

TELECOM ITALIA S P A  
Form 20-F  
April 15, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 20-F**

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

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

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from N/A to N/A

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
Date of event requiring this shell company report

Commission file number 1-13882

**Telecom Italia S.p.A.**

(Exact name of Registrant as specified in its charter)

Italy

(Jurisdiction of incorporation or organization)

Piazza degli Affari 2, 20123 Milan, Italy

(Address of principal executive offices)

**Piergiorgio PELUSO**

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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:**

| <b>Title of each class</b>   | <b>Name of each exchange on which registered</b> |
|--|--|
| American Depositary Shares, each representing 10 Ordinary Shares (the <b>Ordinary Share ADSs</b> ) | The New York Stock Exchange                      |
| Ordinary Shares (the <b>Ordinary Shares</b> )  | The New York Stock Exchange*                     |
| American Depositary Shares, each representing 10 Savings Shares (the <b>Savings Share ADSs</b> )   | The New York Stock Exchange                      |
| Savings Shares (the <b>Savings Shares</b> )  | The New York Stock Exchange*                     |

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

**None**

**(Title of Class)**

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

**None**

**(Title of Class)**

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

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

Ordinary Shares 13,417,043,525

Savings Shares 6,026,120,661

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

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

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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

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

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

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

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**Introduction**

**INTRODUCTION**

Telecom Italia S.p.A. is incorporated as a joint stock company under the laws of Italy. As used in this Annual Report, unless the context otherwise requires, the term "Company" means Telecom Italia S.p.A. the operating company for fixed and mobile telecommunications services in Italy and the holding company for various businesses, principally telecommunications, and the terms "we", "us" and "our" refers to the Company, and, as applicable, the Company and its consolidated subsidiaries.

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

Unless otherwise indicated, any reference in this Annual Report to Consolidated Financial Statements is to the Consolidated Financial Statements for the year ended December 31, 2013 of the Telecom Italia Group (including the notes thereto) included elsewhere herein.

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

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

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

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

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

- our ability to successfully implement our strategy over the 2014-2016 period;
- the continuing effects of the global economic crisis in the principal markets in which we operate, including, in particular, our core Italian market;
- the impact of regulatory decisions and changes in the regulatory environment in Italy and other countries in which we operate;
- the impact of political developments in Italy and other countries in which we operate;



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**Introduction**

- our ability to successfully meet competition on both price and innovation capabilities of new products and services;
- our ability to develop and introduce new technologies which are attractive in our principal markets, to manage innovation, to supply value added services and to increase the use of our fixed and mobile networks;
- our ability to successfully implement our internet and broadband strategy;
- our ability to successfully achieve our debt reduction and other targets;
- the impact of fluctuations in currency exchange and interest rates and the performance of the equity markets in general;
- the outcome of litigation, disputes and investigations in which we are involved or may become involved;
- our ability to build up our business in adjacent markets and in international markets (particularly in Brazil), due to our specialist and technical resources;
- our ability to achieve the expected return on the investments and capital expenditures we have made and continue to make in Brazil;
- the amount and timing of any future impairment charges for our authorizations, goodwill or other assets;
- our ability to manage and reduce costs;
- any difficulties which we may encounter in our supply and procurement processes, including as a result of the insolvency or financial weaknesses of our suppliers; and
- the costs we may incur due to unexpected events, in particular where our insurance is not sufficient to cover such costs.

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

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**Key Definitions**

**KEY DEFINITIONS**

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

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

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

In addition, we use the measure **Accesses** when considering certain statistical and other data for our domestic Italian business. **Access** refers to a connection to any of the telecommunications services offered by the Group in Italy. We present our customer base using this model because the integration of telecommunications services in bundled service packages has changed the way residential and corporate customers contract for our services. Because a single customer may contract for multiple services, we believe it is more accurate to count the number of accesses, or services a customer has contracted for, as opposed to only counting the number of our customers. For example, a customer that has fixed line telephony service and broadband service represents two accesses rather than a single customer. The following are the main categories of accesses:

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

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- Internet and data accesses: includes broadband accesses (wholesale ADSL and retail ADSL lines), narrowband accesses (internet service through the PSTN) and other accesses (unbundled local loops, circuits and other business data accesses including WiFi and fiber optic cable);
- IP TV (Internet Protocol TV);
- Mobile accesses: number of lines;
- Unbundled local loop: includes accesses to both ends of the copper local loop leased to other operators to provide voice and DSL services (fully unbundled loop, fully UL ) or only DSL service (shared unbundled loop, shared UL );
- Wholesale ADSL: means wholesale asymmetrical digital subscriber line; and
- Other: includes other circuits for other operators.

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

**Item 2. Offer Statistics and Expected Timetable**

**PART I**

**Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not Applicable

**Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not Applicable

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**Item 3. Key Information**

**Risk Factors**

**Item 3. KEY INFORMATION**

**3.1 RISK FACTORS**

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

We present below:

- 1) our main objectives as set out in our: 2014-2016 business and strategic plan (the 2014-2016 Plan ); and
- 2) factors that may prevent us from achieving our objectives. For purposes of presenting our risk factors we have identified our risks based on the main risk categories, set out in the Committee of Sponsoring Organization of the Treadway Commission<sup>1</sup>:

strategic risks;

operational risks;

financial risks; and

compliance risks

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

On November 7, 2013, we presented our 2014 2016 Plan, which envisages:

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

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

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

- the continuing effects of the global economic crisis in the principal markets in which we operate, including, in particular, our core Italian market;
- the impact of regulatory decisions and changes in the regulatory environment in Italy and other countries in which we operate;
- the impact of political developments in Italy and other countries in which we operate;
- our ability to successfully meet competition on both price and innovation capabilities of new products and services;
- our ability to develop and introduce new technologies which are attractive in our principal markets, to manage innovation, to supply value added services and to increase the use of our fixed and mobile networks;
- our ability to successfully implement our internet and broadband strategy;

<sup>1</sup> CoSO Report-ERM Integrated Framework 2004.

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**Item 3. Key Information**

**Risk Factors**

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

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

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

**STRATEGIC RISKS**

***The global economic crisis and the continuing weakness of the Italian economy over the past several years, together with slow global economic growth, has adversely affected our business and continuing global economic weakness in the Eurozone could further adversely affect our business and therefore have a negative impact on our operating results and financial condition.***

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

particularly in Italy.

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

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

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



**Table of Contents****Item 3. Key Information****Risk Factors****Risks associated with Telecom Italia's ownership chain.**

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

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

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

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

- so long as it holds more than 30% but less than 50% of the voting shares in Telco, Telefónica will be entitled to designate 2 directors of Telecom Italia to be included in the slate; and, so long as the other shareholders hold over 50% of the voting capital of Telco, they shall have the right to designate the other candidates on the slate, of which three candidates would be appointed unanimously and the others on a proportional basis;
- after the conversion of Telefónica's non-voting shares into voting ones takes place, and so long as Telefónica holds more than 50% of the voting shares in Telco: (i) the other shareholders will be entitled to designate the first two members on the slate, unanimously, and half of the remaining candidates (net of the directors to be reserved to the minority shareholders) in proportion to their respective shareholdings in Telco; (ii) Telefónica will be entitled to designate all the remaining candidates (always net of the directors to be reserved to the minority shareholders) to be listed on the Telco slate. The parties have agreed, assuming that the Board of Directors of Telecom Italia is composed of no fewer than 13 directors, that Telefónica shall be entitled to designate at least four Directors. To this end, they will ensure that Telco votes against any proposal to reduce the number of directors of Telecom Italia to less than 13 that might be presented in the Shareholders Meeting.

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

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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.

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

**Competition Risks**

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

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

Moreover, convergence has enabled lateral competition from IT, Media and Devices/Consumer Electronic players. This competition may further increase due to the consolidation and globalization of the telecommunications industry in Europe, including Italy, and elsewhere. We face competition from international competitors who have entered local markets to compete with existing operators as well as from local operators, each of which has increased the direct competition we face in our Italian domestic fixed-line, mobile telephony and broadband businesses.

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

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

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

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

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

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

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

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

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

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

Historically, we have generated a substantial portion of our revenues from voice and SMS services, particularly in our mobile business in Italy, and the substitution of data services for these traditional voice and SMS volumes has had and is likely to continue to have a negative impact on our revenues and profitability. As a result of these and other factors, we face a mobile market in which price pressure remains intense.

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

*The mobile communications markets have matured and competition has increased.*

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

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

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

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

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

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

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

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

- Internet usage in Italy continues to grow more slowly than anticipated, for reasons such as changes in Internet users' preferences or lower than expected penetration rate growth for PCs, tablets, smartphones and other Internet connected devices;
- broadband penetration does not grow as we expect;
- competition increases, for reasons such as the entry of new competitors (telcos, OTT players or players from adjacent markets), consolidation in the industry or technological developments introducing new platforms for Internet access and/or Internet distribution or other operators can provide broadband connections superior to those that we can offer; and
- we experience any network interruptions or related problems with network infrastructure.

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

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

We intend to continue focusing on IT-TLC convergence by addressing the ICT market, offering network and infrastructure management, as well as application management.

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

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

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

We may be adversely affected by political developments in Italy and in the countries where we have made significant investments. Certain of these countries have political and legal systems that are less predictable than



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in Western Europe. Political or economic upheaval or changes in laws or in their application in the countries outside Italy where we have significant investments may harm the operations of the companies in which we have invested and impair the value of these investments.

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

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

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

- Telecom Italia is required to provide a notice giving full information on resolutions to be taken regarding the merger or demerger of the company, transfer of the business or a branch of the business, or of subsidiaries, transfer of the registered offices abroad, change of company purpose, dissolution, amendment of clauses in the company bylaws introduced pursuant to the law on privatization, the transfer of property rights or rights to use tangible or intangible assets or the assumption of limitations that affect their use;
- any other person who acquires a stake in the Company's share capital with voting rights is required to provide a notice when the thresholds of 2%, 3%, 5%, 10%, 15%, 20% and 25% are exceeded, which notice gives a general description of the proposed acquisition, the purchaser and its sphere of operations.

Within a 15 day-period from the notice (suspended if further information is requested) a power of veto may be exercised, or prescriptions or conditions may be imposed every time this is sufficient to ensure the protection of the essential interests of defense and national security. Pending exercise of the veto power, the voting rights (and any rights other than the property rights) attaching to the shares that represent the relevant holding shall be suspended. The same rights are suspended in case of any non-compliance with or breach of the conditions imposed on the purchaser, for the whole of the period in which the non-compliance or breach persists. Any resolutions adopted with the determining vote of said shares or holdings, as well as the resolutions or acts adopted that breach or do not comply with the conditions imposed, shall be null and void.

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

- the authority to impose conditions and possibly to oppose the purchase by non-EU citizens, of controlling shareholdings in companies which hold strategic assets identified in the regulations. For non-EU citizens, any right to purchase will be permitted solely on condition of reciprocity with the purchaser's home jurisdiction; and
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a power of veto (including through prescriptions or conditions) on any resolution, act or transaction which has the effect of modifying the ownership, control or availability of strategic assets or changing their use, including resolutions of merger, demerger, transfer of registered office abroad, transfer of the company or business units which contain the strategic assets or their assignment by way of guarantee, amendment to company s bylaws purpose, company dissolution or amendment in bylaws provisions relating to limitations on voting rights.

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

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

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**OPERATIONAL RISKS**

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

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

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

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

In addition, our operations involve the processing and storage of large amounts of customer data on a daily basis and require an uninterrupted, accurate, permanently available, real-time and safe transmission and storage of customer and other data in compliance with applicable laws and regulations. The proper functioning of, including prevention of unauthorized access to, our networks, systems, computers, applications and data, such as customer accounting, network control, data hosting, cloud computing and other information technology systems is critical to our operations. We may be held liable for the loss, release, disclosure or inappropriate modification of the customer data stored on our equipment or carried by our networks. Information technology system failure, interruption of service availability, industrial espionage, cyber-attack or data leakage, in particular relating to customer data, could seriously limit our ability to service our clients, result in significant compensation costs for which indemnification or insurance coverage may not, or not to the full extent, be available, result in a breach of laws and regulations under which we operate or be associated with fines and could cause long-term damage to our business and reputation.

*Our business depends on the upgrading of our existing networks.*

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

- upgrade the functionality of our networks to offer increasingly customized services to our customers;
- increase coverage in some of our markets;
- expand and maintain customer service, network management and administrative systems;
- expand the capacity of our existing fixed copper and mobile networks to cope with increased bandwidth usage; and
- upgrade older systems and networks to adapt them to new technologies.

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

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

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

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

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

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

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

**FINANCIAL RISKS**

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

Our consolidated gross financial debt was 37,230 million euros at December 31, 2013 compared with 40,241 million euros at December 31, 2012. Our consolidated net financial debt was 27,942 million euros at December 31, 2013 compared with 29,053 million euros at December 31, 2012. Our high leverage continues to be a factor in our strategic decisions as it has been for a number of years and the reduction of our leverage remains a key strategic objective. As a result, however, we are reliant on cost cutting and free cash flow to finance critical technology improvements and upgrades to our network, although we are taking steps to raise additional capital to support critical investment.

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

Although rating downgrades do not have an immediate impact on outstanding debt, except for outstanding debt instruments that specifically contemplate ratings in order to determine interest expense, or on its relative cost to us, downgrades could lead to a greater risk with respect to refinancing existing debt or higher refinancing costs. Due to our downgrade below investment grade by Moody's in October 2013 and S&P in November 2013 against the background of concerns with respect to our ability to repay our outstanding debt and gradually reduce our leverage, the hybrid bond in the amount of 750 million euros issued in March 2013 lost its partial treatment as equity for ratings purposes and as a result we early redeemed the bond in February 2014.

Factors which are beyond our control such as deterioration in performance by the telecommunications sector, unfavorable fluctuations in interest rates and/or exchange rates, further disruptions in the capital markets, particularly debt capital markets, and, in a broader sense, continuing weakness in general economic conditions at the sovereign level could have a significant effect on our ability to reduce our debt, or our ability to refinance existing debt through further access to the financial markets. As a result of the reduction of debt being a key element of our strategy, the failure to reduce debt could be viewed negatively and adversely affect our credit ratings.

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

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

In the past, we have made substantial international investments, primarily in U.S. dollars, and have significantly expanded our operations outside of the Euro zone, particularly in Latin America.

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

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

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Furthermore, we enter into derivative transactions hedging our interest rate exposure to change interest rates in order to manage the volatility of our income statement, while remaining within predefined target levels. However, no assurance can be given that fluctuations in interest rates will not adversely affect our results of operations or cash flows.

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*We operate under authorizations granted by government authorities.*

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

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

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

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**Item 3. Key Information**

**Risk Factors**

*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.

**Table of Contents****Item 3. Key Information****Exchange Rates****3.2 EXCHANGE RATES**

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

For convenience only (except where noted otherwise), certain euro figures have been translated into dollars at the rate (the Euro/Dollar Exchange Rate ) of 1.00= U.S.\$ 1.3779, using the last noon buying rate in The City of New York for cable transfers in foreign currencies as announced by the Federal Reserve Bank of New York for customs purposes (the **Noon Buying Rate** ) on December 31, 2013.

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

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

The following table sets forth for the years 2009 to 2013 and for the beginning of 2014 certain information regarding the Noon Buying Rate for Dollars expressed in U.S.\$ per 1.00.

| <b>Calendar Period</b>       | <b>High</b> | <b>Low</b> | <b>Average(1)</b> | <b>At Period end</b> |
|------------------------------|-------------|------------|-------------------|----------------------|
| 2009                         | 1.5100      | 1.2547     | 1.3936            | 1.4332               |
| 2010                         | 1.4536      | 1.1959     | 1.3262            | 1.3269               |
| 2011                         | 1.4875      | 1.2926     | 1.3931            | 1.2973               |
| 2012                         | 1.3463      | 1.2062     | 1.2859            | 1.3186               |
| 2013                         | 1.3816      | 1.2774     | 1.3281            | 1.3779               |
| 2014 (through April 4, 2014) | 1.3927      | 1.3500     | 1.3707            | 1.3704               |

  

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

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

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The Ordinary Shares and Savings Shares of Telecom Italia trade on *Mercato Telematico Azionario* ( **Telematico** ), managed by Borsa Italiana S.p.A. ( **Borsa Italiana** ) in euro. Fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar equivalent of the euro price of the Ordinary Shares and the Savings Shares and the price of the Ordinary Share American Depositary Shares ( **Ordinary Share ADSs** ) and the Savings Share American Depositary Shares ( **Savings Share ADSs** ), on the New York Stock Exchange ( **NYSE** ). Cash dividends are paid in euro. Exchange rate fluctuations will affect the U.S. dollar amounts received by owners of Ordinary Share ADSs and Savings Share ADSs upon conversion by the Depositary of cash dividends paid in euro on the underlying Ordinary Shares and Savings Shares. See Item 10. Additional Information 10.5 Description of American Depositary Receipts .

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**Item 3. Key Information**

**Selected Financial And Statistical Information**

**3.3 SELECTED FINANCIAL AND STATISTICAL INFORMATION**

The selected financial data set forth below is consolidated financial data of the Telecom Italia Group as of and for each of the years ended December 31, 2013, 2012, 2011, 2010 and 2009, which have been extracted or derived, with the exception of amounts presented in U.S. dollars, financial ratios and statistical data, from the Consolidated Financial Statements of the Telecom Italia Group prepared in accordance with IFRS as issued by IASB and which have been audited, with respect to 2013, 2012, 2011 and 2010, by the independent auditor PricewaterhouseCoopers S.p.A., which replaced Reconta Ernst & Young S.p.A., as part of the normal required rotation of auditors. 2009 was audited by the independent auditor Reconta Ernst & Young S.p.A.

In 2013, the Group applied the accounting policies on a basis consistent with those of the previous years, except for the new standards and interpretations adopted by the Group since January 1, 2013, described in the Note Accounting Policies of the Notes to the Consolidated Financial Statements included elsewhere herein.



**Table of Contents****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.

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

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

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| Item 3. Key Information  | Selected Financial And Statistical Information                      |               |                                       |               |               |               |
|--|---|---------------|---------------------------------------|---------------|---------------|---------------|
|  | 2013<br>(millions<br>of<br>U.S. dollars,<br>except<br>employees)(1) | 2013          | As of December 31,<br>2012      2011  |               | 2010          | 2009          |
|  |   |               | (millions of euros, except employees) |               |               |               |
| <b>Consolidated Statement of Financial Position Data:</b>  |   |               |                                       |               |               |               |
| <b>Total assets</b>  | <b>96,756</b>   | <b>70,220</b> | <b>77,555</b>                         | <b>83,886</b> | <b>89,040</b> | <b>86,267</b> |
| <b>Equity:</b>   |   |               |                                       |               |               |               |
| Equity attributable to owners of the Parent  | 23,508  | 17,061        | 19,378                                | 22,790        | 28,819        | 25,952        |
| Non-controlling interests  | 4,306   | 3,125         | 3,634                                 | 3,904         | 3,736         | 1,168         |
| <b>Total Equity</b>  | <b>27,814</b>   | <b>20,186</b> | <b>23,012</b>                         | <b>26,694</b> | <b>32,555</b> | <b>27,120</b> |
| <b>Total Liabilities</b>   | <b>68,942</b>   | <b>50,034</b> | <b>54,543</b>                         | <b>57,192</b> | <b>56,485</b> | <b>59,147</b> |
| <b>Total equity and liabilities</b>  | <b>96,756</b>   | <b>70,220</b> | <b>77,555</b>                         | <b>83,886</b> | <b>89,040</b> | <b>86,267</b> |
| <b>Share capital(6)</b>  | <b>14,611</b>   | <b>10,604</b> | <b>10,604</b>                         | <b>10,604</b> | <b>10,600</b> | <b>10,585</b> |
| <b>Net financial debt(7)</b>   | <b>38,501</b>   | <b>27,942</b> | <b>29,053</b>                         | <b>30,819</b> | <b>32,087</b> | <b>34,747</b> |
| Employees, number in the Group at year-end, including personnel with temporary work contracts:   |   |               |                                       |               |               |               |
| Employees (excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale) (number at year-end) | 65,623  | 65,623        | 83,184                                | 84,154        | 84,200        | 71,384        |
| Employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale (number at year-end)                       | 16,575  | 16,575        |                                       |               |               | 2,205         |
| <b>Statistical Data:</b>   |   |               |                                       |               |               |               |
| <b>Domestic (Italy) Business Unit</b>  |   |               |                                       |               |               |               |
| Physical accesses(8)   |   | 20,378        | 21,153                                | 21,712        | 22,122        | 22,256        |
| <i>Of which physical accesses (retail)</i>   |   | <i>13,210</i> | <i>13,978</i>                         | <i>14,652</i> | <i>15,351</i> | <i>16,097</i> |
| Broadband accesses   |   | 8,740         | 8,967                                 | 9,089         | 9,058         | 8,741         |
| <i>Of which retail broadband accesses</i>  |   | <i>6,915</i>  | <i>7,020</i>                          | <i>7,125</i>  | <i>7,175</i>  | <i>7,000</i>  |
| Mobile lines   |   | 31,221        | 32,159                                | 32,227        | 31,018        | 30,856        |
| <b>Brazil Business Unit</b>  |   |               |                                       |               |               |               |
| Mobile lines   |   | 73,417        | 70,362                                | 64,070        | 51,015        | 41,102        |

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

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

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

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

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**Item 3. Key Information**

**Selected Financial And Statistical Information**

- (3) Due to the loss in 2012 and in 2011, the ratio coverage was less than 1:1. The company would have needed to generate additional earnings of 339 million euros in 2012 and 3,226 million euros in 2011 to achieve a coverage of 1:1. For purposes of calculating the ratio of earnings to fixed charges :

· Earnings is calculated by adding:

profit (loss) before tax from continuing operations;

fixed charges (as defined below);

amortization of capitalized interest and debt issue discounts or premiums;

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

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

capitalized interest for the applicable period; and

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

· Fixed charges is calculated by adding:

interest expenses (both expensed and capitalized);

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

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

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

- (4) In accordance with IAS 33 (*Earnings per share*), basic earnings per Ordinary Share is calculated by dividing the Group's profit (loss) available to shareholders by the weighted average number of shares outstanding during the year, including the Telecom Italia shares related to the Mandatory Convertible Bonds issued by Telecom Italia Finance S.A. in November 2013 and excluding treasury shares. Since Telecom Italia has both Ordinary and Savings Shares outstanding, the calculations also take into account the requirement that holders of Savings Shares are entitled to an additional dividend equal to 2% of 0.55 euros per share above dividends paid on the Ordinary Shares.

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

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

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

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

- (5) Subject to approval, at the Annual Shareholders Meeting to be held on April 16, 2014, Telecom Italia's dividend coupons for its Savings Shares for the year ended December 31, 2013, will be clipped on April 22, 2014, and will be payable from April 25, 2014.
- (6) Share capital represents share capital issued net of the accounting par value of treasury shares; accounting par value is the ratio of total share capital and the number of issued shares.
- (7) Net Financial Debt is a Non-GAAP Financial Measure as defined in Item 10(e) of Regulation S-K under the 1934 Act. For further details please see Item 5. Operating and Financial Review and Prospects 5.2 Results of Operations for the Three Years Ended December 31, 2013 5.2.3 Non-GAAP Financial Measures .
- (8) Physical accesses include Broadband accesses.

**Table of Contents****Item 3. Key Information****Dividends****3.4 DIVIDENDS**

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

The following table sets forth the dividends per Ordinary Share and per Savings Share declared by Telecom Italia with respect to each of the last five fiscal years and the aggregate dividends paid in such years. Actual dividends paid are rounded to the nearest whole cent. No ordinary share dividend is being paid for the year ended December 31, 2013.

| Year ended December 31, | Dividends on Ordinary Shares |                           |                     | Dividends on Savings Shares |                           |                     |
|-------------------------|------------------------------|---------------------------|---------------------|-----------------------------|---------------------------|---------------------|
|                         | Euros per Share              | U.S. Dollars per Share(1) | (millions of euros) | Euros per Share             | U.S. Dollars per Share(1) | (millions of euros) |
| 2009                    | 0.0500                       | 0.0619                    | 667.16              | 0.0610                      | 0.0755                    | 367.59              |
| 2010                    | 0.0580                       | 0.0846                    | 775.48              | 0.0690                      | 0.1006                    | 415.80              |
| 2011                    | 0.0430                       | 0.0563                    | 575.30              | 0.0540                      | 0.0707                    | 325.41              |
| 2012                    | 0.0200                       | 0.0260                    | 267.59              | 0.0310                      | 0.0403                    | 186.81              |
| 2013(2)                 |                              |                           |                     | 0.0275                      | 0.0377                    | 165.72              |

(1) Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on the respective payment dates. For the year ended December 31, 2013, Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on April 4, 2014.

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

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

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

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

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

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



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**Item 3. Key Information**

**Dividends**

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 Depository, in its capacity as holder of record of the Ordinary Shares and Savings Shares, as the case may be, will satisfy these requirements.

The Depository, 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 .

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

**Business**

**Item 4. INFORMATION ON THE TELECOM ITALIA GROUP**

**4.1 BUSINESS**

**4.1.1 BACKGROUND**

The legal and commercial name of the company is Telecom Italia S.p.A. Telecom Italia is a joint-stock company established under Italian law on October 29, 1908, with registered offices in Milan at Piazza degli Affari 2. The telephone number is +39 (02) 85951. The company is recorded in the Milan Companies Register at number 00488410010, in the R.E.A. (Repertorio Economico Amministrativo) at number 1580695 and in the R.A.E.E. (Rifiuti di Apparecchiature Elettriche ed Elettroniche) register at number IT08020000000799.

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

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

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

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

See [Item 7. Major Shareholders and Related-Party Transactions](#) for a description of the existing shareholder arrangements.

**4.1.2 DEVELOPMENT**

On November 7, 2013, Telecom Italia presented its 2014-2016 Plan. The 2014-2016 Plan sets out the primary strategic objectives of the Telecom Italia Group for the next three years as well as a number of strategic priorities to achieve these objectives.

For more details, please see [4.1.7 Updated Strategy](#).

#### 4.1.3 BUSINESS

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

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

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

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

- **Sofora Telecom Argentina group:** on November 13, 2013, Telecom Italia accepted the offer of Fintech Group for the acquisition of the entire controlling interest of Telecom Italia Group in the Sofora Telecom Argentina group. Consequently, in accordance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations) the Business Unit Argentina was classified as discontinued operations (Discontinued operations/Non-current assets held for sale) and is no longer separately presented. For further details, please see 4.2.5 Discontinued Operations/Non-current Assets Held For Sale (Sofora Telecom Argentina group) and Item 5. Operating And Financial Review And Prospects 5.2 Results Of Operations For The Three Years Ended December 31, 2013 Discontinued Operations/Non-current Assets Held For Sale (Sofora Telecom Argentina group) ;
- **MTV group Media:** on September 12, 2013 Telecom Italia Media and Viacom International Media Networks (VIMN) finalized the sale of 51% of MTV Italia S.r.l. and of its wholly-owned subsidiary MTV Pubblicità S.r.l. As a result, these companies are no longer consolidated;

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

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

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

For further details please see Item 5. Operating and Financial Review and Prospects 5.2 Results of Operations for the Three Years Ended December 31, 2013 5.2.2. Business Segments and Note Form, Content and Other General Information of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

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

#### ***Domestic Business Area***

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

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

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

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

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

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

#### ***Brazil Business Area***

The Telecom Italia Group operates in the mobile and fixed telecommunications sector in Brazil through the Tim Brasil group which offers mobile services using UMTS and GSM technologies. Focus is also on continued 2G and 3G expansion while 4G roll-out has begun. Moreover, with the acquisitions of Intelig Telecomunicações, Tim Fiber RJ and Tim Fiber SP, the portfolio of services has been expanded by offering fiber optic data transmission using full IP technology such as DWDM and MPLS and offering residential broadband services.

At December 31, 2013, the Telecom Italia Group had 73.4 million mobile telephone lines in Brazil (70.4 million at December 31, 2012).

#### **4.1.4 DISPOSALS AND ACQUISITIONS OF SIGNIFICANT EQUITY INVESTMENTS IN 2013**

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

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#### **4.1.5 RECENT DEVELOPMENTS DURING 2014**

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

#### **4.1.6 OVERVIEW OF THE TELECOM ITALIA GROUP S MAJOR BUSINESS AREAS**

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

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

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

For the revenues, operating profit (loss) and number of employees of the Telecom Italia Group s Business Units please see Item 5. Operating and financial review and prospects 5.2 Results of operations for the three years ended December 31, 2013 5.2.5 Business unit financial data .

#### **4.1.7 UPDATED STRATEGY**

##### ***Strategic Priorities and Objectives for the 2014 2016 Plan***

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

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

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

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

***Domestic market***

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

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

Revenue stabilization:

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

Operating expenses efficiency:

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



- increase productivity through process internalization; and
- zero-based budget model on General & Administrative costs.

**Brazil**

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

- increase network capital expenditures to fully serve 3G now and progressively 4G; higher focus on network infrastructure and efficiency in terms of quality and coverage;
- continuous deployment of fiber (FTTS) to support data traffic growth; and
- full deployment of Radio Access Network sharing opportunities.

Maintain revenue growth through:

- traditional services: exploit further opportunities in fixed to mobile substitution; focus on quality; postpaid continuous growth, better customer mix; continuous offer evolution backed by innovative approach and attitude and consistent track record, stabilize fixed-segment revenue; and
- innovative services: exploit Brazilian internet market potential; focus on coverage strengthening; focus on 3G for now and progressively on 4G; focus on quality; lever on smartphone as data penetration enabler.

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

- commercial: low SAC, keeping payback (SAC/ARPU) under control and bad debt stable at low levels; and
- network: increasing Minutes of Use with stable leased lines costs; proprietary infrastructure deployment; Radio Access Network sharing opportunity.

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

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**4.1.8 THE ORGANIZATIONAL STRUCTURE**

The following diagram highlights the organizational structure of the Telecom Italia Group as of April 8, 2014:

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**4.2 BUSINESS UNITS**

**4.2.1 DOMESTIC**

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

The Domestic Business Unit is organized as follows as of December 31, 2013:

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

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

- **Core Domestic:** includes all telecommunications activities within the Italian market. The sales market segments defined on the basis of the customer centric organizational model are as follows:
  - **Consumer:** comprises the aggregate of voice and Internet services and products managed and developed for persons and families in the Fixed and Mobile telecommunications markets and also public telephony;
  - **Business:** expanded as of the beginning of 2013 to include Top customers, the segment consists of voice, data, and Internet services and products, and ICT solutions managed and developed for small and medium-size enterprises (SMEs), Small Offices/Home Offices (SOHOs), Top customers, the Public Sector, Large Accounts, and Enterprises in the Fixed and Mobile telecommunications markets;
  - **National Wholesale:** consists of the management and development of the portfolio of regulated and unregulated wholesale services for Fixed and Mobile telecommunications operators in the domestic market;
  - **Other (support structures):** includes:
    - **Technology & IT:** constitutes services related to the development, building and operation of network infrastructures, real estate properties and plant engineering, delivery processes and assurance regarding customer services in addition to the

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development and operation of information services;

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

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

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As a result of the customer centric approach, Telecom Italia utilizes a sales structure as follows for each of its customer segments:

***Distribution***

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

· ***Consumer***

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

- the **Push Channel** consisting of an outbound telephone channel called **Telesales** with a network of 23 partners having a total of 3,500 operators supported by 21 Telecom Italia employees and the **Agent** channel with a network of 40 partners with 800 sales agents assisted by 21 Telecom Italia employees. In addition to these partners, there is the **International Ethnic** channel, a network of 26 partners focused on International prepaid card services and associated traffic packages. An additional 52 Telecom Italia employees support push sales channels in the following Headquarters areas: Development and Sales Process Management;
- the **Pull** channel: consisting of the retail network of shops, dealers and large retailers, amounting to a total of approximately 5,800 retail points of sale (at December 31, 2013). Points of sale are geographically widespread and they are of different types: direct (flagship stores and 4G mall stores); franchisee; monobrand; multibrand; organized and specialized large-scale distribution.

In addition to these partners, distribution also is done through the **Public Telephone** channel, consisting of 15 technical partners in order to provide maintenance and other related services.

· ***Business***

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

· ***Indirect Sales Channel***

The business distribution channels are made up of:

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

· ***Direct Sales Channel***

At the end of 2013 around 650 sales staff had a dedicated portfolio to manage and develop, supported by pre sales and post sales teams. The main activities include:

- offering the whole range of services (fixed voice and mobile, data, ICT services and products); and
- providing support and assistance to the customer.

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*National Wholesale Services*

The National Wholesale Services ( **NWS** ) division manages relationships with approximately 300 other telco operators, who can be both customers and competitors of Telecom Italia. These customers purchase Telecom Italia network and professional services to build services for their own customers.

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

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

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

**v CUSTOMER AND LINES**

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

**As of and for the years ended  
December 31,**

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



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- (1) Excludes full-infrastructured OLOs and WIMAX.
- (2) Excludes LLU and NAKED, satellite and full-infrastructured OLOs, and WIMAX.
- (3) Following review of the systems that manage our Mobile Customer base, it was decided there was a need to update technical configuration and clarify our corporate regulations on rechargeable SIM card extensions (beyond the initial timeline following first activation of 13 or 24 months according to the offering). The Company set up a specific working group to verify and update the framework of rules ( Guidelines ) that govern the reasons for rechargeable SIM card extensions, with a focus on the reasons for the top-up. The working group established that the only general criterion that could result in the extension of the life of SIM cards concerns sales or after-sales marketing cases, explicitly requested by the customer (free of charge or for-pay), or events resulting in charges to the cards. In application of this criterion, the Guidelines and internal procedures relating to the SIM card extensions were updated. The activities to regularize (including deactivation of) 470,000 SIM cards which were still active at September 30, 2013 as a result of extensions not compliant with the criteria set forth in the new Guidelines were completed at December 31, 2013. The working group continues monthly monitoring and regularization, according to the new guidelines, of the additional rechargeable SIM cards subject to automatic extensions not compliant with said Guidelines.
- (4) The data refers to total lines. The churn rate represents the number of mobile customers who discontinued service during the period expressed as a percentage of the average number of customers.
- (5) National traffic excluding roaming.
- (6) The values are calculated on the basis of revenues from services (including revenues from prepaid cards) as a percentage of the average number of lines.

v **MAIN CHANGES IN THE REGULATORY FRAMEWORK**

For the main regulatory events which occurred in 2013 that may have a significant impact on the operation of the Domestic Business Unit, please see Item 4. Information On The Telecom Italia Group 4.3 Regulation .

v **COMPETITION**

*The market*

- The Italian TLC market continues to be highly competitive with significant use of pricing as a lever an extremely intense strategy during 2013 which has led to an ongoing decline in the traditional service components, particularly voice service.
- In this environment, the key element in the evolution of the market continues to be the increased penetration of broadband, particularly mobile, also facilitated by the greater spread of next-generation handsets, though this is gradually slowing.
- The development of broadband has also led to an evolution towards increasingly complex competition, with more inter-relationships between players of different markets. This has opened the field to competition from non-traditional operators (in particular Over the Top

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companies (OTTs and producers of electronic and consumer devices), as well as giving telecommunication operators the opportunity to develop new over the network services (mainly in the IT and Media fields).

- For the telecommunications operators, in addition to the core competition with the other traditional operators in the sector (including mobile virtual operators (MVOs)), which has confirmed its greater quantitative impact on market trends, there has been increased competition from OTTs and device producers which take advantage of their full understanding of the evolution of consumer trends, consumer electronics and software environments and which operate entirely in the digital world, basing their behavior on competition approaches that are completely different to those of TLC players.
  
- Over time, therefore, the legacy telecommunications operators' business models are changing to meet the challenges from the new entrants and to exploit new opportunities:
  - in Media, broadcasters, who are vertically integrated players, continue to dominate the scene; however, with the Web becoming increasingly important as a complementary distribution, they are increasingly under pressure from consumer electronics companies and OTTs;

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- in the Information Technology market, the decline in revenues is driving the various players towards the cloud computing growth oasis, with the goal of developing and protecting their market shares in their core business. Nevertheless, telecommunications operators are expected to strengthen in this sector, including through partnerships;
- in the Consumer Electronics market, producers can develop services that can be used through the Internet, building on handset ownership and management of the user experience, breaking the relationship between customers and TLC operators and competing with the media and OTTs, thanks to game consoles and set-top boxes, for the role of net enabler through the living room screen;
- OTTs have, for some time now, been leading the transformation of the methods of use of TLC services (including voice), increasingly integrating them with Media and IT.

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

- initiatives involving innovative services in the IT market, specifically in Cloud services;
- new wireless applications (e.g. Mobile Advertising, Machine to Machine);
- significant presence as enablers of online digital content use on the living room screen using OTT TV multidevice solutions.

***Competition in Fixed-Line Telecommunications***

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

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

In 2013, the migration of customers from fixed-line to mobile telephony services continued, as well as the migration to alternative communications solutions (Voice Over IP, messaging, e-mail and social network chat) also due to the widespread diffusion of personal computers. For years, both for private consumers and small and medium businesses, mature traditional voice services have been replaced by value-added content and services based on the Internet protocol. This shift has been facilitated by the use of the Internet and changes in user preferences, by the spread of broadband, personal computers and other connected devices, and by the quality of the service.

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

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

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

The spread of broadband is driven not only by the penetration of personal computers, but also by the growing demand for speed and access to new IP based services (Voice over IP, Content particularly Video, social networking services, etc.). In 2013, however, the gradual slowdown in growth of the fixed-line broadband market continued, due both to a general tendency of operators to concentrate on the growth of flat-rate plans (dual play) with higher added value and to the continuing weak macroeconomic environment.

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

#### ***Competition in Mobile Telecommunications***

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

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

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

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

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

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

#### ***Developments in 2014***

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

pricing actions, to competitive pressure, which has been greater than expected.

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

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The Telecom Italia Group operates in the mobile and fixed telecommunications sector in Brazil through the Tim Brasil group which offers mobile services using UMTS and GSM technologies. Moreover, with the acquisitions of Intelig Telecomunicações, Tim Fiber RJ and Tim Fiber SP (now merged into Tim Celular S.A.), the portfolio of services includes offering fiber optic data transmission using full IP technology such as DWDM and MPLS and offering residential broadband services.

The Tim Brasil group's services cover an area which includes around 95% of Brazil's urban population. Tim Brasil group has approximately 73.4 million mobile lines which covers each of the Brazilian states and the Federal District. As of December 31, 2013, the market combined penetration reached approximately 136.4% of the Brazilian population and its combined market share totaled approximately 27.1%.

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

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

|   | As of and for the years<br>ended December 31, |        |        |
|---|---|--------|--------|
|   | 2013  | 2012   | 2011   |
| Number of lines at year-end (thousands) | 73,417  | 70,362 | 64,070 |
| MOU (minutes/months)(*)                 | 147.7   | 135.8  | 128.6  |
| ARPU (Reais)                            | 18.6  | 19.1   | 21.4   |

(\*) Net of visitors.

**v MARKETING**

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

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

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



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- *TIM Beta* (prepaid): limited plan addressed to young consumers, charged per day for voice (to TIM numbers), SMS and mobile Internet services;
- *Liberty*: for a monthly flat fee, the customer has unlimited talk time with any number on the TIM network, with no restriction on the number or duration of calls. Also, they may add further advantages to this plan using the Liberty Rádios plan to talk without limit to any radio user (SME), without deduction from its package of minutes;
- *Liberty Controle*: for a fixed rate every month, the customer has unlimited talk time with any number on the TIM network, and also receives bonuses related to other out of network calls and services;
- *Liberty Web Light, Tablet, Modem and Modem Plus*: post-paid plans that offer Internet access through dongles (or small pieces of hardware which enable additional functions such as copy protection, audio, video, games, data, or other services) and tablets; and
- *Liberty Web Light Express, Tablet Express, Modem Express and Modem Plus Express*: plans that offer Internet access through dongles and tablets, but with the payment by credit card, with possibility of repurchasing.

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

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

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

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

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

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

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

- Liberty Web 20MB, 50MB, 100MB, 300MB, 600MB, 1GB and 3GB: plans that charge a fixed R\$6.90, R\$9.90, R\$14.90, R\$21.90, R\$34.90, R\$49.90 and R\$69.90 per month, respectively, for mobile phone Internet access, with possibility of repurchasing. These plans provide new service options for certain users without Internet to complete their service portfolio and provide new pricing options for heavy users of data.
- Liberty Torpedo: plan that offers unlimited SMS to any operator at a fixed monthly rate, only payable in the month used.

### v **DISTRIBUTION**

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

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

#### **v MAIN CHANGES IN THE REGULATORY FRAMEWORK**

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

#### **v COMPETITION**

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

#### **4.2.3 MEDIA**

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

#### **Sale of La7 S.r.l.**

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

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

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

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

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

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

#### **Sale of the MTV group**

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

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

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

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

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

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

#### **v MAIN CHANGES IN THE REGULATORY FRAMEWORK**

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

#### **4.2.4 OLIVETTI**

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

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

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

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

#### **v COMPETITION**

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

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

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

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

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

v **MARKETING**

**Fixed Services**

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

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

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

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

**Mobile Services**

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

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

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

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



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

v **DISTRIBUTION**

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

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

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

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

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

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

v **COMPETITION**

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

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

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

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

#### 4.2.6 COMPETITION

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

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

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Telecom Italia's operations in the European Union ( **EU** ) are subject to the EU framework on telecommunications regulation which includes directives, regulations, recommendations and communications. As such, being a member of the EU, Italy is required to implement directives issued by the EU. Regulations, however, adopted at the EU level have general application and are binding and directly applicable in each EU Member State without the need of further national implementation. Recommendations and communications, on the other hand, are not legally binding although they have to be taken into account by the National Regulatory Authorities.

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

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

A recommendation adopted in February 2003, on relevant product and service markets susceptible of ex ante regulation, completed this set of legal instruments. In December 2007, the European Commission ( **EC** ) amended this first Recommendation on relevant markets, reducing the previous 18 markets susceptible to ex-ante regulation to 7: retail access at a fixed location (market 1) and, at wholesale level, call origination at a fixed location (market 2); call termination at a fixed location (market 3); wholesale (physical) network infrastructure access (including shared or fully unbundled access) at a fixed location (market 4); wholesale broadband access (market 5); wholesale terminating segments of leased lines (market 6) and voice call termination on mobile networks (market 7).

The EU regulatory framework obliges National Regulatory Authorities ( **NRAs** , in Italy **AGCom** ) to run market analyses before imposing appropriate obligations on individual operators having Significant Market Power ( **SMP** ) according to the specific EU guidelines. A company is deemed to have SMP when, either individually or jointly with others, it enjoys a position equivalent to dominance, that is to say a position of economic strength providing the company itself with the power to behave, to an appreciable extent, independently of competitors, customers and ultimately consumers. Market shares are normally used as a proxy for market power: while undertakings with market shares of no more than 25% are not likely to enjoy a (single) dominant position, single dominance concerns normally arise in the case of undertakings with market shares of over 40%.

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

The market analyses carried out by NRAs are subject to the assessment of the EU Commission which, to a certain extent, can challenge the NRAs findings, having a veto power on the definition of the market and on the identification of SMP operators. With respect to remedies, the

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

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

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

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

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

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

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

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

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

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

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

### **Telecommunication Regulatory Framework in Italy**

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

- (i) Law 36 of February 22, 2001 aimed at protecting the population from the effects of the exposure to electric, magnetic and electromagnetic fields and the decree of the President of the Council of Ministers (Decreto del Presidente del Consiglio dei Ministri DPCM) of July 8, 2003, which sets up Exposure limits, attention values and quality goals to protect the population against electric, magnetic and electromagnetic fields generated by frequencies between 100 KHz and 300 GHz ; The Electronic Communications Code ( ECC ), which transposed into national law the EU Access, Authorisation, Framework and Universal Service directives; Data Protection Code and the Consolidated Law on Radio-Television containing the principles regulating the organization of radio-television system and its convergence with different means of interpersonal and mass communications;
- (ii) The Consumer Code ;
- (iii) Legislative Decree October 3, 2006, n. 262 which contains Urgent measures regarding taxes and financial issues and partially amended the sanctions regime set by the ECC by introducing further examples of administrative offences, a generalized increase in the fines for each sanction and the elimination of the partial cash settlements of fines;

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|---|-------------------|
| (iv) Decree Law January 31, 2007, n. 7 containing urgent measures for the protection of consumers, for the promotion of competition, for the development of economic activities. The above mentioned law impacted the electronic communications sector by prohibiting top-up charges and the expiry of phone traffic for prepaid phone cards;   |                   |
| (v) Legislative Decree May 30, 2008, n. 109 transposing into national law the EU Directive 2006/24/EC on the retention of data generated or processed in connection with the provision of publicly available electronic communications services or of public communications networks;   |                   |
| (vi) Law June 18, 2009, n. 69 providing measures to simplify the procedures for the installation and development of optical fiber networks (Article 1 Broadband );  |                   |
| (vii) Decree Law July 6, 2011, n. 98, enacted by Law July 15, 2011, n. 111 further simplifying the procedure for the installation of small mobile equipment (0.5 sq. radiator area) and low power equipment (7 watt);   |                   |
| (viii) the 2011 Budget Law (Law December 13, 2010, n. 220), regulating the procedures for the issue of 800, 1800, 2000 and 2600 MHz frequencies rights of use; Decree Law October 18, 2012 n. 179 (enacted by Law December 17, 2012 n. 221) providing for further broadband networks funding to cancel the digital divide, measures to accelerate the roll-out of mobile fourth generation networks and administrative simplifications for optical fiber layout;  |                   |
| (ix) Decree Law February 9, 2012 n. 5 (enacted by Law April 4, 2012 n. 35) imposing on Telecom Italia two further obligations: a) the disaggregation of maintenance costs for lines in unbundling; and b) the possibility for OLOs to buy ancillary services from third parties. Law n. 97/2013 ( European Law ) modified the above mentioned Decree Law, assigning to AGCom the evaluation (replacing the obligation ) of imposing the above measures a) and b); |                   |
| (x) The 2013 Budget Law ( Legge di Stabilità 2013 ) modifying art. 96 of the ECC regarding mandatory services required by public authorities to telecom operators for crime prevention and punishment purposes.   |                   |

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

- (i) the Ministry is responsible for postal services, telecommunications, multimedia networks, informatics, telematics, radio and television broadcasts and innovative technologies applied to the communications sector. In May 2008, the functions of the Ministry of Communications and its resources were transferred to the Ministry of Economic Development;
- (ii) AGCom grants fair competition among operators and protects consumers. It must report on its activities to the Italian Parliament, which set up its powers, defined its bylaws and elected its members.

**4.3.1 TELECOMMUNICATION REGULATION IN ITALY**

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

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

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



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

- technical-organizational domain: solutions for the improvement of the internal delivery processes;
- cultural-behavioral domain: a Code of Conduct has been adopted and intensive training activities have been carried out in order to spread the principles of internal-external equal treatment; and,
- economic-regulatory domain: service contracts were drafted and transfer charges adopted to implement equality of economic treatment.

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

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

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

GMI continues to monitor the implementation of the Undertakings.

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

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

***Market analyses***

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

**Retail-fixed markets**

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

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

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

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

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

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

- (i) a single replicability test valid for offers commercialized in different (both traditional and innovative) contexts, reference to the most efficient technology and network architecture that could be used by AltNets (Alternative Network Operators - AltNets) to replicate Telecom Italia's offers and, hence, to a combination of wholesale inputs (ULL, WLR, bitstream, etc.);
- (ii) the evaluation of network and downstream AltNets' costs on the basis of avoidable or long run incremental costs;
- (iii) application of the price test to the whole bundle, taking into account the overall cost of provisioning without considering whether each component of the bundle may be replicated by an alternative operator; and
- (iv) ad hoc assessment of offers within tenders, taking into account the most efficient network architecture that could be used by AltNets to compete in a specific context.

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

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

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

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

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

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

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The tables below summarize the standard offer schemes described above:

**Business prices (VAT not included)**

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

**Consumer prices (VAT included)**

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

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

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

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

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

**Wholesale fixed markets**

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

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

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

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

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

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

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

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

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

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

**Interconnection rates (July 2013 – 2015)**  
eurocents/min. (VAT not included)

|                            | From July 2013 | From July 2014 | From July 2015 |
|----------------------------|----------------|----------------|----------------|
| TI and AltNets Termination | 0.104          | 0.075          | 0.043          |
| TI Call Origination        | 0.258          | 0.205          | 0.140          |
| TI Transit                 | 0.126          | 0.111          | 0.093          |

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

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

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

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



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

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

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

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

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

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

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

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

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

<sup>3</sup> 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.

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

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

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

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

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

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

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

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

With respect to migration between operators, AGCom revised fixed-line customer migration rules, substantially reducing the processing time to five days for the donating operator to verify the recipient's migration request (so called "Phase II"). Moreover, in cases where migration is not requested, the user will have the right to restore, free of charge, the previous configuration within five working days. Furthermore, in order to prevent the activation of services not requested by retail customers, fixed-line operators provide an individual security code to the customer

when they sign the contract for the access service. Finally, with Decision 62/11/CIR, published in July 2011, the daily capacity of each operator for migration order management has been increased by 60%.

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

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

**Mobile markets**

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

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

**Mobile networks voice termination  
eurocents/min.**

|   | <b>from 7.1.2012</b> | <b>Glide path<br/>from 1.1.2013</b> | <b>from 7.1.2013</b> |
|---|----------------------|-------------------------------------|----------------------|
| Termination on H3G network                                | 3.5                  | 1.7                                 | 0.98                 |
| Termination on Telecom Italia, Vodafone and Wind networks | 2.5                  | 1.5                                 | 0.98                 |

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

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

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

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

**International roaming**

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

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

1. transparency measures such as info SMS to customers on the applied retail tariffs;
2. the adoption of retail and wholesale price caps for voice, SMS and data services. The retail caps will remain in force until 2017 and the wholesale caps until the expiry of the new regulation in 2022;
3. the unbundling/decoupling of the roaming services from the domestic services starting from July 2014 (decoupling solution). With the decoupling solution, the customer can buy roaming services separately from domestic services from an alternative roaming provider (mobile network operator-MNO or mobile virtual network operator-MVNO/reseller);
4. the obligation to provide wholesale roaming access to MNO/MVNO/resellers at regulated prices.

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The price caps established under the Roaming III Regulation are:

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

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

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

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

***Quality of service: Measures to test the quality of the data service on fixed networks***

AGCom Decision 244/08/CSP and its modifications, namely decision 151/12/CONS introduced:

- **ISP Measurements:** measures of the access quality of the most common retail offers made by an independent body, in the geographical areas of the main towns, for each ISP;
- **End-user measurements:** allows a user to measure his own fixed broadband line performances with software called Ne.Me.Sys. Each customer can formally certify the quality of his own fixed-line broadband access using this software and compare the results with the promised performances. Obtained results could be used by customers to terminate the contract without penalties or to claim QoS parameters levels to be restored. The results reported in the final certificate, in fact, can be compared with the minimum promised values,

indicated by an operator in the contract. If the results are less than promised values, the user may submit a claim to the operator, and if the operator does not improve the quality in 30 days, the user after a second measure may terminate the contract without paying penalties.

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

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

- In relation to the Decision AGCom 154/12/CONS, every six months drive test campaigns are made in the main towns of each of the 20 Italian regions. From 2014, 40 towns will be involved (the two largest towns of each region).
- During the campaigns the major aspects that characterize the quality of a data service on 3G HSDPA mobile networks are measured: Throughput (FTP UL e HTTP DL); Duration (HTTP/HTTPS Browsing); Packet Delay; Packed Loss, Unsuccessful Data Transmission; Jitter.



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- From 2014, services used in video streaming mode will also be tested.
  
- To date, the results for the Campaign of the 1st half 2013 are available and they are currently being processed those related at the Campaign of the 2nd half 2013.
  
- In 2013 the data services accessible by internet key have been measured, while in 2014 the object of measurement will be the data services accessible by smartphones.
  
- From 2015 measurements will be extended to 4G networks.

***Universal Service***

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

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

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

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

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

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

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

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

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

### ***Public Telephony***

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

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SMP operators are required to have a transparent accounting system as to their costs. These operators annually provide AGCom with both a description and a report on their cost accounting system to assess their compliance with the requirements of the electronic telecommunications regulatory framework. Moreover, SMP fixed and mobile operators must maintain an accounting system that separates the activities in each of the relevant wholesale and retail markets defined by AGCom according to the periodic market analyses.

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

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

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

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

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

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

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

***Accounting separation and mobile network cost accounting***

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

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

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

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

*AGCom s 2011-2013 annual contribution fees*

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

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

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

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

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

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

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

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

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

*Broadband and digital divide*

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

Particularly important in this respect were laws introducing:

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

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

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

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

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

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

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

**4.3.2 PRIVACY AND DATA PROTECTION**

Telecom Italia must comply with Italy's Personal Data Protection Code (Legislative Decree June 30, 2003 n. 196), which has been in force since January 1, 2004.

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

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

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

The data subject (any natural person that is the subject of the personal data) and the subscriber (any natural or legal person who or which is party to a contract with the provider of publicly available electronic communications services, or is the recipient of such services by means of pre-paid cards) shall receive preliminary information on the purposes and modalities of data processing. Consent of the data subject is necessary to process personal data, except in specific cases (i.e. obligations imposed by law or by a contract with the data subject). Furthermore, the data subject has the right to access his/her personal data and to obtain information on the purposes and methods of the processing.



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Italian communication service providers ( **CSPs** ) must comply with strict specific obligations that apply only to the electronic communication sector, which are provided by a specific section of Privacy Code that transposes the relevant EU Directives.

Notably, with respect to data retention, CSPs are allowed to retain traffic data for a six-month period in order to deal with disputes over billing and subscriber services. CSPs are also required to retain telephone and electronic communications traffic data for the purpose of detecting and preventing crimes. At present, data retention terms for crime prevention and prosecution are: 24 months for telephony traffic (fixed and mobile); 12 months for electronic communications traffic; and 30 days for unsuccessful call attempts.

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

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

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

***Recent amendments***

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

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

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

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

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

Under the Privacy Code, in case of a personal data breach, (a security breach leading, accidentally or not, to the destruction, loss, alteration, unauthorized disclosure of or access to personal data transmitted, stored or

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otherwise processed in the context of the provision of a publicly available communications service) the provider shall inform without delay the Italian Data Protection Authority (currently the Italian Data Protection Authority specified the term in 24 hours for the first communication and in other 3 days for the communication of further details). Moreover, where the breach is likely to adversely affect the personal data or privacy of a subscriber or other individuals, the provider must also inform them within 3 days.

