mobile telephone lines in Italy at December 31, 2014, a decrease of approximately 0.8 million compared to December 31, 2013.

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, GSM and LTE technologies. With the acquisitions of 700MHz and 2.5GHz radiofrequencies, the focus is on speeding up the development of 3G and 4G networks. Moreover, with the acquisitions of Intelig Telecomunicações, Tim Fiber RJ and Tim Fiber SP (now merged into Tim Celular S.A.), the portfolio of services has been expanded by offering fiber optic data transmission using full IP technology such as DWDM and MPLS and offering residential broadband services.

At December 31, 2014, the Telecom Italia Group had 75.7 million mobile telephone lines in Brazil (73.4 million at December 31, 2013).

4.1.4 Disposals and Acquisitions of Significant Equity Investments in 2014

For a description of disposals and acquisitions of significant equity investments in 2014 please see Note Scope of consolidation and Note Investments of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

4.1.5 Recent Developments During 2015

For a description of recent developments please see Item 8. Financial Information 8.2 Legal Proceedings and Note Events Subsequent to December 31, 2014 of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

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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, 2014:

(*) 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 herein.

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, 2014 5.2.5 Business unit financial data .

4.1.7 Updated Strategy

Strategic Priorities and Objectives for the 2015 2017 Plan

On February 20, 2015, Telecom Italia presented its updated 2015 2017 Plan, which envisages an increase in the innovative investment programme.

The Plan includes the following strategic priorities over the next three years:

Domestic market

The main strategic priorities in the Domestic Market are:

.

Accelerate the roll out of Next-Generation Networks, with a strong focus on investments relating to innovative networks and services. The main areas of innovative technology development are:

· development of fixed ultrabroadband with optic fiber;

· mobile ultrabroadband (LTE);

· creation of new data centers to support Cloud services and to introduce innovation in IT systems for new offer and business models;

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- development of international connections in fiber (Telecom Italia Sparkle);
- transformation activities to simplify and upgrade the infrastructure, to achieve a structural reduction in operating costs.

- Implement a bundled services offering (n play offering) strategy to defend fixed traditional services, drive mobile broadband to fixed broadband substitution and further expand fixed broadband and fiber penetration through video services, including basic to premium content.
- Moving to a single brand: simplification of the fixed, mobile and internet offer under the TIM brand.
- Labor cost restructuring to combine efficiency and HR development:
  - rightsizing;
  - insourcing;
  - use of new Jobs Act for workforce mix evolution, in order to recruit new professional skills needed because of the creation of new technology infrastructure networks.
- Further proceed in the structural efficiency path in the 2015-2017 period.

Brazil

The main strategic priorities in the Brazilian Market are:

- Enhance network quality to increase returns through optimizing capital expenditure, mainly focused on 4G and 3G networks.
- Exploit the mobile internet growth opportunity: innovative investments will enable the growth of innovative revenues (data and content).
- Pursue a Business Transformation oriented to:
  - improve commercial efficiency;
  - network costs optimization; and

- process-driven efficiency.

- Increase the economic sustainability of services provided to corporates and accelerate the growth of residential Ultra Broadband (Live TIM).

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 .

4.1.8 THE ORGANIZATIONAL STRUCTURE

The following diagram highlights the organizational structure of the Telecom Italia Group as of April 8, 2015:

4.2 BUSINESS UNITS

4.2.1 DOMESTIC

Since 2014, the operations of Olivetti group have been consolidated under the Domestic Business Unit. This different presentation reflects the commercial and business placement of the Olivetti group and the process of integrating its products and services with those offered by Telecom Italia in the Italian market.

The Domestic Business Unit operates as the consolidated market leader in providing voice and data services on fixed and mobile networks for final retail customers and other wholesale operators. In the international field, the Business Unit develops fiber optic networks for wholesale customers (in Europe, in the Mediterranean and in South America). Olivetti operates in the area 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 Domestic Business Unit is organized as follows as of December 31, 2014:

(*) 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 the following three Cash-generating units (**CGU**):

- **Core Domestic**: includes all telecommunications activities inherent to 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:

  - Operations: covering technological innovation and processes of development, engineering, building and operation of network infrastructures, real estate properties and plant engineering, delivery processes, and assurance for customer services; development of the information technology strategy, guidelines and plan; customer care, operating credit, loyalty and retention activities, sales within its remit, and administrative management of customers;

  - 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.

- **Olivetti**: operates in the sector 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. Its reference market is focused mainly in Europe, Asia and South America.

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 and the Agent channel with 100 Direct Agents and a network of 45 partners with 900 sales agents. 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;

- 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, 2014). 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 90): a network focused on standard offers (Small market) with about 1,500 agents;
- *VAR Value Added Reseller* channel (approximately 60): a network organized geographically focused on VAS and ICT products with 250 agents and 200 ICT Professionals;
- *Outbound Call Center:* 11 partners focused on specific canvass and customer loyalty activities;

- *Senior Agent:* 120 Agents focused on medium enterprise customers;
- *Shops*: some specific shops (approximately 2,600) offering business products and assistance (14 Key Account).

- ***Direct Sales Channel***

At the end of 2014 around 720 sales staff had a dedicated portfolio to manage and develop, supported by pre sales and post sales teams. The main activities include:

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

- ***National Wholesale Services***

The National Wholesale Services (**NWS**) 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 re-engineering.

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,		
	2014	**2013**	**2012**
DOMESTIC FIXED			
Physical accesses (thousand)(1)	19,704	20,378	21,153
Of which retail physical accesses (thousand)	*12,480*	*13,210*	*13,978*
Broadband accesses in Italy at year-end (thousand)(2)	8,750	8,740	8,967
Of which retail broadband accesses (thousand)	*6,921*	*6,915*	*7,020*
Network infrastructure in Italy:			
access network in copper (millions of km pair, distribution and connection)	115.2	114.9	114.5
access and carrier network in optical fiber (millions of km fiber)	8.3	6.7	5.7
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
Total traffic:			
Minutes of traffic on fixed-line network (billions):	84.2	91.2	101.8
Domestic traffic	*68.9*	*75.8*	*85.9*
International traffic	*15.3*	*15.4*	*15.9*
DownStream and UpStream traffic volumes (PBytes):	3,161	2,533	2,202
DOMESTIC MOBILE(3)			
Number of lines at year-end (thousand)	30,350	31,221	32,159
Change in lines (%)	(2.8)	(2.9)	(0.2)
Churn rate (%)(4)	24.2	30.4	26.6
Total outgoing traffic per month (millions of minutes)	3,703	3,581	3,664
Total average outgoing and incoming traffic per month (millions of minutes)	5,480	5,084	4,921
Mobile browsing volumes (PBytes)(5)	133.9	98.1	93.1
Average monthly revenues per line(6) (euro)	12.1	13.1	15.5

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

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

(3) Following results of the checks on systems that manage our Mobile Customer base, the Company updated the technical configuration, as well as the Guidelines and internal procedures regarding rechargeable SIM cards extension (beyond the initial timeline following first activation of 13 or 24 months according to the offering), establishing that the extension of the life of a SIM card can only take place for sales or after-sales marketing events, explicitly requested by the customer (free of charge or for payment), or events resulting in charges to the customer. Based on the monitoring conducted, in 2014 the activities were duly completed for the regularization (including deactivation) of 489,000 SIM cards (of which 12,000 were de-activated in the fourth quarter of 2014), which were still active as a result of extensions not compliant with the criteria set forth in the new Guidelines. The working group set up for that purpose continues the monthly monitoring and regularization according to the methods previously established 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 2014 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

- In the second half of 2014, in the Italian TLC market there were signals of a slowdown in the high competitive pressure extremely intense during 2013 characterized by a significant use of pricing as a lever, which has led in the last few years to an ongoing decline in the traditional service components, particularly voice service.

- 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.

- The development of broadband services 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 OTTs and from telecommunications and consumer electronics companies;

  - 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. 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 evolution:

- the development of innovative services in the IT market, specifically in Cloud services;

- the development of new Digital Services, particularly referring to Entertainment (eg. TV over IP), Smart Home, Digital Advertising, Mobile Payments and Digital Identity.

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 broadband and introducing bundled voice and broadband 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 2014, 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). 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 December 2014, physical accesses in Italy numbered approximately 20.6 million (full-infrastructured OLOs and FWA-Fixed Wireless Access included), down by around 0.5 million from 2013. The growing competition in the access market has led to a gradual reduction in Telecom Italia s market share.

In the broadband market, at the end of December 2014 fixed broadband and fiber customers in Italy reached a penetration rate on physical accesses of about 69% up 3 percentage points from 2013.

The spread of broadband services is driven not only by the penetration of personal computers and of other connected devices (eg. Smart Tv), 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.).

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, saturated and mature in its traditional component of voice services, had a decrease in terms of number of lines, that may be associated with rationalization of customer s second and third SIMs (at the end of December 2014 mobile lines in Italy numbered about 94 million, down by about 3% over 2013; nevertheless the penetration rate is still very high, about 157% of the population).

The decreasing trend in revenues from components of traditional services such as voice and messaging continues, as these components are impacted by the strong competition among TLC operators using pricing as a lever extremely intense in 2013 with signals of slowdown in the second part of 2014 and by the growing expansion of communication apps . Mobile broadband continues to grow and, though it is unable to offset the drop in revenues from traditional services, represents the main strategic and business opportunity for the mobile TLC industry, also due to the launch of LTE ultra-broadband.

In 2014, the growth in mobile broadband and ultra-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 and ultra-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 mainly characterized by the presence of Telecom Italia and of 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.

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, GSM and LTE technologies. With the acquisitions of 700MHz and 2.5GHz radiofrequencies, the focus is on speeding up the development of 3G and 4G networks. Moreover, with the acquisitions of Intelig Telecomunicações in 2009, Tim Fiber RJ and Tim Fiber SP in 2011 (now merged into Tim Celular S.A.), the portfolio of services expanded by offering fiber optic data transmission using full IP technology such as DWDM and MPLS and offering residential broadband services.