***Further developments***

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

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

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

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

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

**4.3.3 ANTITRUST IN ITALY*****Legislation on competition***

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

The Antitrust Authority is responsible for:

- (i) applying Law 287/1990 and supervising: (a) restrictive agreements; (b) abuses of a dominant position; and (c) concentrations of enterprises;
- (ii) applying, whenever the necessary conditions are met, the relevant EU provisions (i.e., Articles 101 and 102 of the Treaty on the Functioning of the European Union);
- (iii) applying Legislative Decree September 6, 2005 n. 206 concerning unfair commercial practices; and,
- (iv) monitoring conflicts of interest in the case of individuals holding government positions.

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In addition, the Antitrust Authority may:

- (i) adopt interim measures; and
- (ii) enforce commitments binding upon the proposing parties in order to dispel identified anticompetitive concerns closing the investigation without any finding of a violation.

***Antitrust Proceedings***

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

**4.3.4 ANTITRUST ISSUES AT THE EUROPEAN LEVEL*****Legislation on competition***

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

- agreements between two or more independent market operators which restrict competition are prohibited by Article 101 of the Treaty on the Functioning of the European Union (TFEU or Treaty ). This provision covers both horizontal agreements (between actual or potential competitors operating at the same level of the supply chain) and vertical agreements (between firms operating at different levels, i.e. agreement between a manufacturer and its distributor). Only limited exceptions are foreseen in the general prohibition. The most flagrant example of illegal conduct infringing Article 101 is the creation of a cartel between competitors (which may involve price-fixing and/or market sharing).
- Article 102 of the Treaty prohibits firms holding a dominant position on a determined market to abuse that position, for example by charging unfair prices, by limiting production, or by refusing to innovate to the prejudice of consumers.
- State aid distorting competition and trade within the EU are prohibited (art. 107 of the Treaty). State aid is defined as an advantage in any form whatsoever conferred on a selective basis to undertakings by national public authorities. Therefore, subsidies granted to individuals or general measures open to all enterprises are not covered by Article 107 of the Treaty and do not constitute State aid. Furthermore, the EC Treaty provides that in some circumstances, government interventions are necessary for a well-functioning and equitable economy, stating some exceptions and sector specific rules. The Guidelines for the application of State aid rules in relation to rapid development of broadband networks establish that public funding of broadband projects is not considered state aid if one of three exemptions are used:

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- the public authority invests under the same conditions that would be applied to a private investor (MEIP principle);
- the public contribution is limited to the compensation of the provision of a service of general economic interest (SGEI principle);
- it meets certain conditions (promoting the economic development of underdeveloped areas, promoting the execution of an important project of common European interest or to remedy a serious disturbance in the economy of a Member State, facilitating the development of certain activities or areas, promoting culture and heritage conservation).

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

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

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

***Main Antitrust proceedings pending before the European Commission***

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

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

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

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

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

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

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

**4.3.5 TELECOMMUNICATION REGULATORY FRAMEWORK IN BRAZIL**

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

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

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

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



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

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

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

### ***Authorizations***

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

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

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

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

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

### ***Interconnection rules***

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

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

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

Interconnection agreements are subject to prior approval by ANATEL.

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

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

***Main regulatory developments*****Fixed Termination Rates**

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

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

**Mobile interconnection rate glide path**

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

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

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

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

· **Leased Lines**

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

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

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

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

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

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Coverage obligations:

- 450MHz: by December 31, 2015, rural areas within 30 km from the City Hall covered with voice and data services;
- 2.5 GHz: by December 31, 2016, gradual coverage by means of 4G services of the cities with more than 100,000 inhabitants (starting from the cities involved in the 2014 FIFA World Cup).
- **New allocation of the 700 MHz band**

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

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

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

- **Cost models implementation**

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

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

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

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

On February 10, 2014, ANATEL approved the decision (Resolução N° 630) regarding the methodology of the Weighted Average Cost of Capital (WACC) to be applied to the Telecommunication sector.

**General Competition Plan ( PGMC )**

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

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

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

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

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

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

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

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

#### **4.3.6 BROADCASTING REGULATORY FRAMEWORK IN ITALY**

##### ***Consolidated Act on Broadcasting***

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

- Content provider both for linear and on demand contents;
- Service provider for interactive services, conditional access (including pay- per-view) and electronic programs guide;
- Network operators.

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

### ***Broadcasting frequencies***

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

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

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



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**Regulation**

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

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

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

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

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

The bid is expected to be finalized by summer 2014.

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

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

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**Item 4. Information On The Telecom Italia Group      Disclosure Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 (ITRSHRA)**

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

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

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

**Activities relating to Iran**

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

- i. roaming agreements with the following Iran mobile phone operators: Taliya, KFZO TKC, Irancell (MTN) and Mobile Company of Iran (MCI);
- ii. commercial relationship for the delivery of traffic from Iran to our networks and from our networks to Iran ( **International Carrier Agreements** ). To this end, our subsidiary Telecom Italia Sparkle S.p.A. ( **TI Sparkle** ) entered into agreements with Telecommunication Company of Iran. In addition, also Telecom Italia S.p.A. has entered into certain agreements (of a small amount) for the provision of TLC services (marine radio traffic) with Telecommunication Company of Iran and Islamic Republic of Iran Shipping Lines.

*Roaming agreements*

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

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

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

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

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

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

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

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

- our total revenues from roaming agreements with Iranian networks were approximately 182 thousand euros (of which 159 thousand euros recorded by Telecom Italia S.p.A.);
- our total charges from roaming agreements with Iranian networks were approximately 212 thousand euros (of which 210 thousand euros recorded by Telecom Italia S.p.A.).

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

*International Carrier Agreements*

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

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

- our total revenues from traffic from networks located in Iran to our networks were approximately 1.4 million euros; and
- our total charges from traffic to networks in Iran from our networks were approximately 0.5 million euros.

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

\*\*\*\*

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



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Glossary of Selected Telecommunications Terms

**4.5 GLOSSARY OF SELECTED TELECOMMUNICATIONS TERMS**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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**Glossary of Selected Telecommunications Terms**

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

**Carrier.** Company that makes available the physical telecommunication network.

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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### Glossary of Selected Telecommunications Terms

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

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

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

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

**Exchange.** See Switch.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**PCS.** Personal communications services.

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**TRX.** Radio transceivers located in BTS.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Real Estate (Land, Civil and Industrial Buildings)**

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

**Network Infrastructure (Plant and Equipment)**

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

section.

***Domestic Fixed Network***

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

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

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

**Description Of Property, Plant And Equipment**

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

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

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

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

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

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

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

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

The OPB network support:

- Internet traffic of residential, business and Wholesale customers;
  
- VPN traffic (Virtual Private Network) of business customers;



- Voice traffic;
- Video traffic;
- Mobile data traffic.

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

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

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

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

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

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

***Domestic Mobile Network***

The domestic mobile network consists of:

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

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

**GSM/EDGE network**

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

**UMTS/HSPA network**

- 14,602 node B UMTS radio base station (13,643 node B at the end of 2012) +7.0%;
- 2,152,452 radio channels (2,017,232 radio channels at the end of 2012) +6.7%;
- 122 RNC (Radio Network Controller) +5 new RNC compared to total at the end of 2012;
- GSM/UMTS Core Network: 64 MSC-server (Mobile Switching Center/Gateway), 93 MGW (Media Gateway), 42 HLR (Home Location Register), 23 GGSN (Gateway GPRS Support Node), 31 SGSN (Serving GPRS Support Node).

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

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

#### **LTE network**

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

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

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**Description Of Property, Plant And Equipment**

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

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

***International Fixed Network***

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

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

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

The cross-border backbone integrates 4 regional networks:

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

In detail:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Mediterranean Backbone**

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

### **Latin American Backbone**

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

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

### ***Brazilian Network***

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

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

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**Item 4A. Unresolved Staff Comments**

**Item 4A. UNRESOLVED STAFF COMMENTS**

None.

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**Critical Accounting Policies And Estimates**

**Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

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

**5.1 CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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

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

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

**Revenue recognition**

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

*· Revenues from services rendered*

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

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

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

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

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

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#### *Revenues from sales and bundled offerings*

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

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

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

#### *Revenues on construction contracts*

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

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

#### **Allowance for doubtful accounts**

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

#### **Accounting for tangible and intangible non-current assets**

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

#### **Acquisition accounting, goodwill and purchase price allocation**

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

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

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

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

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

- the definition of the purchase price;
- the identification of the assets acquired and liabilities assumed in the acquisition;
- the valuation of these assets and liabilities in the purchase price allocation; and
- the assessment of whether selected assets have a finite or indefinite useful life.

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

### **Accounting for transactions involving interests in group companies**

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

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

### **Impairment of assets**

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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**Table of Contents****Item 5. Operating And Financial Review And Prospects****Critical Accounting Policies And Estimates****Financial assets**

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

**Derivative financial instruments**

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

**Provision for employee severance indemnity**

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

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

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

**Provisions and contingent liabilities**

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

Judgment is necessary in assessing the likelihood that a pending claim will succeed or a liability will arise and to quantify the possible range of the final settlement. Provisions are recorded for liabilities when losses are considered probable and can be reasonably estimated. Because of the inherent uncertainties in making such

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**Item 5. Operating And Financial Review And Prospects**

**Critical Accounting Policies And Estimates**

judgments, actual losses may be different from the originally estimated provision. Significant estimates are involved in the determination of provisions related to taxes, environmental liabilities, our workforce reduction initiative and litigation risks. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or outside consultants, such as actuaries or legal counsel. Adjustments to loss provisions may significantly affect future operating results.

**Income tax expense**

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

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

**5.2.1 SIGNIFICANT TRENDS IMPACTING OUR CORE BUSINESSES**

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

*Domestic Business Unit*

Telecommunications continue to play a central role in society, driven by the growing importance of broadband, both fixed and mobile. The ongoing convergence of telecommunications, Information Technology, Media and Consumer Electronics has led to greater competition and faster innovation, thus increasing the industry's complexity. These macro factors have, and continue to have a material impact on how we plan for and manage our business.

In the Italian telecommunications market there has been a reduction in consumer and business customers' spending on both fixed and mobile services, driven by a decline of traditional voice services, only partially offset by the growth of new Broadband services.

The main strategic priorities and objectives of Telecom Italia in its Domestic market are:

- strong increase in UBB (UltraBroadband) deployment aimed at achieving a distinctive market positioning;
- revenue stabilization: stabilize the revenue trend for traditional services, foster growth of innovative services and exploit new revenue streams such as content and entertainment, advertising and cloud services; and
- operating expenses efficiency.

*Brazil Business Unit*

The Brazilian telecommunications market is characterized by a large but declining voice market, especially in the wireline segment, and an emerging data/internet user population. The mobile sector continues to benefit from fixed-mobile substitution.

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Mobile broadband represents in Brazil a competitive alternative to fixed broadband, considering the country's geography, fixed network characteristics and price premium.

In light of these market trends, TIM Brasil's main strategic priorities and objectives are to:

- continue to expand its customer base;
- pursue high potential in mobile broadband penetration;
- focus investments on quality improvement and on innovative components to capture the full potential of data;
- pursue a leaner organization and focus on internal processes and strict cost control.

### 5.2.2 BUSINESS SEGMENTS

The Telecom Italia Group reports its financial results on the basis of the following operating segments:

- **Domestic:** includes operations in Italy for voice and data services on fixed and mobile networks for final customers (retail) and other operators (wholesale), the operations of the Telecom Italia Sparkle group (International wholesale) as well as the related support activities;
- **Brazil:** includes mobile (TIM Celular) and fixed (TIM Celular and Intelig) telecommunications operations in Brazil;
- **Media:** includes the management of analog and digital broadcasting networks and accessory services of television broadcasting platforms;

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- **Olivetti:** includes manufacture of office products and services for Information Technology. It carries out Solution Provider activities to automate processes and business activities for small and medium-size enterprises, large corporations and vertical markets;
- **Other Operations:** includes finance companies and other minor companies not strictly related to the core business of the Telecom Italia Group.

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

- **Sofora Telecom Argentina group:** on November 13, 2013, Telecom Italia accepted the offer of Fintech Group for the acquisition of the entire controlling interest of Telecom Italia Group in the Sofora Telecom Argentina group. Consequently, under IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), the Business Unit Argentina was classified as discontinued operations (Discontinued operations/Non-current assets held for sale). For further details, please see Note Discontinued operations/Non-current assets held for sale of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report;
- **MTV group Media:** on September 12, 2013 Telecom Italia Media and Viacom International Media Networks (VIMN) finalized the sale of 51% of MTV Italia S.r.l. and of its wholly-owned subsidiary MTV Pubblicità S.r.l. As a result, these companies are no longer consolidated;
- **La7 S.r.l. Media:** on April 30, 2013, after authorization for the sale was received as required by law, Telecom Italia Media completed the sale of La7 S.r.l. to Cairo Communication. As a result, the company was excluded from the scope of consolidation.

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

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

For a description of certain of these businesses, see Item 4. Information on the Telecom Italia Group 4.2 Business Units .

For purposes of the following discussion selected financial data of each Business Unit has been provided for 2013, 2012, and 2011 consistent with the structure of each Business Unit at December 31, 2013.

**5.2.3 NON-GAAP FINANCIAL MEASURES**

In this Annual Report on Form 20-F, in addition to figures presented in accordance with IFRS as issued by IASB, we disclose figures derived from IFRS that are non-GAAP financial measures ( **Non-GAAP Measures** ).

Such financial data is considered Non-GAAP financial measures as defined in Item 10(e) of Regulation S-K under the 1934 Act.

In this Annual Report the Non-GAAP Measure used relates to Net Financial Debt.

**Net Financial Debt** is a Non-GAAP financial measure as defined in Item 10(e) of Regulation S-K under the 1934 Act, but is widely used in Italy by financial institutions to assess liquidity and the adequacy of a company's financial structure. We believe that Net Financial Debt provides an accurate indicator of our ability to meet our financial obligations (represented by gross debt) by our available liquidity, represented by the other items shown in the reconciliation table. Net Financial Debt allows us to show investors the trend in our net financial condition over the periods presented. The limitation on the use of Net Financial Debt is that it effectively assumes that gross debt can be reduced by our cash and other liquid assets. In fact, it is unlikely that we would use all of our liquid assets to reduce our gross debt all at once, as such assets must also be available to pay employees, suppliers, and taxes, and to meet other operating needs and capital expenditure requirements. Net Financial Debt and its ratio to equity (including Non-controlling Interest), or leverage, are used to evaluate our financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether our financial structure is adequate to achieve our business plan and our financial targets. Our management believes that our financial structure is sufficient to achieve our business plan and financial targets. Our management monitors the Net Financial Debt and leverage or similar measures as reported by other telecommunications operators in Italy and outside Italy, and by other major listed companies in Italy, in order to assess our liquidity and financial structure

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relative to such companies. We also monitor the trends in our Net Financial Debt and leverage in order to optimize the use of internally generated funds versus funds from third parties. Net Financial Debt is reported in our Italian Annual Report to shareholders and is used in presentations to investors and analysts. Net Financial Debt is calculated as follows:

|   | <b>As of December 31,</b>  |                 |
|---|----------------------------|-----------------|
|   | <b>2013</b>                | <b>2012</b>     |
|   | <b>(millions of euros)</b> |                 |
| Non-current financial liabilities   | 31,084                     | 34,091          |
| Current financial liabilities   | 6,119                      | 6,150           |
| Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale | 27                         |                 |
| <b>Gross financial debt (A)</b>   | <b>37,230</b>              | <b>40,241</b>   |
| <b>Non-current financial assets (B)</b>   | <b>(1,256)</b>             | <b>(2,496)</b>  |
| <b>Current financial assets:</b>  |                            |                 |
| Securities other than investments   | (1,348)                    | (754)           |
| Financial receivables and other current financial assets  | (283)                      | (502)           |
| Cash and cash equivalents   | (5,744)                    | (7,436)         |
| <b>Total current financial assets (C)</b>   | <b>(7,375)</b>             | <b>(8,692)</b>  |
| <b>Financial assets relating to Discontinued operations/Non-current assets held for sale (D)</b>        | <b>(657)</b>               |                 |
| <b>Financial assets (E=B+C+D)</b>   | <b>(9,288)</b>             | <b>(11,188)</b> |
| <b>Net financial debt (A+E)</b>   | <b>27,942</b>              | <b>29,053</b>   |

**5.2.4 OVERVIEW OF 2013 RESULTS OF OPERATIONS**

In 2013, the following characterized the results in our domestic market:

- in the **Domestic Fixed Telecommunications Service Business** the continuing erosion of the access market, the decrease in market share (768 thousand fixed line losses in 2013 compared to 674 thousand fixed line losses in 2012 and 699 thousand fixed line losses in 2011) and lower traditional services demand and prices (both voice and data) continued in 2013. The line loss was due to, apart from churn in favor of OLOs, disconnection of fixed lines without migration to other operators (a trend that is currently observed with respect to second homes or clients who abandon their landline and rely on mobile communications). On the revenue side these dynamics are partially offset by actions aimed to preserve the value of our customer base focused on the upselling of high value solutions, especially in the Broadband area, and by the development of ICT and cloud services for the business market;
- the **Domestic Mobile Telecommunications Service Business** is still characterized by aggressive competitive behavior that has resulted in a decrease in prices, especially for traditional services (voice and messaging). This dynamic, in combination with the sharp reduction in Mobile Termination Rates (MTR) (from 2.5 euro cent to 0.98 euro cent) resulted in a drop of service revenues (-16.4% vs. -9.0% in 2012), only partially offset by growth of Mobile Internet and by the sales of enabling devices (tablets and smartphones).



In 2013, the following characterized the results in our Brasil Business Unit:

- **Brazil.** Tim Brasil's customer base grew in 2013 by 4.3% compared to 2012 (adding 3.1 million net new customers); its market share expanded to 27.1% from 26.9% in 2012. Based on value market share (share in service revenues) Tim Brasil was the second largest Brazilian mobile operator. The company also recorded growth in its pre-paid segment which increased by 2.5% year over year (reaching 61.1 million customers), while the post-paid clients increased 14.6% year over year (totaling 12.3 million subscribers).

Tim Brasil continued to focus on growth and profitability, through cost discipline and initiatives to increase revenue from value-added services, increased traffic volumes/usage and network service quality. In particular, revenues from services increased in 2013 by 1.7% compared to 2012 and revenues from handsets grew in 2013 by 37.4% compared to 2012, reflecting the company's strategy of market penetration with high-end handsets (smartphones/webphones and tablets) as a lever to grow mobile data services.

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On the cost side, Tim Brasil adopted a disciplined approach to client acquisition, credit analysis and operating expenses.

The following table sets forth our consolidated income statement for the years ended December 31, 2013, 2012 and 2011.

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

|  | Year ended December 31, |                |                |
|--|-------------------------|----------------|----------------|
|  | 2013                    | 2012           | 2011           |
|  | (millions of euros)     |                |                |
| Revenues   | 23,407                  | 25,759         | 26,772         |
| Other income   | 324                     | 285            | 294            |
| <b>Total operating revenues and other income</b>   | <b>23,731</b>           | <b>26,044</b>  | <b>27,066</b>  |
| Acquisition of goods and services  | (10,377)                | (11,289)       | (11,495)       |
| Employee benefits expenses   | (3,087)                 | (3,333)        | (3,514)        |
| Other operating expenses   | (1,318)                 | (1,474)        | (1,528)        |
| Change in inventories  | 48                      | (4)            | 40             |
| Internally generated assets  | 543                     | 581            | 569            |
| Depreciation and amortization  | (4,553)                 | (4,689)        | (4,974)        |
| Gains (losses) on disposals of non-current assets  | (82)                    | 52             | 4              |
| Impairment reversals (losses) on non-current assets  | (2,187)                 | (4,179)        | (7,358)        |
| <b>Operating profit (loss)</b>   | <b>2,718</b>            | <b>1,709</b>   | <b>(1,190)</b> |
| Share of profits (losses) of associates and joint ventures accounted for using the equity method |                         | (6)            | (39)           |
| Other income (expenses) from investments   | (3)                     | 2              | 16             |
| Finance income   | 2,003                   | 1,983          | 2,400          |
| Finance expenses   | (4,186)                 | (3,981)        | (4,440)        |
| <b>Profit (loss) before tax from continuing operations</b>                                       | <b>532</b>              | <b>(293)</b>   | <b>(3,253)</b> |
| Income tax expense   | (1,111)                 | (1,086)        | (1,423)        |
| <b>Profit (loss) from continuing operations</b>  | <b>(579)</b>            | <b>(1,379)</b> | <b>(4,676)</b> |
| Profit (loss) from Discontinued operations/Non-current assets held for sale                      | 341                     | 102            | 310            |
| <b>Profit (loss) for the year</b>  | <b>(238)</b>            | <b>(1,277)</b> | <b>(4,366)</b> |
| Attributable to:   |                         |                |                |
| <i>Owners of the Parent</i>  | (674)                   | (1,627)        | (4,811)        |
| <i>Non-controlling interests</i>   | 436                     | 350            | 445            |



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The table below sets forth revenues, operating profit (loss), capital expenditures and number of employees by Business Units, for the periods indicated.

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

|  |      | Domestic | Brazil<br>(millions of euros, except number of employees) | Media | Olivetti | Other<br>Operations | Adjustments<br>and<br>eliminations | Consolidated<br>Total |
|--|------|----------|---|-------|----------|---------------------|------------------------------------|-----------------------|
| Revenues(1)                              |      |          |   |       |          |                     | (102)                              |                       |
|  | 2013 | 16,175   | 6,945   | 124   | 265      |                     | (166)                              | 23,407                |
|  | 2012 | 17,884   | 7,477   | 222   | 280      | 62                  |                                    | 25,759                |
|  | 2011 | 18,991   | 7,343   | 238   | 343      | 119                 | (262)                              | 26,772                |
| Operating profit (loss)                  |      |          |   | (132) | (8)      |                     | 6                                  |                       |
|  |      |          |   |       |          | 1                   |                                    |                       |
|  | 2013 | 1,993    | 858   | (263) | (65)     | (3)                 | (4)                                | 2,718                 |
|  | 2012 | 1,078    | 966   |       |          |                     |                                    | 1,709                 |
|  | 2011 | (1,996)  | 984   | (88)  | (43)     | (38)                | (9)                                | (1,190)               |
| Capital expenditures on an accrual basis |      |          |   |       | 4        |                     |                                    |                       |
|  |      |          |   | 20    |          |                     |                                    |                       |
|  | 2013 | 3,027    | 1,349   | 57    | 3        |                     |                                    | 4,400                 |
|  | 2012 | 3,072    | 1,500   |       |          | 7                   |                                    | 4,639                 |
|  | 2011 | 4,184    | 1,290   | 61    | 5        | 16                  |                                    | 5,556                 |
| Number of employees at year-end(2)       | 2013 | 52,695   | 12,140  | 84    | 682      | 22                  |                                    | 65,623                |
|  | 2012 | 53,224   | 11,622  | 735   | 778      | 22                  |                                    | 66,381                |
|  | 2011 | 55,047   | 10,539  | 765   | 1,075    | 378                 |                                    | 67,804                |

(1) Revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

(2) The number of employees at year-end excludes employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale, and includes personnel with temporary work contracts.

## 5.2.6 Year Ended December 31, 2013 compared With Year Ended December 31, 2012

## V REVENUES

Revenues amounted to 23,407 million euros in 2013, a decrease of 2,352 million euros, or 9.1%, compared to 25,759 million euros in 2012.

The table below sets forth for the periods indicated gross revenues by Business Unit and consolidated revenues.

|   | 2013                                    |                                  | Year ended December 31,<br>2012 |                                  | Changes        |              |
|---|---|----------------------------------|---------------------------------|----------------------------------|----------------|--------------|
|   | Revenues(1)<br>(a)                      | % of<br>Consolidated<br>revenues | Revenues(1)<br>(b)              | % of<br>Consolidated<br>revenues | (a-b)          | %            |
|   | (millions of euros, except percentages) |                                  |                                 |                                  |                |              |
| Domestic                                | 16,175                                  | 69.1                             | 17,884                          | 69.4                             | (1,709)        | (9.6)        |
| Core Domestic                           | 15,269                                  | 65.2                             | 16,933                          | 65.7                             | (1,664)        | (9.8)        |
| International Wholesale                 | 1,263                                   | 5.4                              | 1,393                           | 5.4                              | (130)          | (9.3)        |
| Brazil                                  | 6,945                                   | 29.7                             | 7,477                           | 29.0                             | (532)          | (7.1)        |
| Media, Olivetti and Other Operations(2) | 389                                     | 1.7                              | 564                             | 2.2                              | (175)          | (31.0)       |
| Adjustments and eliminations            | (102)                                   | (0.5)                            | (166)                           | (0.6)                            | 64             | (38.6)       |
| <b>Total Revenues</b>                   | <b>23,407</b>                           | <b>100.0</b>                     | <b>25,759</b>                   | <b>100.0</b>                     | <b>(2,352)</b> | <b>(9.1)</b> |

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- (1) Revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).
- (2) The Other Operations of the Telecom Italia Group consist of the financial companies and other minor companies not associated with the core business of the Telecom Italia Group.

The **Domestic Business Unit** (divided into Core Domestic and International Wholesale) reported a decline of 1,709 million euros (-9.6%) in revenues in 2013, compared to 2012.

The performance and results of the domestic market were affected by the worsening macroeconomic environment and increasing competition, especially in Mobile services.

This revenue decline was also impacted by several significant regulatory factors, such as the entry into force, starting from July 1, 2013, of the new mobile termination rates ( **MTR** ), 0.98 euro cents compared to 1.5 euro cents in the first half of 2013 and 2.5 euro cents in the second half of 2012. The new rates were 35% lower compared to the rates of the first half of 2013 and 61% lower compared to the rates of the second half of 2012, with a negative impact on revenues of -364 million euros in 2013 (-429 million euros just on Mobile revenues). Furthermore, the recent decisions of AGCom regarding copper network access rates, with retroactive effect as of January 1, 2013, resulted in an additional revenue reduction of -111 million euros compared to 2012. In addition, revenues were adversely impacted by the introduction in July 2012 at the European level of a cap on the price of roaming traffic.

With respect to the **Brazil Business Unit**, revenues from services continued their positive trend, driven by the growth of the customer base (reaching approximately 73.4 million mobile lines at December 31, 2013, up 4.3% compared to December 31, 2012). Handset revenues also increased compared to 2012. However, the revenue increase was impacted by a negative exchange rate effect, which resulted in a decrease of 7.1% in 2013 compared to 2012.

For a more detailed analysis of revenue performance by individual Business Units, reference should be made to Item 4. Information On The Telecom Italia Group 4.2 Business Units .

v **OTHER INCOME**

The following table sets forth other income for the years ended December 31, 2013 and 2012:

| 2013                                    | Year ended December 31, |         | Changes |
|---|-------------------------|---------|---------|
|   | 2012                    | Changes |         |
| (a)                                     | (b)                     | (a-b)   | %       |
| (millions of euros, except percentages) |                         |         |         |

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|  |            |            |           |             |
|--|------------|------------|-----------|-------------|
| Late payment fees charged for telephone services                       | 63         | 69         | (6)       | (8.7)       |
| Recovery of employee benefit expenses, purchases and services rendered | 28         | 35         | (7)       | (20.0)      |
| Capital and operating grants   | 27         | 18         | 9         | 50.0        |
| Damage compensation, penalties and sundry recoveries                   | 64         | 40         | 24        | 60.0        |
| Other income   | 142        | 123        | 19        | 15.4        |
| <b>Total other income</b>  | <b>324</b> | <b>285</b> | <b>39</b> | <b>13.7</b> |

v OPERATING EXPENSES

Operating expenses amounted to 21,013 million euros in 2013, a decrease of 3,322 million euros, or 13.6% compared to 24,335 million euros in 2012. Operating expenses declined primarily as a result of the reduced impairment losses on non-current assets which decreased from 4,179 million euros in 2012 to 2,187 million euros in 2013. The components of our operating expenses include the following:

- **Acquisition of goods and services** amounted to 10,377 million euros in 2013, a decrease of 912 million euros compared to 2012 (11,289 million euros). The reduction was mainly due to the Domestic Business Unit, which had a decrease of 560 million euros compared to 2012, largely attributable to lower amounts payable to other operators and to the Brazil Business Unit (-245 million euros, including an effect of 564 million euros due to the strengthening of the Euro against the Brazilian reais).

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The following table sets forth the acquisition of goods and services for the years ended December 31, 2013 and 2012:

|   | Year ended December 31,                 |               |                    |              |
|---|---|---------------|--------------------|--------------|
|   | 2013<br>(a)                             | 2012<br>(b)   | Changes<br>(a-b) % |              |
|   | (millions of euros, except percentages) |               |                    |              |
| Purchase of goods   | 2,358                                   | 2,203         | 155                | 7.0          |
| Portion of revenues to be paid to other operators and interconnection costs | 2,949                                   | 3,797         | (848)              | (22.3)       |
| Commercial and advertising costs  | 1,565                                   | 1,697         | (132)              | (7.8)        |
| Power, maintenance and outsourced services                                  | 1,353                                   | 1,436         | (83)               | (5.8)        |
| Rent and leases   | 755                                     | 649           | 106                | 16.3         |
| Other service expenses  | 1,397                                   | 1,507         | (110)              | (7.3)        |
| <b>Total acquisition of goods and services</b>                              | <b>10,377</b>                           | <b>11,289</b> | <b>(912)</b>       | <b>(8.1)</b> |
| <i>% on Revenues</i>  | <i>44.3</i>                             | <i>43.8</i>   |                    |              |

**Employee benefits expenses**

The following table sets forth employee benefits expenses for the years ended December 31, 2013 and 2012:

|   | Year ended December 31,                 |              |                    |              |
|---|---|--------------|--------------------|--------------|
|   | 2013<br>(a)                             | 2012<br>(b)  | Changes<br>(a-b) % |              |
|   | (millions of euros, except percentages) |              |                    |              |
| <b>Employee benefits expenses Italian companies:</b>  |   |              |                    |              |
| Ordinary employee expenses and costs                  | 2,688                                   | 2,945        | (257)              | (8.7)        |
| Corporate restructuring expenses                      | 19                                      | 8            | 11                 | 137.5        |
| <b>Total employee benefits expenses Italy</b>         | <b>2,707</b>                            | <b>2,953</b> | <b>(246)</b>       | <b>(8.3)</b> |
| <b>Employee benefits expenses Outside Italy</b>       |   |              |                    |              |
| Ordinary employee expenses and costs                  | 380                                     | 378          | 2                  | 0.5          |
| Corporate restructuring expenses                      | 0                                       | 2            | (2)                |              |
| <b>Total employee benefits expenses Outside Italy</b> | <b>380</b>                              | <b>380</b>   |                    |              |
| <b>Total employee benefits expenses</b>               | <b>3,087</b>                            | <b>3,333</b> | <b>(246)</b>       | <b>(7.4)</b> |
| <i>% on Revenues</i>                                  | <i>13.2</i>                             | <i>12.9</i>  |                    |              |

Employee benefits expenses were 3,087 million euros in 2013 compared to 3,333 million euros in 2012, a decrease of 246 million euros. The change was due to the reduction of 246 million euros in the Italian component of employee benefits expenses, mainly due to the reduction in ordinary employee benefits expenses (257 million euros), resulting from:



- the decrease in the average salaried workforce of 3,092 compared to 2012 (of which 851 was due to the defensive solidarity contracts applied by Telecom Italia, TI Information Technology and Olivetti); and
- the exit of Matrix, La7, MTV Italia and MTV Pubblicità from the Group's scope of consolidation, which resulted in a decrease of 714 average salaried workforce.

This decrease was offset by higher restructuring expenses of 11 million euros. In 2013 these expenses were of 19 million euros (8 million euros in 2012), and were recognized as a result of the framework agreement signed by the Parent with the trade unions on March 27, 2013 and the agreement signed by the company Advanced Caring Center with trade unions on December 5, 2013. Of these expenses, 15 million euros pertain to the Parent, 2 million euros to TI Information Technology, 1 million euros to TI Sparkle and for 1 million euros to Advanced Caring Center.

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Employee benefits expenses in our foreign businesses remained stable. The effect of the growth in the average workforce, which rose to 575 employees, as well as local salary variations were offset by a negative exchange difference of around 43 million euros, essentially due to the Brazil Business Unit.

The Group's average salaried workforce for the periods indicated was as follows:

|   | Year ended December 31,                          |               |                  |              |
|---|--|---------------|------------------|--------------|
|   | 2013<br>(a)                                      | 2012<br>(b)   | Changes<br>(a-b) | %            |
|   | (full time equivalent units, except percentages) |               |                  |              |
| Average salaried workforce Italy  | 48,541   | 52,347        | (3,806)          | (7.3)        |
| Average salaried workforce Foreign  | 10,986   | 10,411        | 575              | 5.5          |
| <b>Total average salaried workforce(1)</b>  | <b>59,527</b>                                    | <b>62,758</b> | <b>(3,231)</b>   | <b>(5.1)</b> |
| Non current assets held for sale (Sofora Telecom Argentina group)   | 15,815   | 15,806        | 9                | 0.1          |
| <b>Total Average salaried workforce including Non current assets held for sale (Sofora Telecom Argentina group)</b> | <b>75,342</b>                                    | <b>78,564</b> | <b>(3,222)</b>   | <b>(4.1)</b> |

(1) Includes the average employees with temp work contracts: 20 units in 2013 (19 in Italy and 1 outside Italy). In 2012 average employees with temp work contracts were 59 units (58 in Italy and 1 outside Italy).

The Group's employees at December 31, 2013 and 2012 were as follows:

|  | As of December 31,          |               |                  |              |
|--|-----------------------------|---------------|------------------|--------------|
|  | 2013<br>(a)                 | 2012<br>(b)   | Changes<br>(a-b) | %            |
|  | (units, except percentages) |               |                  |              |
| Employees Italy  | 53,155                      | 54,419        | (1,264)          | (2.3)        |
| Employees Foreign  | 12,468                      | 11,962        | 506              | 4.2          |
| <b>Total Employees(1)</b>  | <b>65,623</b>               | <b>66,381</b> | <b>(758)</b>     | <b>(1.1)</b> |
| Non current assets held for sale (Sofora Telecom Argentina group)                                  | 16,575                      | 16,803        | (228)            | (1.4)        |
| <b>Total Employees including Non current assets held for sale (Sofora Telecom Argentina group)</b> | <b>82,198</b>               | <b>83,184</b> | <b>(986)</b>     | <b>(1.2)</b> |

(1) Includes employees with temporary work contracts: 4 units at December 31, 2013 and 40 units at December 31, 2012.

· **Other operating expenses**

The following table sets forth other operating expenses for the years ended December 31, 2013 and 2012.

|   | Year ended December 31,                 |              |              |               |
|---|---|--------------|--------------|---------------|
|   | 2013<br>(a)                             | 2012<br>(b)  | Changes      |               |
|   | (a-b) %                                 |              |              |               |
|   | (millions of euros, except percentages) |              |              |               |
| Writedowns and expenses in connection with credit management        | 380                                     | 501          | (121)        | (24.2)        |
| Provision charges   | 100                                     | 197          | (97)         | (49.2)        |
| Indirect duties and taxes   | 128                                     | 119          | 9            | 7.6           |
| TLC operating fees  | 482                                     | 548          | (66)         | (12.0)        |
| Penalties, compensation and administrative sanctions                | 72                                      | 29           | 43           | 148.3         |
| Association dues and fees, donations, scholarships and traineeships | 22                                      | 25           | (3)          | (12.0)        |
| Sundry expenses   | 134                                     | 55           | 79           | 143.6         |
| <b>Total other operating expenses</b>                               | <b>1,318</b>                            | <b>1,474</b> | <b>(156)</b> | <b>(10.6)</b> |
| <i>% on Revenues</i>  | <i>5.6</i>                              | <i>5.7</i>   |              |               |

Other operating expenses were 1,318 million euros in 2013 compared to 1,474 million euros in 2012, a decrease of 156 million euros.

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This decrease was primarily attributable to the Brazil Business Unit (-87 million euros, including an exchange rate effect of 90 million euros due to the strengthening of the Euro against the Brazilian reais) and to the Domestic Business Unit (-37 million euros, including 84 million euros relating to the estimate of the charges connected with the fine imposed by the Italian Antitrust Authority (AGCM) challenged by Telecom Italia relating to the A428 proceedings).

In detail:

- writedowns and expenses in connection with credit management (380 million euros; 501 million euros in 2012) include 286 million euros relating to the Domestic Business Unit (370 million euros in 2012) and 84 million euros related to the Brazil Business Unit (100 million euros in 2012);
- provision charges (100 million euros; 197 million euros in 2012) include 81 million euros relating to the Brazil Business Unit (91 million euros in 2012), and 13 million euros to the Domestic Business Unit (92 million euros in 2012);
- telecommunications operating fees and charges (482 million euros; 548 million euros in 2012) include 424 million euros relating to the Brazil Business Unit (487 million euros in 2012) and 57 million euros relating to the Domestic Business Unit (59 million euros in 2012);
- sundry expenses, amounting to 134 million euros (55 million euros in 2012) mainly relate to the Domestic Business Unit and include 84 million euros relating to the estimate of the charges for the aforementioned fine imposed by the Italian Antitrust Authority (AGCM) on conclusion of the A428 proceedings; Telecom Italia has lodged an appeal against the fine before the Administrative Court (TAR) of Lazio.

· **Depreciation and Amortization**

The following table sets forth depreciation and amortization for the years ended December 31, 2013 and 2012.

|   | Year ended December 31,                 |              |              |              |
|---|---|--------------|--------------|--------------|
|   | 2013<br>(a)                             | 2012<br>(b)  | Changes      |              |
|   | (millions of euros, except percentages) |              |              |              |
|   |   |              | (a-b)        | %            |
| Amortization of intangible assets with a finite useful life | 2,012                                   | 1,900        | 112          | 5.9          |
| Depreciation of tangible assets owned and leased            | 2,541                                   | 2,789        | (248)        | (8.9)        |
| <b>Total depreciation and amortization</b>                  | <b>4,553</b>                            | <b>4,689</b> | <b>(136)</b> | <b>(2.9)</b> |
| <i>% on Revenues</i>  | <i>19.5</i>                             | <i>18.2</i>  |              |              |

The reduction in overall depreciation and amortization was attributable to:

- Brazil Business Unit (-74 million euros, which included an exchange rate effect of 128 million euros due to the stronger Euro). Net of this exchange rate effect, depreciation and amortization would have increased by +54 million euros;
  - Domestic Business Unit (-19 million euros) as a result of the decrease in depreciation of tangible assets, which was partially offset by the increase in amortization of intangible assets, primarily due to the entry into force from January 1, 2013 of the user rights on the LTE (Long Term Evolution) frequencies (+67 million euros);
  - the exit from the scope of consolidation of Matrix S.p.A. (Other operations), La7 S.r.l. and MTV Italia S.r.l. (with the wholly owned subsidiary MTV Pubblicità S.r.l.) (Business Unit Media), with an impact of approximately -44 million euros.
- **Gains (losses) on disposals of non-current assets**

This item showed a loss of 82 million euros and consisted of the net balance of the following:

- the realized loss, including incidental costs, of 100 million euros from the sale of La7 S.r.l. to the Cairo Communication group on April 30, 2013. The overall impact of the sale, comprising the performance of

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La7 S.r.l. up until the transaction date, was approximately -125 million euros for 2013, inclusive of non-controlling interests. This amount included the post closing price adjustment of 4.8 million euros, paid to Telecom Italia Media by the Cairo Communication group on October 25, 2013;

- the realized gain of 3 million euros, net of incidental costs, for the sale to Viacom International Media Networks (VIMN) of the entire controlling interest (51%) held in MTV Italia S.r.l., which took place on September 12, 2013;
- the net capital gains on the sale of other non-current assets totaling 15 million euros, mainly relating to the sale of a property by the Brazilian companies Telecom Italia Latam Participações and Gestão Administrativa Ltda for an amount of 48 million Brazilian reais (around 17 million euros).

In 2012 this item was a positive 52 million euros and essentially related to the gain in connection with the completion of the sale of Matrix on October 31, 2012, totaling 49 million euros, net of incidental costs.

· **Net impairment losses on non-current assets**

Net impairment losses on non-current assets amounted to 2,187 million euros and were related to the impairment loss on the goodwill allocated to the Core Domestic Cash Generating Unit within the Domestic Business Unit.

In particular, in the first half of 2013, the Group tested goodwill for impairment. The results of this testing led to an impairment loss of 2,187 million euros on the goodwill allocated to the Core Domestic Cash Generating Unit. This valuation, in compliance with the Group's specific procedures, considered the deterioration of the macroeconomic situation, both in general terms, with reference to the outlook for the Italian economy, and in specific terms, in relation to management's expectations of the expected impact, on the entire year 2013 and coming years, of the recent AGCom decisions on wholesale copper network access rates, as well as the commercial performance of the Domestic Business Unit in the first half of 2013. The valuation also considered analyst forecasts of the expected performance of the Business Unit, as well as the performance of financial indicators and interest rates.

In preparing the 2013 Annual Report the impairment testing was repeated, using the update of the Industrial plan as a reference. This process did not identify additional impairment losses compared to the 2,187 million euros already recognized in the first half of 2013.

In 2012 this item amounted to 4,179 million euros and was essentially related to the goodwill impairment loss allocated to the Domestic Cash Generating Unit within the Domestic Business Unit (4,016 million euros) and the overall impairment loss on non-current assets and goodwill (157 million euros) within the Media Business Unit.

Further details are provided in the Note Goodwill of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

v **OPERATING PROFIT (LOSS)**

**Operating profit** was 2,718 million euros in 2013 (1,709 million euros in 2012).

The Operating profit improved in 2013 compared to 2012 despite the adverse effect of the aforementioned impact of the impairment losses on non-current assets of 2,187 million euros in 2013. 2012 had significantly greater impairment losses of 4,179 million euros.

v **SHARE OF PROFITS (LOSSES) OF ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD**

The Share of profits (losses) of associates and joint ventures accounted for using the equity method was nil in 2013 compared to a loss of 6 million euros in 2012, mainly related to Tiglio I S.r.l.

v **OTHER INCOME (EXPENSES) FROM INVESTMENTS**

In 2013 other income (expenses) from investments shows a net loss of 3 million euros (a net income of 2 million euros in 2012).

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Finance income (expenses) shows net expenses of 2,183 million euros (net expenses of 1,998 million euros in 2012), an increase of 185 million euros.

This increase was due to the net effect resulting from the change in certain non-monetary items, of a valuation and accounting nature, linked in particular to hedge accounting, which was offset in part by the reduction in finance expenses related to the reduction in net financial debt.

In particular, the following is noted:

- the reduction in finance expenses related to the decrease in net financial debt;
- an increase in the balance of finance expenses linked to the valuations of several hedging derivatives, attributable to market fluctuations linked to currency translation (unrealized accounting changes which do not result in any actual monetary settlement) which were offset by the positive effect, of approximately 25 million euros (gross of taxes), resulting from the adoption of IFRS 13 starting with fiscal year 2013. As this standard requires the reflection of the risk of breach by Telecom Italia and its bank counterparts, its introduction generated a positive effect on the Group, as the debt positions in the derivatives portfolio, which are higher than the credit positions, are reduced in order to reflect this risk;
- the issuance by Telecom Italia Finance S.A. of 1.3 billion euros of mandatory convertible bonds ( Guaranteed Subordinated Mandatory Convertible Bonds due 2016 convertible into ordinary shares of Telecom Italia S.p.A. ), resulted in the recognition of the option embedded in the financial instrument, to separate it from its liability component. At the end of 2013, the measurement of the option at fair value through profit or loss resulted in a negative impact on adjustments to non-hedging derivatives of 124 million euros;
- starting from January 1, 2013, finance expenses incurred through the acquisition, by the Domestic Business Unit, of user licenses to LTE mobile frequencies were no longer capitalized as the assets to which they refer came into use during the period.

For further details about finance income and finance expenses, please see Note Finance income and Finance expenses , of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

**v INCOME TAX EXPENSE**

The item totaled 1,111 million euros, an increase of 25 million euros compared to 2012 (1,086 million euros). In 2012 the item benefited from the recognition of credits of 319 million euros relating to previous years for the IRES tax refund relating to the IRAP tax calculated on labor costs (Law Decree 16/2012). Net of this effect, the tax expenses for the year 2013 would have been lower than the previous year by 294 million euros mainly due to the lower tax base of the Parent Telecom Italia and, to a lesser extent, of the Brazil Business Unit which also is affected by the negative exchange differences of approximately 37 million euros.



v **PROFIT (LOSS) FROM DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE**

On November 13, 2013, the Telecom Italia Group accepted the purchase offer, made by the Fintech group, for the entire controlling interest held in the Sofora Telecom Argentina group (Argentina Business Unit). As a result, with effect from the preparation of the Group's financial statements for 2013, the business unit has been classified under Discontinued operations/Non-current assets held for sale.

In 2013 the item Profit (loss) from Discontinued operations/Non-current assets held for sale showed a profit of 341 million euros (a profit of 102 million euros in 2012) and consisted of:

- the positive contribution to the consolidation by the Argentina Business Unit of 378 million euros (positive of 99 million euros in 2012; reflecting the full loss of 253 million euros for the complete impairment of the goodwill and for the partial impairment of the customer relationships, recognized by Telecom Italia Group upon acquisition of control);
- sundry expenses and deferred tax liabilities relating to the disposal (18 million euros);

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net expenses relating to disposals made in previous years of 19 million euros (income of 2 million euros in 2012).

For further details, please see Note Discontinued operations/Non-current assets held for sale, of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

**5.2.7 RESULTS OF OPERATIONS OF BUSINESS UNITS FOR THE YEAR ENDED DECEMBER 31, 2013 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2012****v DOMESTIC**

The following table sets forth certain financial and other data for the Domestic Business Unit for the years ended December 31, 2013 and 2012.

|                               | Year ended December 31,                               |             |                    |       |
|-------------------------------|---|-------------|--------------------|-------|
|                               | 2013<br>(a)   | 2012<br>(b) | Changes<br>(a-b) % |       |
|                               | (millions of euros, except percentages and employees) |             |                    |       |
| Revenues                      | 16,175  | 17,884      | (1,709)            | (9.6) |
| Operating profit (loss)       | 1,993   | 1,078       | 915                | 84.9  |
| <i>% of Revenues</i>          | <i>12.3</i>   | <i>6.0</i>  |                    |       |
| Employees at year-end (units) | 52,695  | 53,224      | (529)              | (1.0) |

**Revenues**

Revenues decreased by 1,709 million euros, or 9.6%, from 17,884 million euros in 2012 to 16,175 million euros in 2013.

The revenue decline was primarily due to the weak macroeconomic environment worse than expectations, which forecast a recovery during 2013 and a market environment of stiff competition with accelerating price reductions (particularly in the Mobile business in the first half of the year). In addition the decline in revenues was also significantly influenced by several regulatory changes.

These significant regulatory changes included the entry into force, starting from July 1, 2013, of the new MTRs, 0.98 euro cents compared to 1.5 euro cents in the first half of 2013 and 2.5 euro cents in the second half of 2012. The new rates were 35% lower compared to the rates of the first half of 2013 and 61% lower compared to the rates of the second half of 2012, with a negative income statement impact of -364 million euros in 2013 (-429 million euros just on Mobile revenues). Furthermore, recent decisions of AGCom regarding copper network access rates, with retroactive effect to January 1, 2013, resulted in an additional negative impact of -111 million euros compared to 2012. In addition, revenues were adversely impacted by the introduction in July 2012 at the European level of a cap on the price of roaming traffic.

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Excluding the aforementioned impact of the reduction in MTR on the one hand, and the change in rates for wholesale access to the copper network on the other, the performance for 2013 would have been -6.8% compared to 2012, with signs of recovery in the last few months (-5.7% in the fourth quarter compared with -7.2 in the third quarter and -7.3% in the first half).

The aforementioned trend of decline in revenues was primarily due to the decline in revenues from traditional services (voice, messaging, circuit data transmission), which was only marginally offset by the growth in innovative services, particularly Fixed-line Broadband, ICT and Mobile Internet.

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The following table sets forth the Domestic Business Unit's revenues by market segment for the years ended December 31, 2013 and 2012.

**Core Domestic**

|                               | Year ended December 31,                               |             |                    |        |
|-------------------------------|---|-------------|--------------------|--------|
|                               | 2013<br>(a)   | 2012<br>(b) | Changes<br>(a-b) % |        |
|                               | (millions of euros, except percentages and employees) |             |                    |        |
| Revenues                      | 15,269  | 16,933      | (1,664)            | (9.8)  |
| Consumer                      | 8,024   | 8,835       | (811)              | (9.2)  |
| Business(1)                   | 5,211   | 5,879       | (668)              | (11.4) |
| National Wholesale            | 1,897   | 2,052       | (155)              | (7.6)  |
| Other                         | 137   | 167         | (30)               | (18.0) |
| Operating profit (loss)       | 1,888   | 958         | 930                | 97.1   |
| % of Revenues                 | 12.4  | 5.7         |                    |        |
| Employees at year-end (units) | 51,954  | 52,289      | (335)              | (0.6)  |

(1) Includes, starting from January 1, 2013, Top customers revenues. Figures for 2012 have been reclassified for purposes of comparison.

**Consumer:** revenues for the Consumer segment in 2013 amount to 8,024 million euros, a decrease of 811 million euros compared to 2012 (-9.2%). The decrease in revenues for 2013 was mainly attributable to revenues from Mobile services (-693 million euros, -16.2%), particularly traditional voice services (-660 million euros, comprising -319 million euros attributable to the reduction in MTR and Messaging services (-95 million euros), only partially offset by the steady growth in Mobile Internet browsing (+74 million euros, +12.1% compared with 2012). Fixed-line services also reported a decrease in 2013 of -183 million euros (-4.3%) entirely attributable to the reduction in Voice revenues (-205 million euros, as a result of the decrease in customers/accesses and the reduction in traffic usage), only partly offset by higher Broadband revenues (+28 million euros, due to the market share remaining stable and the positive performance of the ARPU, boosted by the increased weight of customers with bundle/flat deals). The decline in the fourth quarter of 2013 compared with the previous periods slowed to (-8.2% compared with -9.5% in the third quarter and -9.5% in the first half), primarily in the Mobile business. Though the latter still showed a sharp decline in revenues due to strong competition and the resulting pressure on prices and churn rates, which were particularly strong in the first half of 2013, the trend slowed starting from the third quarter of 2013, due to a weaker impact of the reduction in MTR and to a lesser extent an improvement in the commercial performance and stabilization of the market share;

**Business:** revenues for the Business segment were 5,211 million euros, decreasing 668 million euros compared with 2012 (-11.4%). The decline was attributable to revenues from services (-659 million euros), which decreased by -331 million euros in the Mobile segment (-19.6%) and by -354 million euros (-9.0%) in the Fixed-line segment. Specifically, in the Mobile segment, this decline was attributable to the reduction in revenues from traditional voice and messaging services (-319 million euros), as a result of a downturn in ARPU and the above-mentioned reduction in mobile termination rates (-110 million euros). The Fixed-line business continued to feel the effect of the cooling of demand, due to the weak macroeconomic environment and the contraction in prices on the more traditional voice and data services.

**National Wholesale:** revenues for the Wholesale segment in 2013 totaled 1,897 million euros, down 155 million euros (-7.6%) compared to 2012, entirely attributable to the regulatory price reductions on LLU, Bitstream, Wholesale Line Rental access and termination.

**International Wholesale:**

|                               | Year ended December 31,                               |             |         |        |
|-------------------------------|---|-------------|---------|--------|
|                               | 2013<br>(a)   | 2012<br>(b) | Changes |        |
|                               | (millions of euros, except percentages and employees) |             |         |        |
|                               |   |             | (a-b)   | %      |
| Revenues                      | 1,263   | 1,393       | (130)   | (9.3)  |
| Operating profit              | 102   | 121         | (19)    | (15.7) |
| <i>% of Revenues</i>          | <i>8.1</i>  | <i>8.7</i>  |         |        |
| Employees at year-end (units) | 741   | 935         | (194)   | (20.7) |

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International Wholesale revenues for 2013 amounted to 1,263 million euros, decreasing 130 million euros compared to 2012 (-9.3%). The decline involved Voice services in particular (-84 million euros, -8.6%), following the annual review of bilateral accords and transit arrangements, which resulted in the decision to focus on renewing agreements offering higher margins. Revenues from IP/Data services were down (-26 million euros; -8.9%) specifically in the captive market segment. Despite the overall increase in total bandwidth sold, the market also suffered from an increasingly competitive scenario and the resulting decline in prices. Also down, particularly in the Domestic component, was the Multinational Companies business segment (-23 million euros, -28.4%). However, the strong attention to traffic margins and the important cost-cutting measures resulted in profitability substantially in line with the prior year.

**Operating profit**

Operating profit was 1,993 million euros in 2013, compared to 1,078 million euros in 2012, up 915 million euros. This improvement in 2013 is mainly due to the lower goodwill impairment loss of 2,187 million euros in 2013 attributable to the Domestic Cash-Generating Unit compared to a goodwill write-off of 4,016 million euros in 2012.