The Tim Brasil group s services cover an area which includes around 96% of Brazil s urban population. Tim Brasil group has approximately 75.7 million mobile lines which covers each of the Brazilian states and the Federal District. As of December 31, 2014, the market combined penetration reached approximately 138% of the Brazilian population and its combined market share totaled approximately 27.0%.

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

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

	As of and for the years ended December 31,		
	2014	2013	2012
Number of lines at year-end (thousands)(*)	75,721	73,431	70,376
MOU (minutes/months)(**)	135.8	147.7	135.8
ARPU (Reais)	17.7	18.6	19.1

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

(**) Net of visitors.

v Marketing

During 2014, Tim Brasil intensified promotional activity on voice plans and further expanded data services.

Tim Brasil s main plans and services on its platforms are:

· *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 for unlimited talk time to any radio user (SME), without deduction from its package of minutes, as well as benefits in the acquisition of selected smartphones;

- Liberty customers also have many data options to fit their needs: Liberty Web 50MB, 300MB, Smart (300MB/month of use), 600MB, 1GB, 3GB, 6GB, 10GB, 20GB and 50GB;

- *Liberty Express* for a fixed amount per month, user gets a package of services that is considered sufficient for the average post paid customer (unlimited on-net calls, off-net minutes, unlimited sms and a package of data);

- *Liberty Controle* (invoice and Express variants): 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;

- *Controle WhatsApp*: new hybrid plan that offers unlimited WhatsApp, 300MB of data usage, unlimited SMS for all Brazilian carriers and also receives bonuses related to local and long distance calls within TIM or other out of network calls and services;

- *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. In 2014, our clients were given the choice of being charged per day for on-net calls. SMS and data services are charged together per day;

- *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. The plan is intended to function as a closed social network on which customers have access to the plan only if invited by a friend who is already a TIM Beta member;

- *Liberty Web 1GB, 3GB, 6GB, 10GB, 20GB and 50GB*: 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), tablets and other web devices, with a possibility to renew upon the expiry of a plan. In 2014, customers started to have the possibility of sharing their voice line s data packages with up to 4 data SIM cards;

- *Liberty Web Express 1GB, 3GB, 6GB, 10GB, 20GB and 50GB*: plans that offer Internet access through web devices, 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 2013. 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 2014 amounted to 39.1 million new lines compared to 39.6 million new lines in 2013, a decrease of 1.3%. Net additions in 2014 amounted to 2.3 million lines compared to 3.1 million lines in 2013, a decrease of approximately -25% over 2013.

Regarding the Large Accounts Segment, we created in 2014 a new business unit called TIM Soluções Corporativas, in order to better service a larger company s needs. Within this new umbrella, we offer either mobile or fixed plans, as well as VAS and M2M services. In our SME segment, we have continued to focus on our main offering, Liberty Empresas, introducing some improvements to meet customer specific needs.

One of the improvements was to start with loyalty clauses for new 24 month contracts, in order to increase customer loyalty. These contracts come together with the Comodato offerings that continued in 2014. These comodato offerings were reinforced with new smartphones with 4G technology. In addition, we launched the first voice and data combos with devices, in order to increase competitiveness and stimulate data consumption.

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

- *Liberty Web Empresa 1GB, 3GB and 10GB*: post-paid plans that offer Internet access through modems and tablets, with a possibility to renew upon the expiry of a plan;

- *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;

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· *Liberty Web 20MB, 100MB, 300MB, 600MB, 1GB and 3GB*: data packages that charge a fixed R$6.90, R$9.90, R$21.90, R$ 29.90, R$34.90 and R$54.90 per month, respectively, for mobile phone Internet access, with possibility of repurchasing. These packages 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 450,000 points all over Brazil. Most devices are sold on credit card and can be paid in up to 12 installments.

For the corporate market, Tim Brasil has over 200 commercial partners focused on selling to small and medium enterprises, as well as a sales team that rely on 60 employees focused on large enterprises and another 140 employees focused on medium enterprises.

v Main changes in the regulatory framework

For the main regulatory developments which occurred in 2014 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 2014, the Brazilian mobile market reached 280.7 million lines; this is 3.6% more than at the end of 2013 and a penetration rate of 138% of the population (134.4% in 2013). Net total line increases in 2014 were 9.6 million lines, 0.3 million more net lines than in 2013.

* * *

Agreement for the sale of telecommunications towers

On November 21, 2014, Tim Brasil and American Tower do Brasil entered into an agreement for the sale of a maximum of 6,481 telecommunications towers, for a total price of approximately 3 billion reais, and a Master Lease Agreement (**MLA**) for portions of those towers, with an overall term of 20 years.

The sale will be divided into two contracts: the first relating to 5,232 towers and the second relating to the remaining 1,249 towers, on which other operators hold pre-emptive rights. The agreement, which shall be executed in the first half of 2015 in consecutive tranches, is subject to satisfaction of certain conditions including authorization from the Brazilian Antitrust Authority (CADE), that already issued its favorable opinion on February 12, 2015.

4.2.3 Media

Media operates in the management of Digital Multiplexes, as well as the provision of accessory services and digital signal broadcasting platforms to third parties.

Acquisition of control of Rete A S.p.A.

On June 30, 2014, Telecom Italia Media (TI Media) and Gruppo Editoriale L Espresso (Espresso group) completed the business combination of the digital terrestrial network operator businesses controlled by Persidera S.p.A. (new name of Telecom Italia Media Broadcasting S.r.l.) and Rete A S.p.A. (Rete A), respectively.

The merger between Persidera and Rete A has created a combined entity that is the largest independent network operator in Italy, with five digital multiplexes and nationwide high-coverage infrastructure, based on next generation technologies.

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The group resulting from the transaction is the primary supplier for the leading non-integrated national and foreign television content providers operating on the Italian market.

As of December 31, 2014, the Business Unit was organized as follows:

At December 31, 2014, the three Digital Multiplexes of Persidera S.p.A. had reached a population coverage of 95.6% of the Italian population. The coverage of the two Digital Multiplexes of the former Rete A was 93.4% and 93.7%, respectively.

v MAIN CHANGES IN THE REGULATORY FRAMEWORK

For the main regulatory events which occurred in 2014 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 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. As a result and in accordance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), starting from the fourth quarter of 2013 the Sofora Telecom Argentina group has been treated as Discontinued operations/Non-current assets held for sale.

As of December 31, 2014, the Sofora-Telecom Argentina group was organized as follows (the main companies are indicated):

(*) Holding companies.
(**) Non-operating companies.
(***) Commenced operations in January 2015.

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 strategy with new flexible service packages with several discounts, allowing customers to choice for the packages that most fit with their needs.

In addition, the entertainment service portfolio continued developing and Arnet Play reached an alliance with Spotify, a technological platform of music that allow access to thousands of playlists and songs from any device.

Broadband offer increased speeds to 20MB and 30MB for those clients who had the technical availability, as part of a portfolio driven to increase the customer s adoption of these high speed services.

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 2014, Telecom Argentina continued boosting the bundling offer of Broadband plus calls, including calls to mobile phones, giving to the customers a communication proposal with complementary alternative services.

Also, the corporate segment was focused in the provision of converged solutions that integrated voice, data, Internet, multimedia, Information and Communications Technology, datacenter and fixed and mobile applications. Valued added services and products were increased, complementing the service portfolio provided to the customers with the Argentine cloud of Telecom and last generation datacenter services.

Mobile Services

Personal reinforced its commercial strategy for both, new and existing customers based on a portfolio of plans, packages and services together with a variety of promotions characterized for the convenience for each segment: additional benefits for the recharge of credit for prepaid customers (**Superchip**), voice and SMS unlimited per day and for a fixed amount (including mobile Internet in the plan) for postpaid customers and the unlimited service as a common factor of services for the Cuentas claras .

In addition, according with new regulatory requirements, the unit of pricing has been modified changing from minutes to seconds. The commercial offers were consistently modified.

Moreover, Personal continued with its innovation strategy increasing its offer of mobile content through the development of the platform Personal Play and through strategic alliances. Personal also promoted the increase of the customer base with smartphones to potentiate the value added service.

By the end of 2014, the milestone of launching the 4G network and its gradual roll out in the next years, together with the extension and the reconversion of 3G networks as a result of the acquisition of the new radioelectric spectrum, will allow to reach quality improvements on the customer experience and will encourage to offer new plans promoting the use of datos and the development of new value added services.

On the other hand, Núcleo focused on the campaign Free Whatsapp in all recharges , giving that benefit in the recharge of credit to the prepaid customers and included in the plan for the postpaid and plan control customers. In addition, Núcleo launched the Multiconnection Age with the aim to be positioned as a functional brand of multiconnections to provide customers access to connectivity and entertainment.

Núcleo also relaunched the brand for the mobile financial services based on the platform Billetera Personal and in May 2014 Nucleo s Board of Directors approved the constitution of Personal Envios S.A., a new company in which Nucleo has 97%, whose statutory purpose is the provision of mobile financial services in Paraguay.

v **Distribution**

During 2014 the fixed business continued consolidating the implementation of digital customer care channels mainly based on the web channel and social networks.

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The network of commercial offices of Personal continued changing to a new model to improve the customer experience, giving the customer advisory in connection with the needs resulting from the new services and the evolution of technology. Two new commercial offices were opened, reaching 67 throughout Argentina (of which 16 correspond to the new model).

Personal also continued relocating the indirect commercial points (**Agentes**) in strategic areas, reducing the total number of Agentes and improving their productivity.

In addition, Personal focused in the customer care quality through improvements in the personal contact with the client and also through the digital contact.

Systems and processes were also adequate to comply with the objectives established by the regulatory authority.

In the corporate segment, the model based in the segmentation of sale representatives in different profiles was consolidated in order to focus in the customer satisfaction and its loyalty, the development of the data base and the value capture.