The operating profit was impacted by the change in the following line items as reflected in the table below.

|                                   | Year ended December 31,                 |             |                  |       |
|-----------------------------------|---|-------------|------------------|-------|
|                                   | 2013<br>(a)                             | 2012<br>(b) | Changes<br>(a-b) | %     |
|                                   | (millions of euros, except percentages) |             |                  |       |
| Acquisition of goods and services | 5,849                                   | 6,409       | (560)            | (8.7) |
| Employee benefits expenses        | 2,672                                   | 2,834       | (162)            | (5.7) |
| Other operating expenses          | 662                                     | 699         | (37)             | (5.3) |

In detail:

- **acquisition of goods and services** decreased by 560 million euros (-8.7%) compared to 2012. This reduction was mainly due to a decline in revenues due to other TLC operators, owing principally to the reduction in mobile termination rates, but also to efficiency measures and cost containment;
- **employee benefits expenses** decreased by 162 million euros compared to 2012, mainly due to lower ordinary personnel costs, resulting from the decrease in the average workforce of 2,978 employees compared to 2012, (of which -835 full-time equivalents deriving from the application of the Solidarity Contracts by the Parent and TI Information Technology), which was offset by higher restructuring expenses compared with 2012 totaling 26 million euros. In 2013, these expenses amounted to 19 million euros (income of 7 million euros in 2012) and referred to the framework agreement signed by the Parent Telecom Italia S.p.A. with the trade unions on March 27, 2013 and the agreement signed by the company Advanced Caring Center with the trade unions on December 5, 2013;
- **other operating expenses** decreased by 37 million euros compared to 2012, mainly due to the reduction in provision charges and write-downs and expenses in connection with credit management. The effects of this were partly offset by the increase in sundry expenses, which included 84 million euros relating to the estimate of the charges for the fine imposed by the Italian Antitrust Authority ( AGCM )

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upon conclusion of the A428 proceedings; Telecom Italia has lodged an appeal against the fine before the Administrative Court (TAR) of Lazio.

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Details of other operating expenses are shown in the table below:

|   | 2013<br>(a) | Year ended December 31, |             | Changes      |  |
|---|-------------|-------------------------|-------------|--------------|--|
|   |             | 2012<br>(b)             | (a-b)       | %            |  |
| (millions of euros, except percentages)                       |             |                         |             |              |  |
| Impairments and expenses in connection with credit management | 286         | 370                     | (84)        | (22.7)       |  |
| Provision charges   | 13          | 92                      | (79)        | (85.9)       |  |
| TLC operating fees and charges                                | 57          | 59                      | (2)         | (3.4)        |  |
| Indirect duties and taxes                                     | 103         | 103                     |             |              |  |
| Sundry expenses   | 203         | 75                      | 128         | 170.7        |  |
| <b>Total</b>  | <b>662</b>  | <b>699</b>              | <b>(37)</b> | <b>(5.3)</b> |  |

**Employees**

Employees were 52,695 as of December 31, 2013, a reduction of 529 units compared to December 31, 2012.

**v BRAZIL**

The following table sets forth certain financial and other data for the Brazil Business Unit for the years ended December 31, 2013 and 2012.

|   | 2013   | 2012   | Year ended December 31,   |             | Changes |     |
|---|--------|--------|---|-------------|---------|-----|
|   |        |        | 2013<br>(a)   | 2012<br>(b) | (a-b)   | %   |
| (millions of euros, except percentages and employees) |        |        | (millions of Brazilian reais, except percentages and employees) |             |         |     |
| Revenues  | 6,945  | 7,477  | 19,921  | 18,764      | 1,157   | 6.2 |
| Operating profit                                      | 858    | 966    | 2,460   | 2,424       | 36      | 1.5 |
| % of Revenues   | 12.3   | 12.9   | 12.3  | 12.9        |         |     |
| Employees at year-end (units)                         | 12,140 | 11,622 | 12,140  | 11,622      | 518     | 4.5 |

**Revenues**

Revenues for 2013 were 19,921 million Brazilian reais, an increase of 1,157 million Brazilian reais compared to 2012 (+6.2%). Revenues from services were 16,701 million Brazilian reais, up from 16,420 million Brazilian reais in 2012 (+1.7%). Revenues from product sales increased from 2,344 million Brazilian reais in 2012 to 3,220 million Brazilian reais in 2013 (+37.4%), reflecting the company's strategy of market penetration with high-end handsets (smartphones/webphones and tablets) as an important lever for the expansion of revenues from data services.



Mobile Average Revenue Per User (ARPU) was 18.6 reais in 2013 compared with 19.1 reais for 2012 (-2.6%). The performance of ARPU and revenues from services not only reflects competitive pressures that have led to a decline in unit prices in the voice business, but also the lower mobile operator network interconnection rate.

The total number of lines at December 31, 2013 was 73.4 million, 4.3% higher than at December 31, 2012, representing a 27.1% market share measured by number of lines (70.4 million at December 31, 2012, representing a 26.9% market share).

### **Operating profit**

Operating profit was 2,460 million Brazilian reais, up 36 million Brazilian reais compared to 2012. Operating profit growth was due to the increase in revenues, offset in part by higher operating costs, detailed below, and an increase in depreciation and amortization of 155 million Brazilian reais (2,736 million Brazilian reais in 2013, compared to 2,581 million Brazilian reais in 2012).

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With regard to changes in operating costs, the following table sets forth certain expenses for the years ended December 31, 2013 and 2012.

|                                   | 2013                | 2012  | Year ended December 31,                           |             | Changes |      |
|-----------------------------------|---------------------|-------|---|-------------|---------|------|
|                                   |                     |       | 2013<br>(a)                                       | 2012<br>(b) | (a-b)   | %    |
|                                   | (millions of euros) |       | (millions of Brazilian reais, except percentages) |             |         |      |
| Acquisition of goods and services | 4,263               | 4,508 | 12,228  | 11,313      | 915     | 8.1  |
| Employee benefits expenses        | 349                 | 344   | 1,000   | 865         | 135     | 15.6 |
| Other operating expenses          | 632                 | 719   | 1,812   | 1,804       | 8       | 0.4  |
| Change in inventories             | (10)                | 2     | (28)  | 4           | (32)    |      |

· **acquisition of goods and services** were 12,228 million Brazilian reais (11,313 million Brazilian reais in 2012). The 8.1% increase compared to the previous year (+915 million Brazilian reais) was due to the following:

- +772 million Brazilian reais for the purchases of products;
- +220 million Brazilian reais for external services costs;
- +143 million Brazilian reais for rent and lease costs;
- -220 million Brazilian reais in revenues due to other TLC operators;

· **employee benefits expenses** were 1,000 million Brazilian reais, up 135 million Brazilian reais compared to 2012 (+15.6%). The average salaried workforce grew from 10,051 units in 2012 to 10,657 units in 2013. The percentage of employee benefits expenses to revenues was 5% in 2013, increasing 0.4 percentage points compared to 2012;

· **other operating expenses** were 1,812 million Brazilian reais, an increase of 0.4% (1,804 million Brazilian reais in 2012). Such expenses are set forth in the table below for the years ended December 31, 2013 and 2012.

|  | 2013<br>(a)                                       | 2012<br>(b)  | Year ended December 31,<br>Changes |            |
|--|---|--------------|------------------------------------|------------|
|  |   |              | (a-b)                              | %          |
|  | (millions of Brazilian reais, except percentages) |              |                                    |            |
| Writedowns and expenses in connection with credit management | 240   | 251          | (11)                               | (4.4)      |
| Accruals to provisions                                       | 234   | 228          | 6                                  | 2.6        |
| TLC operating fees   | 1,217   | 1,223        | (6)                                | (0.5)      |
| Indirect duties and taxes                                    | 57  | 30           | 27                                 | 90.0       |
| Sundry expenses  | 64  | 72           | (8)                                | (11.1)     |
| <b>Total</b>   | <b>1,812</b>                                      | <b>1,804</b> | <b>8</b>                           | <b>0.4</b> |

**Employees**

Employees were 12,140 at December 31, 2013, an increase of 518 units compared to December 31, 2012 (11,622 units).

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The following table sets forth certain financial and other data for the Media Business Unit for the years ended December 31, 2013 and 2012.

|                                    | Year ended December 31,                               |             | Changes |        |
|------------------------------------|---|-------------|---------|--------|
|                                    | 2013<br>(a)   | 2012<br>(b) | (a-b)   | %      |
|                                    | (millions of euros, except percentages and employees) |             |         |        |
| Revenues                           | 124   | 222         | (98)    | (44.1) |
| Operating profit (loss) (*)        | (132)   | (263)       | 131     | 49.8   |
| % of Revenues                      | (106.5)   | (118.5)     |         |        |
| Employees at year-end (units) (**) | 84  | 735         | (651)   | (88.6) |

(\*) Operating profit (loss) of the Media Business Unit was negatively impacted by 100 million euros from the loss realized on the sale of LA7 S.r.l. on April 30, 2013 and positively impacted by 3 million euros from the gain realized on the sale of MTV Italia S.r.l. on September 12, 2013.

(\*\*) Includes employees with temp work contracts: 36 at December 31, 2012 (nil at December 31, 2013).

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

**Sale of La7 S.r.l.**

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

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

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

As a result of the transaction, Telecom Italia S.p.A. waived financial receivables due from Telecom Italia Media S.p.A. for a total amount of 100 million euros.

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The review of the Statement of Accounts on the Execution Date was concluded on October 25, 2013 through a settlement. As a result of this, considering that the equity of La7 recognized at that date was higher than the value provided in the agreement, the Cairo Communication group paid Telecom Italia Media a price adjustment of approximately 5 million euros.

Based on the agreements entered into and also taking into account the expected performance of La7 S.r.l. up to the date of disposal, negative income statement impacts have been recognized for the entire year 2013, including the loss for the period of La7 of around 125 million euros, before amounts due to Non-controlling interests.

### **Sale of the MTV group**

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

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

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

Based on the agreements entered into and also taking into account the expected performance of MTV Italia S.r.l. and MTV Pubblicità S.r.l. up to the date of the sale, negative income statement impacts have been recognized for the entire year 2013, including the loss for the period of MTV Italia S.r.l. and MTV Pubblicità S.r.l. of around 8 million euros, before amounts due to Non-controlling interests.

In light of the sales of La7 S.r.l. and MTV, the table below shows figures for 2013 and 2012, restated to exclude the results of both companies.

|                               | 2013<br>(a)   | Year ended December 31, |       | Changes<br>% |
|-------------------------------|---|-------------------------|-------|--------------|
|                               |   | 2012<br>(b)             | (a-b) |              |
|                               | (millions of euros, except percentages and employees) |                         |       |              |
| Revenues                      | 72  | 75                      | (3)   | (4.0)        |
| Operating profit (loss)       | 2   | (64)                    | 66    | n.s.         |
| <i>% of Revenues</i>          | 2.8   | (85.3)                  |       |              |
| Employees at year-end (units) | 84  | 87                      | (3)   | (3.4)        |

**Revenues**

Revenues amounted to 72 million euros in 2013, decreasing 3 million euros compared to 75 million euros in 2012.

**Operating profit (loss)**

Operating result was a positive 2 million euros compared to a negative 64 million euros for 2012, representing an improvement of 66 million euros. This result was mainly due to the recognition in 2012 of the goodwill impairment loss (70 million euros) as a result of the 2012 impairment test. The change in operating result was also impacted by the small reduction in revenues as well as an overall increase of 6 million euros in other operating expenses of the network operator, primarily relating to several provisions pertaining to trade receivables and future expenses.

**Employees**

Employees were 84 at December 31, 2013, a decrease of 3 units compared to December 31, 2012 (87 units).

The following table sets forth certain financial and other data for the Olivetti Business Unit for the years ended December 31, 2013 and 2012.

|                               | 2013  | Year ended December 31, |       | Changes |  |
|-------------------------------|---|-------------------------|-------|---------|--|
|                               | (a)   | 2012                    | (a-b) | %       |  |
|                               | (millions of euros, except percentages and employees) |                         |       |         |  |
| Revenues                      | 265   | 280                     | (15)  | (5.4)   |  |
| Operating profit (loss)       | (8)   | (65)                    | 57    | 87.7    |  |
| <i>% of Revenues</i>          | <i>(3.0)</i>  | <i>(23.2)</i>           |       |         |  |
| Employees at year-end (units) | 682   | 778                     | (96)  | (12.3)  |  |

### Revenues

Revenues for 2013 were 265 million euros, down 15 million euros, or 5.4%, compared to 2012 (280 million euros).

The decrease in revenues was largely due to lower sales of copying and printing on the Italian market (around 13 million euros), where customers of SMEs and independent professionals continued to be affected by the weak

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macroeconomic environment, a decrease of approximately 6 million euros in revenues from systems and specialized applications (in the previous year, this segment benefited from 10 million euros in revenues relating to an order for the sale and installation of geolocation equipment), and lower sales of inkjet products of around 6 million euros as a result of the liquidation process. These reductions were partially offset by an increase particularly in the Italian market in revenues from new cloud services and solutions (+7 million euros).

**Operating loss**

Operating loss was 8 million euros in 2013 compared to an operating loss of 65 million euros in 2012. Specifically, in 2012 the operating loss was affected by a provision for restructuring expenses and other winding up expenses totaling 31 million euros as a result of the start of the liquidation of Olivetti I-Jet S.p.A. Moreover, in November 2013 the Research and Development business unit of Olivetti I-Jet was sold, which resulted in the release of provisions of 6 million euros, which were included in the above-mentioned provision charges. The financial year 2013 was also impacted by the effects of a fire that completely destroyed the spare parts warehouse on March 19, 2013. The overall damage suffered by the group as a result of the fire was covered by an insurance settlement of 19 million euros.

**Employees**

Employees at December 31, 2013 were 682, a reduction of 96 compared to December 31, 2012 (778 units).

**v Discontinued operations/Non-current assets held sale (Sofora Telecom Argentina group)**

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

The following table sets forth certain financial and other data for the Sofora Telecom Argentina group for the years ended December 31, 2013 and 2012. The average exchange rates used for the translation into euro of the Argentine peso (expressed in terms of units of local currency per 1 euro) are 7.27875 in 2013 and 5.84408 in 2012.

|                  | 2013  | 2012  | Year ended December 31,   |             | Changes |       |
|------------------|---|-------|---|-------------|---------|-------|
|                  |   |       | 2013<br>(a)   | 2012<br>(b) | (a-b)   | %     |
|                  | (millions of euros, except percentages and employees) |       | (millions of Argentine pesos, except percentages and employees) |             |         |       |
| Revenues         | 3,749   | 3,784 | 27,286  | 22,116      | 5,170   | 23.4  |
| Operating profit | 518   | 214   | 3,774   | 1,253       | 2,521   | 201.2 |
| % of Revenues    | 13.8  | 5.7   | 13.8  | 5.7         |         |       |



|                               |        |        |        |        |       |       |
|-------------------------------|--------|--------|--------|--------|-------|-------|
| Employees at year-end (units) | 16,575 | 16,803 | 16,575 | 16,803 | (228) | (1.4) |
|-------------------------------|--------|--------|--------|--------|-------|-------|

**Revenues**

Revenues for 2013 amounted to 27,286 million pesos, increasing 5,170 million pesos (+23.4%) compared to 2012 (22,116 million pesos), mainly due to the growth of the mobile customer base and the increase in the average revenue per user (ARPU). The main source of revenues was mobile telephony, which accounted for about 74% of the consolidated revenues, an increase of 26% on 2012.

**Operating profit**

Operating profit in 2013 was 3,774 million pesos compared to 1,253 million pesos recorded in 2012.

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The increase of 2,521 million pesos was mainly attributable to the aforementioned increase in revenues and to lower depreciation and amortization (-231 million pesos) due to the suspension of depreciation and amortization following the classification of the investment in the Sofora Telecom Argentina group as Discontinued operations/Non-current assets held for sale.

Furthermore, in 2012 the goodwill recognized at the time control was acquired by the Telecom Italia Group (979 million pesos) was completely impaired and partial impairment was recorded for customer relationships (501 million pesos). In 2013, impairment losses on non-current assets amounted to 172 million pesos, mainly relating to several business projects and IT platforms that the Telecom Argentina group decided to abandon.

Further details are provided in the Note Discontinued operations/Non-current assets held sale of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

**Restrictions on transfer of funds, including any exchange controls**

There are currently no regulations in force in Argentina that prohibit the transfers of funds outside of Argentina arising either from the normal course of business in Argentina or from any dividend payment to foreign shareholders. However, since late 2011, the Argentine Government implemented a series of controls on foreign trade and capital flows, including requiring preapproval procedures for import of goods and services, aimed at maintaining reserve levels at the Central Bank of the Argentine Republic ( BCRA ) that are often used to fulfill payment obligations of public debt. Additionally, increased documentation and additional administrative steps were implemented for obtaining the approval to transfer funds abroad for payments to foreign suppliers.

At the same time, measures to limit the purchase of foreign currency by private companies and individuals for saving purposes remain in force. These measures have limited the ability of individuals and companies to manage their exposure to exchange rate volatility.

As a result of these rules established by the Argentine Government, the Sofora Telecom Argentina group has experienced some delays in the procurement process of imported raw materials, products, equipment and services necessary for its operations as well as in the payment of foreign suppliers. However, such delays have not had a material economic or operational impact on the normal course of business of the Sofora Telecom Argentina group in 2013.

Although we do not believe these restrictions have materially adversely affected the Sofora Telecom Argentina group, we continually monitor the situation in Argentina and the way that possible restrictions could affect our operations in such country.

Furthermore, at December 31, 2013, the Sofora Telecom Argentina group had an excess of monetary liabilities over monetary assets of ARS 1.2 billion (ARS 1.0 billion at December 31, 2012). The related breakdown by currency unit is as follows: ARS 1.2 billion net liabilities (ARS 0.6 billion net liabilities at December 31, 2012) denominated in US\$, ARS 0.2 billion net liabilities (ARS 0.1 billion net liabilities at December 31, 2012) denominated in Paraguayan Guarani, ARS 0.2 billion net liabilities (ARS 0.1 billion net liabilities at December 31, 2012) denominated in Euro and the remaining amount of ARS 0.4 billion net assets (ARS 0.2 billion net liabilities at December 31, 2012) directly denominated in

Argentine Pesos.

Furthermore, we point out that the price for the sale of the Sofora Telecom Argentina group has been agreed in USD dollars and therefore the Telecom Italia Group cash flows are no longer exposed to the exchange rate risks with respect to the ARS exposure of the Group. The sale of the Sofora Telecom Argentina group is conditional upon obtaining certain required regulatory approvals.

#### **5.2.8 YEAR ENDED DECEMBER 31, 2012 COMPARED WITH YEAR ENDED DECEMBER 31, 2011**

##### **v REVENUES**

**Revenues** amounted to 25,759 million euros in 2012, a decrease of 1,013 million euros, or 3.8%, compared to 26,772 million euros in 2011.

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The table below sets forth for the periods indicated gross revenues by Business Unit and consolidated revenues.

|   | 2012                                    |   | Year ended December 31,<br>2011 |   | Changes        |              |
|---|---|---|---------------------------------|---|----------------|--------------|
|   | Revenues(1)<br>(a)                      | % of<br>Consolidated<br>revenues<br>(b) | Revenues(1)<br>(b)              | % of<br>Consolidated<br>revenues<br>(b) | (a-b)          | %            |
|   | (millions of euros, except percentages) |   |                                 |   |                |              |
| Domestic                                | 17,884                                  | 69.4                                    | 18,991                          | 70.9                                    | (1,107)        | (5.8)        |
| <i>Core Domestic</i>                    | 16,933                                  | 65.7                                    | 18,082                          | 67.5                                    | (1,149)        | (6.4)        |
| <i>International Wholesale</i>          | 1,393                                   | 5.4                                     | 1,393                           | 5.2                                     |                |              |
| Brazil                                  | 7,477                                   | 29.0                                    | 7,343                           | 27.4                                    | 134            | 1.8          |
| Media, Olivetti and Other Operations(2) | 564                                     | 2.2                                     | 700                             | 2.6                                     | (136)          | (19.4)       |
| <i>Adjustments and eliminations</i>     | (166)                                   | (0.6)                                   | (262)                           | (0.9)                                   | 96             |              |
| <b>Total Revenues</b>                   | <b>25,759</b>                           | <b>100.0</b>                            | <b>26,772</b>                   | <b>100.0</b>                            | <b>(1,013)</b> | <b>(3.8)</b> |

(1) Revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

(2) The Other Operations of the Telecom Italia Group consist of the financial companies and other minor companies not associated with the core business of the Telecom Italia Group.

The **Domestic Business Unit** (divided into Core Domestic and International Wholesale) reported a decline of 1,107 million euros (-5.8%) in revenues in 2012, compared to 2011. This decrease was partly attributable to the entry into force, in July 2012, of the new mobile termination rates ( **MTR** ), which reduced these rates by 53% (from 5.3 to 2.5 eurocents), representing a sharp decrease compared to the tariffs in effect for the full year 2011.

The decrease in revenues in the mobile market was mainly due to the dilution of the ARPU on traditional services such as voice and text messaging and to the above-mentioned reduction of MTR tariffs (-286 million euros), which decrease was only partly offset by the growth of users and mobile internet. With respect to the fixed line market, the reduction is mainly attributable to the above-mentioned decrease in access lines and the contraction of prices and revenues from traditional services, both voice and data, in particular in the Business segment.

With respect to the **Brazil Business Unit**, revenues grew by 1.8% in 2012 compared to the prior year. Revenues from services continued their positive trend, driven by the growth of the customer base (reaching approximately 70.4 million lines at December 31, 2012, up 9.8% compared to December 31, 2011). Handset revenues also increased compared to 2011.

For a more detailed analysis of revenue performance by individual Business Units, reference should be made to Item 4. Information On The Telecom Italia Group 4.2 Business Units .

## v OTHER INCOME

The following table sets forth other income for the years ended December 31, 2012 and 2011:

|  | Year ended December 31,                 |             |                    |              |
|--|---|-------------|--------------------|--------------|
|  | 2012<br>(a)                             | 2011<br>(b) | Changes<br>(a-b) % |              |
|  | (millions of euros, except percentages) |             |                    |              |
| Late payment fees charged for telephone services                       | 69                                      | 71          | (2)                | (2.8)        |
| Recovery of employee benefit expenses, purchases and services rendered | 35                                      | 36          | (1)                | (2.8)        |
| Capital and operating grants   | 18                                      | 24          | (6)                | (25.0)       |
| Damage compensations, penalties and sundry recoveries                  | 40                                      | 32          | 8                  | 25.0         |
| Sundry income  | 123                                     | 131         | (8)                | (6.1)        |
| <b>Total other income</b>  | <b>285</b>                              | <b>294</b>  | <b>(9)</b>         | <b>(3.1)</b> |

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Our operating expenses amounted to 24,335 million euros in 2012, a decrease of 3,921 million euros, or 13.9% compared to 28,256 million euros in 2011. Operating expenses declined primarily as a result of the reduced impairment losses on non-current assets which decreased from 7,358 million euros in 2011 to 4,179 million euros in 2012. The components of our operating expenses include the following:

- **Acquisition of goods and services** amounted to 11,289 million euros in 2012, a decrease of 206 million euros compared to 2011 (11,495 million euros). In particular, the Domestic Business Unit reduced acquisitions of goods and services by 345 million euros compared to 2011, partly attributable to a decrease in the portion of revenues to be paid to other TLC operators, related to the reduction in mobile termination rates. Offsetting this decrease, there was an increase in the commercial and technical costs of the Brazil Business Unit (+109 million euros, including a negative exchange rate effect of 320 million euros), needed to support the growth of the customer base, voice and data traffic volumes, sales of mobile internet-enabled devices and, consequently revenues in Brazil.

The following table sets forth acquisition of goods and services for the years ended December 31, 2012 and 2011.

|   | Year ended December 31,                 |               |                  |              |
|---|---|---------------|------------------|--------------|
|   | 2012<br>(a)                             | 2011<br>(b)   | Changes<br>(a-b) | %            |
|   | (millions of euros, except percentages) |               |                  |              |
| Purchase of goods   | 2,203                                   | 2,185         | 18               | 0.8          |
| Portion of revenues to be paid to other operators and interconnection costs | 3,797                                   | 4,031         | (234)            | (5.8)        |
| Commercial and advertising costs  | 1,697                                   | 1,880         | (183)            | (9.7)        |
| Power, maintenance and outsourced services                                  | 1,436                                   | 1,311         | 125              | 9.5          |
| Rent and leases   | 649                                     | 632           | 17               | 2.7          |
| Other service expenses  | 1,507                                   | 1,456         | 51               | 3.5          |
| <b>Total acquisition of goods and services</b>                              | <b>11,289</b>                           | <b>11,495</b> | <b>(206)</b>     | <b>(1.8)</b> |
| <i>% on Revenues</i>  | <i>43.8</i>                             | <i>42.9</i>   |                  |              |

- **Employee benefits expenses**

The following table sets forth employee benefit expenses for the years ended December 31, 2012 and 2011.

|  | Year ended December 31,                 |             |                  |        |
|--|---|-------------|------------------|--------|
|  | 2012<br>(a)                             | 2011<br>(b) | Changes<br>(a-b) | %      |
|  | (millions of euros, except percentages) |             |                  |        |
| <b>Employee benefits expenses Italian companies:</b> |   |             |                  |        |
| Ordinary employee expenses and costs                 | 2,945                                   | 3,144       | (199)            | (6.3)  |
| Corporate restructuring expenses                     | 8                                       | 12          | (4)              | (33.3) |

|   |              |              |              |              |
|---|--------------|--------------|--------------|--------------|
| <b>Total employee benefits expenses Italy</b>         | <b>2,953</b> | <b>3,156</b> | <b>(203)</b> | <b>(6.4)</b> |
| <b>Employee benefits expenses Outside Italy</b>       |              |              |              |              |
| Ordinary employee expenses and costs                  | 378          | 358          | 20           | 5.6          |
| Corporate restructuring expenses                      | 2            |              | 2            |              |
| <b>Total employee benefits expenses Outside Italy</b> | <b>380</b>   | <b>358</b>   | <b>22</b>    | <b>6.1</b>   |
| <b>Total employee benefits expenses</b>               | <b>3,333</b> | <b>3,514</b> | <b>(181)</b> | <b>(5.2)</b> |
| <i>% on Revenues</i>                                  | <i>12.9</i>  | <i>13.1</i>  |              |              |

Employee benefits expenses were 3,333 million euros in 2012 compared to 3,514 million euros in 2011, a decrease of 181 million euros. The change was affected by:

- the reduction of 203 million euros in the Italian component of employee benefits expenses, mainly due to the reduction in ordinary employee benefits expenses, resulting from the decrease in the average salaried workforce of 1,214 compared to 2011, and from restructuring expenses that were 4 million

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euros lower (8 million euros in 2012; 12 million euros in 2011). In 2012, these expenses were attributable to a provision charge of 15 million euros for Olivetti I-Jet (resulting from the agreements signed with the trade unions of the company put into liquidation in June 2012) offset by the use of a total of 7 million euros from the remaining provision for mobility under Law 223/91 by Telecom Italia S.p.A. (6 million euros), and by TI Sparkle and TI Information Technology (1 million euros). In 2011 the provision for mobility under Law 223/91, relating to the agreements signed in 2010 with the trade unions of the Parent Telecom Italia S.p.A. and of TI Information Technology, amounted to 12 million euros;

the increase of 22 million euros in the foreign component of employee benefits expenses, mainly due to the increase of 835 in the average salaried workforce, relating to the Brazil Business Unit. Such increase takes also into account the corporate restructuring expenses of 2 million euros in 2012 relating to Olivetti Engineering S.A.

The Group's average number of salaried workforce for the periods indicated was as follows:

|   | Year ended December 31, |               |                  |              |
|---|-------------------------|---------------|------------------|--------------|
|   | 2012<br>(a)             | 2011<br>(b)   | Changes<br>(a-b) | %            |
| (fulltime equivalent units, except percentages)   |                         |               |                  |              |
| Average salaried workforce Italy  | 52,347                  | 53,561        | (1,214)          | (2.3)        |
| Average salaried workforce Foreign  | 10,411                  | 9,576         | 835              | 8.7          |
| <b>Total average salaried workforce(1)</b>  | <b>62,758</b>           | <b>63,137</b> | <b>(379)</b>     | <b>(0.6)</b> |
| Non current assets held for sale (Sofora Telecom Argentina group)   | 15,806                  | 15,232        | 574              | 3.8          |
| <b>Total Average salaried workforce including Non current assets held for sale (Sofora Telecom Argentina group)</b> | <b>78,564</b>           | <b>78,369</b> | <b>195</b>       | <b>0.2</b>   |

(1) Includes the average employees with temp work contracts: 59 units in 2012 (58 in Italy and 1 outside Italy). In 2011 average employees with temp work contracts were 76 units (75 in Italy and 1 outside Italy).

Group's employees at December 31, 2012 and 2011 were as follows:

|  | As of December 31, |               |                  |              |
|--|--------------------|---------------|------------------|--------------|
|  | 2012<br>(a)        | 2011<br>(b)   | Changes<br>(a-b) | %            |
| (units, except percentages)  |                    |               |                  |              |
| Employees Italy  | 54,419             | 56,878        | (2,459)          | (4.3)        |
| Employees Foreign  | 11,962             | 10,926        | 1,036            | 9.5          |
| <b>Total Employees(1)</b>  | <b>66,381</b>      | <b>67,804</b> | <b>(1,423)</b>   | <b>(2.1)</b> |
| Non current assets held for sale (Sofora Telecom Argentina group)                                  | 16,803             | 16,350        | 453              | 2.8          |
| <b>Total Employees including Non current assets held for sale (Sofora Telecom Argentina group)</b> | <b>83,184</b>      | <b>84,154</b> | <b>(970)</b>     | <b>(1.2)</b> |



(1) Includes employees with temporary work contracts: 40 units at December 31, 2012 and 41 units at December 31, 2011.

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The following table sets forth other operating expenses for the years ended December 31, 2012 and 2011.

|   | Year ended December 31, |              |                  |              |
|---|-------------------------|--------------|------------------|--------------|
|   | 2012<br>(a)             | 2011<br>(b)  | Changes<br>(a-b) | %            |
| (millions of euros, except percentages)                             |                         |              |                  |              |
| Writedowns and expenses in connection with credit management        | 501                     | 504          | (3)              | (0.6)        |
| Accruals to provisions  | 197                     | 111          | 86               | 77.5         |
| Indirect duties and taxes   | 119                     | 125          | (6)              | (4.8)        |
| TLC operating fees  | 548                     | 614          | (66)             | (10.7)       |
| Penalties, compensation and administrative sanctions                | 29                      | 41           | (12)             | (29.3)       |
| Association dues and fees, donations, scholarships and traineeships | 25                      | 23           | 2                | 8.7          |
| Sundry expenses   | 55                      | 110          | (55)             | (50.0)       |
| <b>Total other operating expenses</b>                               | <b>1,474</b>            | <b>1,528</b> | <b>(54)</b>      | <b>(3.5)</b> |
| <i>% on Revenues</i>  | 5.7                     | 5.7          |                  |              |

The decreases for the Domestic Business Unit (-70 million euros) and the Brazil Business Unit (-28 million euros, including an exchange rate effect of 54 million euros due to the strengthening of the Euro against the Brazilian reais) was partially offset by increases for the other Business Units.

In particular the main items were as follows:

- writedowns and expenses in connection with credit management (501 million euros; 504 million euros in 2011) consisted of 370 million euros (389 million euros in 2011) relating to the Domestic Business Unit and 100 million euros (unchanged compared to 2011) relating to the Brazil Business Unit;
- accruals to provisions (197 million euros; 111 million euros in 2011) consisted of 91 million euros (60 million euros in 2011) relating to the Brazil Business Unit and 92 million euros (50 million euros in 2011) relating to the Domestic Business Unit;
- TLC operating fees (548 million euros; 614 million euros in 2011) consisted of 487 million euros (554 million euros in 2011) relating to the Brazil Business Unit and 59 million euros (58 million euros in 2011) relating to the Domestic Business Unit.

**Depreciation and Amortization**

The following table sets forth depreciation and amortization for the years ended December 31, 2012 and 2011.

|   | Year ended December 31,                 |              |                    |              |
|---|---|--------------|--------------------|--------------|
|   | 2012<br>(a)                             | 2011<br>(b)  | Changes<br>(a-b) % |              |
|   | (millions of euros, except percentages) |              |                    |              |
| Amortization of intangible assets with a finite useful life | 1,900                                   | 1,946        | (46)               | (2.4)        |
| Depreciation of tangible assets owned and leased            | 2,789                                   | 3,028        | (239)              | (7.9)        |
| <b>Total depreciation and amortization</b>                  | <b>4,689</b>                            | <b>4,974</b> | <b>(285)</b>       | <b>(5.7)</b> |
| <i>% on Revenues</i>  | <i>18.2</i>                             | <i>18.6</i>  |                    |              |

The decrease in depreciation and amortization charges was mainly attributable to the Domestic Business Unit (-305 million euros) principally due to lower amounts of depreciable or amortizable assets.

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

In 2012, gains on disposals of non-current assets were 52 million euros and included the gain, net of the incidental expenses of 49 million euros, in connection with the completion of the sale of Matrix on October 31, 2012, as well as net gains on non-current assets mainly relating to the Domestic Business Unit.

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In 2011, net gains on disposals of non-current assets amounted to 4 million euros and included the gain of 35 million euros, net of the related incidental expenses, realized on the sale of Loquendo at the end of September 2011 and the net losses from the disposal of tangible assets, mainly of the Parent, for the replacement and subsequent disposal of dedicated mobile telephony plant.

· **Net impairment losses on non-current assets**

Net impairment losses on non-current assets were 4,179 million euros in 2012 (7,358 million euros in 2011) and were attributable to the annual impairment test conducted for the annual financial statements. Specifically, this item refers to:

- 4,016 million euros for the impairment loss on goodwill allocated to the Core Domestic Cash-generating Unit in the **Domestic Business Unit**. This was a further impairment loss with respect to the goodwill write down of 7,307 million euros in 2011;
- An overall impairment of non-current assets and goodwill of 157 million euros (57 million euros in 2011) in the **Media Business Unit**, established following the impairment test process and also taking account of then prospective sale of the investee La7 S.r.l.

Further details are provided in the Note Goodwill of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

v **OPERATING PROFIT (LOSS)**

**Operating profit** was 1,709 million euros in 2012 (an operating loss of 1,190 million euros in 2011).

The operating profit was adversely affected by the impact of the impairment charge of 4,179 million euros in 2012 (although such charge was less than the 7,358 million euros in 2011 which resulted in an operating loss for 2011).

v **SHARE OF PROFITS (LOSSES) OF ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD**

The Share of profits (losses) of associates and joint ventures accounted for using the equity method was a loss of 6 million euros in 2012, and mainly related to Tiglio I S.r.l.

In 2011 this was a loss of 39 million euros, mainly due to the write down of the entire investment in the Italtel Group.

v **OTHER INCOME (EXPENSES) FROM INVESTMENTS**

In 2012 other income (expenses) from investments shows a net income of 2 million euros.

In 2011, the income balance of Other income (expenses) from investments was 16 million euros and mainly referred to the gain (17 million euros) on the sale of the entire 27% investment in the Cuban operator EtecSA.

v **FINANCE INCOME (EXPENSES)**

Finance income (expenses) was a net expense of 1,998 million euros (a net expense of 2,040 million euros in 2011), an improvement of 42 million euros compared with 2011. This improvement was mainly due to the positive change in the value of several hedging derivatives, attributable to market fluctuations linked to currency exchange rates. These changes, which are unrealized accounting changes, do not result in any actual monetary settlement. Other positive effects were derived from the higher capitalization of finance expenses relating to the purchase of rights to use LTE mobile telephony frequency bands, by the Domestic Business Unit.

For further details about finance income and finance expenses, please see Note Finance income and Finance expenses , of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

v **INCOME TAX EXPENSE**

Income tax expense was 1,086 million euros, an improvement of 337 million euros compared to 2011. This item also included 319 million euros relating to the recognition of the credit for the refund receivables for years prior

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to 2012, following the entry into force of Decree Law 16/2012, which enabled a request for a refund of IRES tax for the IRAP tax calculated on the cost of labor. Net of this effect, income tax improved by 18 million euros compared to 2011, mainly as a result of the reduction in the tax base of the Parent Telecom Italia.

**v PROFIT (LOSS) FROM DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE**

In 2012, the balance was a profit of 102 million euros, while in 2011 it was a profit of 310 million euros and included profits and losses incurred in connection with sales transactions of prior years. In particular:

- the positive contribution to the consolidation by the Argentina Business Unit of 99 million euros; reflecting the total loss of 253 million euros for the complete impairment of the goodwill and for the partial impairment of the Customer relationships, recognized by Telecom Italia Group upon acquisition of control (positive for 322 million euros in 2011);
- other income relating to the disposal (1 million euros in 2012 and in 2011);
- net income relating to disposals made in previous years of 2 million euros (net expense of 13 million euros in 2011).

For further details, please see the Note Discontinued operations/Non-current assets held for sale, of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

**5.2.9 RESULTS OF OPERATIONS OF BUSINESS UNITS FOR THE YEAR ENDED DECEMBER 31, 2012 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2011****v DOMESTIC**

On October 31, 2012, Telecom Italia S.p.A. completed the sale of the company Matrix, a wholly-owned subsidiary, to Libero, controlled by Weather Investment II S.à.r.l.. In 2012 Matrix was moved to Other Operations and was consequently no longer part of Core Domestic in the Domestic Business Unit. Accordingly, the comparative figures of 2011 have been restated on a consistent basis.

The following table sets forth, certain financial and other data for the Domestic Business Unit for the years ended December 31, 2012 and 2011.

| 2012<br>(a)   | Year ended December 31, |       | Changes<br>% |
|---|-------------------------|-------|--------------|
|   | 2011<br>(b)             | (a-b) |              |
| (millions of euros, except percentages and employees) |                         |       |              |

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|                                   |            |               |         |         |
|-----------------------------------|------------|---------------|---------|---------|
| Revenues                          | 17,884     | 18,991        | (1,107) | (5.8)   |
| Operating profit (loss)           | 1,078      | (1,996)       | 3,074   | (154.0) |
| <i>% of Revenues</i>              | <i>6.0</i> | <i>(10.5)</i> |         |         |
| Employees at year-end (units) (*) | 53,224     | 55,047        | (1,823) | (3.3)   |

(\*) The 1,823 headcount change includes the effects resulting from the acquisition, as of January 1, 2012, of the Contact Center business and the related 249 staff from the company Advalso of the Olivetti Business Unit.

**Revenues**

Revenues decreased by 1,107 million euros, or 5.8%, from 18,991 million euros in 2011 to 17,884 million euros in 2012.

Such decrease was due in part to the continuing weak economy and a market characterized by sharp price reductions for traditional services and tough competition.

The decrease was primarily attributable to the decline in revenues on traditional services as well as the decline in revenues due to the new mobile termination rates (MTR) which reduced these rates by 53% (from 5.3 to 2.5 euro cents) and a Europe-wide cap on the price of roaming traffic. These decreases were only partly offset by the growth in innovative services, especially fixed-line broadband and mobile internet.

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The following table sets forth the Domestic Business Unit's revenues by market segment for the years ended December 31, 2012 and 2011.

**Core Domestic**

|                               | Year ended December 31,                               |             |         |              |
|-------------------------------|---|-------------|---------|--------------|
|                               | 2012<br>(a)   | 2011<br>(b) | (a-b)   | Changes<br>% |
|                               | (millions of euros, except percentages and employees) |             |         |              |
| Revenues                      | 16,933  | 18,802      | (1,869) | (9.9)        |
| Consumer (1)                  | 8,835   | 9,168       | (333)   | (3.6)        |
| Business (2)                  | 5,879   | 6,593       | (714)   | (10.8)       |
| National Wholesale            | 2,052   | 2,104       | (52)    | (2.5)        |
| Other                         | 167   | 217         | (50)    | (23.0)       |
| Operating profit (loss)       | 958   | (2,136)     | 3,094   | n.s.         |
| % of Revenues                 | 5.7   | n.s.        |         |              |
| Employees at year-end (units) | 52,289  | 54,038      | (1,749) | (3.2)        |

(1) The company Matrix, which was sold on October 31, 2012, was classified under Other Operations in 2012, and thus excluded from the Consumer segment of Core Domestic. The periods under comparison have been reclassified accordingly.

(2) Includes, starting from January 1, 2013 Top customers revenues. Figures for 2012 and 2011 have been reclassified for purposes of comparison.

**Consumer:** revenues for the Consumer segment were 8,835 million euros, a decrease of 333 million euros compared to 2011 (-3.6%); although revenues declined, this reflects an improvement in the overall recovery from the reduction recorded in 2011 (-5.0%) despite the negative impact of lower termination rates (-211 million euros). This improvement was due in particular to a stabilization of the erosion in voice revenues (both Fixed and Mobile), strong growth in Browsing revenues and growth in sales of devices (+118 million euros, +35.4%), especially Mobile Internet enabled devices. The decrease, which is entirely attributable to revenues from services (-451 million euros, -5.1%), is attributable in addition to the aforementioned lower termination rates to traditional Voice and Messaging services, the effects of which were in part offset by growth in Mobile Internet (+70 million euros, +13%) and Fixed Broadband Access (+34 million euros, +3.6%).

**Business:** revenues in the Business segment were 5,879 million euros in 2012, a decrease of 10.8% or 714 million euros compared to 2011, due to erosion of the customer base and a decline in usage and ARPU especially on Voice services and a slow down in demand due to the weak economy.

**National Wholesale:** revenues in the Wholesale segment amounted to 2,052 million euros in 2012, a decline of 52 million euros (-2.5%) on 2011, mainly due to lower carrying and interconnection revenues, only partly offset by growth in access services to alternative operators.

**International Wholesale:**

|  | 2012 | Year ended December 31,<br>2011 | Changes |
|--|------|---------------------------------|---------|
|--|------|---------------------------------|---------|



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|                               | (a)   | (b)   | (a-b) | %      |
|-------------------------------|---|-------|-------|--------|
|                               | (millions of euros, except percentages and employees) |       |       |        |
| Revenues                      | 1,393   | 1,393 |       |        |
| Operating profit              | 121   | 141   | (20)  | (14.2) |
| <i>% of Revenues</i>          | 8.7   | 10.1  |       |        |
| Employees at year-end (units) | 935   | 1,009 | (74)  | (7.3)  |

International Wholesale segment revenues were 1,393 million euros in 2012, in line with the previous year.

During 2012 International Wholesale continued to pursue rationalization measures aimed at a more selective customer portfolio and traffic strategy.

Revenue performance in Voice (+1.4%) and IP/Data (+5.8%) businesses helped to contain the contraction reported in the other segments, especially multinational customers (-10%).

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2013****Operating profit (loss)**

Operating profit (loss) was a profit of 1,078 million euros, compared to a loss of 1,996 million euros in 2011, up 3,074 million euros. This improvement in 2012 is mainly due to the lower goodwill impairment loss of 4,016 million euros in 2012 attributable to the Core Domestic cash-generating unit compared to a goodwill write-off of 7,307 million euros in 2011.

The operating profit (loss) was impacted by the change in the following line items.

|                                   | Year ended December 31,                 |             |                  |       |
|-----------------------------------|---|-------------|------------------|-------|
|                                   | 2012<br>(a)                             | 2011<br>(b) | Changes<br>(a-b) | %     |
|                                   | (millions of euros, except percentages) |             |                  |       |
| Acquisition of goods and services | 6,409                                   | 6,754       | (345)            | (5.1) |
| Employee benefits expenses        | 2,834                                   | 3,031       | (197)            | (6.5) |
| Other operating expenses          | 699                                     | 769         | (70)             | (9.1) |

In detail:

- **acquisition of goods and services** decreased 345 million euros (-5.1%) compared to 2011. This decrease was mainly due to a decline in revenues due to other telecommunication operators, owing principally to the reduction in MTR;
- **employee benefits expenses** decreased 197 million euros from 2011, attributable mostly to the reduction in the average salaried workforce by 710 compared to the previous year, offset by higher expenses as a result of the acquisition, as of January 1, 2012, of the Contact Center business and the related 249 staff from the company Advalso of the Olivetti Business Unit;
- **other operating expenses** decreased 70 million euros compared with 2011, as shown in the following table:

|   | Year ended December 31,                 |             |                  |              |
|---|---|-------------|------------------|--------------|
|   | 2012<br>(a)                             | 2011<br>(b) | Changes<br>(a-b) | %            |
|   | (millions of euros, except percentages) |             |                  |              |
| Impairments and expenses in connection with credit management | 370                                     | 389         | (19)             | (4.9)        |
| Provision charges   | 92                                      | 50          | 42               | 84.0         |
| TLC operating fees and charges                                | 59                                      | 58          | 1                | 1.7          |
| Indirect duties and taxes                                     | 103                                     | 108         | (5)              | (4.6)        |
| Sundry expenses   | 75                                      | 164         | (89)             | (54.3)       |
| <b>Total</b>  | <b>699</b>                              | <b>769</b>  | <b>(70)</b>      | <b>(9.1)</b> |

**Employees**

Employees are 53,224 as of December 31, 2012, a reduction of 1,823 units compared to December 31, 2011.

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The following table sets forth certain financial and other data for the Brazil Business Unit for the year ended December 31, 2012 and 2011.

|                               | 2012  | 2011        | Year ended December 31,   |             | Changes |      |
|-------------------------------|---|-------------|---|-------------|---------|------|
|                               |   |             | 2012<br>(a)   | 2011<br>(b) | (a-b)   | %    |
|                               | (millions of euros, except percentages and employees) |             | (millions of Brazilian reais, except percentages and employees) |             |         |      |
| Revenues                      | 7,477   | 7,343       | 18,764  | 17,086      | 1,678   | 9.8  |
| Operating profit              | 966   | 984         | 2,424   | 2,289       | 135     | 5.9  |
| <i>% of Revenues</i>          | <i>12.9</i>   | <i>13.4</i> | <i>12.9</i>   | <i>13.4</i> |         |      |
| Employees at year-end (units) | 11,622  | 10,539      | 11,622  | 10,539      | 1,083   | 10.3 |

**Revenues**

Revenues for 2012 were 18,764 million Brazilian reais, an increase of 1,678 million Brazilian reais on 2011 (+9.8%). Revenues from services were 16,420 million Brazilian reais, up from 15,353 million Brazilian reais in 2011 (+6.9%). Revenues from product sales increased from 1,733 million Brazilian reais in 2011 to 2,344 million Brazilian reais in 2012 (+35.3%), reflecting the company's strategy of market penetration with high-end handsets (smartphones/webphones and tablets) as an important lever for the expansion of revenues from data services.

Mobile ARPU was 19.1 reais in 2012 compared with 21.4 reais for 2011 (-10.7%). The performance of ARPU and revenues from services not only reflects competitive pressures that have led to a decline in unit prices in the voice business, but also the lower mobile operator network interconnection rate, in force since February 2012.

The total number of lines at December 31, 2012 was 70.4 million, 9.8% higher than at December 31, 2011, representing a 26.9% market share measured by number of lines.

**Operating profit**

Operating profit was 2,424 million Brazilian reais, up 135 million Brazilian reais on 2011. Operating profit growth was sustained by the increase in revenues, mainly VAS, offset in part by higher termination costs due to increased traffic volumes and costs strictly linked to changes in the customer base.

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It should be noted that operating profit included the administrative penalties imposed by the Brazilian telecommunications authority (ANATEL) and other expenses of 53 million Brazilian reais. In particular, disputes with ANATEL concerning the years 2007/2009 and amounting to 26 million Brazilian reais, were recognized following confirmation by the Board of the Brazilian telecommunications authority of measures taken against TIM Brasil. An additional 11 million Brazilian reais relates to disputes with other operators regulated by ANATEL for the years 2008-2011.

With regard to changes in costs, the following table sets forth certain expenses for the years ended December 31, 2012 and 2011.

|                                   | 2012                | 2011  | Year ended December 31,                           |             | Changes |      |
|-----------------------------------|---------------------|-------|---|-------------|---------|------|
|                                   |                     |       | 2012<br>(a)                                       | 2011<br>(b) | (a-b)   | %    |
|                                   | (millions of euros) |       | (millions of Brazilian reais, except percentages) |             |         |      |
| Acquisition of goods and services | 4,508               | 4,399 | 11,313  | 10,234      | 1,079   | 10.5 |
| Employee benefits expenses        | 344                 | 321   | 865   | 747         | 118     | 15.8 |
| Other operating expenses          | 719                 | 747   | 1,804   | 1,738       | 66      | 3.8  |
| <b>Change in inventories</b>      | 2                   | (19)  | 4   | (45)        | 49      |      |

· acquisition of goods and services were 11,313 million Brazilian reais (10,234 million Brazilian reais in 2011). The 10.5% increase compared to the previous year (+1,079 million Brazilian reais) was due to the following:

- +418 million Brazilian reais in revenues due to other TLC operators;
- +497 million Brazilian reais, mainly, for the purchases of products;

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- +191 million Brazilian reais for rent and lease costs;
- -27 million Brazilian reais for external services costs;
- employee benefits expenses were 865 million Brazilian reais, up 118 million Brazilian reais compared with 2011 (+15.8%). The average salaried workforce grew from 9,194 in 2011 to 10,051 in 2012. The percentage of employee benefits expenses to revenues was 4.6% in 2012, increasing 0.2 percentage points compared to 2011;
- other operating expenses were 1,804 million Brazilian reais, an increase of 3.8% (1,738 million Brazilian reais in 2011). Such expenses are set forth in the table below for the years ended December 31, 2012 and 2011.

|  | Year ended December 31,                           |              |                    |            |
|--|---|--------------|--------------------|------------|
|  | 2012<br>(a)                                       | 2011<br>(b)  | Changes<br>(a-b) % |            |
|  | (millions of Brazilian reais, except percentages) |              |                    |            |
| Writedowns and expenses in connection with credit management | 251   | 232          | 19                 | 8.2        |
| Accruals to provisions                                       | 228   | 140          | 88                 | 62.9       |
| TLC operating fees   | 1,223   | 1,290        | (67)               | (5.2)      |
| Indirect duties and taxes                                    | 30  | 33           | (3)                | (9.1)      |
| Sundry expenses  | 72  | 43           | 29                 | 67.4       |
| <b>Total</b>   | <b>1,804</b>                                      | <b>1,738</b> | <b>66</b>          | <b>3.8</b> |

**Employees**

Employees were 11,622 at December 31, 2012, an increase of 1,083 units compared to December 31, 2011 (10,539 units).

**v MEDIA**

The table below sets forth certain financial and other data for the Media Business Unit for the years ended December 31, 2012 and 2011.

|                               | Year ended December 31,                               |             |                    |       |
|-------------------------------|---|-------------|--------------------|-------|
|                               | 2012<br>(a)   | 2011<br>(b) | Changes<br>(a-b) % |       |
|                               | (millions of euros, except percentages and employees) |             |                    |       |
| Revenues                      | 222   | 238         | (16)               | (6.7) |
| Operating profit (loss)       | (263)   | (88)        | (175)              | 198.9 |
| % of Revenues                 | (118.5)   | (37.0)      |                    |       |
| Employees at year-end (units) | 735   | 765         | (30)               | (3.9) |

## Revenues

Revenues were 222 million euros in 2012, a decrease of 16 million euros compared to 238 million euros in 2011. Such revenues included:

- La7 (in 2011 and until June 2012 this Business area was called TI Media La7 and it included Corporate activities in addition to the TV business) revenues in 2012, before intragroup eliminations, were 123 million euros, down 16 million euros on the previous year. This result reflects the reduction in net advertising revenues which in 2012 declined by 3 million euros (-2.7% on 2011). This decline was exacerbated by the loss of revenues from the Competence Center, which ceased operations in September 2011, and had previously generated revenues of 13 million euros. In 2012, La7 had an average daily audience share of 3.5% and the La7d channel reported net advertising revenues of 8 million euros, up 2 million euros (+27.7%);
- MTV Group revenues were 55 million euros, before intragroup eliminations, a decrease of 19 million euros compared to 2011 (74 million euros). This decrease is mainly due to lower net advertising revenues (40 million euros in 2012 compared to 50 million euros in 2011) and the decrease in Playmaker activities to third parties by 7 million euros;

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- revenues from Network Operator activities (TIMB), before intragroup eliminations were 75 million euros, compared to 55 million euros in the previous year, an increase of 20 million euros. The positive change is due both to the evolution of existing contracts and to new channels put under contract at the end of 2011 for digital terrestrial TV on Multiplexes, which led to the full use of the available digital band since February 2012.

**Operating loss**

Operating loss was 263 million euros, compared to a loss of 88 million euros for 2011, representing an increase of 175 million euros. Specifically, 2012 includes a total impairment of non-current assets and Goodwill of 157 million euros, established following the impairment test process and also taking account of the prospective sale of the investee LA7 Srl. The impairment loss relating to goodwill is 105 million euros (57 million euros of impairment loss in 2011).

In particular:

- the operating loss of LA7 was 160 million euros, an increase in the loss of 137 million euros compared to 2011 (23 million euros). This result largely reflects both the contraction in revenues mentioned above and higher operating costs mostly connected with programming costs of La7 and La7d channels (+30 million euros and +4 million euros, respectively);
- the operating loss of MTV group was 38 million euros, an increase in the loss of 25 million euros compared to 2011 primarily due to the decrease in revenues described above, and as a result of the deep editorial transformation of the main channel which during the year went from being a purely musical channel to a more entertainment oriented channel targeted to a young/adult audience;
- the operating loss of the Network Operator was 54 million euros, an increase in the loss of 9 million euros over 2011; this result was influenced by the above mentioned increase in sales while operating costs were substantially in line with the previous year and by the goodwill writedown for 70 million euros in 2012 (43 million euros in 2011).

**Employees**

Employees were 735 at December 31, 2012, a decrease of 30 units compared to December 31, 2011 (765 units).

**v OLIVETTI**

The following table sets forth certain financial and other data for the Olivetti Business Unit for the years ended December 31, 2012 and 2011.

|  | Year ended December 31, |         |
|--|-------------------------|---------|
|  | 2012                    | 2011    |
|  |                         | Changes |



|                               | (a)   | (b)           | (a-b) | %      |
|-------------------------------|---|---------------|-------|--------|
|                               | (millions of euros, except percentages and employees) |               |       |        |
| Revenues                      | 280   | 343           | (63)  | (18.4) |
| Operating profit (loss)       | (65)  | (43)          | (22)  | 51.2   |
| <i>% of Revenues</i>          | <i>(23.2)</i>   | <i>(12.5)</i> |       |        |
| Employees at year-end (units) | 778   | 1,075         | (297) | (27.6) |

### Revenues

Revenues for 2012 were 280 million euros, down 63 million euros compared to 2011. The decrease in revenues is largely related to: lower sales of 21 million euros in the indirect channel in Italy (SME and professional offices), the channel most exposed to the current weak economy; lower sales of 10 million euros in the International and Latin America areas, due to the cancellation of product supply contracts with unsatisfactory margins; and lower product supply contracts with Telecom Italia of 4 million euros. The remaining decline in revenues was due to lower sales of industrial applications resulting from the winding up Olivetti I-Jet S.p.A.

### Operating loss

Operating loss was 65 million euros in 2012 compared with an operating loss of 43 million euros 2011.