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 continue growing in value but with lower rates of expansion in its customer base, along with the consolidation of Personal leadership strengths such as the value added services, specially mobile Internet, with the roll out the new 4G networks that multiply by ten the speed of mobile Internet. Thus, with the roll out of the LTE infrastructure, it is expected that the customers increase the access to content (such as Personal Play music, games and videos), being one of the key sources of revenue growth.

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

In the broadband segment, Telecom Argentina group 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 has 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 4.2.4 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 (**EC**) 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 EC adopted a new 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). In October 2014, the EC adopted the third Recommendation which identifies only five wholesale markets susceptible to ex-ante regulation: call termination at fixed location (market 1), call termination on mobile networks (market 2), local access at fixed location (market 3a), central access at fixed location for mass-market products (market 3b), high-quality access at fixed location (market 4).

The 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, which is a position of economic strength providing the company itself with the power to behave, to an appreciable extent, independently of competitors, customers and ultimately consumers. Market shares are normally used as a proxy for market power: while undertakings with market shares of no more than 25% are not likely to enjoy a (single) dominant position, single dominance concerns normally arise in the case of undertakings with market shares of over 40%.

Market shares in excess of 50% are in themselves, except in exceptional circumstances, evidence of the existence of a dominant position.

The market analyses carried out by NRAs are subject to the assessment of the EC which, to a certain extent, can challenge the NRAs findings, having a veto power on the definition of the market and on the identification of SMP operators. With respect to remedies, the EC 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 EC, BEREC and the NRA then have to cooperate to find a solution within three months. Neither the EC nor BEREC are able to make a binding intervention. Should a NRA decide not to amend or withdraw a draft measure after the EC 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 Service and E-Privacy directives and the 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 ; the Italian Government was delegated the authority to adopt measures aiming at transposing the revised directives. The Legislative Decrees of May 28, 2012 (no. 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 regulatory framework governing harmonization of the radio spectrum, rights of end users, net neutrality and European mobile roaming (the **Single Market Regulation**). The Single Market Regulation has not yet been approved since a common position between Member States, European Parliament and EC has not yet been found.

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 EC 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:

- the Electronic Communications Code (**ECC**), which transposed into national law the EU Access, Authorization, Framework and Universal Service directives;
- Data Protection Code ;
- the Consolidated Law on Radio-Television containing the principles regulating the organization of radio-television system and its convergence with different means of interpersonal and mass communications;
- Law 36 of February 22, 2001 aimed at protecting the population from the effects of the exposure to electric, magnetic and electromagnetic fields and the decree of the President of the Council of Ministers (Decreto del Presidente del Consiglio dei Ministri **DPCM**) of July 8, 2003, which sets up Exposure limits, attention values and quality goals to protect the population against electric, magnetic and electromagnetic fields generated by frequencies between 100 KHz and 300 GHz ;
- the Consumer Code ;
- Law June 18, 2009, no. 69 providing measures to simplify the procedures for the installation and development of optical fiber networks (Article 1 Broadband);
- Decree Law July 6, 2011, no. 98, enacted by Law July 15, 2011, no. 111 further simplifying the procedure for the installation of small mobile equipment (0.5 sq. meters of radiator area) and low power equipment (7 watt);

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

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

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

- Decree Law no. 145/2013 Destinazione Italia (enacted by Law no. 9/2014) containing measures for the use of new techniques for the simplification of the layout of broadband and ultra-broadband telecommunications networks;

- Decree Law no. 91/2014 Competitività (enacted by Law no. 116/2014), establishing the obligation for the Ministry of Environment to approve Guidelines for the calculation of the level of electromagnetic emissions of mobile telephony equipment and aimed at supporting the development of LTE/4G networks. Furthermore, the Decree establishes discounts on the costs of electricity for specific categories of business users, including Telecom Italia;

- Decree Law no. 133/2014 Sblocca Italia (enacted by Law no. 164/2014), introducing fiscal benefits in favor of operators installing ultra-broadband networks; and

- Law no. 190/2014 Legge di stabilità 2015 , fixing terms and conditions for the oncoming auction for the L Band frequencies (1452-1492 MHz) to be used for mobile broadband services.

The Ministry for Economic development is responsible for the general policy in the electronic communications sector and AGCom is the National Regulatory Authority with responsibility for ensuring fair competition in the telecom market and protecting customers.

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 providing 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 operating 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 initiatives 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, also 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**), 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.

As a consequence of its Undertakings, Telecom Italia set up in 2010 a New Delivery Process (**NDP**) in order to offer additional efficiency and transparency in the equality of treatment of Alternative Network Operators (**AltNets**) and retail customers. In particular, the new process allows for identical operating procedures in the treatment of retail and wholesale customers where services cannot be activated due to a lack of required network resources.

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

The AltNets can voluntarily join the NDP for the wholesale services they are interested in (Bitstream, Local Loop Unbundling, Shared Access) and they must align their operational Systems and internal processes to the NDP. At the end of 2014, many AltNets had joined the NDP for different wholesale services: 58 operators for the Asynchronous Transfer Mode (**ATM**) bitstream service; 33 for Ethernet bitstream; 13 for Easy IP; 14 for WLR; 4 for Shared Access (**SA**); and 22 for LLU services. GMI continues to monitor the implementation of the Undertakings (see section 4.5 Glossary for definitions).

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.

Market analyses

Following a first round (2006-2007) and a second round (2007-2010) of market analyses, a third round was started by AGCom in 2010. As of April 8, 2015 the third round has 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 analyses are continuing despite the proceedings being launched respectively in September 2012 and November 2013. With respect to the mobile market, in February 2014, AGCom started the fourth round of market analysis, which is still in progress. A description of the market analyses is described below together with the main recent developments regarding the electronic communications markets.

· **Retail-fixed markets**

At the end of 2009, AGCom concluded the second round of market analyses. AGCom imposed in the retail access market a requirement of prior notification and charges approval by AGCom. Telecom Italia s retail offers must pass a margin squeeze price test to be approved. The test assesses whether the alternative operators can implement the same service at similar price using Telecom Italia s wholesale services and owned network components.

In September 2010, AGCom set new rules for the assessment of Telecom Italia s retail offers, including non-standard offers for public tenders, tailored offers for top business customers and bundles (multiple-play offers).

The new margin squeeze price test methodology is based on a test developed on the basis of the following key principles:

(i) the margin squeeze test takes into consideration the most efficient technology and network architecture (representing the most efficient inputs that can be used by AltNets to replicate Telecom Italia s offers) and a combination of wholesale inputs (LLU, WLR, bitstream, etc.);

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

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(iii) application of the price test to the whole bundles, taking into account the overall cost of provisioning, irrespective of the replicability of each component of the bundle; and

(iv) an 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 October 2013 AGCom set rules for the margin squeeze price test of Telecom Italia s fiber-based retail access offers.

In the frame of the market analyses still in progress, AGCom proposed the deregulation of retail access markets as well as the application of an *ex post* margin squeeze test of the retail charges.

Telecom Italia retail offers

In 2014 Telecom Italia continued its price scheme simplification introducing new tariffs approved by AGCom. For business customers, starting from July 1, 2014, the basic offer consists of a single per minute charge for both national and fixed to mobile calls, plus a set-up fee.

For the residential customers basic offer, starting from November 1, 2014 Telecom Italia introduced a single price for all national and fixed-to-mobile calls. The set-up fee has been eliminated. The scheme provides also for a rebate of 50% on all national calls for a monthly usage exceeding three hours per month.

The tables below summarize the standard offer schemes described above:

Business prices

cent/minute (VAT not included)	Prices until 12/31/2013	Prices from 07/01/2014
Local	0.0	10.0
National	0.0	10.0
Fixed-Mobile (TIM, Vodafone, Wind, H3G, etc.)	3.0	10.0
Set up fee (cent)	20.0	10.0

Consumer prices

cent/minute (VAT 22% included)	Prices from 12/31/2013	Prices from 11/01/2014
Local and national	5.04(*)	10.0(*)
Fixed-Mobile (TIM, Vodafone, Wind, H3G, etc.)	5.04	10.0
Set up fee (cent)	5.04(*)	0.0

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

From November 1, 2014 the monthly rental for the basic PSTN line for residential customers was increased from 17.54 /month to 18.54 /month (VAT 22% included).

Wholesale markets

· **Wholesale fixed access markets**

In December 2009, following the conclusion of the second round of market analyses, AGCom confirmed Telecom Italia as having SMP in all **wholesale access markets** (markets 4 and 5/2007 Recommendation), i.e. in the provision of Local Loop Unbundling (**LLU**), bitstream and Wholesale Line Rental (**WLR**) services. As a result, AGCom confirmed all obligations on wholesale access services which utilize the legacy copper network by imposing a network price cap mechanism. To implement this obligation AGCom developed a specific technical-economic model, a bottom-up long-run incremental costs (**BU-LRIC**) model featuring current cost accounting (**CCA**) (see section 4.5 Glossary for definitions).

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AGCom is responsible for the setting of the allowed rate of return on the capital employed in the provision of wholesale services (the weighted average cost of capital (**WACC**)), calculated with the capital asset pricing methodology, which is to calculate the charges of the regulated wholesale services. As of today the WACC has been fixed at the value of 9.36% (a new rate of 9.18% is under consultation).

In September 2012, AGCom launched the 3rd round of market analysis on wholesale and retail access markets (markets 1, 4 and 5 of 2007 Recommendation) to set the regulatory framework for the wholesale access services over the copper and fiber network for the 2013-2015 period (Decision 390/12/CONS).

However, AGCom launched three public consultations on the 2013 pricing of the following services: WLR, bitstream and LLU (see section 4.5 Glossary for definitions), anticipating the results of the analysis to be carried out during the third round of market analyses. As a consequence, the first draft Decision on the third round of market analyses on the wholesale access market on copper and fiber networks (Decision 238/13/CONS) focused on setting prices and the WACC value for the 2014-2016 period (instead of the 2013-2015 period).

In December 2013, AGCom approved the final decisions on Telecom Italia s economic and technical conditions for the 2013 copper network access services offer (Decisions no. 746/13/CONS and no. 747/13/CONS).