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The result is affected by provision charges for restructuring expenses and other winding up expenses totaling 31 million euros as a result of the start of the liquidation of Olivetti I-Jet S.p.A, in accordance with the process of repositioning the Business Unit's activities, in line with the shift towards a paperless world and mobile applications.

In addition, the result was also affected by impairment losses on assets of 3 million euros related to the winding-up Olivetti I-Jet S.p.A.

**Employees**

Employees at December 31, 2012 were 778 units, a reduction of 297 units compared to December 31, 2011 (1,075 units).

v **Discontinued operations/Non-current assets held for sale (Sofora Telecom Argentina group)**

The following table sets forth certain financial and other data for the Sofora Telecom Argentina group for the years ended December 31, 2012 and 2011 which as of December 31, 2013 was treated as a discontinued operations. The average exchange rates used for the translation into euro of the Argentine peso (expressed in terms of units of local currency per 1 euro) are 5.84408 in 2012 and 5.74419 in 2011.

|                                  | 2012  | 2011   | Year ended December 31,   |        | Changes |        |
|----------------------------------|---|--------|---|--------|---------|--------|
|                                  |   |        | (a)   | (b)    | (a-b)   | %      |
|                                  | (millions of euros, except percentages and employees) |        | (millions of Argentine pesos, except percentages and employees) |        |         |        |
| Revenues                         | 3,784   | 3,220  | 22,116  | 18,496 | 3,620   | 19.6   |
| Operating profit                 | 214   | 509    | 1,253   | 2,925  | (1,672) | (57.2) |
| % of Revenues                    | 5.7   | 15.8   | 5.7   | 15.8   |         |        |
| Employees at year-end (units)(*) | 16,803  | 16,350 | 16,803  | 16,350 | 453     | 2.8    |

(\*) Includes employees with temporary work contracts: 3 and 1 as of December 31, 2012 and 2011, respectively.

**Revenues**

Revenues in 2012 were 22,116 million Argentine pesos, an increase of 3,620 million Argentine pesos (+19.6%) compared with 2011 (18,496 million Argentine pesos) principally due to growth of the broadband and mobile customer base, as well as ARPU. The main source of revenues for the Argentina Business Unit is mobile telephony, which accounts for about 73% of the consolidated revenues of the Sofora Telecom Argentina group, increasing more than 22% compared to 2011.

**Operating profit**

Operating profit for 2012 was 1,253 million Argentine pesos, compared to 2,925 million Argentine pesos for 2011. The decrease (1,672 million Argentine pesos) was mainly due to full impairment of the goodwill recognized at the time control was acquired by the Telecom Italia Group (979 million Argentine pesos), the partial impairment of its Customer relationships (501 million Argentine pesos) and an increase in amortization charges for Customer relationships resulting from the updating of their useful lives (383 million Argentine pesos).

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**5.3 LIQUIDITY AND CAPITAL RESOURCES**

The Telecom Italia Group's policy is to manage financial risks (market risk, credit risk and liquidity risk) by defining, at a central level, guidelines for directing operations, identifying the most appropriate financial instruments to meet pre-determined objectives, monitoring the results achieved and excluding the use of financial instruments for speculative purposes.

Telecom Italia has a centralized Finance Department which operates in the interests of the entire Group:

- allocating liquidity where necessary;
- obtaining excess cash resources from the Group companies;
- guaranteeing an adequate level of liquidity compatible with individual needs;
- supporting its subsidiaries to gain access to the loan market; and
- providing financial consulting services to its subsidiaries.

These activities reduce the Group companies' need to seek bank lines and enable those companies to obtain better conditions from the banking system by constantly monitoring cash flows and ensuring a more efficient use of liquidity in excess of requirements.

Furthermore, the Telecom Italia Group has a centralized financial risk management policy for market, credit and liquidity risks. For additional details on funding and treasury policies and risk policies reference should be made to the Note Financial Activities and Note Financial risk management of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

The Telecom Italia Group's goal is to achieve an adequate level of financial flexibility which is expressed by maintaining a treasury margin (composed by cash and cash equivalents, marketable securities and undrawn committed credit lines) to cover refinancing requirements at least for the next 12 months.

**5.3.1 LIQUIDITY**

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Telecom Italia Group's primary source of liquidity is cash generated from operations and its principal use of funds are the payment of operating expenses, capital expenditures and investments, the servicing of debt, the payment of dividends to shareholders and strategic investments, such as international acquisitions.

For additional details, reference should be made to the Note Financial Activities of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

The table below summarizes, for the periods indicated, the Telecom Italia Group's cash flows.

|  | Year ended December 31, |              |              |
|--|-------------------------|--------------|--------------|
|  | 2013                    | 2012         | 2011         |
|  | (millions of euros)     |              |              |
| Cash flows from (used in) operating activities   | 6,741                   | 7,701        | 7,581        |
| Cash flows from (used in) investing activities   | (3,811)                 | (3,982)      | (5,778)      |
| Cash flows from (used in) financing activities   | (3,632)                 | (2,716)      | (522)        |
| Cash flows from (used in) discontinued operations/non-current assets held for sale (*) | 127                     | (29)         | 217          |
| <b>Aggregate cash flows (A)</b>  | <b>(575)</b>            | <b>974</b>   | <b>1,498</b> |
| <b>Net cash and cash equivalents at beginning of the year (**) (B)</b>                 | <b>7,397</b>            | <b>6,670</b> | <b>5,282</b> |
| <b>Net foreign exchange differences on net cash and cash equivalents (C)</b>           | <b>(526)</b>            | <b>(247)</b> | <b>(110)</b> |
| <b>Net cash and cash equivalents at end of the year (**) (D=A+B+C)</b>                 | <b>6,296</b>            | <b>7,397</b> | <b>6,670</b> |

(\*) For further details please see the Note Discontinued operations/non-current assets held for sale of the Consolidated Financial Statements included elsewhere in this Annual Report.

(\*\*) For further details please see the Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011 of the Consolidated Financial Statements included elsewhere in this Annual Report.

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*Cash flows from operating activities.* Cash flows from operating activities were 6,741 million euros in 2013, 7,701 million euros in 2012 and 7,581 million euros in 2011.

**2013 compared to 2012**

The decrease of 960 million euros in 2013 compared to 2012 was attributable to:

- a negative effect of impairment losses (reversals) on non-current assets (including investments) of 1,984 million euros (a net source of 2,197 million euros in 2013 compared to a net source of 4,181 million euros in 2012), due to the results of the impairment test for goodwill principally relating to the Domestic Business Unit;
- a negative effect of change in trade payables of 406 million euros (a net use of 489 million euros in 2013 compared to a net use of 83 million euros in 2012);
- a negative effect of net change in miscellaneous receivables/payables and other assets/liabilities of 155 million euros (a net use of 268 million euros in 2013 compared to a net use of 113 million euros in 2012);
- a decrease in depreciation and amortization of 136 million euros (4,553 million euros in 2013 compared to 4,689 million euros in 2012);
- a negative effect of change in inventories of 35 million euros (a net use of 23 million euros in 2013 compared to a net source of 12 million euros in 2012); and
- a negative effect of share of losses (profits) of associates and joint ventures accounted for using the equity method of 6 million euros (no effect in 2013 compared to a net source of 6 million euros in 2012).

Such decreases in cash flows were offset by:

- an improvement in profit (loss) from continuing operations of 800 million euros (a loss of 579 million euros in 2013 compared to a loss of 1,379 million euros in 2012);
- a positive effect of net change in current income tax receivables/payables equal to 330 million euros (a net use of 104 million euros in 2013 compared to a net use of 434 million euros in 2012);
- a positive effect of change in trade receivable and net amounts due from customers on construction contracts equal to 249 million euros (a net source of 1,074 million euros in 2013 compared to a net source of 825 million euros in 2012);

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- a positive effect of change in provisions for employee benefits of 180 million euros (a net use of 49 million euros in 2013 compared to a net use of 229 million euros in 2012);
- an increase in losses (gains) realized on disposals of non-current assets (including investments) of 135 million euros (a net source of 82 million euros in 2013 compared to a net use of 53 million euros in 2012); and
- a positive effect of net change in deferred tax assets and liabilities equal to 68 million euros (a net source of 347 million euros in 2013 compared to a net source of 279 million euros in 2012).

### **2012 compared to 2011**

The increase of 120 million euros in 2012 compared to 2011 was attributable to:

- an improvement in profit (loss) from continuing operations of 3,297 million euros (a loss of 1,379 million euros in 2012 compared to a loss of 4,676 million euros in 2011);
- a positive effect of change in trade receivable and net amounts due from customers on construction contracts equal to 892 million euros (a net source of 825 million euros in 2012 compared to a net use of 67 million euros in 2011);
- a positive effect of change in trade payables of 29 million euros (a net use of 83 million euros in 2012 compared to a net use of 112 million euros in 2011);

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- a positive effect of change in inventories of 42 million euros (a net source of 12 million euros in 2012 compared to a net use of 30 million euros in 2011); and
- a positive effect of net change in deferred tax assets and liabilities equal to 23 million euros (a net source of 279 million euros in 2012 compared to a net source of 256 million euros in 2011).

Such increases in cash flows were offset by:

- a negative effect of impairment losses (reversals) on non-current assets (including investments) of 3,184 million euros (a net source of 4,181 million euros in 2012 compared to a net source of 7,365 million euros in 2011), due to the results of the impairment test for goodwill principally relating to the Domestic Business Unit;
- a negative effect of net change in current income tax receivables/payables of 504 million euros (a net use of 434 million euros in 2012 compared to a net source of 70 million euros in 2011);
- a decrease in depreciation and amortization of 285 million euros (4,689 million euros in 2012 compared to 4,974 million euros in 2011);
- a negative effect of net change in miscellaneous receivables/payables and other assets/liabilities of 66 million euros (a net use of 113 million euros in 2012 compared to a net use of 47 million euros in 2011);
- a negative effect of change in provisions for employee benefits of 57 million euros (a net use of 229 million euros in 2012 compared to a net use of 172 million euros in 2011);
- an increase in losses (gains) realized on disposals of non-current assets (including investments) of 34 million euros (a net use of 53 million euros in 2012 compared to a net use of 19 million euros in 2011); and
- a negative effect of share of losses (profits) of associates and joint ventures accounted for using the equity method of 33 million euros (a net source of 6 million euros in 2012 compared to a net source of 39 million euros in 2011).

**Cash flows used in investing activities.** Cash flows used in investing activities were 3,811 million euros in 2013, 3,982 million euros in 2012 and 5,778 million euros in 2011.

**2013 compared to 2012**

The decrease in cash used in investing activities in 2013 compared to 2012 of 171 million euros was due to:



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- a decrease in capital expenditures (intangible and tangible assets on a cash basis) of 311 million euros (4,391 million euros in 2013 compared to 4,702 million euros in 2012);
- an increase of 14 million euros in proceeds from sale/repayments of intangible, tangible and other non-current assets (a net source of 88 million euros in 2013 compared to a net source of 74 million euros in 2012); and
- a positive effect of acquisitions/disposals of other investments of 3 million euros (nil in 2013 compared to a net use of 3 million euros in 2012).

Such effects were offset by:

- a decrease of 144 million euros in proceeds from sale that resulted in a loss of control of subsidiaries or other businesses, net of cash disposed of (a net use of 104 million euros in 2013 compared to a net source of 40 million euros in 2012);
- a negative effect of change in financial receivables and other financial assets of 12 million euros (a net source of 604 million euros in 2013 compared to a net source of 616 million euros in 2012); and
- a decrease in acquisition of control of subsidiaries or other businesses, net of cash acquired of 1 million euros (a net use of 8 million euros in 2013 compared to a net use of 7 million euros in 2012).

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**2012 compared to 2011**

The decrease in cash used in investing activities in 2012 compared to 2011 of 1,796 million euros was due to:

- the effect of change in financial receivables and other financial assets of 1,199 million euros (a net source of 616 million euros in 2012 compared to net use of 583 million euros in 2011);
- a decrease in capital expenditures (intangible and tangible assets on a cash basis) of 302 million euros (4,702 million euros in 2012 compared to 5,004 million euros in 2011); and
- a decrease in acquisition of control of subsidiaries or other businesses, net of cash acquired of 661 million euros (a net use of 7 million euros in 2012 compared to a net use of 668 million euros in 2011).

Such effects were offset by:

- a decrease of 353 million euros in proceeds from sale/repayments of intangible, tangible and other non-current assets (a net source of 74 million euros in 2012 compared to a net source of 427 million euros in 2011);
- a decrease of 11 million euros in proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of (a net source of 40 million euros in 2012 compared to a net source of 51 million euros in 2011); and
- a negative effect of acquisitions/disposals of other investments of 2 million euros (a net use of 3 million euros in 2012 compared to a net use of 1 million euros in 2011).

***Cash flows used in financing activities.*** Cash flows used in financing activities were 3,632 million euros in 2013, 2,716 million euros in 2012 and 522 million euros in 2011.

*Cash flows used in financing activities* in 2013 of 3,632 million euros reflected mainly the following:

- a decrease in financial liabilities and other of 3,183 million euros, as a result of the issuance of new debt (4,153 million euros), the change in current financial liabilities and other (a decrease of 1,785 million euros) and the repayments of non-current financial liabilities (5,551 million euros); and
- the payment of dividends of 537 million euros.

*Cash flows used in financing activities* in 2012 of 2,716 million euros reflected mainly the following:

- a decrease in financial liabilities and other of 1,750 million euros, as a result of the issuance of new debt (4,616 million euros), the change in current financial liabilities and other (a decrease of 787 million euros) and the repayments of non-current financial liabilities (5,579 million euros); and
- the payment of dividends of 964 million euros.

### **5.3.2 CAPITAL RESOURCES**

#### ***Net Financial Debt***

Net Financial Debt is a non-GAAP financial measure as defined in Item 10(e) of Regulation S-K under the 1934 Act. For further details please see 5.2.3 Non-GAAP Financial Measures .

On a consolidated basis, at December 31, 2013 Net Financial Debt was 27,942 million euros compared to 29,053 million euros at December 31, 2012 (a decrease of 1,111 million euros).

The net financial position of Telecom Italia is independent of that of Telco and Telecom Italia has no obligation to repay the debt held by Telco since they are two distinct legal entities.

In our updated 2014-2016 Plan we confirmed as one of our strategic priorities the continuing deleveraging to reduce the Group's Net Financial Debt.

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Please see Introduction Cautionary Statement for Purposes of the Safe Harbor Provisions of the United States Private Securities Litigation Reform Act of 1995, included elsewhere in this Annual Report, for a discussion of factors which could cause our actual results to differ materially from the target discussed above. See, also, Item 3. Key Information 3.1 Risk Factors.

*There can be no assurance that we will be able to achieve the financial targets we have established.*

Net Financial Debt as of December 31, 2013, 2012 and 2011 is set forth in the following table.

|   | 2013                | As of December 31,<br>2012 | 2011            |
|---|---------------------|----------------------------|-----------------|
|   | (millions of euros) |                            |                 |
| Non-current financial liabilities   | 31,084              | 34,091                     | 35,860          |
| Current financial liabilities   | 6,119               | 6,150                      | 6,091           |
| Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale | 27                  |                            |                 |
| <b>GROSS FINANCIAL DEBT (A)</b>   | <b>37,230</b>       | <b>40,241</b>              | <b>41,951</b>   |
| <b>NON-CURRENT FINANCIAL ASSETS (B)</b>   | <b>(1,256)</b>      | <b>(2,496)</b>             | <b>(2,949)</b>  |
| Current financial asset:  |                     |                            |                 |
| Securities other than investments (current assets)  | (1,348)             | (754)                      | (1,007)         |
| Financial receivables and other current financial assets  | (283)               | (502)                      | (462)           |
| Cash and cash equivalents   | (5,744)             | (7,436)                    | (6,714)         |
| Financial assets relating to Discontinued operations/Non-current assets held for sale                   | (657)               |                            |                 |
| <b>TOTAL CURRENT FINANCIAL ASSETS (C)</b>   | <b>(8,032)</b>      | <b>(8,692)</b>             | <b>(8,183)</b>  |
| <b>FINANCIAL ASSETS (D=B+C)</b>   | <b>(9,288)</b>      | <b>(11,188)</b>            | <b>(11,132)</b> |
| <b>NET FINANCIAL DEBT (A+D)</b>   | <b>27,942</b>       | <b>29,053</b>              | <b>30,819</b>   |

The non-current portion of gross financial debt was 31,084 million euros at December 31, 2013 (34,091 million euros at December 31, 2012 and 35,860 million euros at December 31, 2011) and corresponds to 83,5% of total gross financial debt.

The financial risk management policies of the Telecom Italia Group are directed towards diversifying market risks, hedging the entire exchange rate risk and optimizing interest rate exposure by an appropriate diversification of the portfolio, which is also achieved by using carefully selected derivative financial instruments. It should be stressed that such instruments are not used for speculative purposes.

Furthermore, in order to determine its exposure to interest rates, the Group defines an optimum composition for the fixed-rate and variable-rate debt structure and uses derivative financial instruments to achieve that prefixed composition. Taking into account the Group's operating

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activities, the optimum mix of medium/long-term non-current financial liabilities has been established, on the basis of the nominal amount, in a range of 65%-75% for the fixed-rate component and 25%-35% for the floating-rate component.

In managing market risks, the Group has adopted the Guidelines for the Management and control of financial risk and mainly uses Interest Rate Swaps (IRS) and Cross Currency Interest Rate Swaps (CCIRS) derivative financial instruments.

Volatility in the levels of interest rates and exchange rates since the fourth quarter of 2008 due to the financial crisis significantly impacted the fair value measurement of derivative positions and the related financial assets and liabilities.

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**CHANGE IN NET FINANCIAL DEBT DURING 2013**

The following table summarizes the main transactions which had an impact on the change in net financial debt during 2013:

|   | (millions of euros) |
|---|---------------------|
| <b>Net financial debt as of December 31, 2012</b>                 | <b>29,053</b>       |
| Capital expenditures  | 4,400               |
| Dividends paid  | 537                 |
| Financial investments   | 9                   |
| Share capital increases/decreases                                 | (9)                 |
| Disposal of investments and other divestitures                    | 62                  |
| Cash flows from operating activities, net of other uses (sources) | (6,110)             |
| <b>Net change in 2013</b>   | <b>(1,111)</b>      |
| <b>Net financial debt as of December 31, 2013</b>                 | <b>27,942</b>       |

In particular:

**Capital expenditures on an accrual basis** were 4,400 million euros in 2013, a decrease of 239 million euros compared to 2012. The breakdown is as follows:

|  | 2013                                    |       | Year ended December 31, 2012 |       | Changes<br>(a-b) |
|--|---|-------|------------------------------|-------|------------------|
|  | (a)                                     | %     | (b)                          | %     |                  |
|  | (millions of euros, except percentages) |       |                              |       |                  |
| Domestic                                       | 3,027                                   | 68.8  | 3,072                        | 66.2  | (45)             |
| Brazil   | 1,349                                   | 30.7  | 1,500                        | 32.3  | (151)            |
| Media, Olivetti and other activities           | 24                                      | 0.5   | 67                           | 1.5   | (43)             |
| <i>Adjustments</i>                             |   |       |                              |       |                  |
| <b>Total consolidated capital expenditures</b> | <b>4,400</b>                            | 100.0 | <b>4,639</b>                 | 100.0 | <b>(239)</b>     |
| <i>% on revenues</i>                           | <i>18.8</i>                             |       | <i>18.0</i>                  |       |                  |

In particular:

the **Domestic Business Unit** reported a decline of 45 million euros in capital expenditures in 2013 substantially in line with the previous year; the increase in capital expenditures related to the progress of the plans for the creation of next generation networks (LTE and fiber) was more than offset by less demand for deliveries of new installations due to a slowdown in Fixed-line access sales;

- the **Brazil Business Unit** reported a decrease of 151 million euros in capital expenditures in 2013 (including a negative exchange rate effect of 188 million euros); net of the above exchange rate effect, capital expenditures increased mainly due to infrastructure development, in line with the objective of improving service quality.
  
- **Financial investments** were 9 million euros in 2013 and mainly relate to the payment of the deferred installment on the investment made in 2011 for the acquisition of the 4G group.
  
- **Disposal of investments and other divestitures** amounted to 62 million euros in 2013 and principally relates to:
  - the proceeds from the sale by Tierra Argentea (a company wholly owned by the Telecom Italia Group) of Class B ordinary shares of Telecom Argentina S.A. and Class B preferred shares of Nortel Inversora S.A., for a total of 79 million euros;
  
  - the proceeds from the sale of the MTV group to Viacom International Media Networks ( **VIMN** ) which took place on September 12, 2013, for 11 million euros;

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- the installment proceeds from the sale of the investment in EtecSA Cuba, which took place at the end of January 2011, for approximately 48 million euros;
- the net use of approximately 110 million euros generated by the sale of La7 S.r.l. to Cairo Communication;
- the proceeds from the sale of other tangible and intangible non-current assets of approximately 40 million euros.

\*\*\*

The following should also be taken into account with respect to net financial debt:

- **Sales of receivables to factoring companies**

The sales of receivables to factoring companies during 2013 had a positive effect on net financial debt at December 31, 2013 of 1,434 million euros (1,233 million euros at December 31, 2012).

**CHANGE IN NET FINANCIAL DEBT DURING 2012**

The following chart summarizes the main transactions which had an impact on the change in net financial debt during 2012:

|   | (millions of euros) |
|---|---------------------|
| <b>Net financial debt as of December 31, 2011</b>                 | <b>30,819</b>       |
| Capital expenditures  | 4,639               |
| Dividends paid  | 964                 |
| Financial investments   | 10                  |
| Share capital increases/decreases                                 | 2                   |
| Disposal of investments and other divestitures                    | 148                 |
| Cash flows from operating activities, net of other uses (sources) | (7,529)             |
| <b>Net change in 2012</b>   | <b>(1,766)</b>      |
| <b>Net financial debt as of December 31, 2012</b>                 | <b>29,053</b>       |

In particular:



Capital expenditures on an accrual basis were 4,639 million euros in 2012, a decrease of 917 million euros compared to 2011. The breakdown is as follows:

|  | 2012                                    |       | Year ended December 31,<br>2011 |       | Changes<br>(a-b) |
|--|---|-------|---------------------------------|-------|------------------|
|  | (a)                                     | %     | (b)                             | %     |                  |
|  | (millions of euros, except percentages) |       |                                 |       |                  |
| Domestic   | 3,072                                   | 66.2  | 4,184                           | 75.3  | (1,112)          |
| Brazil   | 1,500                                   | 32.3  | 1,290                           | 23.2  | 210              |
| Media, Olivetti and other activities<br><i>Adjustments</i> | 67                                      | 1.5   | 82                              | 1.5   | (15)             |
| <b>Total consolidated capital expenditures</b>             | <b>4,639</b>                            | 100.0 | <b>5,556</b>                    | 100.0 | <b>(917)</b>     |
| <i>% on revenues</i>                                       |   | 18.0  |                                 | 20.8  |                  |

In particular:

the **Domestic Business Unit** reported a decline of 1,112 million euros in capital expenditures in 2012. Excluding capital expenditures for 2011 relating to the purchase of user rights for LTE mobile telephony frequency bands (1,223 million euros) there was a 111 million euro increase in 2012 compared to 2011,

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attributable in particular to the development of next generation networks (LTE and fiber) in part offset by the lower requirement in relation to delivery of new systems owing to the slowdown and contraction of the fixed-line business;

- the **Brazil Business Unit** reported an increase of 210 million euros in capital expenditures in 2012 (including a negative exchange rate effect of 94 million euros), for the purchase of user rights for fourth generation (4G) mobile telephony frequency bands (145 million euros) as well as investments to improve the quality of the network infrastructure.
- **Financial investments** were 10 million euros in 2012 and mainly relate to the payment of incidental expenses and other payables in connection with the acquisition of investments during the last part of the year.
- **Share capital increase/decrease.** In 2012 these amount to a negative 2 million euros and relate to incidental expenses connected to the capital increase in Tim Participações S.A that took place in 2011: on October 31, 2011, the capital increase of Tim Participações S.A. was completed with a cash in for the Telecom Italia Group of 240 million euros, net of the related incidental expenses.
- **Disposal of investments and other divestitures** amounted to 148 million euros in 2012 and principally relates to:
  - 85 million euros received, net of related incidental expenses and net financial debt of the investee, from the sale on October 31, 2012 of the entire stake held in Matrix;
  - 59 million euros from the collection of the installments on the sale of the investment in EtecSA Cuba, which took place at the end of January 2011.

\*\*\*

The following should also be taken into account with respect to net financial debt:

- **Sales of receivables to factoring companies**

The sales of receivables to factoring companies during 2012 had a positive effect on net financial debt at December 31, 2012 of 1,233 million euros (1,334 million euros at December 31, 2011).

***Gross Financial Debt***

On a consolidated basis, at December 31, 2013, our gross financial debt amounted to 37,230 million euros (40,241 million euros at December 31, 2012) and included non-current financial liabilities (long-term debt) of 31,084 million euros (34,091 million euros at December 31, 2012), current financial liabilities (short-term debt) of 6,119 million euros (6,150 million euros at December 31, 2012) and financial liabilities directly associated with Discontinued operations/Non-current assets held for sale of 27 million euros (nil at December 31,

2012).

As of December 31, 2013, approximately 71.3% of our gross financial debt was denominated in Euro, while the remainder was primarily denominated in U.S. Dollars, Pound Sterling, Brazilian Reais and Japanese Yen.

The following table sets out the currency composition of our gross financial debt:

|  | As of December 31, 2013           |                        | As of December 31, 2012           |                        |
|--|-----------------------------------|------------------------|-----------------------------------|------------------------|
|  | (millions of<br>foreign currency) | (millions of<br>euros) | (millions of<br>foreign currency) | (millions of<br>euros) |
| USD  | 8,925                             | 6,472                  | 12,499                            | 9,474                  |
| GBP  | 2,536                             | 3,043                  | 2,535                             | 3,106                  |
| BRL  | 3,258                             | 1,008                  | 2,945                             | 1,092                  |
| JPY  | 19,873                            | 137                    | 19,865                            | 175                    |
| ARS  | 64                                | 7                      | 331                               | 51                     |
| PYG  |                                   |                        | 123,347                           | 22                     |
| EURO   |                                   | 26,536                 |                                   | 26,321                 |
|  |                                   | <b>37,203</b>          |                                   | <b>40,241</b>          |
| Discontinued operations/Non-current assets held for sale |                                   | 27                     |                                   |                        |
| <b>Total gross financial debt</b>                        |                                   | <b>37,230</b>          |                                   | <b>40,241</b>          |

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For information regarding the split of our debt between fixed rate and floating rate please see Note Financial risk management of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Long-term debt includes notes we have issued in order to reduce our dependence on short-term debt, extend the average life of our financial debt and expand our investor base. For this purpose, we have issued long-term debt in the capital markets under, among others:

**Active programs:**

- the Telecom Italia Euro Medium Term Note ( **EMTN** ) Programme. The maximum amount permitted to be issued under the Programme, including multiple tranches and multiple currencies, is 20 billion euros. This is the Group's only active debt program although it can issue debt instruments on an ad hoc basis if needed.

**Inactive programs:**

- the **Shelf Registration Statement**, expired on December 29, 2011, which allowed for the issuance by Telecom Italia S.p.A.'s wholly-owned subsidiary Telecom Italia Capital S.A. and under a guarantee by Telecom Italia S.p.A., of an indeterminate amount of debt securities at various terms, rates and maturities;
- the **Olivetti Euro Medium Term Note Programme**, which allowed for the issuance of a total amount of 15 billion euros in debt (or the equivalent in other currencies), at various terms, rates and maturities; and
- the Old Telecom Italia Global Medium Term Note Program ( **Global Note Program** ), which allowed for the issuance of a total amount of U.S.\$12 billion in debt (or the equivalent in other currencies), at various terms, rates and maturities.

The following table highlights the utilization of the above mentioned EMTN Programme at the end of 2013.

|  |       | As of December 31, 2013<br>EMTN Programme<br>(millions of euros) |
|--|-------|--|
| <b>Total amount of the program (max outstanding notes)</b> | (A)   | <b>20,000.00</b>   |
| Notes and bonds issued                                     |       | 23,802.79  |
| Notes and bonds repaid                                     |       | 7,445.02   |
| <b>Net utilization of the program</b>                      | (B)   | <b>16,357.77</b>   |
| <b>Remaining available amount of the program</b>           | (A-B) | <b>3,642.23</b>  |

*Notes and bonds*

At December 31, 2013 we had notes and bonds outstanding of 26,027 million euros (27,549 million euros at December 31, 2012). Their nominal repayment amount was 24,885 million euros, a decrease of 1,438 million euros compared to December 31, 2012 (26,323 million euros).

Changes in bonds during 2013 were as follows:

|   | Currency | Amount<br>(millions) | Issue date |
|---|----------|----------------------|------------|
| <b>NEW ISSUES</b>   |          |                      |            |
| Telecom Italia S.p.A. subordinated bond issue 750 million euros 7.750% maturing 03/20/2073<br>(1) | Euro     | 750                  | 03/20/2013 |
| Telecom Italia S.p.A. 1,000 million euros 4.875% maturing 09/25/2020                              | Euro     | 1,000                | 09/25/2013 |
| Telecom Italia Finance S.A. 1,300 million euros 6.125% maturing 11/15/2016 (2)                    | Euro     | 1,300                | 11/15/2013 |

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|   | Currency | Amount<br>(millions) | Repayment date |
|---|----------|----------------------|----------------|
| <b>REPAYMENTS</b>   |          |                      |                |
| Telecom Italia Finance S.A. 6.875% 678 million euros (3)        | Euro     | 678                  | 01/24/2013     |
| Telecom Italia S.p.A. 6.750% 432 million euros (4)              | Euro     | 432                  | 03/21/2013     |
| Telecom Italia S.p.A. Floating Rate Notes 268 million euros (5) | Euro     | 268                  | 07/19/2013     |
| Telecom Italia Capital S.A. 5.250% 2,000 million USD            | USD      | 2,000                | 11/15/2013     |

- (1) The hybrid debt securities are Telecom Italia's first subordinated issue on the euro market. The bond has a life of 60 years, with final maturity in 2073 and a first call date for the issuer in 2018. The call schedule begins on March 20, 2018 at par, and then continues every five years thereafter. The coupon will step up by 25 bps in 2023, and by a further 75 bps in 2038. The effective yield at the first call date will be 7.875%. The notes were listed on the Luxembourg Stock Exchange. The notes were repaid in advance on March 3, 2014.
- (2) Refers to the 1,300 million euros Fixed Rate Guaranteed Subordinated Mandatory Convertible Bonds into Telecom Italia S.p.A. ordinary shares (the Mandatory Convertible Bonds) at maturity, issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A. The minimum conversion price of the Mandatory Convertible Bonds has been set at 0.6801 euros and the maximum conversion price has been set at 0.8331 euros (equal to 122.5% of the minimum conversion price). From an accounting standpoint, the financial instrument represents a liability to pay annual coupons and an embedded component for the conversion into Telecom Italia ordinary shares; such component is treated as an embedded derivative and therefore accounted for at fair value through profit and loss along the life of such bonds.
- (3) Net of buybacks by the Company of 172 million euros during 2011 and 2012.
- (4) Net of buybacks by the Company of 218 million euros during 2011 and 2012.
- (5) Net of buybacks by the Company of 232 million euros during 2012.

On June 3, 2013, Telecom Italia S.p.A. successfully concluded the buyback offer on three bond issues of Telecom Italia Capital S.A. in USD, maturing from June 2014 to October 2015, buying back a total nominal amount of 1,577 million US\$ (equal to approximately 1.2 billion euros). The repurchased bonds are recognized in the financial statements in the portfolio of the buyer Telecom Italia S.p.A., while in the consolidated financial statements those bonds have been eliminated from the financial liabilities.

Details of the bond issues of Telecom Italia Capital S.A. bought back by Telecom Italia S.p.A. are provided below:

| Bond Title  | Principal amount<br>outstanding prior to<br>the Tender Offer | Principal amount<br>repurchased | Buyback price |
|---|--|---------------------------------|---------------|
| Telecom Italia Capital S.A. 6.175% 1,000 million US\$ | US\$ 1,000,000,000   | US\$ 220,528,000                | 105.382%      |
| Telecom Italia Capital S.A. 4.950% 1,250 million US\$ | US\$ 1,250,000,000   | US\$ 721,695,000                | 105.462%      |
| Telecom Italia Capital S.A. 5.250% 1,400 million US\$ | US\$ 1,400,000,000   | US\$ 634,797,000                | 108.523%      |

The Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group, amounted to 198 million euros (nominal amount) as of December 31, 2013 and decreased by 32 million euros in comparison with December 31, 2012 (230 million euros).

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For further details about the outstanding notes and bonds as of December 31, 2013 please see also Note Financial liabilities (non-current and current) of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

### *Revolving Credit Facility*

The following table shows the composition and the drawdown of the committed credit lines available at December 31, 2013.

|  | As of December 31,<br>2013 |             | As of December 31,<br>2012 |             |
|--|----------------------------|-------------|----------------------------|-------------|
|  | Committed                  | Drawdown    | Committed                  | Drawdown    |
| (billions of euros)                              |                            |             |                            |             |
| Revolving Credit Facility expiring February 2013 |                            |             | 1.25                       |             |
| Revolving Credit Facility expiring August 2014   | 8.00                       | 1.50        | 8.00                       | 1.50        |
| Revolving Credit Facility expiring December 2013 |                            |             | 0.20                       |             |
| <b>Total</b>                                     | <b>8.00</b>                | <b>1.50</b> | <b>9.45</b>                | <b>1.50</b> |

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### **Liquidity And Capital Resources**

On May 24, 2012, Telecom Italia entered into a Forward Start Facility which extended the Revolving Credit Facility of 8 billion euros expiring August 2014 ( **RCF 2014** ) by 4 billion euros. The new facility will come into effect as of August 2014 (or at an earlier date should Telecom Italia extinguish its commitments under the current RCF 2014 in advance) and expire in May 2017.

Furthermore on March 25, 2013, Telecom Italia extended the RCF 2014 by an additional 3 billion euros, by means of another Forward Start Facility which will come into effect as of August 2014 (or at an earlier date should Telecom Italia extinguish its commitments under the current RCF 2014 in advance) and expire in March 2018.

Telecom Italia also has a bilateral stand-by credit line expiring August 3, 2016 for 100 million euros from Banca Regionale Europea, drawn down for the full amount.

#### ***Maturities of financial liabilities and average cost of debt***

The average maturity of non-current financial liabilities (including the current portion of medium/long-term financial liabilities due within 12 months) is 7 years.

The average cost of the Group's debt, considered as the cost for the year calculated on an annual basis and resulting from the ratio of debt-related expenses to average exposure, is about 5.5%.

For further details about the maturities of financial liabilities in terms of the expected nominal repayment amount, as contractually agreed, please see below **Contractual Obligations and Commitments** .

#### ***Current financial assets and liquidity margin***

The Telecom Italia Group's available liquidity margin amounted to 13,592 million euros at December 31, 2013 (net of 630 million euros related to Discontinued Operations/Non-current assets held for sale), corresponding to the sum of Cash and cash equivalents and securities other than investments (included under current assets), totaling 7,092 million euros (8,190 million euros at December 31, 2012), and the committed credit lines, mentioned above, of which a total of 6,500 million euros has not been drawn down. This margin will cover Group Financial Liabilities due beyond the next 24 months. As already noted, the reduction in Cash and cash equivalents compared to December 31, 2012 reflected the use of liquidity to repurchase Group bonds.

In particular:



· **Cash and cash equivalents** amounted to 5,744 million euros (7,436 million euros at December 31, 2012). The different technical forms of investing available cash at December 31, 2013 can be analyzed as follows:

- **Maturities:** all deposits have a maximum maturity of three months;
- **Counterpart risk:** deposits are made with leading banking, financial and industrial institutions with high-credit-quality equal at least to BBB- for the Rating Agency Standard & Poor's as regards Europe. Investments by the companies in South America are made with leading local counterparts;
- **Country risk:** deposits have been made mainly in major European financial markets.

· **Securities other than investments** amounted to 1,348 million euros (754 million euros at December 31, 2012). Such forms of investment represent alternatives to the investment of liquidity with the aim of raising the return. They consist of 258 million euros of Italian treasury bonds purchased by Telecom Italia S.p.A., 866 million euros of Italian treasury bonds purchased by Telecom Italia Finance S.A., 5 million euros of Italian Treasury Certificates (CCTs) (assigned to Telecom Italia S.p.A. as the holder of trade receivables, as per Italian Ministry of the Economy and Finance Decree of December 3, 2012), and 219 million euros of bonds purchased by Telecom Italia Finance S.A. with different maturities, all with an active market and consequently readily convertible into cash. The purchases of said treasury bonds and CCTs, which, pursuant to Consob Communication DEM/11070007 of August 5, 2011, represent investments in Sovereign debt securities, have been made in accordance with the Guidelines for the Management and control of financial risk adopted by the Telecom Italia Group in August 2012, in replacement of the previous policy in force since July 2009.

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### **Liquidity And Capital Resources**

For further details please see Note Financial Risk Management of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

#### ***Treasury policies***

The Group uses a variety of instruments to finance its operations and raise liquidity, in particular bond issues, alongside committed and uncommitted bank lines.

#### ***Off-Balance Sheet Arrangements***

As of December 31, 2013, the Telecom Italia Group had the following items that are considered to be off-balance sheet arrangements.

Guarantees for 15 million euros, net of back-to-back guarantees received, by Telecom Italia on behalf of associates (5 million euros) and other third parties for medium/long-term financial transactions.

Guarantees were provided by banks and other financial institutions on behalf of Telecom Italia to Group companies, amounting to 5,057 million euros, to guarantee financing received (2,076 million euros) and performance under outstanding contracts (2,981 million euros).

Among the guarantees provided by banks and other financial institutions on behalf of Telecom Italia are two guarantees in favor of the Ministry of Economic Development for the auction to assign the user rights for the 800, 1800 and 2600MHz frequencies. The guarantees amount, respectively, to 38 million euros (for the commitment undertaken by the Company to build equipment networks according to eco-sustainability characteristics) and 456 million euros (for the request to pay back the total amount owed over a period of 5 years). In particular, the Company has made a commitment to achieve energy savings in the new LTE technologies of approximately 10% on infrastructure and 20% on transmission devices over a period of 5 years (compared to energy consumed by current technology).

For further details please see Note Contingent liabilities, other information, commitments and guarantees of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

#### ***Contractual Obligations and Commitments***

The following table aggregates our contractual obligations and commitments with definitive payment terms which will require significant cash outlays in the future based on nominal amounts.

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As of December 31, 2013, the **nominal repayment amounts of payables** and the relating expiration dates were as follows:

|  | 2014         | 2015         | Amounts due as of December 31, |              |              |                     | After 2018    | Total |
|--|--------------|--------------|--------------------------------|--------------|--------------|---------------------|---------------|-------|
|  |              |              | 2016                           | 2017         | 2018         | (millions of euros) |               |       |
| Bonds(*)   | 1,789        | 2,025        | 2,250                          | 2,900        | 2,975        | 11,646              | 23,585        |       |
| Amounts due to banks, other financial payables and liabilities | 2,731        | 1,195        | 725                            | 828          | 748          | 1,649               | 7,876         |       |
| Finance lease liabilities                                      | 177          | 127          | 129                            | 140          | 149          | 554                 | 1,276         |       |
| <b>Total</b>   | <b>4,697</b> | <b>3,347</b> | <b>3,104</b>                   | <b>3,868</b> | <b>3,872</b> | <b>13,849</b>       | <b>32,737</b> |       |
| Current financial liabilities                                  | 466          |              |                                |              |              |                     | 466           |       |
| <b>Total (Discontinued Operations excluded)</b>                | <b>5,163</b> | <b>3,347</b> | <b>3,104</b>                   | <b>3,868</b> | <b>3,872</b> | <b>13,849</b>       | <b>33,203</b> |       |
| Discontinued Operations  | 26           |              |                                |              |              |                     | 26            |       |
| <b>Total</b>   | <b>5,189</b> | <b>3,347</b> | <b>3,104</b>                   | <b>3,868</b> | <b>3,872</b> | <b>13,849</b>       | <b>33,229</b> |       |

(\*) The nominal repayment amounts exclude the cash settlement for the Mandatory Convertible Bonds because, at maturity in 2016, they will be mandatory convertible into Telecom Italia ordinary shares.

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For further details please see also Note Derivatives and Note Other information, Operating leases of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

**5.3.3 CAPITAL EXPENDITURES**

The table below sets forth, for the periods indicated, our total capital expenditures (on an accrual basis) allocated to the Business Units at December 31, 2013.

|   | Year ended December 31, |              |              |
|---|-------------------------|--------------|--------------|
|   | 2013                    | 2012         | 2011         |
|   | (millions of euros)     |              |              |
| <b>Purchase of tangible assets:</b>         |                         |              |              |
| Domestic                                    | 1,731                   | 1,856        | 1,820        |
| Brazil                                      | 766                     | 908          | 769          |
| Media, Olivetti and Other Operations        | 8                       | 24           | 36           |
| Adjustments and eliminations                |                         |              |              |
| <b>Total purchase of tangible assets(1)</b> | <b>2,505</b>            | <b>2,788</b> | <b>2,625</b> |
| <b>Purchase of intangible assets(2)</b>     | <b>1,895</b>            | <b>1,851</b> | <b>2,931</b> |
| <b>Total capital expenditures(3)</b>        | <b>4,400</b>            | <b>4,639</b> | <b>5,556</b> |

(1) Purchase of tangible assets is mainly related to local and long distance networks, exchange equipment, investments in subscribers equipment, radio and transmission equipment.

(2) Purchase of intangible assets includes expenditures for software for telecommunications systems and licenses.

(3) Intercompany capital expenditures are adjusted to eliminate intercompany profit.

In the three years ended December 31, 2013, 2012 and 2011, cash flows from operating activities exceeded capital expenditures on an accrual basis. For further details please see 5.3.2 Capital Resources .

The capital expenditures planned for the 2014-2016 period at Telecom Italia Group level, will be close to 14 billion euro, combining Italy and Brazil and excluding Spectrum.

In particular:

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- **Domestic Business Unit:** cumulative capital expenditures for the 2014-2016 period will be kept at approximately 9 billion euros, with a strong increase in the innovative portion (from the old plan's 1.3 billion euros to 3.4 billion euros), balanced by efficiencies and right spending in traditional areas. The capital expenditures on revenues cumulated over the 2014-2016 period will be approximately 18% and in the 3-year Capex Plan Telecom Italia will continue to strengthen the Network infrastructure to move into a structurally superior service quality on both fixed and mobile Ultra BroadBand, which will play an anchor role to stabilize Domestic results, allowing Telecom Italia to expand into adjacent markets and new revenues;
- **Brazil Business Unit (Tim Brasil):** capital expenditures on revenues cumulated over the 2014-2016 period will be kept at approximately 17%, with a focus on quality improvement and on innovative components to capture the full potential of data.

The Telecom Italia Group expects to fulfill its future commitments for capital expenditures both through the use of cash generated from operations and through additional sources of capital such as the recent agreement reached for the sale of its stake in the Sofora Telecom Argentina group and the issuance of the Mandatory Convertible Bonds, both events occurred in November 2013.

\* \* \*

For details about market risk disclosures please see Item 11. Quantitative And Qualitative Disclosures About Market Risks .

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**Research, Development And Innovation**

**5.4 RESEARCH, DEVELOPMENT AND INNOVATION**

Research and development activities at Telecom Italia are carried out by the Information Technology, TILab and Innovation Functions, which oversee the analysis of new technologies and the engineering of services offered to customers.

Activities to enhance and generate competitive advantage for the Group are of particular importance and are pursued through strategic management of the relationship between research, Intellectual Property Right (IPR) and business, aimed at developing the Company's assets in patents rights.

Twelve new applications for patents were filed during 2013.

With a view to promoting an innovative system of relations between companies and universities, Telecom Italia has adopted the Joint Open Lab (JOL) model, consisting of **joint laboratories** where academic research and knowledge combine with industrial know-how and experience. During 2013, seven new laboratories were inaugurated, joining the JOL SKIL (Semantics & Knowledge Innovation Lab) opened in Trento in the first half of 2011.

Working Capital is the programme that has supported the birth and development of new digital innovation businesses in Italy since 2009. The projects developed in 2013 include the following:

- *Welco* ([www.welco.it](http://www.welco.it)), a device that allows people to connect their home or office intercom to their smartphone or tablet;
- *Cityglance* ([www.cityglance.co](http://www.cityglance.co)), innovative social networking app that connects people travelling on public transport anywhere in the world;
- *ViciniDiCasa* ([www.vicinidicasa.com](http://www.vicinidicasa.com)), which allows a neighbourhood platform to be created to connect people and create new social relationships, communities of interest and even business opportunities between neighbours;
- *Dropin* ([www.dropin.fm](http://www.dropin.fm)), an innovative cloud service that provides access to a virtual recording studio via your browser, making music composition a social experience;
- *Starteed* ([www.starteed.com](http://www.starteed.com)), innovative crowd-funding platform (collective financing via the Internet), which provides support for people to promote ideas, with funding and expertise, on a non-profit-making basis;
- *Fattura24* ([www.fattura24.com](http://www.fattura24.com)), cloud service, usable online or as a mobile application (IOS and Android), which allows self-employed professionals or businesses to manage their invoicing on the move, sharing documents with customers, suppliers and accountants;

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- *HackAcademy* ([www.hackacademy.com](http://www.hackacademy.com)), e-learning platform that allows people to design and create electronic objects. A personalised education path allows people to master open hardware or quickly develop their products with the community and then sell them through the shared store.

Changemakers is the business acceleration programme promoted by Telecom Italia and Expo Milano 2015, with the ambitious aim of changing the lives of 10 million people, Projects implemented in 2013 included:

- *Tooteko* ([www.tooteko.com](http://www.tooteko.com)), which allows an audio track to be applied to objects and make any surface clickable and interactive. The potential applications of this technology include helping the visually impaired to gain information about the appearance of objects, providing a new educational tool to teach children to read and write, and creating a new device to replace conventional light switches. *Tooteko* launched a partnership with M.A.R.T in Rovereto;
- *Orange Fiber* ([www.orangefiber.it](http://www.orangefiber.it)), a social fashion project that uses nano-technologies to transform citrus fruit waste into textile raw materials and clothing that release vitamins when they come into contact with the skin, involving women in difficulty and disadvantaged people in the production process;
- *PanPan* ([www.panpan.biz](http://www.panpan.biz)), a smartphone social information app that allows geolocalised questions associated with specific areas to be sent and users to be identified in the same area who might be able to answer the questions. The application can also be used as a B2B platform for surveys and market research;

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### **Research, Development And Innovation**

- *Bircle* (www.bircle.co), a mobile and web application allowing people to create and purchase travel guides for those with mobility impairments. Each guide is produced by experts (e.g. disability managers, associations) and, in crowd-sourcing mode, by the users themselves, using a rating system for buildings based on a universal language that allows people with mobility impairments and those accompanying them to determine and consult the degree of accessibility of different places and find appropriate facilities and services for their needs;
- *Trail Me Up* (www.trailmeup.com), a web service that uses enhanced virtual reality to go on guided tours of places that can only be accessed on foot. The tour that follows the virtual path is made possible by a special 360° photographic capture system fitted to a backpack, which allows the user to view the landscape with the same perspective as that of an actual traveller.

### **Projects and initiatives**

These can be arranged in four macro-strands:

- New generation networks
- Future Internet applications
- Projects with positive environmental impacts
- Projects with positive social impacts

### **New generation network projects**

- As part of the work being done to improve the quality control of services, development of the CHECK Suite system continued. The system implements an innovative approach to mobile network configuration and performance management issues and presents the following strengths:
  - design and optimisation integrated with network creation and operation processes;
  - overall view of the network and services starting with its individual nodes;
  - innovative and patented data analysis techniques;
  - automatic detection of inefficiencies in Near Real Time and calculation of the impact on the end customer for optimal management of recovery activities in terms of cost/benefit.



- Metro-regional network configuration and validation operations were completed which allowed Telecom Italia, as the first operator in Europe, to obtain the MEF<sup>(4)</sup> Carrier Ethernet 2.0 certification for Ethernet Access services. The certification allows Telecom Italia to provide standardised services to its customers with improved QoS<sup>(5)</sup> and predictable SLAs<sup>(6)</sup>.
- Laboratory testing and validation activities were completed of the Service Hub model for the scalable and flexible evolution of Telecom Italia PoPs<sup>(7)</sup>.
- Research activities continue with a view to virtualising network functions, i.e. potentially transforming network services into applications run on cloud computing platforms. Meetings were held in this context with the leading manufacturers and a number of emerging businesses to explore strategies. A condominium wireless router was developed that can be installed outdoors to supply data connectivity in digital divide situations and industrial areas.
- As part of the plan to introduce new technologies (Cisco and Juniper) into Telecom Italia's metro networks, the Turin Test Plant, working with the Engineering and Innovation functions, carried out a validation process, particularly in order to verify fixed and mobile end-to-end services. This required checks to be carried on interoperability with existing HW resources and support for innovative functions.

(4) Metro Ethernet Forum (MEF), the key organisation for Ethernet technology, is a global industrial alliance of 220 organisations, including telecommunication operators, TLC network equipment and software producers, semiconductor component manufacturers and testing organisations.

(5) Quality of Service.

(6) Service Level Agreement.

(7) Points of Presence Internet access points, or routers, supplied by Telecom Italia to route traffic to end users.

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**Research, Development And Innovation**

- Introduction of RAN sharing<sup>(8)</sup> for TIM Brasil: as part of the TIM Brasil network development activities, for the first time at Telecom Italia, the Turin Test Plant validated RAN sharing functions, which allow mobile access networks to be shared among operators (RAN Sharing), implemented on LTE<sup>(9)</sup> and Evolved Packet Core<sup>(10)</sup> (EPC) technology. New Data Center EASY-DC offers: as part of the development of Nuvola Italiana offers, a new test environment was created in the Turin Test Plant to allow new EASY-DC architectures and models to be validated in the laboratory. Comparative tests performed on the various technologies, with the engineers from Telecom Italia's DataCenter and TILab Innovation functions, allowed the testing of DataCenter geographic redundancy services which are totally innovative in the Italian cloud market.
- As part of the Mobile Network VAS Communication project, a platform (MES CE) was set up to deliver interactive communication services in Communication as a Service mode, which allows interactive multichannel, conventional voice and Web services to be created.

***Developments***

Developments within new generation network projects:

- Machine-to-Machine (M2M) Gateway for the management of home automation and Smart City services.
- External LTE router and cabling for apartment blocks or businesses using the existing television infrastructure (coaxial cable). A patent application has been submitted for this activity as well.
- Creation of the Machine-to-Machine SmartPhone Gateway paradigm and development of a SIM card application for assessing physiological parameters associated with sports performance.

**Future Internet application projects**

In the field of Capillary Networks, Telecom Italia is conducting studies and developing network prototypes to create the IoT (Internet of Things) in Connected Cities. In particular, it provides for a very high number of devices (sensors, actuators, etc.) to transform a city into a Smart City. These devices will have a short-range, low cost and low energy radio interface. In order to start the development of Connected Cities it is therefore necessary to create the so-called Capillary Networks that will allow the devices (the things in IoT) fitted with short-range radio interfaces to communicate efficiently, just as smart phones do today on the 3G and LTE network. The TILab laboratories are developing the Capillary Network platform prototypes used for Smart City Trials and projects funded by the European Commission and the Italian Ministry of Education.

***Developments***

The future Internet application project developments were as follows:

- Augmented reality app that simulates a virtual clothing store.
- Probe app to monitor the performance of services used on smart phones and the quality of the experience perceived by users.
- PC and smart phone app to speed up web browsing and video streaming services on mobile networks.
- Smart phone app to improve the efficiency of the device's battery.
- Smart phone app to request different standards of service from the mobile network depending on the demand and type of application.

***M2M (Machine-to-Machine) developments***

In 2013, Telecom Italian joined the GMA (Global M2M Association), specifically by taking part in an international tender for the creation of VW/Audi automotive M2M systems alongside lead bidder Deutsche Telekom (DTAG). The estimated turnover is around 70,000 connected cars sold in Italy between 2014 and 2017.

- (8) Radio Access Network Sharing is a smart way to share networks offered to operators as a useful way of coping with the gradual reduction in margins and contributing to a reduction in the use of energy and environmental impact.
- (9) Long Term Evolution also known as 4G, is an advanced, high speed mobile telephony standard.
- (10) EPC is a core network architecture based on the Internet Protocol supporting LTE.

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- TIMWallet Consumer/Business service: allows physical wallets to be replaced by a virtual wallet on a mobile phone displaying the services supplied by companies in the NFC<sup>(11)</sup> ecosystem or by Telecom Italia itself. Purchases are made by placing the phone close to a reader (POS, turnstile);
- Launch of the cobranded Banca Intesa/Visa/TIM card within the TIMWallet;
- NFC Badge, Canteen, Vending machine services for Telecom Italia and Unicredit employees;
- Launch of TIMPay for remote credit card payments using a mobile phone;
- Launch of BNL payment cards.

*Smart applications for the Internet of the future*

Telecom Italia is actively involved in creating the Future Internet platform and services, also through cooperation projects funded by the European Union (Future Internet Public Private Partnership FI-PPP), to enable and support customers in creating and using services based on advanced Internet technologies. The use and disclosure of personal information belonging to users, generally distributed among their various digital identities, is an increasingly widespread trend. The platform provides innovative functions, such as inhibition, associated with appropriate alarms, of the accidental or unintended sharing of sensitive content with contacts considered to be non-trusted, or setting of the privacy level to be associated in real time with more or less recurrent situations.

- Telecom Italia has directed the end-to-end design and implementation of the Smart City App prototype for Expo 2015, which is intended to become a reference tool providing information, services and entertainment during the event, on the participating nations, the city and the country, the partners and players involved. The purpose is to establish an ongoing relationship with the visitor, particularly using new generation LTE mobile connectivity networks and more evolved devices. By using innovative technologies, such as Augmented Reality and Visual Search, this prototype will allow a view of Milan today and Expo 2015 tomorrow, integrating the real vision with multimedia animation and content.
- The Telecom Italia SocialTV programme monitors technological and business developments and evolution taking place as a result of feedback from broadcasting, where there is an increasing trend towards simultaneous TV viewing and real time social media discussion on tablets and smart phones. Telecom Italia released the Friend TV app available in the App Store and Google Play, which allows users to interact with this mode on a kind of Social second screen.