For the year 2013, the LLU rental fee was set at 8.68 /month (-6.5% compared to 2012) and, the naked bitstream rental fee at 15.14 /month (-22.4% compared to 2012).

Telecom Italia challenged before the Regional Administrative Court (TAR Lazio) the decisions on the 2013 wholesale access prices complaining, inter alia, about the lack of appreciation of the WACC notwithstanding the financial crisis of the preceding few years. TAR Lazio, rejected the appeals; Telecom Italia is considering whether to challenge these decisions before the Council of State.

With respect to the WLR fee, AGCom set the price at 11.14 /month (-4.8%) and published its final decision only on September 1, 2014, with retroactive effect for the year 2013.

With respect to the Sub-Loop Unbundling service (**SLU**); (see section 4.5 Glossary for definitions), AGCom set the 2013 monthly charge at 5.79 /month.

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 building of new street-cabinets in addition to the obligation to provide technical specifications for the introduction of multi-operator vectoring architectures (the Multi-Operator Vectoring solution **MOV**) for **VDSL2** Vectoring[2] services.

In April 2014, AGCom set out in detail the modality for the co-location and co-investments in Telecom Italia s street cabinets.

As of April 8, 2015, the third market analysis proceeding, which has been extended several times by AGCom and is still in progress.

In the scope of this proceeding, on February 13, 2015, AGCom submitted for national public consultation the modifications of the Decision 238/13/CONS where, inter alia, new wholesale access prices for years 2014-2017 are defined. The consultation expires on April 14, 2015, following which AGCom will notify a new draft decision to the EC and the Italian Competition Authority (Autorità Garante della Concorrenza e del Mercato **AGCM**) for comments. According to the European regulatory framework, if the EC does not raise serious doubts relating to compliance of the draft measure with the EU regulatory framework, AGCom can adopt the final decision. In detail, AGCom submitted for public consultation two different regulatory scenarios; a) the Alpha Scenario in which the market is considered national, single, homogeneous; b) Beta Scenario in which it is recognized that, in some areas of Italy, there are different competitive conditions in comparison with the rest of the territory and, therefore, different regulatory measures and prices are defined in competitive areas and non-competitive areas. The different degree of competitiveness of an area is assessed considering the level of NGA investments of at least two operators (B Areas), compared to the areas where these conditions do not occur (A Areas). The distinction between these two types of areas depends on the reaching of a predefined coverage threshold by at least two ultra-broadband networks.

[2] 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.

The following table shows, for each scenario, the 2017 wholesale economic conditions; prices for intermediate years will be calculated as a linear progression between 2013 and 2017 prices (or between 2014 and 2017 prices, assuming that 2014 prices are equal to 2013 ones; the decision about this issue depends on the outcomes of the consultation).

2017 Monthly rental access fees ( )	**ALPHA SCENARIO**	**BETA SCENARIO**	
		A areas	**B areas**
Full LLU	8.69	8.69	£ 9.40
SLU	5.45	(*)	4.11
SHARED ACCESS	0.73	0.73	0.73
WLR POTS	11.15	11.15	
WLR ISDN	13.79	13.79	
BITSTREAM SHARED	6.28	6.28	by negotiation
BITSTREAM NAKED	14.53	14.53	by negotiation
VULA FTTC SHARED	11.33	11.80	11.80
VULA FTTC NAKED	16.87	16.04	16.04

(*) Intermediate value depending on the degree of infrastructure; details are under consultation.

The complete definition of the wholesale and retail access prices (see above) has been affected by several Council of State (Consiglio di Stato) rulings on the 2010-2012 copper wholesale access prices and on the 2009 bitstream service.

The first set of judgments was issued between March and April 2013. The Council of State granted the requests filed by the operators Eutelia, Fastweb and WIND, criticizing AGCom s decision to set the WLR and bitstream naked fees using a *retail minus* (where the wholesale charge is calculated using the retail price rebated by a predefined discount i.e. the minus) method rather than a cost-oriented one, stating that the decision lacked proper ground and justification. Moreover, referring to the calculation of the costs for the corrective maintenance component, the Council of State invited AGCom to assess the impact of contracts based *on forfeit* terms within the BU-LRIC model.

On June 20, 2014, AGCom submitted for public consultation the findings of the procedure by which the wholesale access prices for the period May 2010-December 2012 were re-determined following the above Council of State rulings.

On February 25, 2015, AGCom announced the final approval of the decision containing the renewed prices for LLU services as follows:

· 8.65 /month (reduced from 8.70 /month) as of May 1, 2010;

· 8.90 /month (reduced from 9.02 /month) as of January 1, 2011; and

· 9.05 /month (reduced from 9.28 /month) as of January 1, 2012.

The AGCom proceeding would also have to renew the WLR and bitstream prices for the same period; however, AGCom has postponed the decision waiting for the results of a new proceeding, pursuant to a Council of State judgment on 2009 naked bitstream service price issued last November 2014.

The Council of State has in fact partially accepted an appeal filed by an operator about the approval of Telecom Italia s 2009 Reference Offer related to the bitstream service. The Council of State granted the request regarding the method of calculation of the naked bitstream monthly fee, determined by AGCom (Decision no. 71/09/CONS) according to the ***retail minus*** principle, noting a lack of further assessments regarding the correctness and adequacy in calculating the minus component (i.e. the percentage of rebate of the retail price to calculate the wholesale charge). In fact, the Council of State required AGCom to analyze the ***minus*** rate.

On March 5, 2015 AGCom launched a public consultation in which, as a result of further investigations, a draft decision confirming the minus in force in 2009 (-20% compared to the retail rental) has been proposed; the consultation period is 30 days.

The effect of the new charges on the income statement of Telecom Italia for 2014 was valued to result in a revenue decrease of approximately 45 million.

On December 23, 2014 and on January 7, 2015 AGCom published two decisions launching the public consultations on the approval of the 2014 prices for wholesale unbundled access services, co-location and for WLR. Only the 2014 cost-oriented prices (i.e. one-off fees and co-location prices) are under consultation while the setting of monthly rental fees, based on the BU-LRIC cost model, has been postponed to the 3rd round of market analyses on wholesale and retail access markets mentioned before.

On October 28, 2013, AGCom launched the third round of market analysis on terminating segments of leased lines (market 6/2007 Recommendation) and on November 17, 2014, the relevant public consultation was launched, which closed on January 16, 2015. In the public consultation AGCom proposed to maintain the same regulation as during the previous market analysis cycle, although with a modification of the 2015-2018 prices of Ethernet terminating lines and PDH/SDH terminating lines with speed <= 155Mbit/s (more specifically, a reduction of between RPI-6% and RPI-8.6% per annum). The final decision has not yet been published.

· **Wholesale fixed interconnection markets**

With respect to the fixed call termination, origination and transit services[3] (markets 2 and 3 of the 2007 Recommendation; market 2 has been removed from the revised 2014 Recommendation), AGCom withdrew its draft decision following the serious doubts letter sent by the EC (opening the s.c. Phase II investigation) while, 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 December 1, 2015.

Regulated termination rates applied to all operators, but AGCom confirmed the asymmetrical termination tariffs applied in 2012 until June 30, 2013.

Moreover, the final document set the interconnection fees for both time division multiplexing (**TDM**) (or legacy network) and IP (Internet Protocol) interconnection. Under the technological neutrality principle, a single tariff applies, regardless of the level of interconnection on the TDM network.

The 2015 prices are entirely set on the basis of a pure BU-LRIC model considering a full IP network.

Interconnection rates for the periods indicated are set forth in the table below:

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 EC s comments on the aforesaid final decision, AGCom specified that if a new WACC value were to be adopted under the ongoing (third round) market analysis of markets 1, 4 and 5 of 2007 list (see above), 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.

· **Wholesale 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.

[3] 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.

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

Mobile networks voice termination eurocents/min.	**Glide path Decision 621/11/CONS**		
	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 621/11/CONS was appealed before the Administrative Court by Vodafone, Wind and Telecom Italia regarding the termination values and the provision which envisaged that H3G asymmetry should end as of July 1, 2013 against the EC termination Recommendation provisions. Also H3G filed an appeal against the Decision requiring the continuation of asymmetric prices. The Administrative Court order confirmed the end of rate asymmetry as of July 1, 2013.

H3G filed an appeal against the Decision no. 621/11/CONS before the Council of State. In January 2014, the Council of State ruled for the annulment of the Decision, thus restoring rate asymmetry in favor of H3G until January 1, 2014.

On May 28, 2014, AGCom issued a new Decision (no. 259/14/CONS) which not only provided for rate asymmetry for the second half of 2013 but also raised the H3G values for the first half of 2013. Consequently, the new H3G mobile termination fees for 2013 were set at 2.06 eurocent/min from January 1, 2013 and 1.34 eurocent/min from July 1, 2013.

Mobile networks voice termination eurocents/min.	**Glide path Decision 259/14/CONS**		
	from 7.1.2012	**from 1.1.2013**	**from 7.1.2013**
Termination on H3G network	3.5	2.06	1.34
Termination on Telecom Italia, Vodafone and Wind networks	2.5	1.5	0.98

Telecom Italia and other operators filed appeals against this decision; in January 2015, all the appeals were rejected and the AGCom s Decision confirmed.

On February 11, 2014, AGCom launched the 4th round of market analysis on mobile termination rates and on February 9, 2015, AGCom published the following public consultation focused on:

· the confirmation of the end of the price asymmetry in favor of H3G, starting from January 2014;

· the introduction of the same obligations applicable to the traditional mobile network operators (**MNOs**), including price control, for all Full Mobile Virtual Network Operators (**MVNOs**); and

· the introduction of a moderate annual glide path, confirming the value of 0.98 cent/min for 2014 for all operators (MNOs and Full MVNOs) and proposing the mobile termination rates as follows:

Voice termination rates on mobile networks (2014-2017)

eurocents/min.

From January 2014	From January 2015	From January 2016	From January 2017
0.98	0.96	0.94	0.92