*Development of Big Data solutions<sup>(12)</sup>*

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- With the Trentino Open Living Data (TOLD) project, Telecom Italia has set itself the goal of developing and testing a Big Data platform for collecting and analysing data from different local players (companies, industries, government organisations). The objective (also pursued by the SKIL, Telecom Italia's Trento-based Semantics & Knowledge Innovation Lab, which carries out advanced research and post-university training activities in the field of semantic technologies) is to use telephone network data combined with other data sources (e.g. electricity meter readings, number of vehicles using motorways, public transport) to highlight trends, movements or the presence of people. This information allows services to be provided to customers for energy management, traffic forecasting, urban planning and insurance offers.
  
  - One of the projects run by SKIL is the Mobile Territorial Lab (MTL) for the processing of Personal Big Data: the combined data that individuals generate via their smartphones and that transform people into local sensors, as theorised in the Smart City models. According to the Living Lab model promoted by the EIT (European Institute of Innovation & Technology) and the Autonomous Province of Trento, a pilot community has been created of young families who use smartphones with sensing software and SIM card that constantly collects information about their movements, interactions and preferences, thus providing a dynamic map of the area in which they live.
- (11) Near Field Communication: a technology that supplies short range bi-directional wireless connectivity (RF) (up to a maximum of 10 cm).
- (12) Definition coined by the Computer Community Consortium in 2008 for a set of diverse pieces of information that is so large and complex as to required capture, processing, management, analysis and display tools that differ from conventional ones.

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- As regards issues associated with exposure to electromagnetic fields, work is continuing between TIlab and La Sapienza University of Rome, the Polytechnic University of the Marche and Regional Radioprotection Agencies. The dual purpose of this collaboration is to determine the average level of attenuation of electromagnetic fields afforded by the structures used in construction, in order to analyse the intensity of fields within buildings, and to measure, as accurately as possible, the amount of power transmitted by mobile radio base stations over a period of 24 hours.
- With regard to sustainable mobility, Telecom Italia is collaborating with a number of initiatives and projects aimed at developing Intelligent Transport Systems (ITS). The purpose of these activities is to implement ICT solutions that make vehicle transport and mobility for people and goods safer, more efficient and more environmentally-friendly, in accordance with the priorities and objectives established by the European Union and transposed into the ITS National Action Plan.
- The Smart Mobility research project is continuing with the design and prototyping of innovative services. In particular, prototypes are being created for multimodal transport planning, km0 logistics services managed using mobile terminals, ride sharing and car sharing services. The aim is to experiment with ways to make transport environmentally sustainable. The project also includes Connected Car project activities, focused on interactions between vehicles, mobile terminals and network services to deliver on-board navigation services and enable environmentally-friendly and economical driving styles. A prototype is currently being developed to gather data from vehicles, via mobile terminals, in order to analyse them and determine the ecological footprint of journeys.
- With its MUSA (MULTIservice network Simulator Application), Telecom Italia provides a general assessment of the design of a Wireless MBus 169MHz based multiservice network for a geographical area represented by one or more towns. The services considered, and the respective networks, relate for example to the remote reading of gas and water meters, heat metering and environmental monitoring sensors. The application uses the theoretical results of the simulation to a real area of the country, attempting to make the most of the business assets existing within it. The final result is a map of the best assets for the widest possible coverage of the chosen area.

**Projects with positive social impacts**

- Smile Project: working with the Municipality of Turin, Actions and Projects were planned that came together in the Master Plan for Torino Smart City. The following topics were covered:
  - Safecity: evolved ICT video surveillance and sensor system solutions that allow real-time intervention in public emergency (e.g. natural disasters such as earthquakes and floods) and criminality situations;
  - Smart Utility (Gas, Water, Refuse, Electricity): smart metering and smart resource usage solutions for sustainable cities. Solutions are being developed for identifying hidden leaks in water distribution systems, which exceed 30% of the amount distributed, leading to very high economic and environmental costs. With regard to gas metering, analyses and studies are being conducted with a view to implementing pilot projects with companies operating in the natural gas distribution sector, according to criteria established by the Italian electricity and gas regulator. M2M solutions are also being analysed for the purpose of improving the use of energy resources with a view to developing distributed generation and remote control. In particular, work began on assessing the opportunity to share the telecommunication and power distribution network infrastructure, with a view to cutting costs and reducing their environmental impact. In this respect, Telecom Italia recently took part in the EUTC (European Utility Telecom Council) meeting with a speech on the potential synergies between TelCo and Utility operators in the electricity sector;

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- Electric Mobility: smart electric mobility solutions are being developed and turned into prototypes in a way that considers smart charging issues and the impact recharging can have on power networks (smart grid);
- e2Call: this project enhances the eCall service (a project run by the European Commission to provide rapid assistance to motorists involved in a collision anywhere in the European Union) based on larger amounts of information compared to the original project, reducing the negative consequences of delays or unsuitable interventions to a minimum.

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**Research, Development And Innovation**

- As part of the activities aimed at digitising Italian schools, TILab prototyped a solution which allows a diverse range of personal devices to be used, both in and out of school, which do not require any installation. The educ@Tion solution is entirely web-based, based on open source and modular applications and created as an SaaS (Software as a Service) in the cloud. The platform allows any kind of digital educational content to be managed and provides teachers and students with a set of digital teaching tools, regardless of the type of devices available in the classroom – any kind of IMB (Interactive Multimedia Board) or Interactive Display can be used – and the personal devices used by teachers and students – PC, netbook, tablet, regardless of the operating system.

The educ@Tion solution therefore allows educational content, whether it is self-produced, downloaded from the Internet or obtained from school text book publishers, to be managed in an integrated and shared way, making it easier to adopt 2.0 teaching methods, which are particularly geared towards skills-driven, collaborative and proactive teaching based on user generated content.

- With regard to Health and Wellness, the development continues of ICT services that can improve and increase the efficiency of the health system, such as mobile technologies to support m-health (mobile health) applications, which allow automatic exchanges of data between devices and remote processing systems, cloud solutions which allow the offer to be diversified, making it scalable and, ultimately, big & open data solutions, which allow large amounts of diverse data from open and distributed sources to be analysed. The topics covered at the moment are described below:

Development of a Home Doctor platform (set of products and services for delivering healthcare services supported by ICT technologies and electro-medical solutions for monitoring parameters related to major chronic diseases) by means of:

- evolution towards Continua Health Alliance standards<sup>(13)</sup>: implementation of Continua protocols for integrating Continua Certified tools on gateway applications (which allow the measurements taken by medical devices to be collected and sent to a networked platform) allows the process of configuring and taking/sending of the measurements by patients to be simplified, cutting the cost of integrating new medical instruments;
- state of health features: subjective data collected by questionnaires and objective measurement data collected by medical instruments are processed to provide an aggregated view of the overall state of health of the patient via a graphic dashboard. Other processing allows information to be obtained on data trends which allow any worsening of conditions to be promptly reported and therefore action to be taken on the patient.
- Wellness@School and Wellness@Company: prevention and wellness services aimed at providing solutions for healthy people to help them maintain and improve their health. The data collected and made anonymous can be processed for preventive purposes using the Business Intelligence techniques employed to process so-called big data.
- Robot@school solutions, which will be developed for Italian secondary schools, were presented during a workshop held at the Grassi Technical Industrial Institute of Turin. A memorandum of understanding was also signed between Telecom Italia and the Regional Education Department for Piedmont which, among other things, provides for a specific agreement on service robotics. In this context, Telecom Italia provides schools with systems and platforms for the introduction, sharing and network integration (the so-called cloud ) of robots that will support human beings in their daily living environment. With a view to supporting secondary schools in this way, a dissemination workshop was organised to illustrate service robotics and its impact on the world of work.
- In the 3GPP (Third Generation Partnership Project)<sup>14</sup> Telecom Italia promoted the establishment of an LTE system operating on the 450 MHz band: the specification activity was completed in September 2013. The purpose is to deliver the service in rural areas in Brazil<sup>15</sup>.



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- (13) Continua Health Alliance is an open non-profit-making association that provides a forum for collaboration between healthcare and technology companies to improve the quality of personal healthcare assistance ([www.continuaalliance.org](http://www.continuaalliance.org))
- (14) 3GPP is an inter-operation group involving several organisations from different countries: ETSI (European), ARIB and TTC (Japanese), TTA (Korean), CWTS (Chinese) and ANSI-T1 (USA).
- (15) According to Brazilian government statistics, 15% of Brazilian homes are situated in rural areas, corresponding to 29.8 million people with no access to broadband.

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- Digital islands are a new urban furniture concept which allows government bodies and third parties to provide innovative and smart solutions for citizens. The first examples of digital islands have been installed in Milan. They are hyper-technological outdoor spaces available to citizens and tourists to communicate, get information, access city services and travel sustainably. They include multimedia NFC totems, Wi-Fi coverage, recharging facilities for mobile phones, lights and smart cameras and provide a point of access to smart mobility solutions, particularly electric quad bikes.

***Commitment to AAL (Ambient Assisted Living) with European projects and field tests***

- In the field of health, development of the Fisio@Home application continued for the remote rehabilitation of patients affected by orthopaedic problems by allowing health care specialists to monitor them remotely. The application uses a network of wireless sensors worn by patients. These send kinematic data to a tablet, which analyses them and extracts information regarding motion in the joint to be treated. The results of this analysis are transmitted to a server which can be accessed by rehabilitation physicians and physiotherapists to assess rehabilitation progress.
- The Vrehab project, coordinated by the Italian Auxological Institute and co-financed by the Italian Ministry of Health and the Piedmont Region, continued with a view to developing, among other things, a non-intrusive system to assess the state of health of Parkinson's Disease sufferers and provide neurologists with information useful for adapting treatments. This is carried out by analysing kinematic data collected by inertial sensors worn by patients while they perform specific exercises.
- Telecom Italia is also focused on the world of the elderly. The aim of the European WIDER (green growing SMEs: Innovation and Development in the energy sector in mEd aRea) project in the field of Ambient Assisted Living is intended to achieve better management and sharing of knowledge for small and medium sized companies on the subject of ecosmart dwellings for the elderly. Telecom Italia is part of the scientific committee and contributes to guiding technical and technological activities.

November saw the completion of the European Life 2.0 project aimed at promoting the use of technology by elderly people to support forms of fully independent life by means of a location-based services and social networking platform. Experimental activities organised by Life 2.0 involved around 80 users aged between 65 and 75 years, subdivided into four pilot cities (Milan, Barcelona/Spain, Joensuu/Finland, Aalborg/Denmark). Italian activities were coordinated by the Polytechnic of Milan, with the technological support of Telecom Italia, and involved 19 people. The main purpose of the experiment was the native app for iPad created entirely by Telecom Italia, with which elderly people were able to manage their personal profile, read or publish ads and register for events organised by the non-profit-making entities which took part in the project. The Life 2.0 project activities were presented during major national and international events, including the Smart City Exhibition held in Bologna in October.

- Also for elderly people, an experimental service has been launched with Cilte, a social cooperative offering a remote assistance service. Users of the remote assistance service have been offered two different solutions they can use at home: RicordaTI and Cassiel. RicordaTI is a tablet app that reminds elderly people of the things they have to do, such as a doctor's appointment or a medicine they have to take. Cassiel instead uses a small wireless sensor to monitor the front door and alert the remote assistance centre if the door is left open for too long.

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**Cautionary Statement For Purposes Of The Safe Harbor  
Provisions Of The United States Private Securities Litigation**

**Reform Act Of 1995**

**5.5 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. The foregoing discussion in Item 5 Operating and Financial Review and Prospects and the following discussion under Item 11 Quantitative and Qualitative Disclosures About Market Risks contain 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 other terminology, or by the forward-looking nature of discussions of strategy, plans or intentions.

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

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

- our ability to successfully implement our strategy over the 2014-2016 period;
- the continuing effects of the global economic crisis in the principal markets in which we operate, including, in particular, our core Italian market;
- the impact of regulatory decisions and changes in the regulatory environment in Italy and other countries in which we operate;
- the impact of political developments in Italy and other countries in which we operate;
- 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;

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

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

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**Item 6. Directors, Senior Management and Employees**

**Directors**

**Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

**6.1 DIRECTORS**

On April 12, 2011 the Shareholders Meeting of the Company elected the present Board of Directors of Telecom Italia that is to remain in office until approval of the 2013 annual financial statements.

The Shareholders Meeting established the number of Directors at 15 and their term of office for three years, until the Shareholders Meeting which will approve the financial statements of the Company for the year ended December 31, 2013; set the overall annual remuneration for the Board of Directors at 2,200,000 euros (to be divided among the members thereof in accordance with the resolutions to be adopted by the Board itself); authorized the Directors to continue with the activities specified in their respective curricula vitae, and released them from restrictions on competition, as permitted under Article 2390 of the Italian Civil Code.

On April 13, 2011, the Board of Directors elected Franco Bernabè as Executive Chairman of the Board and Chief Executive Officer of Telecom Italia S.p.A., Aldo Minucci as Deputy Chairman and Marco Patuano as Domestic Managing Director and Chief Operating Officer of the Company.

Following the resignation tendered on June 6, 2011 by Ferdinando Beccalli Falco and the termination on November 16, 2011 of Francesco Profumo (who was appointed Italian Minister of Education on that day), at its meetings on August 4, and December 1, 2011 respectively the Board of Directors co-opted Lucia Calvosa and Massimo Egidi as Company Directors.

On May 15, 2012, the Shareholders Meeting confirmed Lucia Calvosa and Massimo Egidi as Directors, with their term of office to run until the shareholders meeting approving the financial statements for the year ended December 31, 2013.

Subsequently, on September 13, 2013 Elio Catania resigned from the office of director, and on October 3, 2013 Franco Bernabè resigned from his position as Chairman and Chief Executive Officer and the Board of Directors assigned, on a provisional basis, the authorizations and organizational responsibilities previously assigned to the Chairman Franco Bernabè to the previous Managing Director, Marco Patuano (now Chief Executive Officer), while the role of Chairman of the Board and legal representation of Telecom Italia were assigned to the Deputy Chairman Aldo Minucci, acting as a substitute. On the same date the Board of Directors co-opted Angelo Provasoli as Director.

On December 13, 2013 also directors Cesar Alierta and Julio Linares resigned from the Board of Directors.

At the Shareholders Meeting on December 20, 2013 Angelo Provasoli ceased from office, while the meeting failed to appoint any substitute.

At the meeting of the Board of Directors on February 6, 2014, the Board appointed Aldo Minucci Chairman of the Company without any changes to the existing powers vested in the CEO, Marco Patuano.

Consequently, at April 8, 2014 the Board of Directors of Telecom Italia was composed as follows:

| <b>Name</b>                 | <b>Age</b> | <b>Position</b>                  | <b>Appointed</b> |
|-----------------------------|------------|----------------------------------|------------------|
| Aldo Minucci                | 67         | Chairman/Director                | 2011             |
| Marco Patuano               | 49         | Chief Executive Officer/Director | 2011             |
| Tarak Ben Ammar             | 64         | Director                         | 2011             |
| Lucia Calvosa(1)            | 52         | Director                         | 2011             |
| Massimo Egidi(1)            | 71         | Director                         | 2011             |
| Jean Paul Fitoussi(1)       | 71         | Director                         | 2011             |
| Gabriele Galateri di Genola | 67         | Director                         | 2011             |
| Gaetano Micciché            | 63         | Director                         | 2011             |
| Renato Pagliaro             | 57         | Director                         | 2011             |
| Mauro Sentinelli(1)         | 67         | Director                         | 2011             |
| Luigi Zingales(1)           | 51         | Director                         | 2011             |

(1) Independent Directors. For details on the criteria applied to determine independence, see Item 10 Additional Information 10.1 Corporate Governance .

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**Directors**

At April 8, 2014, the Secretary of the Board of Directors was the General Counsel of Telecom Italia, Antonino Cusimano.

In 2013:

- the Board of Directors met sixteen times, with meetings generally scheduled pursuant to a calendar set forth in advance;
- the Executive Committee (as of December 31, 2013 composed of Aldo Minucci, Marco Patuano, Renato Pagliaro and Mauro Sentinelli) met two times;
- the Control and Risk Committee (as of December 31, 2013 composed of Jean Paul Fitoussi acting as Chairman, Lucia Calvosa, Mauro Sentinelli and Luigi Zingales) held fifteen meetings. Where deemed desirable in light of the issues on the agenda, the Committee and the Board of Auditors held joint meetings;
- the Nomination and Remuneration Committee (as of December 31, 2013 composed of Jean Paul Fitoussi Chairman, Massimo Egidi and Gabriele Galateri) met fourteen times.

On April 16, 2014 the Shareholders Meeting will resolve upon the election of a new Board of Directors. To this end, three slates of candidates have been duly filed by shareholders entitled to do so, according to Italian law and the Company's Bylaws:

Telco Slate

(Presenting Shareholder: Telco S.p.A.)

1. Giuseppe RECCHI(\*), born in Naples (Italy) on January 20, 1964
2. Marco Emilio Angelo PATUANO born in Alessandria (Italy) on June 6, 1964
3. Baroness Denise KINGSMILL CBE(\*), born in New Zealand on April 24, 1947
4. Flavio CATTANEO(\*), born in Rho (MI Italy) on June 27, 1963
5. Giorgina GALLO(\*), born in Turin (Italy) on April 2, 1960

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6. Tarak BEN AMMAR, born in Tunis (Tunisia) on June 12, 1949
7. Laura CIOLI(\*), born in Macerata (Italy) on July 10, 1963
8. Giorgio VALERIO(\*), born in Milan (Italy) on July 13, 1966
9. Jean Paul FITOUSSI, born in La Goulette (Tunisia) on August 19, 1942
10. Luca MARZOTTO(\*), born in Rome (Italy) on January 9, 1971
11. Elena VASCO<sup>(\*)</sup>, born in West Hartford (USA) on December 31, 1964
12. Paolo FUMAGALLI(\*), born in Busto Arsizio (VA Italy) on June 24, 1960
13. Maurizio DATTILO(\*), born in Milan (Italy) on March 19, 1963.

(\* ) Candidates who declared themselves to be independent are marked by an asterisk.

### Findim Slate

(Presenting Shareholder: Findim Group S.A.)

1. Vito Alfonso GAMBERALE, born in Castelguidone (CH Italy) on August 3, 1944
2. Girolamo DI GENOVA, born in Fiumefreddo Bruzio (CS Italy) on January 11, 1939
3. Franco LOMBARDI, born in Rome (Italy) on August 29, 1947
4. Maria Elena CAPPELLO, born in Milan (Italy) on July 24, 1968
5. Daniela MAININI, born in Albizzate (VA Italy) on March 16, 1960



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**Directors**

*All the candidates declared themselves to be independent.*

Institutional Investors slate

(Presenting Shareholder: ACOMEIA SGR S.P.A., ANIMA SGR S.P.A., APG Algemene Pensioen Groep N.V., ARCA SGR S.P.A., EURIZON Capital S.A., EURIZON CAPITAL SGR S.P.A., FIL Investments International, FIDEURAM Gestions S.A., FIDEURAM Investimenti SGR S.P.A., INTERFUND SICAV, Mediolanum Gestione Fondi SGR S.P.A., Pioneer Asset Management S.A., Pioneer Investment Management SGRP.A.)

1. Lucia CALVOSA, born in Rome (Italy) on June 26, 1961
2. Davide BENELLO, born in Milan (Italy) on March 6, 1954
3. Francesca CORNELLI, born in Milan (Italy) on September 19, 1962.

All the candidates declared themselves to be independent.

Telco S.p.A. also proposed:

- to fix the composition of the Board at 13;
- to keep the present compensation of the existing Board unmodified, subject to the change in number of the Board members to be appointed from 15 to 13, if such proposal is approved, and therefore to determine the total annual remuneration of the Board at 1.9 million euros;
- to fix the term of office of the new Board of Directors at three financial years, i.e. until the shareholders meeting to be held to approve the company's financial statements at December 31, 2016;
- to authorize its candidates to continue with the activities specified in their respective curricula vitae, and to release them from the non-competition clause, as permitted under art. 2390, Italian Civil Code;
- to appoint Giuseppe Recchi as Chairman of the Board, subject to his election as a Director.

Findim Group S.A. also proposed:

- to fix the composition of the Board at 11;
- to fix the term of office of the new Board of Directors at three financial years, i.e. until the shareholders meeting to be held to approve the company's financial statements at December 31, 2016;
- to appoint Vito Alfonso Gamberale as Chairman of the Board, subject to his election as a Director.

For a detailed description of Telecom Italia's corporate governance, including activities, responsibilities and organization of the Board of Directors and the Committees, see Item 10 Additional Information 10.1. Corporate Governance .

\* \* \*

#### **6.1.1 BIOGRAPHICAL DATA**

The following are the selected biographical data of the Directors in charge as of April 8, 2014.

**Aldo Minucci:** Aldo Minucci was born in Reggio Calabria in 1946. He was appointed Chairman of the Board of Directors on February 6, 2014. Mr. Minucci has been a Director of Telecom Italia since April 16, 2007. After graduating in Law, in 1972 he was employed by Assicurazioni Generali S.p.A., working in the Tax Consulting Service, for which he became Manager in 1983. In 1993 he was appointed Central Executive Officer with responsibility for the Administration and Tax Coordination Service, and supervision of the Tax Consultancy Service. In 1995 he took on the role of Deputy General Manager for Technical-Commercial Coordination for the Insurance Companies in Italy, and he is Supervisor of the Group's Internal Audit Service. Mr. Minucci is Director of A.C.E.G.A.S. S.p.A.. He is also Chairman of GENERTEL S.p.A., ANIA (National Association of Insurance Companies) and ANIA per la Sicurezza Stradale Foundation.

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**Marco Patuano:** Marco Patuano was born in Alessandria in 1964. Mr. Patuano was appointed Domestic Managing Director and Chief Operating Officer by the Board of Directors on April 13, 2011. Marco Patuano was appointed Chief Executive Officer on October 3, 2013. Previously he had been Head of Domestic Market Operations since November 2009. He began his career at SIP Central Management in May 1990. From 1990 to 2002, he worked in various departments at Administration, Finance and Control. He was promoted through the ranks at Financial Management between 1998 and 2002. In April 2003, he became CFO at Tim Brasil and Telecom Italia America Latina S.A., a Group subsidiary based in Brazil. Between 2004 and 2006, he served as General Manager at Telecom Italia Latam. In 2006, he moved to Telecom Argentina as Head of Fixed-Line Telephony. He served as General Manager, Operations for Telecom Argentina between May 2007 and July 2008. From August 2008 to November 2009 he was Telecom Italia's Chief Financial Officer. Mr. Patuano is also member of the Board of Telecom Italia Foundation, Bocconi Foundation and UPA (Utenti Pubblicità Associati).

**Tarak Ben Ammar:** Tarak Ben Ammar was born in Tunis in 1949. Mr. Ben Ammar has been a Director of Telecom Italia since April 14, 2008. He started his career in 1977, as a film producer. In 1990, he formed Quinta Communications, a company used as a vehicle for a number of investments and as a production and distribution company, that was also engaged in trading of audiovisual rights (acquired from U.S. producers and sold to European Broadcasters); in addition Quinta diversified its activities by building up a portfolio of strategic investments in the media services industry. In addition, Mr. Ben Ammar established close working relationships with a selected number of prominent International investors in the media industry. Mr. Ben Ammar was awarded the Legion d'Honneur in 1984 for his cultural contributions. Mr. Ben Ammar is Chief Executive Officer of Europa TV, Prima TV, Ex Machina SAS, Andromeda Tunisie SA, Promotions et Participations International SA, Holland Coordinator & Service Company Italia S.p.A., Eagle Pictures S.p.A. He is a member of the Board of Director of Mediobanca S.p.A. and of other companies.

**Lucia Calvosa:** Lucia Calvosa was born in Rome in 1961. She was appointed as a member of Telecom Italia Board of Directors on August 4, 2011. She is a professor of commercial law in the Faculty of Economics of Pisa University. After graduating in 1983 in Pisa, she worked at Pisa University throughout her academic career. After obtaining a permanent position as a researcher, she qualified as an associate professor in 1998, and as a full professor in 2000. In the Faculty of Economics at Pisa, in addition to teaching Commercial Law and Bankruptcy Law in the Faculty of Economics, she also taught Private Law and Banking Law for some years. She was appointed to chair the degree course in Economics and Commerce and served two terms of office, chairs the Scientific Teaching Committee of her regional professional association of chartered accountants (Associazione Ordine Dottori Commercialisti dell'Alto Tirreno) and is a member of the Board of academic tutors for postgraduate research in Italian and international commercial law at Cattolica University in Milan. From 2005 to 2012 she was a member of the Board of Directors of the Fondazione Teatro di Pisa, and of the Board of Directors of the Fondazione Arpa. From 2009 to 2012 she was a member of the Board of Directors of the Pisa Chamber of Commerce. From 2008 to 2012 she was a member of the Fondazione Cassa di Risparmio di San Miniato. From June 2008 to April 2011 she was Chairman of the Cassa di Risparmio di San Miniato S.p.A. Presently she is a member and director of the Fondazione Cassa di Risparmio di Pisa.

**Massimo Egidi:** Massimo Egidi was born in Turin in 1942. He was appointed as a member of Telecom Italia Board of Directors as of December 1, 2011. He is a professor of Economics at the LUISS Guido Carli University in Rome of which he has been the Dean since 2005. His university career took place in Turin, at the Polytechnic and then at the University's Faculty of Political Sciences (1965-86), then in Trento (from 1987 to 2004) and finally in Rome (2005 to date). He was the Dean of the University of Trento, from 1996 to 2004. He is currently Chairman of the Bruno Kessler Foundation of Trento. He is also a member of the Università Italo Francese and is a founding member of the Università Italo Tedesca, of which he is currently the Chairman pro tempore. He is co-chairman of the Herbert Simon Society and director of the Laboratory of Experimental and Computational Economics (CEEL, Trento). He is also a member of many scientific and academic committees, including the Scientific Committee of ESNIE European School on New Institutional Economics, the Université de Paris X, of the Doctorate in Economics at Sciences Po (Paris). He was responsible for the National Research Programme in the sector of Economics and Social Sciences 2009-2013. He is also a member of the Scientific Committee of Confindustria.

**Jean Paul Fitoussi:** Jean-Paul Fitoussi was born in La Goulette (Tunisia) in 1942. Mr. Fitoussi has been a Director of Telecom Italia since May 6, 2004. Mr. Fitoussi is Professor Emeritus of Economics at the Institut d'Études Politiques in Paris, where he has taught from 1982 to 2010.

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He is currently research Director at the Observatoire Français des Conjonctures Economiques (OFCE), an economic research and forecasting institute.

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Mr. Fitoussi graduated cum laude in Law and Economics from the University of Strasbourg with a thesis on inflation, equilibrium and unemployment. He began his academic career as a professor at the University of Strasbourg. Between 1979 and 1983 he taught at the European University Institute, Florence, and in 1984 was visiting professor at the University of California, Los Angeles. Since 1998 he has been a member of the board of the École Normale Supérieure. In 1997 he became a member of the Prime Minister's Council for Economic Analyses. In 1996 he was named to the Commission Économique de la Nation. He was secretary of the International Economic Association beginning in 1984 and has been an expert for the Economic and Monetary Committee of the European Parliament. Between 1990 and 1993 he was Chairman of the Economic Council of the European Bank for Reconstruction and Development. In the field of publishing, Mr. Fitoussi is managing editor of the *Revue et Lettre de L'OFCE*, member of the Editorial Board of *Labour and The International Journal of Development Planning Literature* and the scientific committee of *International Labour Review* and *Critique Internationale*. His writing appears regularly in newspapers in France and abroad and he is commentator for *La Repubblica* and *Le Monde*. From 2000 to 2010 he was President of the Scientific Committee at the Institut d'Etudes Politiques. In the field of research, Mr. Fitoussi has concentrated on inflation theory, unemployment, foreign trade and the role of macroeconomic policy. As President of the OFCE and founder of its International Economic Policy Group (of which he is a member), he has made numerous contributions to the current economic policy debate, particularly on the issues of economic integration and transition. Mr. Fitoussi has received the Association Française de Sciences Économiques (French Association for Economic Sciences) Award, and the Rossi Award from the Académie des Sciences Morales et Politiques (Academy of Moral and Political Sciences). He has been awarded various honours including the Honorary Deanship of the Faculty of Economics in Strasbourg, Honoris Causa degree at the Buenos Aires University, and in his own country the decorations of officier de l'Ordre National du Mérite (Knight of the National Order of Merit) and officier de la Légion d'Honneur (Knight of the Legion of Honour). He is a Member of various boards of national and international businesses, foundations and organizations (member of the Board of Directors of FNSP, of the Pirelli & C. S.p.A. and of the Supervisory Board of Intesa SanPaolo, member of Executive Committee of the Association Internationale de Sciences Economiques, Chairman of the Commission des Nations-Unies sur la réforme du système monétaire financier international).

**Gabriele Galateri di Genola:** Gabriele Galateri di Genola was born in Rome in 1947. He was Chairman of Telecom Italia from December 2007 to April 2011. Since April 8, 2011 he has been Chairman of Assicurazioni Generali S.p.A. After earning his MBA at the Columbia University Business School, Mr. Galateri di Genola began his career in 1971 at the Headquarters of the Banco di Roma, where he started as Head of the Financial Analyses Office before being appointed to manage the International Loans Office. From 1974 to 1976 he worked as Financial Director of the Saint Gobain Group in Italy. In 1977, he joined FIAT S.p.A., where he moved from Head of North, Central and South American Operations at the International Finance Office, to Head of International Finance and, ultimately, to Director of Finance. Mr. Galateri di Genola became CEO of Ifil S.p.A. in 1986. In 1993, he took on the positions of CEO and General Manager of IFI, which he retained until 2002. In June 2002, he was appointed CEO of FIAT S.p.A.. He was a Chairman of TIM Brasil Serviços e Participações S.A. from February 2010 to April 2, 2013, Chairman of TIM Participações S.A. from August 2008 to January 2009 and a non-executive Board member of TIM Participações S.A. from January 2009 to April 2, 2013; he is a non-executive Board member of SAIPEM S.p.A., Italmobiliare S.p.A., Azimut-Benetti, Accademia Nazionale Santa Cecilia Foundation and Edenred S.A.. He is also Chairman of the Istituto di Tecnologia and member of the International Advisory Board of the Columbia Business School.

**Gaetano Miccichè:** Gaetano Miccichè was born in Palermo in 1950. Mr. Miccichè has been a Director of Telecom Italia since July 24, 2007. He graduated in Law and then obtained a Master in Business Administration with merit at the SDA Bocconi. He began his professional experience in 1971 as Manager for Corporate Clients at Cassa Centrale Risparmio Province Siciliane. In 1989 he was appointed Central Financial Director at Rodriguez S.p.A., world leading company in the high-speed navigation sector. From 1992 to 1995 he was Managing Director and later Liquidating Administrator at Gerolimich Unione Manifatture, Holding Company with stakes in various industrial sectors. In 1996 he became General Manager of Santavaleria S.p.A., industrial Holding Company in chemical and glass sectors. From 1997 to 2002 he was Chief Executive Officer and General Manager of Olcese S.p.A. Since 2002 he has been in Intesa Sanpaolo S.p.A. as Head of Corporate & Investment Banking Division and has been Chief Executive Officer of Banca IMI. Since 2010 Mr. Miccichè has been General Manager of Intesa San Paolo S.p.A. and since 2013 is a member of Board of Management Intesa San Paolo S.p.A. He is also Member of the Board of Directors of Prada S.p.A. and Pirelli & C. S.p.A. He is member of Supervisory Board of Fondazione Ricerca e Imprenditorialità and member of the Scientific Committee of the Politecnico di Milano.

**Table of Contents****Item 6. Directors, Senior Management and Employees****Directors**

**Renato Pagliaro:** Renato Pagliaro was born in Milan in 1957. Mr. Pagliaro has been a Director of Telecom Italia since May 6, 2004. A registered auditor, with a Degree in Corporate Economics from Bocconi University, he joined Mediobanca Banca di Credito Finanziario S.p.A. in 1981, where he has held positions of increasing responsibility. In April 2003 he was appointed Co-General Manager and Secretary to the Board of Directors of Mediobanca S.p.A.; he was Chairman of the Management Board from July 2007 to October 2008 and Managing Director of Mediobanca S.p.A. from October 2008 to May 2010. From 1993 to 2012 he was a member of the Board of Auditors of Istituto Europeo di Oncologia S.r.l.. In May 2010 he was appointed Chairman of the Board of Directors of Mediobanca. He is a Director of Pirelli & C. S.p.A.

**Mauro Sentinelli:** Mauro Sentinelli was born in Rome in 1947. Mr. Sentinelli was appointed a Director of Telecom Italia on April 29, 2010. An electronic engineer with a masters degree in telecommunications, Mr. Sentinelli joined SIP (presently Telecom Italia) in 1974, where he specialized in the mobile business. In 1991 he became Director of Marketing and Planning in the Mobile Division of the company and in 1994 he was appointed Deputy Managing Director of Telecom Italia's Mobile Division (to become a separate company in 1995 as a result of the Tim de-merger). In May 1997 he left TIM for an experience in the U.S. and in July 1999 he returned to TIM as Group Managing Director. In April 2002 he became a director of TIM, finally leaving the company in January 2005. He was Deputy Chairman of the GSM Association from 2003 to 2008, board member of Onda Communication (Italy) and Barathi Airtel (India) up to 2010. Presently Mr. Sentinelli is a Member of the Board of GSMA Ltd, the industrial branch of the GSM Association. He is also Chairman of Enertel Servizi S.p.A.

**Luigi Zingales:** Luigi Zingales was born in Padua in 1963. Mr. Zingales has been a Director of Telecom Italia since April 16, 2007. Luigi Zingales is the Robert C. McCormack Professor of Entrepreneurship and Finance at the Graduate School of Business of the University of Chicago, where he has been a member of the faculty since 1992. In 2005-2006 he held the Taussig Research Professorship at Harvard University. He is a faculty research fellow of the NBER, a research fellow of the Centre for Economic Policy Research (CEPR), a member of the Committee on Capital Market Regulation, and of the United Nation Advisory Board on Microfinance. In 2003 he won the Bernacer Prize for the best young European financial economist. From 2005 to 2009 he was a director of the American Finance Association. His research interests span from corporate governance to financial development, from political economy to the economic effects of culture. He has published extensively in the major economics and financial journals. He is an editorialist for *Il Sole 24 ore* (the leading Italian financial newspaper) and for *L'Espresso*.

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As of April 8, 2014 the executive officers of Telecom Italia and their respective positions were as follows:

| <b>Name</b>              | <b>Age</b> | <b>Position</b>  | <b>Appointed</b> |
|--------------------------|------------|--|------------------|
| <b>Directors:</b>        |            |  |                  |
| Marco Patuano            | 49         | Chief Executive Officer (1)  | 2011             |
| <b>Managers:</b>         |            |  |                  |
| Simone Battiferri        | 46         | Head of Business   | 2012             |
| Franco Brescia           | 52         | Head of Public & Regulatory Affairs  | 2011             |
| Paolo Vantellini         | 52         | Head of Business Support Officer   | 2013             |
| Antonino Cusimano        | 49         | Head of Legal Affairs  | 2008             |
| Piergiorgio Peluso       | 46         | Chief Financial Officer and Head of Administration,<br>Finance and Control | 2012             |
| Mario Di Loreto          | 50         | Head of People Value   | 2013             |
| Giuseppe Roberto Opilio  | 55         | Head of Technology   | 2011             |
| Luca Rossetto            | 51         | Head of Consumer   | 2011             |
| Alessandro Talotta       | 47         | Head of National Wholesale Services  | 2011             |
| Rodrigo Modesto de Abreu | 44         | CEO Tim Participacoes  | 2013             |

(1) Appointed Domestic Managing Director and Chief Operating Officer by the Board of Directors on April 13, 2011. On October 3, 2013 the Telecom Italia Board of Directors appointed Marco Patuano Chief Executive Officer of Telecom Italia.

The following are the selected biographical data of the executive officers, other than Directors (for the biographical data of Mr. Marco Patuano, please see above under 6.1 Directors ):

**Simone Battiferri:** Mr. Battiferri was born in Rome in 1967. Since December 27, 2012 he has been Business Director. From December 30, 2011 to December 26, 2012 he was Head of Top Clients and Public Sector at Telecom Italia. He started with the Telecom Italia Group in 2001 as Head of Marketing in Datacom eBusiness Solutions Business Unit. At the end of 2001, in the context of the new organisational model involving the merger of the previous Business Units into Telecom Italia Wireline, he became Head of Web Services Marketing, and remained there until April 2004, when he became Head of the Business Opportunity Evaluations Area in the International Business sector. This marked the start of his involvement in the international activities, which last until the beginning of 2010. In April 2006 he became Head of Marketing in Telecom Argentina, occupying this position until April 2007, when he was appointed COO of the Wireline Unit in the same company. In July 2009, after the merging of the Top Clients Unit into the Wireline one, he became COO of the new Wireline & Top Clients Unit. In February 2010 he came back to Italy to be appointed Head of Top Clients at Telecom Italia. Before entering the Telecom Italia Group he spent several years in Etnoteam, where he occupied increasingly important positions and left the company as VP for the Telecommunications & Media Market and Director of Etnoteam Labs. Among his various professional experiences before Etnoteam, in Italy and abroad (mainly in the United States, as well as Germany and the Czech Republic), he conducted research & development activities with the La Sapienza University of Rome in the Rome Electrical Machine and Power Electronics Group (REMPEG). Mr. Battiferri is also member of the Board of Directors of Olivetti S.p.A., Telecontact S.p.A., Telecom Italia Digital Solutions S.p.A., Telecom Italia Sparkle S.p.A., Telecom Italia Information Technology S.r.l. and Advanced Caring Center S.r.l.

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**Franco Brescia:** Mr. Brescia was born in San Costantino Albanese (Potenza) in 1961. Since April 15, 2011 he has been Head of Public and Regulatory Affairs at Telecom Italia.

After graduating cum laude in Business and Economics at La Sapienza University of Rome, he began his professional career in 1985 as a researcher at Censis.

From 1987 to 1989 he was National Press, Research and Parliament Relations Manager at the Italian Confederation of Cooperatives.

In December 1989 he joined Stet-Telecom Italia Group, where he was given progressively increasing responsibilities in the fields of Management Control, Marketing, International, Press and Institutional Relations until he became Staff Head of Presidents and Deputy Managers.

In 2003 he joined Poste Italiane as Head of Local Institutional Affairs.



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In October 2006 he joined Telecom Italia, where he took different positions: first he was Assistant to the Chairman; in December 2006 he was appointed Head of Public Affairs; in May 2007 he became Head of Business Management & Intellectual Property Rights; from February 2008 he was an Executive Assistant to the Deputy Manager; in February 2010 he was appointed Head of Institutional Relations.

Franco Brescia also obtained a Master's degree in Communication at La Sapienza University of Rome and a Master's degree in Lobbying e Public Affairs at Lumsa University of Rome. Moreover, he is a Contract Professor.

Mr. Brescia is also member of the Board of Directors of Olivetti S.p.A., Fondazione Telecom Italia and Treccani S.p.A.

**Antonino Cusimano:** Mr. Cusimano was born in Palermo in 1964. Since September 15, 2008 has been Head of Legal Affairs and General Counsel of Telecom Italia, Secretary to the Board of Directors since April 13, 2011. Mr. Cusimano was an associate at Hill Taylor Dickinson, London, prior to joining the Pittsburgh based company, PPG Industries Inc. in 1994. He was appointed General Counsel of PPG Industries Europe in 2000, with responsibility for a wide range of legal and business issues. From 2003 to 2005 he served as General Manager, Environmental, Health and Security Protection of PPG Industries Europe and between May and December 2005, he held the position of Corporate Counsel. Mr. Cusimano joined General Electric, Oil & Gas based in Florence serving as Senior Counsel Global Services and Transactions. During his time at GE, he was a Director and Vice President at Nuovo Pignone Holding S.p.A. and Nuovo Pignone S.p.A.

**Rodrigo Modesto de Abreu:** Mr. Abreu was born in São Paulo in 1969. He holds a degree in electrical engineering from the University of Campinas and an MBA from the Stanford Graduate School of Business. With more than 20 years of experience in the Telecommunications and Information Technology, Mr. Abreu worked in various companies in the sector in Brazil and abroad. Mr. Abreu served as strategic consultant at McKinsey & Co in the United States. In Brazil, was named CEO of Promon IP in 2000, later became CEO of Telecom Promon and the following year, CEO Promom Technology. In 2004, he assumed the presidency of Nortel Networks Brazil and his last work experience was as president of Cisco in Brazil, where he served for 7 years. Mr. de Abreu is Diretor Presidente of Tim Celular S.A. and Diretor Presidente and member of the Board of Directors of Tim Participacoes.

**Mario Di Loreto:** Mr. Di Loreto was born in Rome in 1963. Since September 1, 2013, he has been Head of People Value at Telecom Italia. The Department was renamed People Value on December 19, 2013. After a first degree in Philosophy and a doctorate in the Philosophy of Science, Di Loreto embarked on an academic career. He then became a Human Resources Manager, joining Air One in the start-up phase, in 1995, contributing to the growth of its workforce to approximately 2000 employees. In 1998 he moved to the Human Resource Management and Development at Alitalia Team, participating in the creation and development of two low cost carriers, Alitalia Team and Alitalia Express. In 1999 he was engaged by Starwood Hotels & Resources Inc., a listed U.S. group operating in the medium-high range hotel sector, which in Italy owns the Ciga hotels, several businesses on the Costa Smeralda (hotels, golf courses, ports, shipyards), the Sheraton hotels and, since 2006, the Méridien hotels. Mr. Di Loreto stayed with this Group until 2008, working in increasingly senior roles: Human Resources Manager for Costa Smeralda Italia (where he structured and modernised the diversified businesses owned by the group in the Sardinian market); Human Resources Manager, Italy until 2002; Human Resources Manager, Italy, Malta and the Balkans (contributing to the successful repositioning of the group on the domestic market during the complex and difficult period following September 11) until 2003. In this period, he was also appointed Vice Chairman of AICA (Associazione Italiana delle Catene Alberghiere - the Italian Association of Hotel Chains), part of Confindustria (the main organisation representing Italian manufacturing and services companies), which represents 1,800 hotels employing 35,000 people, responsible for Industrial Relations. He then became Human Resources Director, Mediterranean Region, based in Belgium until 2008. In addition, from 2005 to 2007, he was part of Next Generation, a global innovation team composed of 40 managers, which worked with CEO Starwood at the U.S. headquarters of the corporation to define the evolution of the Group's organisational and business models. In 2008, Mr. Di Loreto joined Barilla, as Human Resources Director for the Group (15,000 employees in 17 countries and three regional divisions: Europe, the Americas and Asia Pacific). In this role, which he held until the end of 2012, he also participated in the international re-organisation of the subsidiary companies to achieve cultural and business integration in line with the medium term strategies of the organisation. Mr. Di Loreto is also a member of the Board of Directors of Telecontact S.p.A. and Telecom Italia Information Technology S.r.l.



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**Piergiorgio Peluso:** Mr. Peluso was born in Rome in 1968. Since September 26, 2012 he has been Head of Administration, Finance and Control at Telecom Italia. After graduating in Economic and Social Sciences from the Università Commerciale Luigi Bocconi in 1992, with a specialization in Finance, from 1992 to 1994 he held the position of experienced accountant at Arthur Andersen & Co.. Following a period at Mediobanca as Senior Financial Analyst (1994-1998) and with Credit Suisse First Boston as Vice President of Financial Institutions Group (1998-2000) and Mergers & Acquisitions Group (2000-2001), in 2002 he joined Medio Credito Centrale S.p.A. (Capitalia Group) as Central Director Advisory Area. He retained this position until 2005, when he was appointed Central Director at Capitalia S.p.A.. From 2007 to 2009, following the merger of Capitalia S.p.A. and UniCredit Group S.p.A., he was Head of Investment Banking Italy at UniCredit Group S.p.A.. In 2009 he was appointed CEO of UniCredit Corporate Banking S.p.A.. Following the merger of UniCredit Corporate Banking S.p.A. with UniCredit S.p.A., in 2010 he was appointed Head of Corporate & Investment Banking Italy, UniCredit Group. From 2011 to September 2012 he was Managing Director of Fondiaria SAI S.p.A.. He is a non-executive member of the Board of Directors of TIM Participações S.A., Telecom Italia Media S.p.A., Telecom Argentina S.A. and Fondazione Telecom Italia.

**Giuseppe Roberto Opilio:** Mr. Opilio was born in Rome in 1958. Since April 15, 2011 he has been Head of Technology at Telecom Italia. Mr. Opilio began his career at the Parfina Group (a chemicals company) in 1982 as an assistant to the plant manager. In 1983, he joined GEPI as Head of Organizational Consulting/Group EDP. He moved to management consulting company Galgano in 1988 to work as operations manager. He joined TIM in 1991 as Head of Organizational Development. In 2001, he was appointed Director of Human Resources, a position he held until 2004, when he was named Head of Customer Operations. Following the merger of TIM and Telecom Italia, he went to run Business Customer Operations (fixed-line/mobile integration), and later became Head of Group Quality. In February 2008 he was appointed Manager of the Open Access Department. He won the Human Resources Excellence Award (AIDP-EAPM) in 2001. Mr. Opilio is also member of the Board of Directors of Telecom Italia Sparkle S.p.A.

**Luca Rossetto:** Mr. Rossetto was born in Biella in 1962. Since April 15, 2011 he has been Consumer Director at Telecom Italia. His professional career began in Tekfen Group in 1985. From 1987 to 1992 he was Senior Expert in Andersen. From 1993 to 1998 he was in Boston Consulting Group, first as a Consultant and later as a Project Manager. In 1998 he joined Autogrill S.p.A., where he first held the position of Sales and Logistic Director, then became General Manager in 2000. From 2002 to January 2005 he was in Vodafone as Chief Operating Officer and member of the Board of Directors. In 2005 he was appointed Chief Executive Officer in La Rinascente/UPIM S.p.A., a position he maintained until 2009. From 2009 to April 2011 he worked as a Consultant. Mr. Rossetto is also member of the Board of Directors of Telecontact S.p.A. and Advanced Caring Center S.r.l.; he is Chairman of 4G Retail S.r.l. and of TLC Commercial Services S.r.l.

**Alessandro Talotta:** Mr. Talotta was born in Catanzaro in 1966. Since April 15, 2011 he has been Head of National Wholesale Services at Telecom Italia and member of the Board of Directors of Telecom Italia Sparkle and since May 18, 2012 is member of the Board of Directors of Trentino N.G.N.

He began his career in 1990 at Italtel S.p.A. (Società Italiana per le Telecomunicazioni) in the Strategic Planning and Marketing Development, where for six years he worked as Senior Manager.

In 1996, he joined Infostrada S.p.A. as Head of Strategic Planning and National/International Interconnection.

He remained at Infostrada after Enel's 2001 acquisition of the company from Vodafone, as head of Fixed and Mobile International Carrier Development.

That same year he moved to the Telecom Italia Group as Operations Supervisor. Before the year was out, he was put in charge of National Wholesale Services Marketing, Sales, Customer Service, Project management and Pricing for Wholesale, as well as overseeing operational services for this business segment.

In 2005, after Telecom Italia Mobile (TIM) merged into the Telecom Italia Group, the Wholesale department took over responsibility for mobile network services too. In 2008, Mr. Talotta joined the Business Strategies & International Development Management unit with the same

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responsibilities as before. Mr. Talotta was appointed Manager and Executive Vice President of Telecom Italia National Wholesale Services from December 2001 to April 2008.

In April 2008 he was appointed Chief Regulatory Officer of Telecom Italia and Member of the CROG at the GSMA. He is also a member of the IPTV Association.

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**Paolo Vantellini:** Mr. Vantellini was born in Varedo (MB) in 1961. Since December 18, 2012, he has been the Head of the Business Support Office department of Telecom Italia, ensuring coordination of the processes of supply chain, property asset development and management, energy procurement requirements optimisation and management, quality and customer satisfaction and compliance of Domestic activities. After graduating in Business Economics with a major in Corporate Finance from Luigi Bocconi Business University in Milan, in 1984, he started working as a lecturer for the Corporate Finance Unit at SDA Bocconi School of Management. In 1990 he was appointed Lecturer in Corporate Finance on the MBA course at SDA Bocconi and Contract Professor in Industrial Company Economics at Bocconi University. Until 2010 he continued as a contract professor in Economics and Business Management, then in Corporate Finance and finally in Business Financial Policy Master of Science course. At the same time he worked as a business consultant in Corporate Finance, company valuation and corporate governance. During the period 1997-2012 he became Member of the Boards of Directors and of Statutory Auditors at various companies including Director of Banco Ambrosiano Veneto S.p.A. from 1997 to 2000, Director of Lavorwash S.p.A. (from 2002 to 2004), a listed company, Director of Esprinet S.p.A. (from 2001 to 2009), a listed company, at which he was a member of the Committee for Internal Control and the Strategies and Investments Committee, Director of BNP Paribas Personal Finance S.p.A., BNL group, Chairman of the Board of Statutory Auditors of Investindustrial Advisors S.p.A., Member of the Board of Auditors of FOMAS HOP S.p.A., Chairman of the Board of Statutory Auditors of Nomura SIM S.p.A., Member of the Board of Auditors of ATEL Impianti S.p.A., Chairman of the Board of Directors of SIRTI S.p.A. in 2011-2012 and Chairman of the Board of Directors of several Intesa Group vehicle companies. Mr. Vantellini is also member of the Board of Directors of Olivetti S.p.A. and of Telecom Italia Information Technology; he is Chairman of Olivetti Multi Services S.p.A. and of Telenergia S.r.l.

**Table of Contents****Item 6. Directors, Senior Management and Employees****Board Of Auditors****6.3 BOARD OF AUDITORS**

On May 15, 2012 the Shareholders Meeting appointed the present Board of Statutory Auditors, that will remain in office until approval of the 2014 annual financial statements.

The following table lists the members of the Telecom Italia Board of Statutory Auditors as of April 8, 2014.

| <b>Name</b>                 | <b>Position</b>   | <b>Appointed</b> |
|-----------------------------|-------------------|------------------|
| Enrico Maria Bignami(1)     | Chairman          | 2012             |
| Gianluca Ponzellini         | Acting Auditor    | 2012             |
| Roberto Capone(1)           | Acting Auditor    | 2012             |
| Salvatore Spiniello         | Acting Auditor    | 2012             |
| Ferdinando Superti Furga    | Acting Auditor    | 2012             |
| Franco Patti(1)             | Alternate Auditor | 2012             |
| Vittorio Giacomo Mariani    | Alternate Auditor | 2012             |
| Fabrizio Riccardo Di Giusto | Alternate Auditor | 2013             |
| Ugo Rock                    | Alternate Auditor | 2012             |

(1) Elected by minority shareholders.

The positions held by the members of the Board of Statutory Auditors in other listed companies are shown below:

|                          |  |
|--------------------------|--|
| Enrico Maria Bignami     | Director of Biancamano S.p.A.  |
| Gianluca Ponzellini      | Chairman of the Board of Auditors of De Longhi S.p.A.                          |
| Salvatore Spiniello      | Member of the Board of Auditors of Telecom Italia Media S.p.A.                 |
| Ferdinando Superti Furga | Chairman of the Board of Auditors of Arnoldo Mondadori S.p.A. and Saras S.p.A. |

For a detailed description of Telecom Italia's corporate governance, including activities and responsibilities of the Board of Auditors (acting as Audit Committee of the Company) and the mechanics for its appointment, see Item 10 Additional Information 10.1 Corporate Governance .

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**External Auditors**

**6.4 EXTERNAL AUDITORS**

The audit of Italian issuers and their groups is governed by legislative decrees on statutory audits of annual accounts and consolidated accounts. In particular, such legislative decrees fix the duration of audit engagements at nine years and prohibit the renewal or the re-engagement unless at least three years have elapsed from the date of termination of previous assignment.

The Shareholders' Meeting held on April 29, 2010 appointed PricewaterhouseCoopers S.p.A. as Telecom Italia's independent auditors for the nine-year period 2010-2018 beginning with the financial year ended December 31, 2010.

Italian audit principles require that, in case of corporate groups, the audit firm of the parent company should carry out the audit of the group's most important entities in terms of the nature of operations, in such a way that it can act as the main group audit firm and express a professional evaluation on the financial statements in their entirety. In addition, the Guidelines for the Appointment of external Auditors (the **Group Procedure**), issued by Telecom Italia in March 2010 in view of the engagement of PricewaterhouseCoopers S.p.A. for the 2010-2018 period, provides that the auditor of Telecom Italia is the principal auditor of the entire group headed by Telecom Italia and consequently is the auditor to be preferred in the conferral of appointments by subsidiaries for mandatory auditing.

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The number of Group employees at December 31, 2013 and 2012 was the following:

|   | As of December 31, |                 |                 |
|---|--------------------|-----------------|-----------------|
|   | 2013               | 2012<br>(units) | Changes         |
| Employees Italy   | 53,152             | 54,380          | (1,228)         |
| Employees Foreign                                       | 12,467             | 28,761          | (16,294)        |
| <b>Total Employees at payroll</b>                       | <b>65,619</b>      | <b>83,141</b>   | <b>(17,522)</b> |
| Employees with temporary work contracts                 | 4                  | 43              | (39)            |
| Employees allocated to non-current assets held for sale | 16,575             |                 | 16,575          |
| <b>Total Employees</b>                                  | <b>82,198</b>      | <b>83,184</b>   | <b>(986)</b>    |

The reduction in workforce (a decrease of 17,522 units as of December 31, 2013 compared to December 31, 2012) is the result of the following events that occurred in 2013:

- the inclusion under Discontinued operations/Non-current assets held for sale of the Sofora Telecom Argentina group (16,800 units as of December 31, 2012 and 3 employees with temporary work contracts);
- the exclusion of La7 S.r.l. and of the MTV group from the scope of consolidation (543 units);
- the exclusion of a business branch of Olivetti I-Jet from the scope of consolidation (35 units);
- the net workforce turnover decrease by 144 units. The workforce turnover is detailed below by individual Business Unit:

|                                   | Hirings      | Terminations<br>(units) | Changes      |
|-----------------------------------|--------------|-------------------------|--------------|
| Domestic                          | 564          | 1,093                   | (529)        |
| Brazil                            | 4,877        | 4,359                   | 518          |
| Media, Olivetti, Other Operations | 14           | 147                     | (133)        |
| <b>Turn over</b>                  | <b>5,455</b> | <b>5,599</b>            | <b>(144)</b> |



*Telecom Italia S.p.A.*

|                      | As of December 31, |                 |         |
|----------------------|--------------------|-----------------|---------|
|                      | 2013               | 2012<br>(units) | Changes |
| Personnel on payroll | 44,386             | 44,606          | (220)   |

*Tim Brasil group*

|                        | As of December 31, |                 |         |
|------------------------|--------------------|-----------------|---------|
|                        | 2013               | 2012<br>(units) | Changes |
| Tim Brasil group Total | 12,140             | 11,622          | 518     |

**6.5.2 INDUSTRIAL RELATIONS****Telecom Italia**

In February and March 2013, Telecom Italia provided the trade unions with an overview of the macroeconomic context, which is particularly critical for the entire telecommunication sector, and the respective market environment, characterized by strong competitive pressure. The meetings addressed the development prospects for the various businesses, the organizational considerations and the impact on employment levels.

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**Item 6. Directors, Senior Management and Employees**

**Employees**

In this context, the Company and the trade unions held discussions to find solutions aimed at achieving the shared goal of safeguarding employment levels by restoring efficiency and productivity, particularly in access network operations and customer care services.

The discussion ended positively with specific agreements being signed on March 27 and 28, 2013, which agreements identified a well-defined set of actions aimed at supporting employability and in particular at promoting internalization processes. The agreements also provided for the use of the most socially sustainable safety nets for redundancy; above all, defensive solidarity contracts and voluntary collective mobility. For employees who already meet the requirements for access to social security payments, an agreement was reached to grant such category of employees an entitlement to collective mobility.

At the same meeting, an agreement was signed between the Company and the trade unions regarding the Performance Bonus, running from January 1, 2013 to December 31, 2015, which provides for the variable elements of the remuneration that do not vest in the employee to be correlated to results achieved, which are assessed on the basis of profitability, revenue performance and quality of service.

Pursuant to current legislation regarding Company transfers, Telecom Italia S.p.A. and Telecom Italia Sparkle S.p.A. implemented the procedure with the trade unions involved with regard to Telecom Italia Sparkle's intention to transfer its Network Operations business unit to Telecom Italia S.p.A., through a partial spin-off, as of September 1, 2013. Employment contracts will be transferred without interruption from Telecom Italia Sparkle S.p.A. to Telecom Italia S.p.A.

The operation will allow the organizational structures dedicated to planning activities, processes and skills to be made more efficient.

Specific agreements were signed in June 2013, as part of the discussions held between the Company and the trade unions to help find agreed solutions on how to introduce new work shifts for employees working in the Consumer Mobile and Business Credit Customer Operations, in the context of Customer Care Services.

These agreements, which will contribute to further improving oversight of the service and meeting the requirements of the relevant customers, will also allow employees to achieve a better work-life balance.

The Company signed a memorandum of understanding with the trade unions pursuant to which staff were awarded one day of paid leave for each public holiday that fell on a Sunday in 2013, as listed in the agreement, instead of the financial and legal arrangement for which their contract provides. This award was also granted, through agreements with the trade unions, to the employees of other Group companies (Telecontact, HRS, TI Information Technology, TI Digital Solutions, IT Telecom).

In line with the agreements reached on March 27, 2013, a further year's extension was signed in July 2013 with the trade unions of the defensive solidarity contract for personnel operating in Directory Assistance offices in southern Italy.



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**Item 6. Directors, Senior Management and Employees**

**Compensation Of Directors, Officers and Members of the Board of Auditors**

**6.6 COMPENSATION OF DIRECTORS, OFFICERS AND MEMBERS OF THE BOARD OF AUDITORS**

**6.6.1 COMPENSATION OF DIRECTORS**

The General Shareholders Meeting held on April 12, 2011 set the maximum total annual remuneration of the Board of Directors (to remain in office for a three-year term, until the approval of the 2013 financial statements), according to article 2389, first paragraph, of the Italian Civil Code up to 2.2 million euros, such amount to be divided amongst the directors in accordance with the resolution adopted by the Board itself in connection therewith.

According to the resolution adopted by the Board on May 5, 2011, as subsequently amended, the above mentioned overall amount was distributed as follows (gross amounts on a yearly basis):

- 110,000 euros to be paid to each director in office;
- an additional 35,000 euros to be paid to each member of the Executive Committee;
- an additional 45,000 euros to be paid to each member of the Control and Risk Committee;
- an additional 20,000 euros to be paid to each member of the Nomination and Remuneration Committee;
- an additional 45,000 euros to be paid to the then Deputy Chairman (Aldo Minucci). As a result of his appointment as Chairman of the Board of Directors on March 6, 2014, Mr Minucci's fee did not change;
- an additional 45,000 euros to be paid to the Director Galateri, who has been assigned the role of link between the Board and the control functions which report directly to the Board.

The total compensation paid by Telecom Italia and by the Telecom Italia Group subsidiaries in 2013 to the members of the Board of Directors of Telecom Italia was 6.8 million euros.

Following the renewal of the Board of Directors (Shareholders Meeting of April 12, 2011) the remuneration package of the Executive Chairman (Mr. Bernabè, who was not an employee of the Company), for the three years of his appointment to the board, was agreed by contract as follows:

- fixed annual remuneration of 110,000 euros gross for his position as a Director;

- fixed annual remuneration of 1.4 million euros gross for his position as Chairman of the Board of Directors;
- fixed annual remuneration of 35,000 euros gross for his position as member of the Executive Committee;
- variable remuneration linked to annual performance objectives, with a target value equal to his fixed annual remuneration for the position of Chairman of the Board of Directors and a range of between 50% and 150%, depending on the level of achievement of the targets assigned;
- one-off participation in the Long Term Incentive Plan 2011, with pay opportunity at target corresponding to 300% of his fixed annual remuneration for the position of Chairman of the Board of Directors, consisting of:
  - a cash bonus of 2.1 million euros (150% of the fixed annual remuneration); and
  - 2,253,702 ordinary shares (150% of the fixed annual remuneration expressed in shares, valued according to the average of official prices of Telecom Italia ordinary shares between June 7, and July 6, 2011);
- benefits similar to those granted to Group executives (company car, medical and accident insurance, complementary healthcare, complementary welfare) enjoyed free of any direct or indirect charges, with a corresponding increase in the remuneration for the position of Executive Chairman by the amount required to pay the tax applicable to taxed benefits. With specific reference to complementary welfare, provision was made for the Company to make an annual net payment to the Company complementary welfare fund amounting to (i) 10% of his fixed remuneration and (ii) 10% of the annual bonus applicable for achievement of the target results.

Provision was also made for the payment to the Executive Chairman of amounts due until the end of the period of office, including the variable component, calculated to correspond to the average of disbursements already made, in the event of early termination of his term of office (i) for objective reasons, (ii) on the company's initiative

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without just cause, (iii) on the initiative of Mr. Bernabè with just cause. Finally, the Company has reserved the right to enter into a one year non-competition agreement, in exchange for a one-off payment equal to a year's remuneration (fixed component and variable component calculated to correspond to the average of disbursements already made), to be implemented after termination.

On October 3, 2013, following his resignation, the Board of Directors passed a resolution on the compensation to be awarded Mr Bernabé in line with the provisions of the contract which he had signed with the Company on May 20, 2011. The Company therefore allocated Mr Bernabé (i) the remuneration to which he would have been entitled until the natural expiration of his term of office (fixed compensation, including the variable component, valued as the average of the disbursements already made); and (ii) the continuation of some of his benefits for a certain period of time, bearing all the related costs.

In addition, pursuant to the right established by the above-mentioned contract, the Company entered into a non-competition agreement, with a duration of 12 months, in return for a total gross compensation of 2.43 million euros, plus payment of the complementary welfare fund for the corresponding sum and a further amount as necessary to cover the taxes applicable to this benefit, making an additional sum payable by the Company of 0.45 million euros. Half of the aforementioned amounts were settled in 2013, the second will be settled not later than May 31, 2014.

Following Mr Bernabé's resignation, his rights to participate in the 2011 Long Term Incentive Plan expired, under the terms of the relevant regulations.

The remuneration package of the Chief Executive Officer of the Company (Mr. Patuano, who is an employee of Telecom Italia) has been agreed by contract as follows, subject to waiver of the remuneration due for the position of Director and member of the Executive Committee:

- fixed annual remuneration of 1.0 million euros gross as the annual gross remuneration for his employment relationship with the Company;
- variable remuneration for the position of Chief Executive Officer linked to annual performance objectives, with a target value equal to his fixed annual remuneration and a range of between 50% and 150%, depending on the level of achievement of the targets assigned;
- one-off participation in the Long Term Incentive Plan 2011, with pay opportunity at target corresponding to 300% of his fixed annual remuneration, consisting of:
  - a cash bonus of 1.5 million euros (150% of the fixed annual remuneration) and
  - 1,609,787 ordinary shares (150% of the fixed annual remuneration expressed in shares, valued according to the average of official prices Telecom Italia ordinary shares between June 7 and July 6, 2011);
- benefits similar to those granted to Group executives (company car, accident and medical insurance, complementary healthcare, complementary welfare).

Provision was also made for the payment of remuneration for the special position held (short term variable remuneration value, calculated as the average of the amounts received since 2011), in the event of early termination due to (i) early withdrawal of the administration relationship by the Company without just cause; (ii) resignation by Mr. Patuano at the request of the Board of Directors; (iii) resignation by Mr. Patuano with just cause. The procedure set forth in the collective labour agreement for company executives was established as being applicable in the event of a termination of employment relationship by the Company (unless there is just cause) or resignation requested by the Board of Directors. Finally, the Company has reserved the right to enter into a one year non-competition agreement, in exchange for a one-off payment equal to a year's remuneration (fixed component and variable component calculated to correspond to the average of disbursements already made), to be implemented after termination.

The performance target set forth as a condition for the payment of the short-term variable component of Mr. Patuano's compensation for the year 2013 (which was Telecom Italia Group consolidated net income as per the Company's budget) was not reached. Nevertheless the Board of Directors,

- taking note of the level of achievement of the remaining performance indicators for the year 2013;

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having obtained the opinion of the Board of Statutory Auditors,

resolved upon the discretionary award to the Chief Executive Officer of a one-off bonus in the sum of 400,000 euros gross, in recognition of the results achieved in the year 2013 and the role of Chief Executive Officer which he assumed starting from the month of October.

The long-term variable compensation relating to the 2011 - 2013 incentive period was not paid, because of the failure to achieve the relative TSR and Cumulated Free Cash Flow objectives specified.

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The following table lists the Directors who served during 2013 and their respective compensation as of December 31, 2013, according to the disclosure format set forth by Consob, the Italian market regulator (Regulation for the implementation of Legislative Decree dated February 24, 1998, adopted by Consob under Resolution 11971 dated May, 14, 1999 and subsequent amendments and additions):

| Name and surname                            | Position                   | Period for which the position was held | Expiry of term of office | Remuneration       |                        |                                  |                       |                    | Total remuneration | Fair Value of equity | Compensation for loss of office or termination of employment |
|---|----------------------------|--|--------------------------|--------------------|------------------------|----------------------------------|-----------------------|--------------------|--------------------|----------------------|--|
|   |                            |  |                          | Fixed remuneration | involvement committees | Variable non-equity remuneration | Non-monetary benefits | Other remuneration |                    |                      |  |
| Bonuses and other Profit incentives sharing |                            |  |                          |                    |                        |                                  |                       |                    |                    |                      |  |
| (thousands of euros)                        |                            |  |                          |                    |                        |                                  |                       |                    |                    |                      |  |
| Franco Bernabè(1)                           | Executive Chairman and CEO | 1/1<br>10/3/2013                       | 12/31/2013               | 1,390              | 27                     |                                  |                       | 1,203              | 2,620              | 5,638                |  |
| Marco Emilio Angelo Patuano(2)              | Chief Executive Officer    | 1/1<br>12/31/2013                      | 12/31/2013               | 1,005              |                        | 2                                |                       | 35                 | 1,042              |                      |  |
| Aldo Minucci(3)                             | Deputy Chairman Director   | 1/1<br>12/31/2013                      | 12/31/2013               | 155                | 35                     |                                  |                       |                    | 190                |                      |  |
| Cesar Izuel Alierta(4)                      | Director                   | 1/1<br>12/13/2013                      | 12/31/2013               | 110                |                        |                                  |                       |                    | 110                |                      |  |
| Tarak Ben Ammar(5)                          | Director                   | 1/1<br>12/31/2013                      | 12/31/2013               | 110                |                        |                                  |                       |                    | 110                |                      |  |
| Lucia Calvosa(6)                            | Director                   | 1/1<br>12/31/2013                      | 12/31/2013               | 110                | 45                     |                                  |                       |                    | 155                |                      |  |
| Elio Catania(7)                             | Director                   | 1/1<br>09/13/2013                      | 12/31/2013               | 77                 | 71                     |                                  |                       |                    | 148                |                      |  |
| Massimo Egidi(8)                            | Director                   | 1/1<br>12/31/2013                      | 12/31/2013               | 110                | 20                     |                                  |                       |                    | 130                |                      |  |
| Jean Paul Fitoussi(9)                       | Director                   | 1/1<br>12/31/2013                      | 12/31/2013               | 110                | 65                     |                                  |                       |                    | 175                |                      |  |
|   | Director                   |  | 12/31/2013               |                    |                        |                                  |                       |                    |                    |                      |  |



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|   |  |                    |            |              |            |            |              |              |
|---|--|--------------------|------------|--------------|------------|------------|--------------|--------------|
| Gabriele Galateri<br>di Genola  |  | 1/1<br>12/31/2013  |            |              |            |            |              |              |
| <i>(I) Remuneration in the company that draws up the financial statements(10)</i>   |  |                    |            | 155          | 20         |            | 175          |              |
| <i>(II) Remuneration from subsidiaries and associates(11)</i>                       |  |                    |            | 16           |            |            | 16           |              |
| <b>(III) Total</b>  |  |                    |            | <b>171</b>   | <b>20</b>  |            | <b>191</b>   |              |
| Julio Linares Lopez(12)   | Director                               | 1/1<br>12/13/2013  | 12/31/2013 | 105          | 33         |            | 138          |              |
| Gaetano Miccichè(13)  | Director                               | 1/1<br>12/31/2013  | 12/31/2013 | 110          |            |            | 110          |              |
| Renato Pagliaro(14)   | Director                               | 1/1<br>12/31/2013  | 12/31/2013 | 110          | 35         |            | 145          |              |
| Angelo Provasoli(15)  | Director                               | 10/3<br>12/20/2013 | 12/20/2013 | 24           | 1          |            | 25           |              |
| Mauro Sentinelli(16)  | Director                               | 1/1<br>12/31/2013  | 12/31/2013 | 110          | 80         |            | 190          |              |
| Luigi Zingales(17)  | Director                               | 1/1<br>12/31/2013  | 12/31/2013 | 110          | 45         |            | 155          |              |
| Andrea Mangoni  | South<br>America<br>General<br>Manager | 1/1<br>4/30/2013   | 4/30/2013  |              |            |            |              |              |
| <i>(I) Remuneration in the company that draws up the financial statements(18)</i>   |  |                    |            | 686          | 275        | 15         | 976          | 2,840        |
| <i>(II) Remuneration from subsidiaries and associates(19)</i>                       |  |                    |            | 159          |            |            | 159          |              |
| <b>(III) Total</b>  |  |                    |            | <b>845</b>   | <b>275</b> | <b>15</b>  | <b>1,135</b> | <b>2,840</b> |
| <i>(I) Total remuneration in the company that draws up the financial statements</i> |  |                    |            | 4,563        | 476        | 277        | 1,253        | 6,569        |
| <i>(II) Total remuneration from subsidiaries and associates</i>                     |  |                    |            | 175          |            |            | 175          | 8,478        |
| <b>(III) Total</b>  |  |                    |            | <b>4,738</b> | <b>476</b> | <b>277</b> | <b>1,253</b> | <b>6,744</b> |

(1) The fixed remuneration includes the remuneration pursuant to article 2389, paragraph 3, of the Italian Civil Code (1,063,000 euros) and paragraph 1 of the Italian Civil Code (84,000 euros) including other remuneration offsetting the tax burdens applicable to taxed benefits

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(243,000 euros). The remuneration for involvement in committees refers to the remuneration received as member of the Executive Committee. The non-monetary benefits relates to the period in which the position was held (January/September 2013: 292,000 euros) and benefits granted on the occasion of the early termination of his working relationship as a Director (911,000 euros). The compensation for loss of office or termination of employment includes the amount determined by way of flat fee for termination under article 1373, subsection III and article 2383 of the Italian Civil Code (3,001,000 euros) and the fee for the non-competition obligation (2,637,000 euros).

- (2) The fixed remuneration includes the remuneration for work as employee (1,000,000 euros) and travel expenses (5,000 euros). Bonuses and other incentives refers to the employment relationship (taxable reimbursements 2,000 euros).
- (3) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code) 110,000 euros and as Vice Chairman 45,000 euros. The remuneration for involvement in committees refers to the remuneration received as member of the Executive Committee.
- (4) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code). This remuneration is not received by the person concerned but paid to Telefonica S.A.
- (5) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code).
- (6) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code). The remuneration for involvement in committees refers to the remuneration received as member of the Control and Risk Committee.
- (7) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code). The remuneration for involvement in committees refers to the remuneration received as member of the Executive Committee 25,000 euros, the Nomination and Remuneration Committee 14,000 euros and of the Control and Risk Committee 32,000 euros.
- (8) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code). The remuneration for involvement in committees refers to the remuneration received as member of the Nomination and Remuneration Committee.
- (9) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code). The remuneration for involvement in committees refers to the remuneration received as member of the Control and Risk Committee 45,000 euros and Nomination and Remuneration Committee 20,000 euros.
- (10) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code) 110,000 euros and as link between the Board of Directors and the corporate control departments which report hierarchically to the Board 45,000 euros. The remuneration for involvement in committees refers to the remuneration received as member of the Nomination and Remuneration Committee.
- (11) This amount refers to the remuneration received as member of the Board of Directors in TIM Participações 42,933.33 R\$ for the period 1/1 - 4/2/2013 converted into euros at the average exchange rate for 2013 at 3/31/2013 (Real/ 2.63739).
- (12) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code). The remuneration for involvement in committees refers to the remuneration received as member of the Executive Committee. This remuneration is not received by the person concerned but paid to Telefonica S.A.
- (13) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code). This remuneration is not received by the person concerned but paid to Intesa Sanpaolo S.p.A.

- (14) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code). The remuneration for involvement in committees refers to the remuneration received as member of the Executive Committee. This remuneration is not received by the person concerned but paid to Mediobanca S.p.A.
- (15) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code). The remuneration for involvement in committees refers to the remuneration received as member of the Nomination and Remuneration Committee for the period 12/6/2013 - 12/20/2013.
- (16) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code). The remuneration for involvement in committees refers to the remuneration received as member of the Executive Committee 35,000 euros and of the Control and Risk Committee 45,000 euros. This remuneration is not received by the person concerned but paid to Ecotel International S.r.l.
- (17) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code). The remuneration for involvement in committees refers to the remuneration received as member of the Control and Risk Committee.
- (18) Fixed compensation in the company includes the remuneration for work as employee (611,000 euros) and travel expenses (75,000 euros). Bonuses and other incentives includes the variable compensation relating to the financial year (150,000 euros) related with the period for which the position was held and the flat bonus for managerial services in South America (125,000 euros). Compensation for loss of office or termination of employment includes: (i) an amount by way of resignation incentive (1,640,000 euros), (ii) an amount by way of general novation settlement (200,000 euros), (iii) a bonus in recognition of the contribution made to the turnaround in the group's companies in South America (1,000,000 euros).
- (19) Fixed compensation from subsidiaries refers to the compensation received for the appointment in TIM Participações converted into euros at the average exchange rate for 2013 at 03/31/2013 (Real/ 2.63739).

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Applicable Italian law requires disclosure of individual compensation in the form of stock options for members of the Board of Directors.

The following table has been prepared according to the format required by the Regulation for the implementation of Legislative Decree dated February 24, 1998, adopted by Consob under Resolution 11971 dated May, 14, 1999 and subsequent amendments and additions.

| B   | (1)                            | Options held at the beginning of the financial year |                |                                    | (5)               | Options assigned during the financial year |                                    |                               |                    | Options exercised during the financial year                 |                   |                | Options expired during the financial year (14)     | Options held at the end of the financial year (15) |                         |
|---|--------------------------------|---|----------------|------------------------------------|-------------------|--|------------------------------------|-------------------------------|--------------------|---|-------------------|----------------|--|--|-------------------------|
|   |                                | (2)   | (3)            | (4)                                |                   | (6)  | (7)                                | (8)                           | (9)                | (10)  | (11)              | (12)           |  |  | (13)                    |
| Position  | Plan and respective resolution | Number of options                                   | Exercise price | Possible exercise period (from to) | Number of options | Exercise price                             | Possible exercise period (from to) | Fair value on assignment date | Date of assignment | Market price of underlying options on assignment of options | Number of options | Exercise price | Market price of underlying shares on exercise date | Number of options                                  | (15)= (2)+(5)-(11)-(14) |
| Director(*)   | TOP 2008 4/15/2008             | 2,250,000   | 1.95           | 04/15/2011 04/15/2014              |                   |  |                                    |                               |                    |   |                   |                |  |  | 2,250,000               |
| Chairman  | TOP 2008 4/15/2008             | 6,300,000   | 1.95           | 04/15/2011 04/15/2014              |                   |  |                                    |                               |                    |   |                   |                |  |  | 6,300,000               |
| Cancellation in the company during the financial year |                                | 8,550,000   |                |                                    |                   |  |                                    |                               |                    |   |                   |                |  |  | 8,550,000               |
| Cancellation from the company and associates          |                                |   |                |                                    |                   |  |                                    |                               |                    |   |                   |                |  |  |                         |
|   |                                | <b>8,550,000</b>                                    |                |                                    |                   |  |                                    |                               |                    |   |                   |                |  |  | <b>8,550,000</b>        |

(\*) The 2008 TOP Plan was assigned at the time when Mr. Galateri was Chairman of the Board of Directors.

For further details, please see Note Equity compensation plans of the Notes to the Consolidated Financial Statements, included elsewhere herein.

**6.6.2 Compensation of Executive Officers**

The total compensation due by the Company or by any of the Company's subsidiaries in 2013 to the Company's executive officers (including the Chief Executive Officer and excluding the short-term variable component of remuneration of Tim Brasil CEO, to be assessed as yet by the corporate bodies of the TIM Participações) was 23.9 million euros.

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There is no generalized standard practice regarding severance pay for key managers with strategic responsibilities. However, the general policy established since 2008 is the following:

- at the time of appointment to an executive position, an executive who already has an employment contract with the Group will be subject to the provisions of the collective labor agreement for company executives;
- at the time of engagement of an executive from outside the company, any severance clauses will not normally exceed the maximum amount payable under the collective labor agreement for executives;
- in the event of specific executive staff redundancy campaigns, more generous payments may be made than are required by the collective labor agreement.

There are no general non-competition policies for key managers with strategic responsibilities. For a small number of key managers with strategic responsibilities there is still a duty not to compete with group companies under agreements signed prior to 2008, for which the respective consideration has already been paid.

The specific provisions applicable to the current Chief Executive Officer, who is an employee of the Company, are described under 6.6.1 Compensation of Directors .

Applicable Italian law requires disclosure of individual compensation in the form of stock options for General Managers and, in the aggregate and divided by plan, the stock options granted by Telecom Italia S.p.A. to Executive Officers.

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The following table has been prepared according to the format required by the Regulation for the implementation of Legislative Decree dated February 24, 1998, adopted by Consob under Resolution 11971 dated May 14, 1999 and subsequent amendments and additions.

| A                | B        | Financial instruments assigned in previous financial years not vested during the financial year |                                 |                         | Financial instruments assigned during the financial year |                               |                |                    |                            | Financial instruments vested during the financial year and not assigned | Financial instruments vested during the financial year and assigned |                          | Financial instruments for the year |
|------------------|----------|---|---------------------------------|-------------------------|--|-------------------------------|----------------|--------------------|----------------------------|---|---|--------------------------|------------------------------------|
|                  |          | (1)   | (2)                             | (3)                     | (4)  | (5)                           | (6)            | (7)                | (8)                        | (9)   | (10)  | (11)                     | (12)                               |
| Name and Surname | Position | Plan and resolution   | Number of financial instruments | Vesting Period          | Number and type of financial instruments                 | Fair value on assignment date | Vesting Period | Date of assignment | Market price on assignment | Number and type of financial instruments                                | Number and type of financial instruments                            | Value on assignment date | Fair value                         |
| Franco Bernabè   | Chairman | LTI 2011  | (1)                             | 07/07/2011              |  |                               |                |                    |                            |   |   |                          |                                    |
| Marco Patuano    | CEO      | LTI 2011  | (2)                             | April 2011 / March 2014 |  |                               |                |                    |                            |   |   |                          |                                    |

**(I) Remuneration in the company that draws up the financial statements**

**(II) Remuneration from subsidiaries and associates**

**(III) Total**

(1) The rights to participate in the 2011 Long Term Plan (equal to 3,380,533) expired when the resignation came into effect, in application of the relevant regulations.

(2) The rights to participate in the 2011 Long Term Plan (equal to 2,414,681) expired following failure to achieve the objectives.

### 6.6.3 COMPENSATION OF MEMBERS OF THE BOARD OF AUDITORS

The General Shareholders Meeting of May 15, 2012 (which appointed the current Board of Auditors) authorized annual compensation of 95,000 euros for each Auditor and 135,000 euros for the Chairman of the Board of Auditors. Such compensation took into account the role of Board of Statutory Auditors acting as Supervisory Panel established under Legislative Decree 231/2001.

The Shareholders Meeting to be held on April 16, 2014 will vote upon the proposal to supplement the remuneration of the Board of Auditors awarding them, in addition to the aforementioned remuneration, an individual attendance fee (the same sum for the Chairman of the Board of Statutory Auditors and the remaining Auditors), granted at the end of the year, of 500 euros gross for each meeting which each of them has attended over 24 meetings per calendar year, starting from January 1, 2014 and with payment, in the event of a period of office of less than an

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entire calendar year, of the same amount for each meeting that they have attended over the product of the multiplication by 2 of the total number of complete calendar months in which they were in office.

The total compensation paid by the Company or by any of the Telecom Italia Group subsidiaries in 2013 to the members of the Board of Auditors was approximately 550 thousand euros.

**Table of Contents****Item 6. Directors, Senior Management and Employees****Compensation Of Directors, Officers and Members of the Board of Auditors**

The following table sets forth the members of the Board of Auditors in office during 2013 and the compensation received by the Board of Auditors for services rendered during the year ended December 31, 2013:

| Individuals<br><br>Name   | Description of the position |  |               | Compensation<br>base | Non<br>cash<br>benefits | Compensation<br>Bonuses<br>and<br>other<br>incentives<br>(thousand of euros) | Other<br>Compensations | Total      |
|---|-----------------------------|--|---------------|----------------------|-------------------------|--|------------------------|------------|
|   | Position held               | Period during which<br>position was held | Office expiry |                      |                         |  |                        |            |
| Enrico Maria BIGNAMI  | Chairman                    | 1/1-12/31/2013                           | 12/31/2014    | 135                  |                         |  |                        | 135        |
| Roberto CAPONE  | Acting Auditor              | 1/1-12/31/2013                           | 12/31/2014    | 95                   |                         |  |                        | 95         |
| Gianluca PONZELLINI   | Acting Auditor              | 1/1-12/31/2013                           | 12/31/2014    | 95                   |                         |  |                        | 95         |
| Salvatore SPINIELLO   | Acting Auditor              | 1/1-12/31/2013                           | 12/31/2014    |                      |                         |  |                        |            |
| <i>(I) Remuneration in the company that draws up the financial statements</i> |                             |  |               | 95                   |                         |  |                        | 95         |
| <i>(II) Remuneration from subsidiaries and associates(1)</i>                  |                             |  |               | 26                   |                         |  |                        | 26         |
| <b>(III) Total</b>  |                             |  |               | <b>121</b>           |                         |  |                        | <b>121</b> |
| Ferdinando SUPERTI<br>FURGA   | Acting Auditor              | 1/1-12/31/2013                           | 12/31/2014    | 95                   |                         |  |                        | 95         |
| <i>(I) Remuneration in the company that draws up the financial statements</i> |                             |  |               | 515                  |                         |  |                        | 515        |
| <i>(II) Remuneration from subsidiaries and associates</i>                     |                             |  |               | 26                   |                         |  |                        | 26         |
| <b>(III) Total</b>  |                             |  |               | <b>541</b>           |                         |  |                        | <b>541</b> |

(1) This amount refers to the remuneration received for the office of Chairman of the Board of Statutory Auditors for the period 1/1 - 4/5/2013 (11,000 euros) and for the office of member of the Board of Statutory Auditors for the period 4/6 - 12/31/2013 (15,000 euros) of the listed subsidiary Telecom Italia Media S.p.A.



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**Item 6. Directors, Senior Management and Employees**

**Options To Purchase Securities From Registrant**

**6.7 OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT**

At December 31, 2013, the outstanding stock option plans related to options which give the right to subscribe for new Telecom Italia Ordinary Shares and new Tim Participações ordinary shares. In addition, at December 31, 2013 other Telecom Italia S.p.A. equity compensation plans were outstanding.

*Telecom Italia equity-based plans*

As of April 8, 2014, the vesting period of the 2012 Long Term Incentive Plan is pending.

The objective of the plan (that was approved by Telecom Italia Shareholders Meeting held on May 15, 2012) was to reinforce the connection between management's compensation and the Company's performance:

- cumulated Free Cash Flow as defined in the business plan 2012-2014 (absolute performance: 35% weighted); and
- Total Shareholder Return compared to a group of peers (relative performance: 65% weighted).

The plan granted:

- to selected management, a cash bonus, with the option of investing 50% of the bonus in Telecom Italia Ordinary Shares at market price and the grant of bonus Matching Shares when specific conditions are met two years after subscription;
- to top management, a 50% bonus in cash and 50% for rights to a bonus grant of Telecom Italia Ordinary Shares after two years.

On December 31, 2013 the three-year performance period of the 2011 Long Term Incentive Plan (that had been approved by Telecom Italia Shareholders Meeting held on April 12, 2011 and covered executive directors, top management and selected managers) expired. The Board of Directors on March 6, 2014 acknowledged that the performance criteria (both relative and absolute) had not been met, so that no payment was granted to the beneficiaries of the Plan.

The Shareholders Meeting on April 17, 2013 approved an Employee Share Ownership Plan. The scheme made available a total of 54,000,000 ordinary shares at a 10% discount off the market price, and in any case not below par value (as a result of the par value cancellation: not below 0.55 euro per share), in possible installments. Individuals who hold shares for one year, and providing they remain employees, will be granted one free bonus share for every three shares purchased. To service the plan, the Board of Directors was granted powers to increase share capital by a maximum 39,600,000, part paid and part without charge, via the assignment of profits or profit reserves.

The Board of Directors on March 6, 2014 exercised such powers and resolved to increase share capital and offer to the employees of Telecom Italia and its Italian subsidiaries a total of 54,000,000 ordinary shares at a 10% discount off the market price at the time of the offer, granting all necessary implementing powers to the Chief Executive Officer. As at April 8, 2014 such powers have not been exercised yet.

The Board of Directors on March 6, 2014 submitted for approval to the Shareholders Meeting on April 16, 2014 a stock option plan to be known as the 2014-2016 Stock Options Plan, covering executive directors, top management and selected managers. The scheme provides for the allocation of options to subscribe (or purchase) a maximum amount of 196,000,000 ordinary shares of the Company at a strike price to be established by the Board of Directors, in line with the market price of the share at the time of allocation of the options. The options cannot be exercised before the expiry of a three year vesting period, and become exercisable only if certain performance conditions are satisfied.

***Tim Participações stock option plans***

On July 21, 2013, the shareholders meeting of Tim Participações S.A. approved the third granting of stock options for managers in key positions in the company and its subsidiaries.

The plan granted the right to purchase a total of 3,072,418 shares. As of December 31, 2013, there were no options that could have already been exercised.

With the reference to the 2011 and 2012 plans, as of December 31, 2013, none of the plan beneficiaries had exercised the options to purchase during the period established.

For further details, see *Note Equity compensation plans* of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

**Table of Contents****Item 7. Major Shareholders and Related-Party Transactions****Major Shareholders****Item 7. MAJOR SHAREHOLDERS AND RELATED-PARTY TRANSACTIONS****7.1 MAJOR SHAREHOLDERS**

At December 31, 2013, according to the shareholders register and other information in the Company's possession, the parties which held shares with voting rights, directly or indirectly, in excess of 2% of the ordinary share capital of Telecom Italia were the following:

| Major Shareholders | Type of ownership | As of December 31, 2013 |                             |
|--------------------|-------------------|-------------------------|-----------------------------|
|                    |                   | No. Ordinary Shares     | % of ordinary share capital |
| Telco S.p.A.       | (direct)          | 3,003,586,907           | 22.39                       |
| Findim Group S.A.  | (direct)          | 671,431,444             | 5.00                        |

BlackRock Inc. notified an indirect holding as of December 13, 2013, as an asset management company, of a total number of 1,045,047,007 Ordinary Shares, which at December 31, 2013 was equal to 7.79% of Telecom Italia's Ordinary Shares.

At December 31, 2013, Telecom Italia held 37,672,014 of its own Ordinary Shares, while the subsidiary Telecom Italia Finance S.A. held another 124,544,373 Ordinary Shares, for a total of 1.21% of capital with voting rights.

As of April 8, 2014, the above mentioned position is the following:

| Major Shareholders | Type of ownership | As of April 8, 2014 |                             |
|--------------------|-------------------|---------------------|-----------------------------|
|                    |                   | No. Ordinary Shares | % of ordinary share capital |
| Telco S.p.A.       | (direct)          | 3,003,586,907       | 22.39                       |
| Findim Group S.A.  | (direct)          | 671,431,444         | 5.00                        |
| Norges Bank        | (direct)          | 273,850,730         | 2.04                        |

BlackRock Inc. also notified an indirect holding as of March 12, 2014, as an asset management company, of a total number of 645,770,181 Ordinary Shares, which at April 8, 2014 was equal to 4.81% of Telecom Italia's Ordinary Shares.

For more details about the significant changes in the percentage of ownership held by major shareholders organizational structure, please see Item 4. Information on the Telecom Italia Group 4.1 Business 4.1.1 Background .

**7.1.1 SHAREHOLDERS AGREEMENTS**

The information contained herein regarding shareholders' agreements has been derived from publicly available information filed by the parties involved with regulatory authorities. So far as Telecom Italia is aware, no facts have been omitted herein which would render the information misleading. No further or other responsibility in respect of such information is accepted by Telecom Italia.

Telecom Italia's main shareholder is Telco S.p.A. (Telco), whose capital with voting rights at December 31, 2013 was broken down as follows: Intesa Sanpaolo S.p.A. (11.62%), Mediobanca S.p.A. (11.62%), companies belonging to the Generali Group (30.58%) and Telefónica S.A. (46.18%).

The shareholders of Telco are part of a shareholders' agreement dating back to April 28, 2007. On February 29, 2012 the shareholders of Telco cancelled, by mutual consent, the agreement signed in 2007, as subsequently amended, signing a new agreement on the same terms and conditions as the previous one, with a duration until February 28, 2015. On September 24, 2013, Telefónica subscribed new non-voting shares of Telco for approximately 324 million euros, bringing its stake in the capital of Telco to 66%; on the same date, the parties amended some matters agreed in the shareholders' agreement.

In relation to this, the agreement presently includes an undertaking by Telefónica to subscribe a further increase in capital again with the issue of non-voting shares for a total of approximately 117 million euros, which would

**Table of Contents****Item 7. Major Shareholders and Related-Party Transactions****Major Shareholders**

increase its stake in the capital of Telco from 66% to 70%. Furthermore, from January 1, 2014 Telefónica is entitled to exchange the shares subscribed with the aforementioned increases in capital into voting shares, also in several *tranches* until it achieves a maximum stake of 64.9% of the total voting capital of Telco. From the same date, Telefónica is entitled to purchase for cash all the shares of the other Telco shareholders, in accordance with predetermined windows of time, coordinated with the time periods within which the Telco shareholders may exercise their non-proportional demerger options, between June 15 and June 30, 2014 and February 1 and February 15, 2015. The second increase in capital, the conversion right and the purchase right are dependent on obtaining all necessary antitrust and communications authorizations (including, where necessary, those of the authorities in Brazil and Argentina).

The agreement identifies, among other things, the criteria for the composition of the slate of candidates for the Board of Directors of Telecom Italia to be submitted to the Shareholders Meeting, providing that the board of directors of Telco approve a slate for the appointment of directors to the board of Telecom Italia according to the criteria indicated below:

- so long as Telefónica holds more than 30% but less than 50% of the voting shares in Telco, Telefónica will be entitled to designate 2 directors of Telecom Italia to be included in the slate; conversely, so long as the other shareholders of Telco hold over 50% of the voting capital of Telco, they shall have the right to designate the other candidates on the slate, three of whom unanimously and the others based on a proportionality principle;
- after the exchange of Telefónica's non-voting shares into voting ones takes place, and provided that Telefónica holds more than 50% of the voting shares in Telco: (i) the other shareholders will be entitled to designate the first two members on the slate, unanimously, and half of the remaining candidates (net of the directors to be reserved to the minority shareholders) in proportion to their respective shareholdings in Telco; (ii) Telefónica will be entitled to designate all the remaining candidates (net of the directors to be reserved to the minority shareholders) to be listed on the Telco slate. The parties have agreed, provided that the Board of Directors of Telecom Italia is composed of no fewer than 13 directors, that Telefónica shall be entitled to designate at least four Directors. To this end, they will ensure that Telco votes against any proposal to Telecom Italia Shareholders Meeting to reduce the number of directors of Telecom Italia to less than 13.

The 2012 Amended Shareholders Agreement provides that the Telecom Italia Group and the Telefónica Group are managed autonomously and independently. In particular, the Board members designated by Telefónica to serve in Telco and Telecom Italia are instructed by Telefónica not to attend or vote in board meetings (nor will Telefónica itself exercise its right to vote in the Telco shareholders' meetings) that examine and propose resolutions regarding the policies, management and operations of companies directly or indirectly controlled by Telecom Italia and that provide their services in countries where legal or regulatory restrictions or limitations concerning the exercise of voting rights by Telefónica are in force. In addition, specific provisions and prohibitions regarding Brazil and Argentina were altered to take account (i) of the prescriptions imposed by the Brazilian telecommunications authority (Anatel) through Ato no. 68.276 of October 31, 2007, and the *Termo de Compromisso de Desempenho* signed before the Brazilian antitrust authority (CADE) on April 28, 2010 by the Telco shareholders and, as intervening party, by TIM Brasil Serviços e Participações S.A., as well as (ii) of the *Compromiso* signed before the Comisión Nacional de Defensa de Competencia of Argentina (CNDC) on October 6, 2010 by the contracting parties, by Telco and as intervening parties in order to execute the obligations assumed by Telecom Italia, Telecom Italia International N.V., Sofora Telecomunicaciones SA, Nortel Inversora SA, Telecom Argentina SA, Telecom Personal SA, Telefónica de Argentina SA, and Telefónica Mviles SA.

Following the decision adopted by CADE on December 4, 2013 (by which the Brazilian antitrust authority made its approval of the concentration of the control of Brazilian operator Vivo in Telefónica, which occurred in 2010 by means of the acquisition of the share previously held by fellow shareholder Portugal Telecom, dependant on *the extinction of the Telefónica direct or indirect stake in TIM Brasil or the entry of a new shareholder in Vivo, with experience of the sector and without other holdings in another Brazilian telecommunications operator*), Directors César Alierta Izuel and Julio Linares López (designated by Telefónica) resigned on December 13, 2013 and Telefónica unilaterally announced, in a press release, that, while not renouncing any of the rights granted to it in the agreement, it would not, for the time being, exercise its right to appoint or designate two Directors to the Board of Directors of the Company.



**Table of Contents****Item 7. Major Shareholders and Related-Party Transactions****Major Shareholders**

An option to purchase the Telco shares of the Company is in force between Telco and Telefónica, and hence, in the case of dissent by Telefónica from the decision by the Telco Board of Directors to transfer or set up encumbrances on the Telecom Italia shares in its portfolio, Telefónica could alternatively purchase the Telecom Italia shares from Telco at the same price and under the same conditions offered by a third party proposing to buy them, or require the de-merger of Telco.

Pursuant to the agreement, the Board of Directors of Telco is expected to resolve with a qualified majority of directors on the determinations on the vote to be expressed in the extraordinary meeting of the shareholders of Telecom Italia called to approve transactions of an extraordinary nature (including, but not limited to, resolutions with an impact on the share capital of Telecom Italia, such as increases or decreases, mergers or de-mergers, excepting, however, resolutions pursuant to articles 2446-2447 of the Italian Civil Code or other resolutions required to comply with the applicable law). If a qualified quorum is not achieved, resolutions may be made by simple majority, without prejudice to the right of dissenting shareholders to request the demerger of Telco.

**7.1.2 SHAREHOLDERS OWNERSHIP****v BOARD OF DIRECTORS**

In accordance with applicable Italian law, the following table shows the investments held in Telecom Italia S.p.A. and in the related subsidiaries by all the individuals who, during 2013 or a part of that year, have held the post of director in Telecom Italia S.p.A.

| Name                        | Company               | Class of shares | Number of shares held at the end of 2012 (or at the date of appointment) | Number of shares purchased in 2013 | Number of shares sold in 2013 | Number of shares held at the end of 2013 (or as of the date on which individual left post, if before) |
|-----------------------------|-----------------------|-----------------|--|------------------------------------|-------------------------------|---|
| Franco BERNABÈ(1)(2)        | Telecom Italia S.p.A. | Ordinary        | 468,000  |                                    |                               | 468,000   |
|                             |                       | Savings         | 480,000  |                                    |                               | 480,000   |
| Aldo MINUCCI                | Telecom Italia S.p.A. | Ordinary        | 2,595  |                                    |                               | 2,595   |
| Marco PATUANO               | Telecom Italia S.p.A. | Ordinary        | 70,000   |                                    |                               | 70,000  |
|                             |                       | Savings         | 30,000   |                                    |                               | 30,000  |
| Gabriele GALATERI DI GENOLA | Telecom Italia S.p.A. | Ordinary        | 352,000  |                                    |                               | 352,000   |
|                             |                       | Savings         | 176,000  |                                    |                               | 176,000   |
| Renato PAGLIARO             | Telecom Italia S.p.A. | Savings         | 60,000   |                                    |                               | 60,000  |
| Luigi ZINGALES              | Telecom Italia S.p.A. | Ordinary        | 58,000   |                                    |                               | 58,000  |

(1) Of which 18,000 ordinary shares held indirectly.

(2) Of which 30,000 savings shares held indirectly.

v **BOARD OF AUDITORS**

No individuals who, during 2013 or a part of that year, have held the post of statutory auditor in Telecom Italia S.p.A. hold investments in Telecom Italia S.p.A. and in the related subsidiaries.



**Table of Contents****Item 7. Major Shareholders and Related-Party Transactions****Major Shareholders**v **EXECUTIVE OFFICERS**

In accordance with applicable Italian law, the following table shows the investments held in Telecom Italia S.p.A. and in the related subsidiaries by all the individuals who, during 2013 or a part of that year, have held the post of executive officers in Telecom Italia S.p.A.

| Company                     | Class of shares | Number of shares held at the end of 2012 (or at the date of appointment) | Number of shares purchased in 2013 | Number of shares sold in 2013 | Number of shares held at the end of 2013 (or as of the date on which individual left post, if before) |
|-----------------------------|-----------------|--|------------------------------------|-------------------------------|---|
| Telecom Italia S.p.A.       | Ordinary        | 19,391   |                                    |                               | 19,391  |
| Telecom Italia S.p.A.       | Savings         | 0  |                                    |                               | 0   |
| Telecom Italia Media S.p.A. | Ordinary        | 0  |                                    |                               | 0   |

\* \* \*

As of April 8, 2014 no member of the Board of Directors, Board of Auditors or Executive Officers beneficially owned more than 1% of the Ordinary Shares or Savings Shares.

**7.1.3 CONTINUING RELATIONSHIP WITH THE ITALIAN STATE**

The Italian Treasury continues to be in a position to exert certain powers with respect to Telecom Italia through the exercise of the special powers included in Telecom Italia's Bylaws. Such powers, the so-called "golden share," were established in 1997 according to Law No. 474/1994, when Telecom Italia formerly controlled by the Italian Treasury was privatized.

On May 22, 2003, taking into account the proposed merger of Telecom Italia into Olivetti S.p.A., a Decree by the Minister of Economy and Finance, in agreement with the Minister for Productive Activities, maintained the power of approving the acquisition of major shareholding in the company's voting capital (3% of Telecom Italia's voting share capital or more) and the power of veto over resolutions to dissolve the company, approve mergers, demergers or dispositions of the business, transfer the registered office abroad, change the corporate purposes or amend and modify the special powers. On the other hand, the Treasury's power to approve major shareholders' agreements and the power to appoint one Director and one Statutory Auditor were relinquished.

Law No. 350/2003, adopted in December 2003, significantly modified the rules governing the special powers, of the Italian Government with respect to privatized companies stating, in particular, that the Government no longer has the power to approve or disapprove the acquisition of material interests in the share capital of such companies, but instead may object, within a ten-day period, in case of prejudice to vital State Interests and each time there is the need to protect subsequent undeniable reasons of public interest, in accordance with specific criteria set forth

in an ad-hoc decree of the Government dated June 10, 2004.

As a result, on April 1, 2005 a new Decree by the Minister for Economy and Finance, in agreement with the Minister for Productive Activities redefined accordingly the content of the special powers clause in the Telecom Italia bylaws, and stated its exact wording. Subsequently the relevant provision of the bylaws was amended accordingly.

On March 26, 2009, the European Court of Justice declared that, by adopting the provisions contained in decree of the Government dated June 10, 2004 defining the criteria for the exercise of the special powers, the Italian Republic failed to fulfill its obligations under the EC Treaty. Specifically, infringement of Articles 43 (freedom of establishment) and 56 (freedom of movement of capital) of the EC Treaty arose from the fact that the Decree of 2004 did not make sufficiently clear the conditions for the exercise of the special powers, and did not enable investors to know in what situations the powers would be used. The extremely broad description of the circumstances permitting recourse to these special powers gave those powers a discretionary nature. As a result, the above factors would discourage investors generally and more specifically those contemplating investing in Italy with a view to exerting some influence on the management of the companies to which the legislation at issue applies.

**Table of Contents****Item 7. Major Shareholders and Related-Party Transactions****Major Shareholders**

As a result of the ruling by the European Court of Justice the Prime Minister's Decree dated June 10, 2004 was amended on May 20, 2010. As a result of these amendments, presently the special powers may only be exercised when justified by substantial and compelling reasons of general interest, particularly with regard to public order, security, health and defense, as appropriate and proportionate to the protection of those interests.

In 2012 Decree law 21/2012, setting out Regulations on special powers over corporate ownership in the defence and national security sectors, as well as for activities of strategic relevance in the energy, transport and communications sectors was adopted and subsequently converted with amendments in law 56/2012.

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

- Telecom Italia is required to provide a notice giving full information on resolutions to be taken regarding the merger or demerger of the company, transfer of the business or a branch of the business, or of subsidiaries, transfer of the registered offices abroad, change of company purpose, dissolution, amendment of clauses in the company bylaws introduced pursuant to the law on privatization, the transfer of property rights or rights to use tangible or intangible assets or the assumption of limitations that affect their use;
- any other person who acquires a stake in the Company's share capital with voting rights is required to provide a notice when the thresholds of 2%, 3%, 5%, 10%, 15%, 20% and 25% are exceeded, which notice gives a general description of the proposed acquisition, the purchaser and its sphere of operations.

Within a 15 day-period from the notice (suspended if further information is requested) a power of veto may be exercised, or prescriptions or conditions may be imposed every time this is sufficient to ensure the protection of the essential interests of defence and national security. Pending exercise of the veto power, the voting rights (and any rights other than the property rights) attaching to the shares that represent the relevant holding shall be suspended. The same rights are suspended in case of any non-compliance with or breach of the conditions imposed on the purchaser, for the whole of the period in which the non-compliance or breach persists. Any resolutions adopted with the determining vote of said shares or holdings, as well as the resolutions or acts adopted that breach or do not comply with the conditions imposed, shall be null and void.

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

- the authority to impose conditions and possibly to oppose the purchase, by non-EU citizens, of controlling shareholdings in the Company. For non-EU citizens, any right to purchase will be permitted solely on condition of reciprocity with the purchaser's home jurisdiction; and
- a power of veto (including through prescriptions or conditions) on any resolution, act or transaction which has the effect of modifying the ownership, control or availability of strategic assets or changing their use, including resolutions of merger, demerger, transfer of registered office abroad, transfer of the company or business units which contain the strategic assets or their assignment by way of guarantee,

amendment to company s bylaws purpose, company dissolution or amendment in bylaws provisions relating to limitations on voting rights.

**Table of Contents****Item 7. Major Shareholders and Related-Party Transactions****Related-Party Transactions****7.2 RELATED-PARTY TRANSACTIONS**

The following major transactions with related parties were entered into in 2013:

on September 27, 2013, the threshold of greater significance of the equivalent-value ratio, set at 3.5% of the consolidated equity of Telecom Italia (equaling 716.73 million euros at June 30, 2013, the reporting date of the most recent periodic accounting document published) was exceeded as a result of the execution of a series of sales of trade receivables with advances during 2013 to Mediofactoring S.p.A. and Centro Factoring S.p.A., each of which are part of the Intesa Sanpaolo group. The sales of trade receivables with advances qualify as financial operations and, as such, in calculating their equivalent value the amount of the receivables sold is used, augmented by the fees and interest paid to the assignee. As a result of the exceeding of the threshold of greater significance, on October 11, 2013 an information document was published, available on the Company's website at <http://www.telecomitalia.com/tit/it/about-us/general-archive.html>; and

on November 7, 2013, the Board of Directors of Telecom Italia approved the launch of a bond issued by Telecom Italia Finance S.A. with mandatory conversion into Telecom Italia shares for an amount of 1.3 billion euros; in relation to the loan's subscribers (Banca IMI S.p.A., a subsidiary of Intesa Sanpaolo S.p.A. and Telefónica S.A.) and on the basis of the request by the Control and Risk Committee, Telecom Italia classified the transaction as a related party transaction of major significance; as a result the precautionary analysis and decision-making procedure was followed in accordance with the internal procedures for related party transactions. At its meeting on December 5, 2013, the Board of Directors passed a new resolution, approving the convertible bond, on the basis of specific advice prepared by the independent directors and after verification that the transaction met the interests of Telecom Italia S.p.A., as well as its cost effectiveness and substantial correctness. On December 6, 2013, the press release required by Consob was then published, in which the report of the Independent Directors and the observations of the Board of Statutory Auditors were included as an attachment. The documentation is available on the Company's website <http://www.telecomitalia.com/tit/en/press/press-releases-notes.html>.

A specific Group Steering Committee for relations with Telefónica has been in place since the end of 2007. Its purpose, among other things, is to identify business areas and activities that could lead to possible industrial synergies between the two Groups and propose plans for the implementation of such synergies. The internal working groups consequently established for this purpose worked jointly to identify numerous areas of interest regarding:

the achievement of synergies, in the strict sense, especially in the areas of procurement, IT, technology and research and innovation, in which the common factor is the experience and expertise of each of the two parties, with resulting possible improvements; and

the sharing of best practices in the areas of specific processes or company services, aimed at improving performance in the respective domestic markets.

The program for industrial cooperation generated just over 1.3 billion euros in cost synergies during the three years 2008-2010, confirming the initial value assigned to the project announced to the market in March 2008. The portion of the synergies benefiting Telecom Italia was equal to 55%.

During the last three-year period 2011-2013, the joint activities for the implementation of the synergy plan continued and cost synergies were achieved for a value similar to that achieved in the previous three-year period, of around 1.4 billion euros. These resulted in part from the extension of activities already under way and in part from the alignment of technology platforms and increasing attention to the exchange of

expertise on innovative services, as well as the continuous improvement of respective domestic performances as a result of sharing of best practices.

The operations of the two groups in Brazil and Argentina were excluded from the operational perimeter of the initiative.

In view of its strategic nature, as well as having considered the circumstance that Telefónica is a related party of Telecom Italia, the Control and Risk Committee is responsible for monitoring its implementation, in the light of the applicable principles of conduct.

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**Item 7. Major Shareholders and Related-Party Transactions**

**Related-Party Transactions**

No other related party transactions were entered into that have materially affected the financial position or results of the Telecom Italia Group.

Transactions with related parties, when not dictated by specific laws, were conducted at arm's length. Furthermore, the transactions were subject to an internal procedure which defines procedures and timing for verification and monitoring. The procedure can be consulted on the Company's website at the following address: [www.telecomitalia.com](http://www.telecomitalia.com), section Governance-channel governance system.

For further information on related party transactions please see Note Related party transactions of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

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**Item 8. Financial Information**

**Historical Financial Statements**

**Item 8. FINANCIAL INFORMATION**

**8.1 HISTORICAL FINANCIAL STATEMENTS**

See Items 18 and 19 for a list of financial statements and other financial information filed with this report.

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**Item 8. Financial Information**

**Legal Proceedings**

**8.2 LEGAL PROCEEDINGS**

We are continuously involved in disputes and litigation with regulators, competitors and other parties.

For further details, please see Note Contingent liabilities, other information, commitments and guarantees to the Consolidated Financial Statements included elsewhere in this Annual Report.

**Table of Contents****Item 9. Listing****Trading Of Telecom Italia Ordinary Shares And Savings Shares****Item 9. LISTING****9.1 TRADING OF TELECOM ITALIA ORDINARY SHARES AND SAVINGS SHARES**

The principal trading market for the Ordinary Shares and the Savings Shares is the Mercato Telematico Azionario or ( **Telematico** ), an automated screen trading system managed by Borsa Italiana (See 9.2 Securities Trading in Italy ).

Ordinary and Savings Share ADSs, each representing respectively ten Ordinary Shares and ten Savings Shares have been listed on the NYSE since August 4, 2003. JPMorgan Chase Bank is the Company's Depository issuing ADRs evidencing the Ordinary Share ADSs and the Savings Share ADSs.

The table below sets forth, for the periods indicated, reported high and low official prices of the Ordinary Shares on Telematico and high and low closing prices of Ordinary Share ADSs on the NYSE from the First Quarter of 2009.

|                | Telematico |       | NYSE     |        |
|----------------|------------|-------|----------|--------|
|                | High       | Low   | High     | Low    |
|                | ( )        |       | (U.S.\$) |        |
| <b>2009:</b>   |            |       |          |        |
| First Quarter  | 1.193      | 0.780 | 16.540   | 9.640  |
| Second Quarter | 1.048      | 0.920 | 14.360   | 11.960 |
| Third Quarter  | 1.253      | 0.946 | 18.500   | 13.130 |
| Fourth Quarter | 1.218      | 1.050 | 17.990   | 15.150 |
| <b>2010:</b>   |            |       |          |        |
| First Quarter  | 1.138      | 1.019 | 15.910   | 13.970 |
| Second Quarter | 1.134      | 0.889 | 15.460   | 10.500 |
| Third Quarter  | 1.089      | 0.890 | 14.080   | 11.200 |
| Fourth Quarter | 1.109      | 0.951 | 15.610   | 12.320 |
| <b>2011:</b>   |            |       |          |        |
| First Quarter  | 1.144      | 0.984 | 15.940   | 13.130 |
| Second Quarter | 1.090      | 0.897 | 15.650   | 12.690 |
| Third Quarter  | 0.953      | 0.728 | 13.930   | 10.000 |
| Fourth Quarter | 0.941      | 0.768 | 13.510   | 10.180 |
| <b>2012:</b>   |            |       |          |        |
| First Quarter  | 0.923      | 0.772 | 12.300   | 10.170 |
| Second Quarter | 0.892      | 0.663 | 11.980   | 8.200  |
| Third Quarter  | 0.847      | 0.618 | 10.990   | 7.370  |
| Fourth Quarter | 0.801      | 0.671 | 10.480   | 8.430  |
| <b>2013:</b>   |            |       |          |        |
| First Quarter  | 0.765      | 0.547 | 10.160   | 7.050  |
| Second Quarter | 0.665      | 0.515 | 8.600    | 6.660  |
| Third Quarter  | 0.615      | 0.475 | 8.200    | 6.280  |
| Fourth Quarter | 0.748      | 0.613 | 10.300   | 8.230  |
| <b>2014:</b>   |            |       |          |        |
| January        | 0.866      | 0.712 | 11.530   | 9.550  |

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|                               |       |       |        |        |
|-------------------------------|-------|-------|--------|--------|
| February                      | 0.875 | 0.799 | 12.010 | 10.660 |
| March                         | 0.857 | 0.796 | 11.790 | 10.910 |
| April (through April 8, 2014) | 0.890 | 0.846 | 12.150 | 11.660 |

Source: Reuters data

At the close of business on April 8, 2014 there were 23,625,424 Ordinary Share ADSs outstanding held by 121 registered holders. One of the registered holders is the Depository Trust Company ( **DTC** ) which holds 23,615,799 Ordinary Share ADSs on behalf of beneficial holders.

**Table of Contents****Item 9. Listing****Trading Of Telecom Italia Ordinary Shares And Savings Shares**

The table below sets forth, for the periods indicated, reported high and low official prices of the Savings Shares on Telematico and high and low closing prices of the Savings Share ADSs on the NYSE from the First Quarter of 2009.

|                               | Telematico |       | NYSE     |        |
|-------------------------------|------------|-------|----------|--------|
|                               | High       | Low   | High     | Low    |
|                               | ( )        |       | (U.S.\$) |        |
| <b>2009:</b>                  |            |       |          |        |
| First Quarter                 | 0.859      | 0.610 | 12.040   | 7.510  |
| Second Quarter                | 0.814      | 0.633 | 10.910   | 8.590  |
| Third Quarter                 | 0.875      | 0.665 | 12.910   | 9.250  |
| Fourth Quarter                | 0.861      | 0.749 | 12.770   | 10.780 |
| <b>2010:</b>                  |            |       |          |        |
| First Quarter                 | 0.880      | 0.762 | 12.020   | 10.620 |
| Second Quarter                | 0.900      | 0.714 | 12.190   | 8.490  |
| Third Quarter                 | 0.888      | 0.722 | 11.430   | 9.230  |
| Fourth Quarter                | 0.893      | 0.802 | 12.590   | 10.490 |
| <b>2011:</b>                  |            |       |          |        |
| First Quarter                 | 1.014      | 0.822 | 14.180   | 10.830 |
| Second Quarter                | 0.959      | 0.766 | 13.760   | 10.910 |
| Third Quarter                 | 0.806      | 0.667 | 11.730   | 9.170  |
| Fourth Quarter                | 0.788      | 0.656 | 11.270   | 8.460  |
| <b>2012:</b>                  |            |       |          |        |
| First Quarter                 | 0.752      | 0.634 | 9.930    | 8.420  |
| Second Quarter                | 0.744      | 0.543 | 9.950    | 6.690  |
| Third Quarter                 | 0.699      | 0.522 | 9.040    | 6.210  |
| Fourth Quarter                | 0.695      | 0.581 | 8.960    | 7.390  |
| <b>2013:</b>                  |            |       |          |        |
| First Quarter                 | 0.654      | 7.050 | 8.640    | 6.040  |
| Second Quarter                | 0.551      | 0.418 | 7.180    | 5.400  |
| Third Quarter                 | 0.487      | 0.378 | 6.560    | 4.940  |
| Fourth Quarter                | 0.586      | 0.489 | 7.920    | 6.550  |
| <b>2014:</b>                  |            |       |          |        |
| January                       | 0.671      | 0.563 | 9.040    | 7.650  |
| February                      | 0.678      | 0.606 | 9.290    | 8.120  |
| March                         | 0.683      | 0.624 | 9.360    | 8.500  |
| April (through April 8, 2014) | 0.706      | 0.681 | 9.670    | 9.310  |

Source: Reuters data

At the close of business on April 8, 2014 there were 11,988,467 Savings Share ADSs outstanding held by 19 registered holders.

One of the registered holders is the Depository Trust Company ( **DTC** ) which holds 11,984,499 Savings Share ADSs on behalf of beneficial holders.

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Fluctuations between the Euro and the U.S. dollar will affect the dollar equivalent of the price of the Ordinary Share and the Savings Shares on Telematico and the price of the Ordinary Share ADSs and the Savings Share ADSs on the New York Stock Exchange.

On April 4, 2014 the Noon Buying Rate for the Euro was U.S.\$ 1.3704 = 1.00.

**Table of Contents****Item 9. Listing****Securities Trading In Italy****9.2 SECURITIES TRADING IN ITALY**

Italian equity securities are traded on the regulated electronic stock market Mercato Telematico Azionario or MTA ( **Telematico** ), which operates under the control of the Commissione Nazionale per le Società e la Borsa (the National Commission for Companies and the Stock Exchange or **Consob** ), the public authority in charge of regulating the securities markets and all public offerings of securities in Italy in order to ensure the transparency and regularity of trading and protect investors.

Telematico is managed by Borsa Italiana, a joint stock company part of the London Stock Exchange Group, responsible for the organization and management of the Italian stock exchange.

Securities transactions on Telematico are settled on a cash basis. Cash transactions are settled on the third trading day following the trading date. Borsa Italiana publishes information on transactions in each listed security, including the volume traded and the high and low prices of the day. No last price is reported, but an official price calculated as a weighted average price of all trades performed during the trading day and a reference price as for the closing auction price. The Bank of Italy, in accordance with Consob, regulates the governing of the clearing system that is currently performed in Italy on an exclusive basis by Monte Titoli (a centralized securities clearing system owned by certain major Italian banks and financial institutions).

If in the course of a trading day the maximum price variation between two consecutive contracts is  $\pm 5\%$ , or maximum price variation of the contracts with respect to the reference price is  $\pm 10\%$  an automatic five-minute suspension is declared. Furthermore Borsa Italiana has the authority to suspend trading in any security in response to extreme price fluctuations or for other reasons.

The most liquid shares traded on Telematico, including the Telecom Italia ordinary shares, are traded on **Mercato After Hours** , an automated screen trading system managed by Borsa Italiana. **Mercato After Hours** operates, from 6.00 p.m. to 8.30 p.m., substantially under the same rules as Telematico except that the price of any security may not fluctuate by more than 3.5% from the reference price of said securities on Telematico on the same day.

The FTSE MIB Index is the primary benchmark index for the Italian equity market. Capturing approximately 80% of the domestic market capitalisation, the FTSE MIB Index measures the performance of the 40 most liquid and capitalised Italian shares and seeks to replicate the broad sector weights of the Italian stock market. The index is derived from the universe of stocks trading on Borsa Italiana's Telematico market.

The index is calculated in accordance with the Industry Classification Benchmark ( **ICB** ) where main sectors are: Oil & Gas, Constructions & Material, Industrials Goods and Services, Automobiles & Parts, Media, Telecommunications, Utilities, Banks, Technology, Insurance and Personal & Household Goods. Each FTSE MIB constituent is weighted by its free float capital, considering the effective number of shares tradable in the market. Index Constituents weights are capped at 15%; they are reviewed and their weights are rebalanced quarterly (March, June, September and December). The weighting structure can also be changed following extraordinary events (if the capital of a stock increases or other events).



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**Clearance And Settlement Of Telecom Italia Shares**

**9.3 CLEARANCE AND SETTLEMENT OF TELECOM ITALIA SHARES**

All financial instruments publicly traded on regulated markets including treasury bonds are dematerialized. Companies that issue financial instruments that are publicly traded on regulated markets must inform Monte Titoli, which will open an account in the name of each company in its register.

Beneficial owners of Ordinary Shares and Savings Shares must hold their interests through specific deposit accounts with any participant having an account with Monte Titoli. The beneficial owners of Ordinary Shares and Savings Shares held with Monte Titoli may transfer their shares, collect dividends, create liens and exercise other rights with respect to those Ordinary Shares and Savings Shares through such accounts and may no longer obtain physical delivery of share certificates in respect of their Ordinary Shares and Savings Shares. All new issues of Ordinary Shares and Savings Shares and all other transactions involving Ordinary Shares and Savings Shares must settle electronically in book-entry form.

Ordinary Shares and Savings Shares are accepted for clearance through Euroclear and Clearstream. Holders of shares may elect to hold such Ordinary Shares and Savings Shares through Euroclear or Clearstream (outside the United States).



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**Item 10. ADDITIONAL INFORMATION**

**10.1 CORPORATE GOVERNANCE**

**v GENERAL**

The Company's corporate governance system is made up of a series of principles, rules and procedures drawn from applicable laws and regulations and from international best practices. The system, designed and constructed bearing in mind the principles formulated by the Committee for Corporate Governance of Borsa Italiana, has been implemented with the adoption of codes, regulations and policies covering the activity of all the organizational and operational components of the Company. Most of these documents are available in an English language version on the Internet at [www.telecomitalia.com](http://www.telecomitalia.com) under "Governance".

In response to requests coming from the market and the experience the Company accrued in some recent events, this system entered a review phase, expected to result in a potentially significant updating of the rules in force by the end of 2014.

According to applicable Italian law, listed issuers shall annually disclose information on their compliance with codes of conduct issued by regulated stock exchange companies (such as the aforementioned Corporate Governance Code by Borsa Italiana) or by trade associations.

**v CHANGES IN THE REGULATORY FRAMEWORK**

No significant change in the regulatory environment took place in 2013.

**v CODE OF ETHICS AND CONDUCT**

The Code of Ethics and Conduct (the **Code of Ethics**) of the Telecom Italia Group is central to Telecom Italia Group's system of corporate governance as it spells out the Company's fundamental values and the principles considered necessary to ensure an ethically oriented conduct of business. The Code can be considered as the basis of the whole corporate governance system, since every instrument of corporate governance is based on the principles of transparency, fairness and loyalty specified in the Code. The Code specifies the principles to be respected in relations with all the main stakeholders of the Company: shareholders, financial markets, customers, local communities and employees.

The Code of Ethics was drawn up on the basis of generally accepted ethical principles and in accordance with the highest international standards, taking into account the principles of Section 406 of the Sarbanes Oxley Act.

As with all of the Company's corporate governance codes and principles, the Code of Ethics is updated in order to conform it to the developments in the applicable law and market regulations, taking into account national and international best practices.

On October 3, 2013 the Board of Directors adopted a new version of the Group's Code of Ethics and Conduct organized into four sections: (i) General Principles, highlighting the role of the Code of Ethics as the foundation of the organizational model and internal control and risk management system of the Group; (ii) Values, which identifies and focuses the principal values of the Group (Ethics and Compliance, Service Excellence, Competition, Communication, Community, Human Resources, Health & Safety); (iii) Behaviours, setting out the conducts required from the addressees of the code (including the corporate bodies, the management, employees of all Group companies and external advisors, as well as third parties doing business with the Group, where required by the company procedural system) and (iv) Reporting, setting out the ways in which any irregularities or negligence in compliance with the obligations are to be reported.

For further details, please see Item 16B. Code of Ethics and Conduct .

## v **BOARD OF DIRECTORS**

The Company's system of corporate governance is centered around the Board of Directors. The Corporate Governance Principles of Telecom Italia supplement the applicable rules concerning the tasks and functioning of the Board of Directors and all the directors are required to comply with the Corporate Governance Principles.

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Such Principles have been adopted by the Board of Directors as a self regulatory measure only and can therefore be amended (or neglected in a single instance) at any time with a resolution adopted by the Board and promptly disclosed to the market.

Since 2005, Telecom Italia's directors have carried out an annual Board performance evaluation.

***Role and tasks***

In accordance with the Italian Stock Exchange Code (by which Telecom Italia fully abides) the Board of Directors plays an active role both in the strategic guidance of the Company and in the control of operations, with the power to formulate strategy and responsibility for intervening directly in decisions having the greatest impact on the activity of the Company and the Group. The Board of Directors shall, in particular, have overall responsibility for the internal control and risk management system, including the definition of the nature and level of risk consistent with the specific strategic objectives of the business.

Pursuant to the Company's Corporate Governance Principles, the following matters are deemed to have a notable effect on the business of the Company and the Group, and as such are subject to resolutions of the board:

- agreements with competitors which, considering the subject, commitments, conditions, or limits that they may produce, have long-term effects on the freedom of strategic business decisions;
- investments and disinvestments exceeding 250 million euros, and in any event purchases or sales of shareholdings, or businesses or business units that are of strategic significance in the overall framework of the business; transactions that, in their execution or upon their completion, can result in commitments and/or purchases and/or sales of this nature and scale;
- the acceptance of loans for amounts exceeding 500 million euros and the granting of loans and guarantees in favor of non-subsidiary companies for amounts exceeding 250 million euros; transactions that, in their execution or upon their completion, can create commitments and/or deeds of this nature and scale;
- the above transactions, to be performed by unlisted subsidiaries of the Group, excluding those controlled by listed subsidiaries;
- the listing and delisting of financial instruments issued by the Company or Group companies in regulated markets inside or outside Europe;
- instructions to be given to listed subsidiaries (and their subsidiaries), when the Parent Company exercises its management and coordination activity for the performance of transactions with the characteristics indicated above.

Since 2002, the Company has adopted guidelines for carrying out transactions with related parties in order to ensure both procedural and substantial fairness and transparency.

On November 4, 2010 the Board of Directors introduced the set of procedures currently in force, as amended on June 28, 2012. In addition to related parties, as defined by Consob regulation No. 17221 of March 12, 2010 and IAS 24, this procedure must also be applied for self-regulatory principles to participants in shareholders' agreements that regulate candidacy to the position of Director of Telecom Italia, in the case of a majority slate. The procedure classifies the transactions in different categories and, according to this classification, different assessment and approval procedures are applied, if these transactions are to be carried out with related parties.

For information on the subject of related-party transactions, see Item 7. Major Shareholders and Related-Party Transactions 7.2 Related-Party Transactions.

In its function of monitoring and guiding the performance of operations, the Board of Directors assesses the adequacy of the organizational, administrative and accounting structure of the Company on the basis of information made available by the management and, with specific reference to the adequacy of the internal control system, in light of the results of the investigations made by the Control and Risk Committee.

The internal control and risk management system is organised and operates according to the principles and criteria set out in the Italian Stock Exchange Code. It is an integral part of the general organisational structure of

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the Company and the Group, and involves several components that act in a coordinated way according to their respective responsibilities: the responsibility of the Board of Directors to direct and provide strategic oversight, the responsibility of the Executive Directors and management to monitor and manage, the responsibility of the Control and Risk Committee and the Head of the Audit Department to overview and provide support to the Board of Directors, and the supervisory responsibilities of the Board of Statutory Auditors.

The Board of Directors, insofar as it is responsible for the internal control and risk management system, defines the guidelines of the system and verifies its adequacy, effectiveness and proper functioning, so that the main corporate risks (including, among others, operational, compliance-related, economic and financial risks) are properly identified and managed over time.

The establishment and maintenance of the internal control system are assigned to the Executive Directors (currently, the Chief Executive Officer Marco Patuano), and to the Manager in charge of preparing the Company's financial report for his area of responsibility (such position is held by the Head of Administration, Finance and Control, Piergiorgio Peluso), so as to ensure the overall adequacy of the system and its functionality, in a risk-based perspective, which is also taken into account in determining the agenda for the Board's proceedings.

The Internal Audit Manager, the Group Compliance Officer and the IT & Security Compliance Department Manager report directly to the full Board; the role of link between the Board of Directors and said control structures is presently assigned to non-executive Director Gabriele Galateri di Genola.

The assessment of the performance of operations is based on a continuous flow of information coordinated by the Chairman of the Board of Directors and directed towards the non-executive directors and the members of the Board of Statutory Auditors. Assessments are made, notably, with a comparison of the results achieved with those budgeted during the examination of the financial reports.

***Meetings***

The Corporate Governance Principles require the Board to meet periodically (and at least quarterly).

Through April 8, 2014, in 2014 the Board of Directors has had 6 meetings.

When board meetings are to be held, documentation permitting effective participation in the proceedings is provided well in advance, subject to circumstances of the case (as a rule, the Friday preceding the day on which the meeting is to be held, which is normally a Thursday), to enable informed participation in the meetings. When required by the subjects discussed, representatives of the Company management or external consultants are invited to take part, who ensure the necessary technical and professional support.

***Appointment of Directors***

As noted above, Telecom Italia's bylaws (Article 9) provide for the Board of Directors to be elected by the Shareholders Meeting through a slate system, which is presently mandatory under Italian law.

- The slate system is designed to ensure the presence on the Board of Directors of persons drawn from slates presented by minority shareholders. Shareholders who together hold at least 0.5% of the ordinary share capital (in accordance with a recent interpretation of the corporate Bylaws by the Board of Directors, following a suggestion coming from Consob: in disregard of the different stake annually required to this end by Consob), can put forward slates of candidates. The slates and the accompanying documentation (such as the curricula vitae of the candidates) must be filed at the Company's registered office at least 25 days and made available to the public at least 21 days before the date scheduled for the shareholders' meeting. Consob requires the Company to make the slates and the relevant information available to the public at its registered office, at Borsa Italiana and on its website [www.telecomitalia.com](http://www.telecomitalia.com). According to Telecom Italia's bylaws, slates of candidates can be put forward also by the outgoing Board of Directors. The Board of Directors is elected as follows:
  - four fifths of the directors to be elected are chosen from the slate that obtains the majority of the votes cast by the shareholders, in the order in which they are listed on the slate; in the event of a fractional number, it is rounded down to the nearest whole number;

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the remaining directors are chosen from the remaining slates. To that end, the votes obtained by the various slates are divided successively by whole numbers from one up to the number of directors to be appointed and the results (quotients) obtained are assigned to the candidates on each slate in the order specified thereon. On the basis of the quotients assigned, the candidates on the various slates are arranged in a single decreasing ranking. Those who have obtained the highest quotients are elected.

All slates that present three or more candidates should have a gender ratio of at least 1:3 among the candidates (1:5 on the occasion of the first application). In case the vote on the slates does not fulfill the diversity requirement in the composition of the Board, the appointment of the last of the persons elected from the majority slate who are of the more represented gender will be forfeited, and they will be replaced with the first unelected candidates of the less represented gender on the same slate, in the number needed to ensure the prescribed gender balance. In any case, should the slate mechanism fail, the Shareholders Meeting retains the right to appoint directors by a subsequent vote, applying the legal majorities, so that the so-called gender diversity requirement may in any event be ensured in the composition of the Board.

The shareholders meeting held on April 12, 2011, established the number of Telecom Italia directors at 15 and appointed the Board for a three-year period. The slate of candidates proposed by Telco S.p.A. obtained the highest number of votes and therefore 12 out of 15 of Telecom Italia's Directors were elected from that slate (Cesar Alierta Izuel, Tarak Ben Ammar, Franco Bernabè, Elio Cosimo Catania, Jean Paul Fitoussi, Gabriele Galateri di Genola, Julio Linares Lopez, Gaetano Micciché, Aldo Minucci, Renato Pagliaro, Marco Patuano and Mauro Sentinelli); the remaining three directors (at the time Luigi Zingales, Ferdinando Falco Beccalli and Francesco Profumo) were elected from the slate proposed by a group of institutional shareholders. Subsequently certain changes took place. With respect to the current composition of the Board, see above Item 6- Directors, Senior Management and Employees. See also: Risks associated with Telecom Italia's ownership chain under Item 3. Key Information 3.1 Risk Factors.

**Composition**

According to the bylaws, the shareholders meeting decides the exact number of Board members within a minimum and a maximum number (from 7 to 19). Directors may serve for a maximum term of three years, they may be re-elected and there is no statutory age limit for their eligibility. There are no provisions in Italian law that set age or shareholding requirements for directors' qualification. There are no provisions in the Telecom Italia bylaws relating to the retirement of a director under an age or tenure limit requirement.

If during the term of the Board of Directors one or more directors cease to hold such position for any reason, the Board of Directors is allowed to appoint replacements by a resolution approved by the Board of Auditors. The directors so appointed will remain in office until the next Shareholders Meeting. As a rule, the replacements finally appointed by the Shareholders Meeting will remain in office for the same term as the other members already in office at the time of their appointments; the Shareholders Meeting may establish a different term of office for them. In the event of replacement of an independent board member, the Nomination and Remuneration Committee is responsible for proposing a candidate.

Article 3 of the Company's Corporate Governance Principles establishes a cap on the maximum number of positions that Telecom Italia directors may hold in management and control bodies of other companies. The general rule is that the position of Telecom Italia director is not compatible with directorships or auditorships in more than five companies, other than Telecom Italia subsidiaries or affiliates, when such companies:

are listed and included in the FTSE/MIB index; and/or

- operate prevalently in the financial sector on a public basis; and/or
- engage in banking or insurance.

The directorship in Telecom Italia is also considered not compatible with holding more than three executive positions in companies of the types specified above. The Board of Directors may nonetheless permit exceptions to these rules, such exceptions to be made public. If a Director holds office in more than one company belonging to the same Group, only one office held within that Group is taken into account, when calculating the number of offices.



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Telecom Italia's largest shareholder is Telco. On the basis of information in the public domain the agreement among Telco shareholders identifies, among other things, the criteria for the composition of the slate of candidates for appointment to the Board of Directors of Telecom Italia to be submitted to the Shareholders' Meeting, providing that the board of directors of Telco approve a slate for the appointment of directors to the board of Telecom Italia according to the criteria indicated below:

- so long as Telefónica holds more than 30% but less than 50% of the voting shares in Telco, Telefónica will be entitled to designate 2 directors of Telecom Italia to be included in the slate; conversely, so long as the other shareholders of Telco hold over 50% of the capital of Telco with voting rights, they shall have the right to designate the other candidates on the slate, three of whom unanimously and the others based on a proportionality principle;
- after the conversion of Telefónica's non-voting shares into voting ones takes place, and always provided that Telefónica holds more than 50% of the voting shares in Telco: (i) the other shareholders will be entitled to designate the first two members on the slate, unanimously, and half of the remaining candidates (net of the directors to be reserved to the minority shareholders) in proportion to their respective shareholdings in Telco; (ii) Telefónica will be entitled to designate all the remaining candidates (net of the directors to be reserved to the minority shareholders) to be listed on the Telco slate. The parties have agreed, provided that the Board of Directors of Telecom Italia is composed of no fewer than 13 directors, that Telefónica shall be entitled to designate at least four Directors. To this end, they will ensure that Telco votes against any proposal submitted to Telecom Italia Shareholders' Meeting to reduce the number of directors of Telecom Italia to less than 13.

The agreement among Telco shareholders provides for the Telecom Italia Group and the Telefónica Group to be run autonomously and independently and contains specific provisions to this end. See Item 7. Major Shareholders and Related-Party Transactions Item 7.1.1. The Shareholders' Agreements.

***Independent Directors***

At least two members of the Board of Directors must satisfy the independence requirements set forth by the Consolidated Law on Finance for the members of the Board of Auditors. Moreover, Article 3 of the Corporate Governance Principles incorporate by reference the independence criteria set out in the Borsa Italiana's Corporate Governance Code.

To qualify as independent under Borsa Italiana's Corporate Governance Code and the Company's Corporate Governance Principles, Telecom Italia directors should not maintain, nor have recently maintained, directly or indirectly any business relationships with the issuer or persons linked to the issuer (Group companies, executive directors or members of their families), of such a significance as to influence their autonomous judgment, and should not be in a position to influence the Company as a consequence of the shares they hold or their participation in shareholders' agreements. Specific presumptions are listed in Borsa Italiana's Corporate Governance Code.

While convening the Shareholders' Meeting to be held on April 16, 2014, at which a new Board of Directors is intended to be elected, the existing board recommended a robust and substantial interpretation of the independence requirements and that the majority of the candidates in

each slate to be filed, according to applicable rules, be independent.

The Board of Directors verifies the independence requirements at the first meeting after the appointment of the Board and subsequently once a year. On the basis of the declarations made by the interested parties and verified by the Board of Directors, at present 5, out of the 11 directors are considered independent, according to the criteria set forth by the Consolidated Law on Finance as well as the criteria set forth by Borsa Italiana Code: Lucia Calvosa, Massimo Egidi, Jean Paul Fitoussi, Mauro Sentinelli and Luigi Zingales. The Board of Auditors verified the correct application of the principles adopted by the Board to evaluate the independence of directors.

See Item 16G. Corporate Governance 16.1. Differences in Telecom Italia's Corporate Governance and New York Stock Exchange Corporate Governance Practices .

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The authority to grant delegated powers to directors and revoke such mandates is reserved to the Board of Directors, which also establishes their objects, limits, manner of exercise and the intervals of not more than three months at which persons with delegated powers must report on their activity, the general results of operations, and the transactions of greatest economic, financial or balance sheet significance concluded by the Company or its subsidiaries.

After the Executive Chairman's resignation on October 3, 2013, the following powers and responsibilities are entrusted to the Chief Executive Officer, in addition to legal representation of the Company, as provided for in the bylaws:

- overall governance of the Group, and defining the Company's strategic guidelines;
- responsibility for extraordinary transactions and extraordinary finance operations to be proposed to the Board of Directors.

At present the Chairman, in addition to legal representation of the Company, as provided for in the bylaws has no executive role.

There are no other Telecom Italia executive directors. As of April 8, 2014 Telecom Italia's non-executive directors are: Aldo Minucci (Chairman), Tarak Ben Ammar, Lucia Calvosa, Massimo Egidi, Jean Paul Fitoussi, Gabriele Galateri di Genola, Gaetano Miccichè, Aldo Minucci, Renato Pagliaro, Mauro Sentinelli and Luigi Zingales.

As a result of the Telco shareholders' agreement providing for the Telecom Italia Group and the Telefónica Group to be run autonomously and independently, the directors originally nominated by Telefónica (Cesar Alierta Izuel and Julio Linares Lopez, both of whom resigned as of December 13, 2013) committed not to take part in any discussion or to vote in matters concerning activities of Telecom Italia or Telecom Italia's subsidiaries in the Brazilian or Argentinian telecommunications markets.

In addition:

- in compliance with the ANATEL Ruling, issued on October 23, 2007 and subsequently on July 7, 2009, in 2007 the Board of Directors of Telecom Italia adopted an ad hoc internal procedure aimed at assuring the segregation of Telecom Italia's activities in Brazil from any potential influence of Telefónica. This procedure was subsequently amended and updated in September 2009 and in January 2012; on April 28, 2010, the board of the Brazilian Antitrust Commission (CADE) approved the acquisition by Telco of an indirect minority shareholding in Telecom Italia in 2007, subject to the simultaneous signing of an agreement, by and between all the Telco shareholders Mediobanca, Generali, Intesa Sanpaolo and Telefónica and CADE, which was aimed at maintaining the separation and independence of the Telefónica and Telecom Italia groups in the business carried out in Brazil, preserving competition conditions in that market. Tim Brasil executed such agreement exclusively as an intervening party, on behalf of the Telecom Italia Group since the latter was not formally a party of the antitrust proceedings. As occurred for the measures imposed by Anatel, the undertakings given to CADE were

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incorporated in a special internal procedure (as per a resolution by the Board of Directors on May 6, 2010), amended in January 2012;

as a result of having reached an agreement with the Argentinean authorities, a further procedure was introduced by the Board of Directors of Telecom Italia on November 4, 2010, taking into account the undertakings by the Group toward Argentina's CNDC to obtain approval of the transfer of 8% of Sofora S.A. to Telecom Italia International N.V. These commitments were aimed at maintaining the separation and independence of the Telefónica and Telecom Italia groups in the activities carried out in Argentina. Please see Item 7. Major Shareholders and Related-Party Transactions 7.1.1. The Shareholders' Agreement .

See Item 7. Major Shareholders and Related-Party Transactions Item 7.1.1. The Shareholders' Agreements .

On a voluntary basis, on February 6, 2014 the Board of Directors approved a Procedure for the management of any extraordinary transaction regarding Telecom Italia's holding in the TIM Brasil group companies (which is available on the Company website).

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The document regulates the investigation and decision-making process for any transaction that can result in the transfer to entities outside the Telecom Italia Group of all or part of its holdings in the Tim Brasil Group, or of assets of the related businesses or branches of business exceeding 2 billion euros (including business combination transfers by conferment, merger or share swap). The procedure places at the centre the Board of Directors of Telecom Italia, and within this the independent Directors: the relevant transactions require the approval of the Board, subject to the opinion of a committee consisting of all the independent directors in office who have not declared an interest in the transaction. The independent Directors are called upon to express an opinion on the Company's interest in performing the transaction and on the substantial expediency and correctness of its conditions. In the case of a negative opinion of the committee, in order for the transaction to be completed under the conditions proposed, it must be approved by the Board of Directors with a double majority: the majority of all the directors attending the meeting and the majority of independent directors in office who have no interest in the transaction, either personal or on behalf of third parties. If the transaction does not obtain specific approval by the independent directors, the Board of Directors may, by majority vote submit it to an assessment by the ordinary shareholders' meeting, where it will be considered as approved only if accepted by the majority of shareholders attending the meeting who do not have an interest in the transaction, either personal or on behalf of third parties.

***Internal Committees***

According to article 13 of the Bylaws, the Board may set up committees from among its members charged with giving advice and making proposals and shall establish their powers and duties. The Corporate Governance Principles provide for three Committees: the Executive Committee, the Nomination and Remuneration Committee and the Control and Risk Committee (formerly the Internal Control and Corporate Governance Committee).

With regard to the composition, while the Executive Committee consists of the Executive Directors in charge (as of April 8, 2014: the Chief Executive Officer) and of non-executive directors, with the Chairman of the Committee being the Chairman of the Board of Directors, both the Control and Risk Committee and the Nomination and Remuneration Committee are composed of non-executive directors the majority of which are required to be independent directors, including at least one drawn from a minority list.

***Executive Committee***

The Executive Committee is composed of the Executive Directors (who coordinate the Committee's activity with the management) and non-executive directors. The Committee's Chair is entrusted to the Chairman of the Board of Directors.

As per Telecom Italia's Corporate Governance Principles the Committee is charged with monitoring the performance of operations at Company and Group level, approving the executive directors' proposals for macro organizational arrangements, submitting opinions to the Board on the budget, strategic transactions and the strategic, business and financial plans of the Company and the Group and performing any other tasks delegated by the Board of Directors.

***Control and Risk Committee***

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According to the Italian Stock Exchange Code, the Committee shall:

- evaluate together with the person responsible for the preparation of the corporate financial documents, after hearing the external auditors and the Board of statutory auditors, the correct application of the accounting principles and, in the case of groups, their consistency for the purpose of the preparation of the consolidated financial statements;
- express opinions on specific aspects relating to the identification of the main risks for the company;
- review the periodic reports evaluating the internal control and risk management system, as well as those reports of the internal audit function that are particularly significant;
- monitor the independence, adequacy, efficiency and effectiveness of the internal audit function;
- request that the internal audit function review specific operational areas, giving simultaneous notice to the chairman of the Board of Statutory Auditors; and

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- report to the Board of Directors, at least every six months, on the occasion of the approval of the annual and half-year financial report, on the activity carried out, as well as on the adequacy of the internal control and risk management system.

In addition, according to Telecom Italia's Corporate Governance Principles it shall also:

- provide high-level supervision related to corporate social responsibility, monitoring the consistency of the actions performed with the principles laid down by the Code of Ethics of the Group and the values of Telecom Italia;
- monitor observance of the Company's corporate governance rules, the evolution of rules and best practice in the field of controls, corporate governance and corporate social responsibility, also with a view to proposing updates to the internal practices and rules of the Company and the Group;
- opine on qualified transactions with related parties, according to the specific procedure; and
- perform the additional tasks that may be assigned to it by the board of directors.

***Nomination and Remuneration Committee***

According to the Italian Stock Exchange Code, the Committee shall:

- periodically evaluate the adequacy, overall consistency and actual application of the policy for the remuneration of directors and key management personnel, also on the basis of the information provided by the managing directors; it shall formulate proposals to the Board of Directors in that regard;
- submit proposals or issue opinions to the Board of Directors for the remuneration of executive directors and other directors who cover particular offices as well as for the identification of performance objectives related to the variable component of that remuneration; monitor the implementation of decisions adopted by the Board of Directors and verify, in particular, the actual achievement of performance objectives;
- express opinions to the Board of Directors regarding its size and composition and express recommendations with regard to the professional skills necessary within the Board, limit to the accumulation of offices and derogations from the prohibition of competition pursuant to Article 2390 of the Italian Civil Code; and
- submit to the Board of Directors candidates for director's office in case of co-optation, should the replacement of independent directors be necessary.

In addition, according to the Company's Corporate Governance Principles it shall also

- oversee the succession plan for Executive Directors, and monitor the updating of the company management replacement lists, prepared by the Executive Directors;
- establish the procedure and period for the annual evaluation of the Board of Directors;
- propose the criteria for allocating the total annual compensation established by the Shareholders Meeting for the whole Board of Directors; and
- perform other duties assigned to it by the Board of Directors.

For more information concerning the remuneration of directors and top management see Item 6. Directors, Senior Management and Employees 6.6 Compensation of Directors, Officers and Members of the Board of Auditors .

### **Internal Control System**

The internal control system is a set of rules, procedures and organizational structures that, through a process of identifying, measuring, managing and monitoring the main risks, allows the sound and fair operation of the company in line with the pre-established objectives. As such this process is aimed at pursuing the values of both procedural and substantial fairness, transparency and accountability, which are considered key factors for managing Telecom Italia's business, in compliance with the Code of Conduct and Ethics of the Group and the Company's Corporate Governance Principles. This process, constantly monitored with a view to progressive improvement, is intended to ensure, in particular, the efficiency of company operations and entrepreneurial



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conduct, its transparency and verifiability, the reliability of information and management and accounting data, and compliance with applicable laws and regulations as well as the safeguarding of company integrity and its assets, in order to prevent fraud against the Company and the financial markets.

The Board of Directors, insofar as it is responsible for the internal control system, sets the guidelines, verifying its adequacy, effectiveness and proper functioning, so that the main company risks (operational, compliance-related, economic and financial) are properly identified and managed over time.

In the exercise of its responsibility for the internal control system the Board benefits from the activities of the Control and Risk Committee, but also of the Head of the Internal Audit Department, a manager who is given an adequate level of independence and means suitable to perform this duty. The Head of the Audit Department assesses the adequacy, full functioning and effectiveness of the control and risk management system and consequently proposes corrective measures in case of anomalies and malfunctions.

In particular, in accordance with the provisions of the Corporate Governance Code of Borsa Italiana, the Head of the Audit Department:

- a) verifies, both on a continuous basis and in relation to special needs, in conformity with international standards, the adequacy and effective functioning of the internal control and risk management system, through an audit plan approved by the Board of Directors, based on a structured analysis and ranking of the main risks;
- b) is not responsible for any operational area and reports directly to the Board of Directors;
- c) has direct access to all information useful for the performance of his or her duties;
- d) drafts periodic reports containing information on his or her own activity, and on the risk management process, as well as about compliance with the plans defined to mitigate these risks. Such periodic reports contain an evaluation of the adequacy of the internal control and risk management system;
- e) prepares timely reports on particularly significant events;
- f) submits the reports referred to in points d) and e) to the Chairs of the Board of Statutory Auditors, Control and Risk Committee and Board of Directors;
- g) tests the reliability of the information systems, including the accounting system, as part of the audit plan; and
- h) reports on his work to the Director delegated for this purpose, the Control and risk Committee and, through the latter, to the Board of Directors, as well as the Board of Statutory Auditors. In particular, he reports on how risk is managed, as well as on compliance with established plans for risk containment, and expresses his assessment on the suitability of the internal control system for achieving an acceptable overall risk profile.

The Head of the Audit Department also has a role in ensuring respect of the principles and values expressed in the Code of Ethics and Conduct, by handling reports from employees, collaborators, consultants, employers and third parties in business relationships with the Group on violations of laws or regulations, of the Code itself, and of internal procedures, as well as irregularities or negligence (including accounting), and promoting the most appropriate resulting initiatives, including the proposal to impose sanctions.

The oversight role of the Head of Internal Audit is directed towards expressing an assessment in terms of reasonable certainty about the capacity of the internal control system to impact on the actual achievement of the objectives assigned to individual company structures (effectiveness profile), taking account of the rational use of resources for their realization (efficiency profile) in the light of the (qualitative/quantitative) risk factors present and the probability of their affecting the achievement of those objectives.

To ensure a comprehensive approach to risk management, the Telecom Italia Group has implemented an integrated process on the basis of the Enterprise Risk Management (ERM) to identify, assess and manage risks. The process of risk management is governed by the Group Risk Management Committee, chaired and coordinated by the Head of the Administration, Finance and Control Function and is based on self-assessment of the risk profile by management, so as to define:

- the mapping of risks, assessed by level of impact and probability of occurrence, focusing on the most significant risks.

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- treatment of risk, performed by risk-owner company structures by defining and implementing specific action plans, aimed at reducing the level of residual risk.

An action to renew the ERM process was started in 2013 and will be operational as from 2014. The new ERM process is inspired by the principles of the Committee of Sponsoring Organizations of the Treadway Commission (ERM CoSO Report) which enables risks to be identified and managed in a homogeneous way inside the group, and is characterised by greater integration with the planning and capital allocation processes. The principal changes involve both the identification phase (passage from a simple self assessment approach to a Top Down/Bottom Up approach, mapped on the processes and business functions), and the assessment phase. The risks detected and assessed (including compliance risks) will be positioned in a Risk and Control Panel matrix which will be used to determine the priority of mitigation actions i.e. the status of the risks deriving from compliance oversight activities already under way.

The Company's internal control system is completed by the so-called 231 Organizational Model, which provides a model of organization and management adopted pursuant to Italian Legislative Decree No. 231/2001, and is aimed at preventing offences that can result in liability for the Company. The Organizational Model also constitutes an integral component of the reference compliance program for the application of anti-corruption legislation such as for example the FCPA and the UK Bribery Act. In this context, a foreign version of the Organizational Model has been defined for adoption by the non-Italian subsidiaries, also taking account of the possible application of similar regulations at local level.

Monitoring of the functioning and compliance with the model as from May 2012 is performed by the Board of Statutory Auditors (supported in its activities by appropriate offices within the Company) which oversees the operation and observance of the Organizational Model and reports to the Board of Directors the checks it has undertaken and their outcome.

The 231 Organizational Model is subject to continuing improvement. Some revisions are made necessary by changes in the law, while others are proposed when deemed appropriate in the light of the results of the model's application. The amendments are drafted by a managerial committee called Steering Committee 231, briefed by the Board of Statutory Auditors acting as Supervisory Panel and approved by the Board of Directors when of a significant nature.

**Board of Auditors***Tasks and role*

The Board of Auditors verifies compliance with the law and the Bylaws and verifies adherence to the best administration principles, the adequacy and reliability of corporate structures, internal audit procedures and accounting system, and the adequacy of instructions given by the Company to its subsidiaries. The Board of Auditors must receive timely disclosures, at least on a quarterly basis, from the Board of Directors about the company's business and significant transactions performed by the company and its subsidiaries, including related parties transactions. Statutory Auditors must inform Consob of any irregularity they detect in the course of their duties and are required to attend Shareholders Meetings, Board of Directors meetings and Executive Committee meetings.

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In addition to that, under the provisions of Legislative Decree 231/2001, Supervisory Panel functions have been granted to the Board of Auditors.

During 2013, there were 50 meetings of the Board of Statutory Auditors (14 of which were held jointly with the Control and Risk Committee). In addition, its members participated in the meetings of the Board of Directors and the Executive Committee and periodically received the reports from the executive directors, as provided in the above mentioned procedure.

### *Appointment*

Telecom Italia's Board of Auditors is composed of five regular auditors, and four alternate auditors. The Board of Auditors is appointed by the Shareholders' Meeting through the slate system under the same procedure used for

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the election of the Board of Directors. Three regular auditors and two alternate auditor are drawn from the so called majority slate (that is the slate that obtained the majority of the votes cast by the shareholders), two regular auditors and two alternate auditors are taken from the other slates, so called minority slates .

All slates that present three or more candidates should have a gender ratio of at least 1:3 among the candidates (1:5 on the occasion of the first application). In case the vote on the slates does not fulfill the diversity requirement in the composition of the Board, the appointment of the last of the persons elected from the majority slate who are of the more represented gender will be forfeited, and they will be replaced with the first unelected candidates of the less represented gender on the same slate, in the number needed to ensure the prescribed gender balance. In any case, should the slate mechanism fail, the Shareholders Meeting retains the right to appoint auditors by a subsequent vote, applying the legal majorities, so that the so-called gender diversity requirement may in any event be ensured in the composition of the Board.

Pursuant to applicable Italian law, the Chairman of the Board of Auditors is appointed by the shareholders meeting from among the auditors elected from a minority slate .

Auditors serve for a three-year term, may be reappointed and may be removed from their office for just cause and upon a resolution approved by the competent court.

The present Board of Auditors was elected, for a three year term, by the shareholders meeting of May 15, 2012, on the basis of three slates presented respectively by Telco (presently Telecom Italia s largest shareholder), Findim (presently Telecom Italia s second largest shareholder) and by a group of minority shareholders. Salvatore Spiniello, Ferdinando Superti Furga and Gianluca Ponzellini were elected from the majority slate , while Enrico Maria Bignami and Sabrina Bruno (which was subsequently replaced by Roberto Capone, who had originally been appointed as an alternate auditor from the same minority slate ) were elected from the minority slates . Enrico Maria Bignami was also appointed as Chairman of the Board.

***Audit Committee***

As described above, the Board of Auditors plays a key role in the Company s system of corporate governance.

More specifically, according to Rule 10A-3 under the 1934 Act and NYSE listing standards, the Board of Auditors has been identified to act as Telecom Italia s Audit Committee. The Board of Auditors meets the requirements of the general exemption contained in Rule 10A-3(c)(3):

- the Board of Auditors is established pursuant to applicable Italian law and Telecom Italia s Bylaws;
- under Italian legal requirements, the Board of Auditors is separate from the Board of Directors;

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- the Board of Auditors is not elected by the management of the Company and no executive officer is a member of the Board of Auditors;
- all of the members of the Board of Auditors meet specific independence requirements from the Company and its Group, the management and the auditing firm, as set forth by Italian legal provisions;
- the Board of Auditors, in accordance with and to the extent permitted by Italian law, is responsible for the appointment, retention (via proposal to the shareholders meeting) and oversight of the work of the Company's external auditors engaged for the purpose of issuing the audit report on the annual financial statements;
- the Board of Auditors is authorized to engage independent counsel and other advisers, as it deems appropriate; and
- the Board of Auditors has adopted a complaints procedure in accordance with Rule 10A-3 of the 1934 Act.

In view of its responsibilities under Italian law and the obligations deriving from US law, the Board of Auditors adopted a complaints procedure for receiving, retaining and treating the reports it receives. Such reports can be of the following kinds:

- statements of violations submitted by shareholders concerning matters deemed to be improper;

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- complaints by any person, thus including non-shareholders, concerning alleged irregularities, improper facts or, more generally, any problem or issue deemed to merit investigation by the control body;
- complaints specifically regarding accounting, internal accounting controls, or auditing matters; and
- confidential, possibly anonymous submissions of concerns by employees of the Company or the Group regarding questionable accounting or auditing matters.

A short description of how such reports are to be submitted to the Board of Auditors/Audit Committee is available on the Company's website under Governance .

**Shareholders Meetings*****Meetings of Ordinary Shareholders***

Holders of Ordinary Shares are entitled to attend and vote at ordinary and extraordinary shareholders meetings. At any Shareholders Meeting, each holder is entitled to cast one vote for each Ordinary Share held. Votes may be cast personally or by proxy. According to the bylaws, the issuer may designate, for each Shareholders Meeting, one or more representatives on whom those entitled to vote may confer a proxy free of charge. The person so designated, and the necessary operating instructions, shall be stated in the notice calling the meeting. Holders of Ordinary Shares can also vote by mail or through a proprietary, web based platform, if so specified in the notice of the specific meeting and in the ways specified therein.

Shareholders Meetings are called by the Company's Board of Directors when required by law or the shareholders or deemed necessary.

Shareholders Meetings must be convened at least once a year. At these ordinary meetings, holders of Ordinary Shares (i) approve the annual accounts, (ii) appoint/revoke directors and auditors and determine their remuneration, when necessary, (iii) vote on other issues defined in the Bylaws, if any, (iv) authorize the completion of the transactions by the directors, if and when the Bylaws call for such previous authorization, it being understood that directors remain directly responsible for the transactions accomplished, and (v) adopt rules of procedure for the shareholders meetings (Meeting Regulations).

Presently Telecom Italia's Bylaws grant the ordinary Shareholders Meeting the power to authorise the execution of transactions with parties related to the Company, as per the specific procedure governing related-party transactions adopted by the Board of Directors on November 4, 2010 and subsequently amended. More specifically, with respect to transactions of major importance, this procedure requires the approval by the Board of Directors, subject to the prior approval of a Committee comprised of all the independent directors. In case this Committee gives a negative opinion on interest and conditions of a transaction of major importance, and this opinion is not superseded through a so called double majority at the meeting of the Board (a general majority, of all the Directors at the meeting, and a specific one, of Independent Directors in non-related positions), in order to be carried out the transaction of major importance, even if authorized by the Board, must be authorized by the shareholders meeting. There it must obtain the favourable vote of the majority of the non-related shareholders entitled to vote.

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It is compulsory for issuers to publish their annual report within 120 days of the close of their fiscal year; if the bylaws so provide (and this is the case in Telecom Italia), the approval by the annual general meeting can follow, but in any event the annual general meeting must take place no later than 180 days after the end of the fiscal year.

**Extraordinary Shareholders** Meetings may be called to pass upon proposed amendments to the Bylaws, capital increases, mergers, dissolutions, issuance of convertible debentures (which can also be delegated to the Board of Directors), appointment of receivers and similar extraordinary actions.

**As a rule shareholders are informed of all Shareholders Meetings** to be held by publication of a notice at least 30 days (40 days in case of Shareholders Meetings convened to appoint corporate bodies) before the date fixed for the meeting. The notice must be published (either in full or in extract form) in at least one national daily newspaper, posted in the issuer's internet site and filed with the Italian Stock Exchange and Consob. Telecom



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Italia's bylaws allow the Shareholders Meeting to be called either in a single call or with up to two meeting dates for an ordinary Shareholders Meeting and up to three meeting dates for an extraordinary Shareholders Meeting. When the meeting is convened in a single call the quorums of second calls of ordinary Shareholders Meeting and second calls of extraordinary Shareholders Meeting, as the case may be, apply.

An ordinary Shareholders Meeting is duly constituted on first call with the attendance of at least 50% of the outstanding Ordinary Shares, while on second call there is no quorum requirement. In either case, resolutions are approved by holders of the majority of the Ordinary Shares represented at the meeting.

Extraordinary Shareholders Meetings are duly constituted with the attendance of shareholders representing at least one-half or more than one-third or at least one-fifth of the company's ordinary share capital, on the first call, second call and third call, respectively. The favorable vote of at least two-thirds of the Ordinary Shares represented at the meeting is necessary for the resolution approval.

To attend and vote at any Shareholders Meeting, holding of shares on the record date (statutorily set at seven trading days before the meeting) is the sole requirement, but to certify that an ad hoc communication by the authorized intermediary must have been received by the Company.

Special arrangements with the Depositary may be required for the beneficial owner of ADRs representing ADSs to attend Shareholders Meetings and exercise voting rights with respect to underlying Ordinary Shares. See 10.5 Description of American Depositary Receipts Voting of Deposited Securities .

Votes cast in the Shareholders Meeting are open, as the minutes of the meeting are required to evidence how attending shareholders voted.

Shareholders may attend the meeting by proxy using a power of attorney. There is no limit to the number of shareholders any one proxy can represent. A proxy may be appointed only for one single meeting (including, however, the first, second and in case of extraordinary meetings third call) and may be substituted by the person expressly indicated in the form or, if the proxy is so authorized, by the substitute the proxy appoints.

Votes by proxy may be solicited and collected for the shareholders meetings of listed companies. Proxy solicitation provisions allow individuals (and even the issuer), to promote the soliciting of votes by proxy at shareholders meetings. There is no ownership requirement to this end. Proxy solicitation is subject to specific rules and disclosure requirements set forth by Consob.

In addition to that, shareholders associations composed of at least 50 people, each with no more than 0.1% voting share capital, may collect proxies among their group, without any specific disclosure requirement. In order to facilitate such operation among employee shareholders, the Bylaws provides that special measures will be made available to such shareholders associations in order to facilitate dissemination of information about solicitation and proxy collection operations.

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Ordinary Shareholders may also vote by mail. The vote by mail cannot be cast by proxy. The system is essentially based on the following principles: (a) the notice calling the shareholders meetings must specify that shareholders can vote by mail and must describe the procedures they have to follow; (b) shareholders wishing to vote by mail (to be duly entitled to vote through timely communication to the issuer, as described above) must send the company a special form (so called ballot) made available for such purpose by the issuer, which has to comply with specific Consob requirements; (c) votes cast by mail must be delivered to the company at least on the day before the Shareholders Meeting takes place; and, finally, (d) votes cast by mail remain valid for the second and third calls of the meeting and can be revoked by a written declaration until the day before the meeting, or directly in the meeting through an ad-hoc statement by the interested party.

The Company's bylaws provide that, if the notice of the meeting specifies it and in the ways described therein, Ordinary Shareholders may also vote electronically, in advance of the meeting.

The shareholders meetings shall be called when requested by shareholders representing at least 5% of a company's share capital. In the case the directors or in their place the statutory auditors don't call the Shareholders Meeting, the Court orders with a decree the call of the Shareholders Meeting, after having heard the

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directors and statutory auditors, if the refusal is unjustified. Shareholders are not allowed to present requests on topics upon which the Shareholders Meeting resolves, pursuant to Italian law, on directors' proposal or on a project basis or on their reports only.

Shareholders representing at least 2.5% of the share capital may request, within ten days of the publication of the notice convening the meeting, addition to the agenda of the shareholders meeting or presentation to the shareholders meeting of alternative proposals for resolution on items already on the agenda. Added items and alternative proposed resolutions on items already on the agenda, have to be disclosed in the same ways as the notice calling the meeting, at least fifteen days prior to the date scheduled for the shareholders' meeting. Additions to the agenda and/or alternative proposed resolutions cannot be submitted for matters on which the shareholders' meeting is required by law to resolve on proposals put forward by the directors or on the basis of a plan or report by the Board of Directors.

The Shareholders' Meeting on May 6, 2004 adopted a set of Rules of Proceeding, which apply to both Ordinary and Extraordinary meetings, which were amended by the shareholders' Meeting of April 12, 2011. The current version of the Rules is posted on the Company's website under Governance .

***Meetings of Savings Shareholders***

Although holders of Savings Shares are not entitled to vote in meetings of holders of Ordinary Shares, they are entitled to attend special meetings of holders of Savings Shares ( **Special Meetings** ) and to appoint a joint representative (the **Joint Representative** ) to represent them, with respect to the Company.

The Joint Representative, who is appointed by the Special Meeting or, in default, by the Court, is entitled (i) to inspect certain corporate books of the Company, (ii) to attend the Shareholders' Meetings and (iii) to challenge in court the resolutions adopted by such meetings. The Joint Representative is appointed for a maximum three-year term and, according to the Bylaws, is kept informed by the Company regarding corporate events that can affect the price trend of Savings Shares. The Savings Shareholders Meeting held on May 22, 2013 appointed Mr. Dario Trevisan as joint Representative for a three year period which will expire with the Ordinary Shareholders' Meeting to be convened for approval of the Company's financial statements for the year 2015.

Special Meetings of Savings Shareholders may be called when deemed necessary or upon request by Savings Shareholders representing at least 1% of the outstanding Savings Shares either by the Joint Representative or by the Company's Board of Directors in order to (a) appoint and revoke the Joint Representative, (b) approve the resolutions of the Shareholders' Meetings that may affect the rights of Savings Shares, (c) set up an expense fund for the coverage of costs incurred in protecting rights of the Savings Shareholders, (d) negotiate possible disputes with the Company; and (e) resolve other issues relating to their position as holders of Savings Shares. To adopt resolutions related to (a), (c) and (e) above, a favorable vote of at least 20% of the Savings Shares is required at Special Meetings held on the first call, a favorable vote of at least 10% is required at Special Meetings held on the second call, and a favorable vote of at least a majority of the Savings Shares present is required at Special Meetings held on the third call. To adopt resolutions related to (b) and (d) above, a favorable vote of at least 20% of the Savings Shares is required at all calls of the Special Meetings.

To attend an vote at any Special Meeting, holding of Savings Shares on the record date (statutorily set at seven trading days before the meeting) is the sole requirement, but to certify that, an ad hoc communication by an authorized intermediary must have been received by the Company.

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Special arrangements with the Depositary may be required for the beneficial owner of ADRs representing Savings Share ADSs to attend Special Meetings and exercise voting rights with respect to underlying Savings Shares. See 10.5 Description of American Depositary Receipts Voting of Deposited Securities .

### **Disclosure**

Transparent relations with the financial markets, and the provision of accurate information are paramount for the Telecom Italia Group.

A specific procedure (posted on the Company s website under Governance ) covers the handling including the public disclosure of inside information concerning Telecom Italia, its unlisted subsidiaries and listed financial

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instruments, and is addressed to all the members of the governing bodies, employees and outside consultants of Group companies who have potential access to inside information. It also applies as an instruction to all subsidiaries for the purpose of promptly obtaining the necessary information for timely and correct compliance with public disclosure requirements.

In December 2013 the Company deemed it appropriate to start a specific project intended to update and strengthen the aforementioned procedure, which dates back to 2006. The adoption of the new procedure is expected in the second half of 2014.

With reference to the preparation of the financial statements for 2013, the procedures for the Preparation of the Telecom Italia 2013 annual report for Italian purposes and Telecom Italia 2013 Form 20-F provide for specific mechanisms of upward attestation by the people in charge of the various corporate structures involved in the process of gathering and handling data and drafting the document. This is aimed at giving adequate assurance and support to the senior officers, the Board of Auditors, the Control and Risk Committee and the Board of Directors as a whole in fulfilling their responsibility for oversight of the accuracy and timeliness of required disclosures.

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There are no exchange controls in Italy. Residents of Italy may hold foreign currency and foreign securities of any kind, within and outside Italy. Non-residents may invest in Italian securities and may export cash, instruments of credit and securities, in both foreign currency and euro, representing interest, dividends, other asset distributions and the proceeds of dispositions without restriction other than those outlined below. There are no limitations on the right of non-resident or foreign beneficial owners to vote their Shares except as provided for all Telecom Italia shareholders by law. See 10.4 Description of Capital Stock Limitations on Voting and Shareholdings .

Reporting and record-keeping requirements are contained in Italian legislation which implements an EU Directive regarding the free movement of capital. Such legislation requires that transfers of cash or bearer bank or postal passbooks or bearer instruments in euro or in foreign currency, effected for whatsoever reason between different parties, shall be carried out by means of credit institutions and any other authorized intermediaries when the total amount of the value to be transferred is equal to or more than 1,000 euros. The threshold referred to above also applies when there is reason to believe that several transactions, effected at different times within a certain period of time, constitute part of a single transaction, even if individually below the threshold amount specified. Whenever the execution of such transactions leads to belief that there are irregularities in their performance, such transactions shall be reported in writing to the Italian Central Bank which shall carry out necessary checks. Credit institutions and other intermediaries effecting such transactions on behalf of residents or non-residents of Italy are required to maintain records of such transactions for ten years, which may be inspected at any time by Italian authorities. Non-compliance with the above may result, among others, in administrative fines or, criminal penalties if the transactions fall within a case ruled by the criminal code. Certain additional procedural requirements are imposed for tax reasons. Non-corporate residents (i.e., individuals, non-commercial partnerships and non-commercial entities) which are resident of Italy for tax purposes and which in the course of the fiscal year hold (or are beneficial owners, as defined for anti-money laundering purposes, of) investments abroad or have financial activities abroad must, in certain circumstances, disclose such investments or financial activities regardless of the value of such assets (in contrast, for assets held up to December 31, 2012, the disclosure must be done only if such financial assets held abroad at the end of the fiscal year exceeded 10,000 euros). Particularly, non-corporate residents must report in their tax returns the level of the investments or financial activities held abroad during the tax period, regardless of the total value of the same. This requirement applies even if the taxpayer during the tax period has totally divested such assets. Moreover, compared with the past years, non-corporate residents are no longer (starting from the tax returns to be filed for fiscal year 2013), required to provide details in their income tax returns about transfers to, from, within and between foreign countries in connection with such assets during the fiscal year. No disclosure requirements exist for investments and financial activities under management or administration entrusted to Italian resident intermediaries and for contracts concluded through their intervention, provided that the cash flows and the income derived from such activities and contracts have been subject to Italian withholding or substitute tax by intermediaries themselves. No tax return is required in respect of foreign investments and foreign income-earning assets that are exempt from income tax or subject to withholding tax in Italy. Such disclosure requirements do not apply in respect of foreign investments, foreign assets or transfers within the EU. For corporate residents there is no requirement for such a declaration because their financial statements (on the basis of which their tax returns are prepared) already contain the information.

There can be no assurance that the present regulatory environment in or outside Italy will endure or that particular policies presently in effect will be maintained, although Italy is required to maintain certain regulations and policies by virtue of its membership in the EU and other international organizations and its adherence to various bilateral and multilateral international agreements.

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**Description Of Bylaws**

**10.3 DESCRIPTION OF BYLAWS**

***Object***

Telecom Italia's corporate purpose is described in Article 3 of the Bylaws and consists of the following activities:

- to install and operate fixed or mobile equipment and installations for the purpose of providing and operating telecommunications services and to carry out the activities directly or indirectly related thereto;
- to hold interests in other businesses falling within the scope of the above stated corporate object or otherwise related thereto; and
- to control and provide the strategic, technical, administrative and financial coordination, overseeing and managing the financial activities of controlled companies and businesses, and carrying out all transactions related thereto.

***Directors***

There are no provisions in the Bylaws relating to: (1) the power of a director to vote on a proposal in which such director is materially interested, (2) the power of a director to (in the absence of an independent quorum) vote compensation to himself or any member of its body, (3) the power of a director to borrow money from the Company, (4) the retirement of a director under an age limit requirement and (5) the number of shares required for director's qualification.

The Board of Directors grants specific positions to any of its members in compliance with the Bylaws of the company; such positions include, among others, those of Chairman and Managing Director. According to Italian law the remuneration corresponding to such positions is then defined by the Board of Directors in its discretion, after acknowledging the opinion of the Board of Auditors.

There are no provisions in Italian law that govern the issue of directors borrowing money from the company and that set age or shareholding requirements for director's qualification. According to Italian law, in case of an interest of directors in the transaction to be resolved upon by the Board, there are disclosure requirements, but abstention is not required.

***Recent amendments***

The shareholders' meeting held on May, 15 2012 approved amendments to articles 9 and 17 of the Company Bylaws ( gender quotas ) governing appointments to the Board of Directors and Statutory Board of Auditors to ensure balance between the male and female members, as required by

law.



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As of April 8, 2014, the subscribed and fully paid-up capital stock was equal to 10,693,740,302,30 euros divided into 13,417,043,525 Ordinary Shares and 6,026,120,661 Savings Shares, all without par value.

On March 7, 2013 the Board of Directors resolved to issue for cash up to 576,544 Ordinary Shares, to be offered to the beneficiaries of the 2010-2015 Long-Term Incentive Plan with a time limit for subscription set at April 30, 2013, providing that if the increase resolved is not fully subscribed within that time limit, the capital will be increased by an amount equal to the subscriptions received up to such time. At the end of the rights issue, on April 18, 2013 a total number of 204,151 Ordinary Shares were issued.

On March 6, 2014, the Board of Directors exercised its power to increase the share capital for cash, by the issue of a maximum of 54,000,000 new ordinary shares to be offered for subscription to the employees of the Company and its Italian subsidiaries, with a time limit for subscription set at November 30, 2014 (or the previous time limit set forth in the offer), provided that if the increase resolved is not fully subscribed within that time limit, the capital will be increased by an amount equal to the subscriptions received up to such time, pursuant to the 2013 Employee Share Ownership Plan, as approved by the Shareholders Meeting on April 17, 2013. The offer has not taken place yet.

For five years starting from April 29, 2010 the Directors may increase the share capital as follows:

- to service the 2010-2015 Long Term Incentive Plan, up to an original maximum amount of 5,000,000 euros by the allocation of the corresponding maximum amount of profits pursuant to Art. 2349 of the Italian Civil Code, by the issue of new ordinary shares and imputation to capital of the sum of 0.55 euros for each share issued, with regular dividend entitlement, in the number necessary for the allocation of one free share for each share subscribed for cash by employee beneficiaries of the 2010-2015 Long Term Incentive Plan, within the time periods and under the terms and conditions provided for therein. On the basis of the number of shares effectively subscribed, equal to 204,151 Ordinary Shares, the current maximum amount now stands at 112,283 euros.

For five years starting from May 15, 2012 the Directors may increase the share capital to service the Long Term Incentive Plan 2012 as follows, as approved by the Meeting of the Shareholders of the Company of that date:

- (i) for cash, by the issue of new ordinary shares with regular dividend entitlement, up to a maximum amount of 5,500,000 euros (with imputation to capital of the sum of 0.55 euros for each share issued), with disapplication of preferential subscription rights pursuant to article 2441, subsection 8, of the Italian Civil Code, and of article 134, subsection 2, of legislative decree no. 58/1998, to be reserved for some of the employees who are beneficiaries of the 2012 Long Term Incentive Plan as previously identified by the Board of Directors of the Company, and then, subsequently (ii) for a maximum further amount of 5,500,000 euros by allocation of the corresponding maximum amount of profits or retained profits pursuant to article 2349 of the Italian Civil Code, by the issue of ordinary shares and imputation to capital of the sum of 0.55 euros for each share issued in a sufficient number for the allocation of one free share for every paid share subscribed, as above, subject to the terms and conditions and by the methods specified in the 2012 Long Term Incentive Plan ;
- by a maximum amount of 4,000,000 euros by allocation of the corresponding maximum amount of profits or retained profits pursuant to article 2349 of the Italian Civil Code, by issuing ordinary shares (with imputation to capital of the sum of 0.55 euros for each share issued)

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reserved for a part of the employees who are beneficiaries of the 2012 Long Term Incentive Plan as previously identified by the Board of Directors of the Company, subject to the terms and conditions and by the methods specified in the 2012 Long Term Incentive Plan .

With respect to the capital increase for cash, the Board of Directors shall set the subscription price (including any premium) in accordance with the 2012 Long Term Incentive Plan, and it shall also set suitable time limit for its subscription, providing that, if the increase resolved is not fully subscribed within that time limit, the capital will be increased by an amount equal to the subscriptions received up to such time.

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For five years starting from April 17, 2013 the Directors may increase the share capital as follows:

- to service the 2013 Employee Share Ownership Plan as approved by the Shareholders Meeting on April 17, 2013 for a maximum amount of 9,900,000 euros by the allocation of the corresponding maximum amount of profits pursuant to article 2349 of the Italian Civil Code, by issuing new ordinary shares (with imputation to capital of the sum of 0.55 euros for each share issued), with regular dividend entitlement, in a sufficient number for the allocation of one free share for every three shares subscribed for cash by employees who are beneficiaries of the 2013 Employee Share Ownership Plan, subject to the terms and conditions and by the methods specified therein.

The Extraordinary Shareholders Meeting of December 20, 2013, resolved to increase the share capital for cash, in tranches, with disapplication of the preferential subscription right pursuant to art. 2441, subsection 5 of the Italian Civil Code, for a total maximum amount, including any share premium, of 1.3 billion euros (in addition to the value of the interest on the Bonds issued by the subsidiary company Telecom Italia Finance S.A, cited herein, which may also be settled in shares for a maximum sum of 238,875,000), to be carried out in one or more tranches by the issue of ordinary shares of the Company with regular dividend entitlement solely to enable the conversion of the bond issue called Guaranteed Subordinated Mandatory Convertible Bonds due 2016 convertible into ordinary shares of Telecom Italia S.p.A. issued by subsidiary company Telecom Italia Finance S.A., in compliance with the criteria determined by the related Regulations, it being understood that, should the capital increase referred to above not be fully subscribed on November 15, 2016, the share capital will be deemed to be increased by an amount equal to the subscriptions received.

***Classes of shares***

According to Italian law, Savings Shares may not be issued for an amount which, including other preferred shares, if any, exceeds one-half of the Company's share capital.

Pursuant to Telecom Italia's Bylaws any reduction in share capital made for the purpose of absorbing losses is applied to the fraction of capital represented by the Ordinary Shares until they have been reduced to zero and only then is the fraction of capital represented by the Savings Shares reduced. If, as a consequence of capital reduction, the Savings Shares exceed half of the Company's share capital, such excess must be eliminated within the following two years.

***Form and Transfer***

The Dematerialization Decree provides for the dematerialization of financial instruments publicly traded on regulated markets, including treasury bonds.

As a result, Ordinary Shares and Savings Shares must be held with Monte Titoli. Most Italian banks, brokers and securities dealers have securities accounts as participants with Monte Titoli, and beneficial owners of Ordinary Shares and Savings Shares may hold their interests through special deposit accounts with any such participant. The beneficial owners of Ordinary Shares and Savings Shares held with Monte Titoli may transfer their Ordinary Shares, collect dividends and exercise other rights with respect to those shares through such accounts. Such shares held by Monte Titoli are transferred between beneficial owners by appropriate instructions being given to the relevant participants associated

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with Monte Titoli to debit the account with the bank of the vendor and to credit the account with the bank of the purchaser.

Voting rights relating to Ordinary Shares and Savings Shares that have not been deposited with Monte Titoli may be exercised only by depositing them with an authorized intermediary. The Company may act as an intermediary for its own shares.

Each person owning a beneficial interest in Ordinary Shares and Savings Shares held through Euroclear or Clearstream must rely on the procedures of Euroclear or Clearstream, respectively, and of institutions that have accounts with Euroclear or Clearstream to exercise any rights of a holder of shares. Holders may request Euroclear or Clearstream to transfer their Ordinary Shares and Savings Shares to an account of such holder with a participant of Monte Titoli, in which case such holders may transfer their shares, collect dividends and exercise other shareholder rights through that participant. Any such transfer through that participant is not subject to Italian transfer tax if non-Italian parties are involved. See 10.6 Taxation .

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***Dividend Rights***

Holders of Savings Shares are entitled each year to a distribution with respect to such year's net income in the amount up to 5% of 0.55 euros per share (so called privilege). If with respect to any year a lesser amount is paid, the entitlement to payment of the shortfall is carried over for two successive years. In the event that dividends are paid to holders of Ordinary Shares, holders of Savings Shares have a preferential right to receive a dividend per share that is higher by 2% of 0.55 euros per share than the dividend per Ordinary Share (so called enhancement).

In case the net income is insufficient, the Annual Ordinary Shareholders' Meeting is allowed to satisfy both the aforementioned preferential rights (privilege and enhancement) by distributing reserves, when available.

***Subscription Rights***

New Ordinary Shares and/or Savings Shares may be issued pursuant to a resolution of holders of Ordinary Shares at any extraordinary Shareholders' Meeting.

Pursuant to Italian law, shareholders (including holders of Savings Shares) are entitled to subscribe for new issues of Ordinary Shares and/or Savings Shares, debentures convertible into Ordinary Shares and/or Savings Shares and rights to subscribe for Ordinary Shares and/or Savings Shares in proportion to their respective shareholdings.

Nevertheless, subject to certain conditions principally designed to prevent dilution of the rights of shareholders, subscription rights may be waived or limited by resolutions taken by the extraordinary Shareholders' Meeting. On the other hand, according to the Bylaws the subscription rights can be excluded by the extraordinary Shareholders' Meeting in the amount of 10% of the pre-existent share capital with no special quorum or disclosure requirement, on condition that the subscription price is equal to the shares market price and this is confirmed in the proper independent auditors' report.

Shareholders can adopt a resolution, at an extraordinary Shareholders' Meeting, to convert available reserves into additional share capital. In such case, either the fraction of capital represented by all outstanding shares is identically raised or the shares resulting from the increase in share capital are allocated to the shareholders in proportion to their ownership before the increase without further contribution or payment from the shareholder.

***Liquidation Rights***

Subject to the satisfaction of all other creditors, holders of Ordinary Shares are entitled to a distribution in liquidation.

Holders of Savings Shares and preferred shares, if any, are entitled to a preferred right to distribution from liquidation up to 0.55 euros per share. No liquidation dividend is payable to the holders of other classes of shares until such preferential right has been satisfied in full. Thereafter, in case of surplus assets, holders of all classes of shares rank equally in the distribution of such surplus assets. Shares rank *pari passu* among themselves in a liquidation.

***Purchase of Ordinary Shares or Savings Shares by the Company***

The Company may purchase its own Ordinary Shares or Savings Shares subject to certain conditions and limitations. Such purchases must be authorized by a Shareholders Meeting and made only out of retained earnings or distributable reserves as shown on the most recent financial statements approved by the Shareholders Meeting. The fraction of capital represented by the Ordinary Shares or Savings Shares purchased by the Company, including the Ordinary Shares or Savings Shares, if any, held by the Company's subsidiaries, may not exceed 10% of the Company's share capital. The Company may purchase its own Ordinary Shares or Savings Shares:

- by means of a tender offer;
  
- on regulated markets in accordance with trading methods set forth in the market rules, that do not permit the direct matching of buy orders with predetermined sell orders;

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- by means of the purchase and sale of derivative instruments traded on regulated markets that provide for the delivery of the underlying shares, provided the market rules set forth methods for the purchase and sale of such instruments that (i) do not permit the direct matching of buy orders with predetermined sell orders and (ii) ensure the easy participation of investors in the trading of such derivative instruments used for buybacks;
- by granting shareholders, in relation to the shares they hold, a put option to be exercised within a period established by the shareholders' meeting authorizing the share purchase programme.

Before entering into transactions aimed at the purchase of its own shares other than by means of a tender offer (which in Italy is governed by specific disclosure requirements), the Company must disclose to the public all the details of the share purchase programme.

Ordinary Shares or Savings Shares purchased and held by the Company or one of its subsidiaries may be disposed of only pursuant to a resolution of the Company's or, if applicable, its subsidiary's shareholders' meeting.

As a rule, neither the Company nor any company under its control may vote or subscribe for new Ordinary Shares or Savings Shares of the Company, but the shareholders' meeting may authorize the exercise of subscription rights. If no such authorization is granted, the subscription rights accrue to the other holders so long as such Ordinary Shares or Savings Shares are held by the Company or a company under its control. The Ordinary Shares or the Savings Shares, as long as they are owned by the Company, are not entitled to receive dividends.

As of April 8, 2014, Telecom Italia owns 37,672,014 of its own Ordinary Shares, while the subsidiary Telecom Italia Finance S.A. holds another 124,544,373 Ordinary Shares, for a total of 1.21% of capital with voting rights.

***Reporting Requirements and Restrictions on Acquisitions of Shares***

Pursuant to Italian securities regulations any acquisition or sale of an interest in excess of 2%, 5%, 10%, 15%, 20%, 25%, 30%, 50%, 66.6%, 90% and 95% in the voting shares of a listed company, must be notified to the listed company and to Consob within five trading days (defined as days on which Borsa Italiana is open) following the acquisition or sale. Consob must make such information public within three trading days from the notification.

For the purpose of the aforementioned disclosure obligations, shares of which a party is the principal, even if the voting rights are due or assigned to third parties or suspended, are considered as investments. Shares in relation to which a party is assigned or due voting rights are also considered investments where one of the following criteria or a combination of such, is met: (i) voting rights due as pledgee or usufructuary; (ii) voting rights due as depositary or third party account holder, as long as this right can be exercised at discretion; (iii) voting rights due by virtue of power of attorney, as long as the right can be exercised at discretion with no specific instructions by the delegating party; (iv) voting rights due on the basis of an agreement envisaging the provisional, paid transfer of it.

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The disclosure obligations envisaged above shall also apply to the treasury shares held directly or via subsidiary companies. In the event of shares subject to security lending or contango transactions, the disclosure obligation is both the lender or the contango payer s and the borrower or the contango broker s. For the same disclosure obligation, shall also be included both the shares owned by nominees, trustees or subsidiary companies and the shares of which the voting rights belong or are assigned to such persons.

Shareholder agreements concerning the voting shares of a listed company must be notified to Consob, published in abridged form in the daily press and filed with the Company Register of the place where the company has its registered office if they provide for duties of consultation before voting, set limits on the transfer or provide for the purchase of the relevant shares, have as their object or effect the exercise of a dominant influence on the company, aim to encourage or frustrate a takeover bid or equity swap, including commitments relating to non-participation in a takeover bid. The same rule applies when the shareholder agreements concern the shares issued by a non-listed company that controls a listed company. The notification must include the share ownership of all parties filing it.



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When listed companies change their share capital, they must notify Consob and Borsa Italiana of the amount of the share capital and the number and classes of shares into which it is divided. Consob and Borsa Italiana must make the information available to the public no later than the day following the notification. The notification shall be made no later than the day following the event causing such modification or the day following the filing of the amended Bylaws.

In accordance with Italian antitrust laws and regulations, the Antitrust Authority is required to prohibit acquisitions of sole or joint control over a company that would create or strengthen a dominant position in the domestic market or a significant part thereof. However, if the acquiring party and the company to be acquired operate in more than one Member State of the EU and exceed certain revenue thresholds, the antitrust approval of the acquisition falls within the exclusive jurisdiction of the European Commission. See [Item 4. Information on the Telecom Italia Group](#) [4.3 Regulation](#) .

***Limitations on Voting and Shareholdings***

There are no limitations imposed by Italian law or by the Bylaws of Telecom Italia on the rights of non-residents of Italy or foreign persons to hold or vote the Shares other than those limitations resulting from the special powers of the State, which apply equally to all owners of Shares, Italian and foreign alike.

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Following the Merger, Olivetti as the surviving company changed its name to Telecom Italia S.p.A., succeeded to the Exchange Act registration of Old Telecom Italia and became subject to the foreign private issuer reporting requirements of the Exchange Act. Telecom Italia completed the listing of its Ordinary Share American Depositary Shares and Savings Share American Depositary Shares on the New York Stock Exchange. Telecom Italia has entered into two Deposit Agreements among the Company, JPMorgan Chase Bank, as depositary, and the registered Holders from time to time of ADRs issued thereunder. The first such Deposit Agreement, dated as of July 17, 2003, provides for the deposit of Ordinary Shares in registered form, par value 0.55 euros each and the issuance of the Ordinary Share ADSs; the second such Deposit Agreement, also dated as of July 17, 2003 provides for the deposit of Savings Shares in registered form, par value 0.55 euros each and the issuance of the Savings Share ADSs. Because these agreements are otherwise substantially identical, such agreements (including all exhibits and amendments thereto) are referred to herein as the Deposit Agreement, deposited Shares as well as deposited Savings Shares are referred to as Shares, and the Ordinary Share ADSs or Savings Share ADSs, as the case may be, are referred to as the ADSs. The following is a summary of the material provisions of the Deposit Agreement. This summary does not purport to be complete and is qualified in its entirety by reference to the Deposit Agreement. Copies of the Deposit Agreement are available for inspection at the principal office of the Depositary in New York (the Principal New York Office), which is presently located at 4 New York Plaza, New York, New York 10004. Terms used herein and not otherwise defined shall have the respective meanings set forth in the Deposit Agreement.

ADRs evidencing ADSs are issuable by the Depositary pursuant to the terms of the Deposit Agreement. Each ADS represents, as of the date hereof, the right to receive 10 Ordinary Shares (in the case of each Ordinary Share ADS) or 10 Savings Shares (in the case of each Savings Share ADS) in each case deposited under the Deposit Agreement (together with any additional Ordinary Shares deposited thereunder and all other securities, property and cash received and held thereunder at any time in respect of or in lieu of such deposited Ordinary Shares, the Deposited Securities) with the Custodian, currently the Milan office of BNP Paribas (together with any successor or successors thereto, the Custodian). An ADR may evidence any number of ADSs. Only persons in whose names ADRs are registered on the books of the Depositary will be treated by the Depositary and the Company as Holders.

**Deposit, Issuance, Transfer and Withdrawal**

In connection with the deposit of Ordinary Shares under the Deposit Agreement, the Depositary or the Custodian may require the following in form satisfactory to it: (a) a written order directing the Depositary to issue or execute and deliver to, or upon the written order of, the person or persons designated in such order an ADR or ADRs evidencing the number of ADSs representing such Deposited Securities (a Delivery Order); (b) proper endorsements or duly executed instruments of transfer in respect of such Deposited Securities; and (c) instruments assigning to the Custodian or its nominee any distribution on or in respect of such Deposited Securities until the Ordinary Shares are registered in the name required by the Depositary or indemnity therefore. As soon as practicable after the Custodian receives Deposited Securities pursuant to any such deposit or pursuant to any distribution upon Deposited Securities or change affecting Deposited Securities, the Custodian shall present such Deposited Securities for registration of transfer into the name of the Custodian or its nominee, to the extent such registration is practicable, at the cost and expense of the person making such deposit (or for whose benefit such deposit is made) and shall obtain evidence satisfactory to it of such registration. Deposited Securities shall be held by the Custodian for the account and to the order of the Depositary at such place or places and in such manner as the Depositary shall determine. The Depositary agrees to instruct the Custodian to place all Ordinary Shares accepted for deposit into a segregated account separate from any Ordinary Shares of the Company that may be held by such Custodian under any other depositary receipt facility relating to the Ordinary Shares. Deposited Securities may be delivered by the Custodian to any person only under the circumstances expressly contemplated in the Deposit Agreement. To the extent that the provisions of or governing the Shares make delivery of certificates therefore impracticable, Ordinary Shares may be deposited by such delivery thereof as the Depositary or the Custodian may reasonably accept, including, without limitation, by causing them to be credited to an account maintained by the Custodian for such purpose with the Company or an accredited intermediary, such as a bank, acting as a registrar for the Ordinary Shares, together with delivery of the documents, payments and Delivery Order referred to herein to the Custodian or the Depositary. Neither the Depositary nor the Custodian shall lend Deposited Securities.



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After any such deposit of Ordinary Shares, the Custodian shall notify the Depository of such deposit and of the information contained in any related Delivery Order by letter, first class airmail postage prepaid, or, at the request, risk and expense of the person making the deposit, by cable, telex or facsimile transmission. After receiving such notice from the Custodian (or such other evidence as the Company may accept), the Depository, subject to the Deposit Agreement, shall properly issue or execute and deliver, as the case may be at the transfer office of the Depository (the Transfer Office), to or upon the order of any person named in such notice, an ADR or ADRs registered as requested and evidencing the aggregate ADSs to which such person is entitled. ADSs may be issued in certificated form or through the direct registration system utilized by the Depository pursuant to which the Depository may record the ownership of ADRs without the issuance of a certificate, which ownership shall be evidenced by periodic statements issued by the Depository to the Holders entitled thereto.

Subject to the terms of the Deposit Agreement, the Depository may so issue ADRs for delivery at the Transfer Office only against deposit with the Custodian of: (a) Ordinary Shares in form satisfactory to the Custodian; (b) rights to receive Ordinary Shares from the Company or any registrar, transfer agent, clearing agent or other entity recording Share ownership or transactions; or (c) other rights to receive Shares (until such Shares are actually deposited pursuant to (a) or (b) above, Pre-released ADRs) only if (i) Pre-released ADRs are fully collateralized (marked to market daily) with cash or U.S. government securities held by the Depository for the benefit of Holders (but such collateral shall not constitute Deposited Securities), (ii) each recipient of Pre-released ADRs agrees in writing with the Depository that such recipient (a) owns such Shares, (b) assigns all beneficial right, title and interest therein to the Depository, (c) holds such Shares for the account of the Depository and (d) will deliver such Shares to the Custodian as soon as practicable and promptly upon demand therefore and (iii) all Pre-released ADRs evidence not more than 20% of all ADSs (excluding those evidenced by Pre-released ADRs) provided; however, that the Depository reserves the right to change or disregard such limit from time to time as it deems appropriate. The Depository may retain for its own account any earnings on collateral for Pre-released ADRs and its charges for issuance thereof. At the request, risk and expense of the person depositing Shares, the Depository may accept deposits for forwarding to the Custodian and may deliver ADRs at a place other than its office. Shares or evidence of rights to receive Shares may be deposited through (x) electronic transfer of such Shares to the account maintained by the Custodian for such purpose at Monte Titoli S.p.A., (y) evidence satisfactory to the Custodian of irrevocable instructions to cause such Shares to be transferred to such account or (z) delivery of the certificates representing such Shares. If use of the Monte Titoli book-entry system in connection with the Shares is discontinued at any time for any reason, the Company shall make other book-entry arrangements (if any) that it determines, after consultation with the Depository, are reasonable. Every person depositing Shares under the Deposit Agreement represents and warrants that such Shares are validly issued and outstanding, fully paid, non assessable and free of pre-emptive rights, that the person making such deposit is duly authorized so to do and that such Shares (A) are not restricted securities as such term is defined in Rule 144 under the Securities Act of 1933 unless at the time of deposit they may be freely transferred in accordance with Rule 144(k) and may otherwise be offered and sold freely in the United States or (B) have been registered under the Securities Act of 1933. Such representations and warranties shall survive the deposit of Shares and issuance of ADRs.

Subject to the terms and conditions of the Deposit Agreement, upon surrender of (i) a certificated ADR in form satisfactory to the Depository at the Transfer Office or (ii) proper instructions and documentation in the case of a Direct Registration ADR, the Holder is entitled to delivery at the Custodian's office of the Deposited Securities at the time represented by the ADSs evidenced thereby. At the request, risk and expense of the Holder of an ADR, the Depository may deliver such Deposited Securities at such other place as may have been requested by the Holder.

**Distributions on Deposited Securities**

Subject to the terms and conditions of the Deposit Agreement, to the extent practicable, the Depository will distribute to each Holder entitled thereto on the record date set by the Depository therefore at such Holder's address shown on the ADR Register, in proportion to the number of Deposited Securities (on which the following distributions on Deposited Securities are received by the Custodian) represented by ADSs evidenced by such Holder's ADRs:

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· *Cash.* Any U.S. dollars available to the Depositary resulting from a cash dividend or other cash distribution or authorized portion thereof ( Cash ), on an averaged, if possible, or other practicable

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basis, subject to appropriate adjustments for (i) taxes withheld, (ii) such distribution being impermissible or impracticable with respect to certain Holders, and (iii) deduction of the Depositary's expenses in (1) converting any foreign currency to U.S. dollars by sale or in such other manner as the Depositary may determine to the extent that it determines that such conversion may be made on a reasonable basis, (2) transferring foreign currency or U.S. dollars to the United States by such means as the Depositary may determine to the extent that it determines that such transfer may be made on a reasonable basis, (3) obtaining any approval or license of any governmental authority required for such conversion or transfer, which is obtainable at a reasonable cost and within a reasonable time and (4) making any sale by public or private means in any commercially reasonable manner.

*Shares.* (i) Additional ADRs evidencing whole ADSs representing any Shares available to the Depositary resulting from a dividend or free distribution on Deposited Securities consisting of Shares (a *Share Distribution*) and (ii) U.S. dollars available to it resulting from the net proceeds of sales of Shares received in a *Share Distribution*, which Shares would give rise to fractional ADSs if additional ADRs were issued therefore, as in the case of Cash.

*Rights.* (i) *Warrants* or other instruments in the discretion of the Depositary after consultation with the Company, to the extent practicable, representing rights to acquire additional ADRs in respect of any rights to subscribe for additional Shares or rights of any nature available to the Depositary as a result of a distribution on Deposited Securities (*Rights*), to the extent that the Company timely furnishes to the Depositary evidence satisfactory to the Depositary that the Depositary may lawfully distribute the same (the Company has no obligation to so furnish such evidence), or (ii) to the extent the Company does not so furnish such evidence and sales of *Rights* are practicable, any U.S. dollars available to the Depositary from the net proceeds of sales of *Rights* as in the case of Cash, or (iii) to the extent the Company does not so furnish such evidence and such sales cannot practicably be accomplished by reason of the non-transferability of the *Rights*, limited markets therefore, their short duration or otherwise, nothing (and any *Rights* may lapse).

*Other Distributions.* (i) Securities or property available to the Depositary resulting from any distribution on Deposited Securities other than Cash, *Share Distributions* and *Rights* (*Other Distributions*), by any means that the Depositary may deem equitable and practicable, or (ii) to the extent the Depositary deems distribution of such securities or property not to be equitable and practicable, any U.S. dollars available to the Depositary from the net proceeds of sales of *Other Distributions* as in the case of Cash. Such U.S. dollars available will be distributed by checks drawn on a bank in the United States for whole dollars and cents (any fractional cents being withheld without liability for interest and added to future Cash distributions).

To the extent that the Depositary determines in its discretion that any distribution is not practicable with respect to any Holder, the Depositary, after consultation with the Company, may make such distribution as it so deems practicable, including the distribution of foreign currency, securities or property (or appropriate documents evidencing the right to receive foreign currency, securities or property) or the retention thereof as Deposited Securities with respect to such Holder's ADRs (without liability for interest thereon or the investment thereof).

There can be no assurance that the Depositary will be able to effect any currency conversion or to sell or otherwise dispose of any distributed or offered property, subscription or other rights, Shares or other securities in a timely manner or at a specified rate or price, as the case may be.

**Disclosure of Interests**

To the extent that the provisions of or governing any Deposited Securities may require disclosure of or impose limits on beneficial or other ownership of Deposited Securities, other Shares and other securities and may provide for blocking transfer, voting or other rights to enforce such disclosure or limits, Holders and all persons holding ADRs agree to comply with all such disclosure requirements and ownership limitations and to cooperate with the Depositary in the Depositary's compliance with any Company instructions in respect thereof, and the Depositary will use

reasonable efforts to comply with such Company instructions.

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The Depositary shall, to the extent necessary, after consultation with the Company, if practicable, fix a record date (which shall be as near as practicable to any corresponding record date set by the Company) for the determination of the Holders who shall be entitled to receive any distribution on or in respect of Deposited Securities, to give instructions for the exercise of any voting rights, to receive any notice or to act in respect of other matters and only such Holders at the close of business on such record date shall be so entitled.

**Voting of Deposited Securities**

Upon receipt of notice of any meeting or solicitation of consents or proxies of holders of Shares the Depositary will, unless otherwise instructed by the Company, promptly thereafter, distribute to all Holders a notice containing (i) the information (or a summary thereof) included in any such notice received by the Depositary, including the agenda for the meeting, (ii) a statement that the Holders as of the close of business on a specified record date will be entitled, subject to applicable provisions of Italian law and of the Company's Certificate of Incorporation and Bylaws (any such provisions, if material, will be summarized in such notice), to instruct the Depositary as to the exercise of voting rights, if any (subject to compliance by such Holder with the requirements described below) pertaining to the number of Shares represented by their respective ADSs, (iii) if applicable, a statement as to the manner in which such Holders may request a proper communication to the issuer attesting that beneficial ownership of the related Shares is in the name of the Holders and therefore enabling them to exercise voting rights with respect to the Shares represented by their ADSs without the use of ADS proxy cards, (iv) if applicable, an ADS proxy card pursuant to which such Holder may appoint the Depositary (with power of substitution) as his or her proxy to vote at such meeting in accordance with the directions set out in such ADS proxy card, and (v) such other information, including any such modification to the foregoing procedures as agreed between the Depositary and the Company.

Upon receipt by the Depositary of a properly completed ADS proxy card, on or before the date set by the Depositary for such purpose, the Depositary will attempt, insofar as practicable and permitted under any applicable provisions of Italian law and the Company's Certificate of Incorporation and Bylaws, to vote or cause to be voted the Shares underlying such ADRs in accordance with any nondiscretionary instructions set forth in such ADS proxy card. The Depositary will not vote or attempt to exercise the right to vote that attaches to Shares underlying such ADRs other than in accordance with such instructions.

A Holder desiring to exercise voting rights with respect to the Shares represented by its ADSs without the use of an ADS proxy card may do so by (A) depositing its ADRs in a blocked account with the Depositary until the completion of such meeting and (B) instructing the Depositary to (x) furnish the Custodian with the name and address of such Holder, the number of ADSs represented by ADRs held by such Holder and any other information required in accordance with Italian law or the Company's Certificate of Incorporation and Bylaws, (y) notify the Custodian of such deposit, and (z) instruct the Custodian to issue a communication for such meeting, which gives notice to the Company of such Holder's intention to vote the Shares underlying its ADRs. By giving the instructions set forth under point (B) above, Holders will be deemed to have authorized the Custodian to prohibit any transfers of the related Shares for the blocked period.

A precondition for the issue of the communication for a specific meeting by the Custodian may be that beneficial ownership of the related Shares has been in the name of the Holder for a specific number of days prior to the date of the meeting according to applicable provisions (if any) of Italian laws and regulations and/or applicable provisions (if any) of the Company's Certificate of Incorporation and Bylaws.



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Under Italian law, shareholders at shareholders meetings may modify the resolutions presented for their approval by the Board of Directors. In such case Holders who have given prior instructions to vote on such resolutions, and whose instructions do not provide for the case of amendments or additions to such resolutions, will be deemed to have elected to have abstained from voting on any such revised resolution.

When the Company makes its annual accounts available at its offices in connection with a general meeting of shareholders at which a vote will be taken on such accounts, the Company will deliver to the Depository and the Custodian copies of such accounts. Until such meeting, the Depository will make available copies of such accounts for inspection at the office of the Depository in New York (the Transfer Office ), the office of the Custodian in Milan, Italy and any other designated transfer offices.

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### **Description Of American Depositary Receipts**

In the Deposit Agreement, the Depositary and the Company agree to use reasonable efforts to make and maintain arrangements (in addition to or in substitution of the arrangements described in this paragraph) to enable Holders to vote the Shares underlying their ADRs.

#### **Inspection of Transfer Books**

The Deposit Agreement provides that the Depositary or its agent will keep books at its Transfer Office for the registration, registration of transfer, combination and split-up of ADRs, and, in the case of Direct Registration ADRs, shall include the Direct Registration System which at all reasonable times will be open for inspection by the Holders and the Company for the purpose of communicating with Holders in the interest of the business of the Company or a matter relating to the Deposit Agreement.

#### **Reports and Other Communications**

The Deposit Agreement, the provisions of or governing Deposited Securities and any written communications from the Company, which are both received by the Custodian or its nominee as a holder of Deposited Securities and made generally available to the holders of Deposited Securities, are available for inspection by Holders at the offices of the Depositary and the Custodian and at the Transfer Office. The Depositary will mail copies of such communications (or English translations or summaries thereof) to Holders when furnished by the Company.

On or before the first date on which the Company makes any communication generally available to holders of Deposited Securities or any securities regulatory authority or stock exchange, by publication or otherwise, the Company shall transmit to the Depositary a copy thereof in English or with an English translation or summary. The Company has delivered to the Depositary and the Custodian, a copy of all provisions of or governing the Shares (other than copies of Italian law) and any other Deposited Securities issued by the Company or any affiliate of the Company, if any, and, promptly upon any change thereto, the Company shall deliver to the Depositary and Custodian, a copy (in English or with an English translation) of such provisions (other than copies of Italian law) as so changed.

#### **Changes Affecting Deposited Securities**

Subject to the terms of the Deposit Agreement and the ADRs, the Depositary may, in its discretion, amend the ADRs or distribute additional or amended ADRs (with or without calling ADRs for exchange) or cash, securities or property on the record date set by the Depositary therefore to reflect any change in par value, split-up, consolidation, cancellation or other reclassification of Deposited Securities, any Share Distribution or Other Distribution not distributed to Holders or any cash, securities or property available to the Depositary in respect of Deposited Securities from (and the Depositary is hereby authorized to surrender any Deposited Securities to any person and to sell by public or private sale any property received in connection with) any recapitalization, reorganization, merger, consolidation, liquidation, receivership, bankruptcy or sale of all or substantially all the assets of the Company, and to the extent the Depositary does not so amend the ADRs or make a distribution to Holders to reflect any of the foregoing, or the net proceeds thereof, whatever cash, securities or property results from any of the foregoing shall constitute Deposited Securities and each ADS evidenced by ADRs shall automatically represent its pro rata interest in the Deposited Securities as then constituted.

**Amendment and Termination of Deposit Agreement**

The ADRs and the Deposit Agreement may be amended by the Company and the Depositary, provided that any amendment that imposes or increases any fees or charges (other than stock transfer or other taxes and other governmental charges, transfer or registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or that shall otherwise prejudice any substantial existing right of Holders, shall become effective 30 days after notice of such amendment shall have been given to the Holders. Every Holder of an ADR at the time any amendment to the Deposit Agreement so becomes effective shall be deemed, by continuing to hold such ADR, to consent and agree to such amendment and to be bound by the Deposit Agreement and the ADRs as amended thereby. In no event shall any amendment impair the right of the Holder of any ADR to surrender such ADR and receive the Deposited Securities represented thereby, except in order to comply with mandatory provisions of applicable law. Any amendments or supplements which (i) are reasonably necessary (as agreed by

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the Company and the Depositary) in order for (a) the ADSs to be registered on Form F-6 under the Securities Act of 1933 or (b) the ADSs or Shares to be traded solely in electronic book-entry form and (ii) do not in either such case impose or increase any fees or charges to be borne by Holders, shall be deemed not to prejudice any substantial rights of Holders. Notwithstanding the foregoing, if any governmental body should adopt new laws, rules or regulations which would require amendment or supplement of the Deposit Agreement or the form of ADR to ensure compliance therewith, the Company and the Depositary may amend or supplement the Deposit Agreement and the ADR at any time in accordance with such changed rules. Such amendment or supplement to the Deposit Agreement in such circumstances may become effective before a notice of such amendment or supplement is given to Holders or within any other period of time as required for compliance.

Upon any resignation of the Depositary which does not become effective during the earlier of (i) 90 days from the date of the Depositary shall have resigned as such and (ii) the date on which the Company shall have appointed a successor depositary or on any removal of the Depositary pursuant to the Deposit Agreement, the Depositary may, and shall at the written direction of the Company, terminate the Deposit Agreement and this ADR by mailing notice of such termination to the Holders at least 30 days prior to the date fixed in such notice for such termination. After the date so fixed for termination, the Depositary and its agents will perform no further acts under the Deposit Agreement and this ADR, except to receive and hold (or sell) distributions on Deposited Securities and deliver Deposited Securities being withdrawn. As soon as practicable after the expiration of six months from the date so fixed for termination, the Depositary shall sell the Deposited Securities and shall thereafter (as long as it may lawfully do so) hold in a segregated account the net proceeds of such sales, together with any other cash then held by it under the Deposit Agreement, without liability for interest, in trust for the pro rata benefit of the Holders of ADRs not theretofore surrendered. After making such sale, the Depositary shall be discharged from all obligations in respect of the Deposit Agreement and this ADR, except to account for such net proceeds and other cash. After the date so fixed for termination, the Company shall be discharged from all obligations under the Deposit Agreement except for its obligations to the Depositary and its agents.

**Charges of Depositary**

The Depositary may charge each person to whom ADSs are issued against deposits of Shares, including deposits in respect of Share Distributions, Rights and Other Distributions, and each person surrendering ADSs for withdrawal of Deposited Securities, U.S.\$5.00 for each 100 ADSs (or portion thereof) delivered or surrendered. The Depositary may sell (by public or private sale) sufficient securities and property received in respect of Share Distributions, Rights and Other Distributions prior to such deposit to pay such charge. In addition, the Depositary may charge Holders, a fee for the distribution of securities, such fee being in an amount equal to the fee for the execution and delivery of ADSs referred to above which would have been charged as a result of the deposit of such securities (for purposes hereof treating all such securities as if they were Shares) but which securities or the net cash proceeds from the sale thereof are instead distributed by the Depositary to Holders entitled thereto. The Company will pay all other charges and expenses of the Depositary and any agent of the Depositary (except the Custodian) pursuant to agreements from time to time between the Company and the Depositary, except (i) stock transfer or other taxes and other governmental charges (which are payable by Holders or persons depositing Shares), (ii) cable, telex and facsimile transmission and delivery charges incurred at the request of persons depositing, or Holders delivering Shares, ADRs or Deposited Securities (which are payable by such persons or Holders), (iii) transfer or registration fees for the registration of transfer of Deposited Securities on any applicable register in connection with the deposit or withdrawal of Deposited Securities (which are payable by persons depositing Shares or Holders withdrawing Deposited Securities; there are no such fees in respect of the Shares as of the date of the Deposit Agreement), (iv) expenses of the Depositary in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency) and (v) such fees and expenses as are incurred by the Depositary (including without limitation expenses incurred on behalf of Holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in delivery of Deposited Securities or otherwise in connection with the Depositary's or its Custodian's compliance with applicable law, rule or regulation (see Item 12D. American Depositary Shares).

**Liability of Holders for Taxes**

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If any tax or other governmental charge shall become payable by or on behalf of the Custodian or the Depositary with respect to an ADR, any Deposited Securities represented by the ADSs evidenced thereby or any distribution thereon, such tax or other governmental charge shall be paid by the Holder thereof to the Depositary. The

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Depository may refuse to effect any registration, registration of transfer, split-up or combination or, only for those reasons set forth in General Instruction I.A.(1) of Form F-6 under the Securities Act, any withdrawal of Deposited Securities until such payment is made. The Depository may also deduct from any distributions on or in respect of Deposited Securities, or may sell by public or private sale for the account of the respective Holder any part or all of such Deposited Securities (after attempting by reasonable means to notify the Holder thereof prior to such sale), and may apply such deduction or the proceeds of any such sale in payment of such tax or other governmental charge, the respective Holder remaining liable for any deficiency, and shall reduce the number of ADSs evidenced thereby to reflect any such sales of Shares.

In connection with any distribution to Holders, the Company or its agents will remit to the appropriate governmental authority or agency all amounts (if any) required to be withheld and owing to such authority or agency by the Company or its agents; and the Depository and the Custodian will remit to the appropriate governmental authority or agency all amounts (if any) required to be withheld by the Depository or the Custodian. The Depository shall forward to the Company or its agent such information from its records as the Company may request to enable the Company or its agent to file necessary reports with governmental authorities or agencies. If the Depository determines that any distribution in property other than cash (including Shares or rights) on Deposited Securities is subject to any tax that the Depository or the Custodian is obligated to withhold, the Depository may dispose of all or a portion of such property in such amounts and in such manner as the Depository deems necessary and practicable to pay such taxes, by public or private sale, and the Depository shall distribute the net proceeds of any such sale or the balance of any such property after deduction of such taxes to the Holders entitled thereto.

The Depository and the Company agree to use reasonable efforts to make and maintain arrangements (in addition to or in substitution of the arrangements described herein) to enable persons that are considered United States residents for purposes of applicable law to receive any rebates, tax credits or other benefits (pursuant to treaty or otherwise) relating to distributions on the ADSs to which such persons are entitled. Notwithstanding the above, the Company may, by written notice to the Depository, modify or withdraw the procedures described in this paragraph (including by ceasing to pay to the Depository any amounts in respect of refunds of Italian withholding taxes), to the extent the Company determines that its participation in the refund process is no longer lawful or practical.

See 10.6 Taxation for additional information on tax issues relating to ADRs.

**General Limitations**

The Depository, the Company, their agents and each of them shall: (a) incur no liability (i) if any present or future law, regulation, the provisions of or governing any Deposited Securities, act of God, war or other circumstance beyond its control shall prevent, delay or subject to any civil or criminal penalty any act which the Deposit Agreement or this ADR provides shall be done or performed by it, or (ii) by reason of any exercise or failure to exercise any discretion given it in the Deposit Agreement or this ADR; (b) assume no liability except to perform its obligations to the extent they are specifically set forth in this ADR and the Deposit Agreement without gross negligence or bad faith; (c) in the case of the Depository and its agents, be under no obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Securities or this ADR; (d) in the case of the Company and its agents hereunder be under no obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Securities or this ADR, which in its opinion may involve it in expense or liability, unless indemnity satisfactory to it against all expense (including fees and disbursements of counsel) and liability be furnished as often as may be required; or (e) not be liable for any action or inaction by it in reliance upon the advice of or information from legal counsel, accountants, any person presenting Shares for deposit, any Holder, or any other person believed by it in good faith to be competent to give such advice or information. The Depository, its agents and the Company may rely and shall be protected in acting upon any written notice, request, direction or other document believed by them in good faith to be genuine and to have been signed or presented by the proper party or parties. The Depository and its agents will not be responsible for any failure to carry out any instructions to vote any of the Deposited Securities (provided that such act or omission to act is in good faith), for the manner in which any such vote is cast or for the effect of any such vote. The Depository and its agents may own and deal in any class of securities of the Company and its affiliates and in ADRs. Neither the Company, the

Depository nor any of their respective agents shall be liable to Holders or beneficial owners of interests in ADSs for any indirect, special, punitive or consequential damages.

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Prior to the issue, registration, registration of transfer, split-up or combination of any ADR, the delivery of any distribution in respect thereof, or, subject to the last sentence of this paragraph, the withdrawal of any Deposited Securities, and from time to time, in the case of clause (b)(ii) of this paragraph, the Company, the Depositary or the Custodian may require: (a) payment with respect thereto of (i) any stock transfer or other tax or other governmental charge, (ii) any stock transfer or registration fees in effect for the registration of transfers of Shares or other Deposited Securities upon any applicable register and (iii) any applicable charges; (b) the production of proof satisfactory to it of (i) the identity and genuineness of any signature and (ii) such other information, including without limitation, information as to citizenship, residence, exchange control approval, beneficial ownership of any securities, compliance with applicable law, regulations, provisions of or governing Deposited Securities and terms of the Deposit Agreement and the ADRs, as it may deem necessary or proper; and (c) compliance with such regulations as the Depositary may establish consistent with the Deposit Agreement. The Depositary shall provide to the Company, promptly upon its written request, copies of any such proofs of citizenship or residence or other information referred to in (b) above so requested. The issuance of ADRs, the acceptance of deposits of Shares, the registration, registration of transfer, split-up or combination of ADRs or, subject to the last sentence of this paragraph, the withdrawal of Deposited Securities may be suspended, generally or in particular instances, when the ADR register or any register for Deposited Securities is closed or when any such action is deemed necessary or advisable by the Depositary or the Company. Notwithstanding any other provision of the Deposit Agreement or the ADRs, the withdrawal of Deposited Securities may be restricted only for the reasons set forth in General Instruction I.A.(1) of Form F-6 (as such instructions may be amended from time to time) under the Securities Act.

**Governing Law**

The Deposit Agreement is governed by and shall be construed in accordance with the laws of the State of New York.



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Unless otherwise indicated, for purposes of the following discussion regarding taxation, the Ordinary Shares and the Savings Shares are collectively referred to as the Telecom Italia Shares .

**10.6.1 ITALIAN TAXATION**

The following is a summary of material Italian tax consequences of the ownership and disposition of Ordinary Shares, Savings Shares or ADSs as at the date hereof. It does not purport to be a complete analysis of all potential tax matters relevant to a decision to hold Ordinary Shares, Savings Shares or ADSs. For purposes of Italian law and the Italian-U.S. Income Tax Convention (the **Treaty** ), holders of ADSs which are evidenced by ADRs will be treated as holders of the underlying Ordinary Shares or Savings Shares, as the case may be. The 1999 Treaty between Italy and U.S. entered into force and took effect for taxable periods beginning on or after January 1, 2010.

***Income Tax***

As a general principle, non-resident taxpayers are liable for Italian income tax with respect to income which is treated as arising in Italy, unless such income is subject to a final withholding tax deducted by the payer of the income.

Payments of dividends, either to holders of Ordinary Shares and applicable ADSs or to holders of Savings Shares and applicable ADSs, who are not Italian residents and do not have a permanent establishment in Italy to which dividends are connected are subject to a 20 percent final withholding tax. The obligation to withhold such tax is imposed on the resident company/intermediary paying the dividends.

All shares of Italian listed companies have to be registered in a centralized deposit system. With respect to dividends paid in connection with shares held in the centralized deposit system managed by Monte Titoli, such as Telecom Italia Shares, instead of the withholding tax mentioned above, a substitute income tax will apply at the same tax rates as the above-mentioned withholding tax. This substitute income tax is levied by, and under the responsibility of, the Italian authorized intermediaries participating in the Monte Titoli system and with whom the securities are deposited and also by non-Italian authorized intermediaries participating, directly or through a non-Italian centralized deposit system, in the Monte Titoli system. With respect to any dividends paid within the above mentioned centralized deposit system, Telecom Italia assumes no responsibility for the withholding of tax at the source (and application of tax treaties, as discussed below) as such responsibility lies entirely on the Italian authorized intermediaries with whom the securities are deposited.

Non-resident holders of Ordinary Shares and applicable ADSs have the right to recover within 48 months from the date of payment of the Italian substitute income tax, up to one-fourth of such 20 percent substitute tax on their dividend income, upon providing adequate evidence, certified by the tax authorities in their home country, that they paid a corresponding amount of income tax in their home country on the same dividend income.

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These refunds are normally subject to extensive delays. In addition, these refunds are an alternative to seeking any relief from double taxation under an income tax treaty, including the Treaty.

U.S. resident beneficial owners of Shares (either Ordinary or Savings Shares) and related ADSs may be entitled to a reduced tax rate on their dividends under the Treaty. Where: (i) a U.S. resident owner qualifies for the benefits of the Treaty and meets all the requirements of the Treaty provision dealing with limitation on benefits, (ii) the U.S. resident owner is the actual beneficial owner of the dividends, (iii) the dividends paid are not connected with a permanent establishment in Italy through which the U.S. resident owner carries on a business or with a fixed base in Italy through which the U.S. resident owner performs independent personal services, the Treaty generally provides that Italian taxes cannot exceed 15 percent of the gross amount of the dividend (this 15 percent rate may be reduced to 5 percent when the beneficial owner of the dividends is a U.S. company which has owned at least 25 percent of the voting stock of the company paying the dividends for a 12-month period ending on the date the dividend is declared).

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In order to obtain the reduced tax rate afforded by the Treaty, a beneficial owner of Telecom Italia Shares or ADSs must provide, before the dividend is paid (usually, according to the intermediary instructions), the intermediary with which the shares are deposited and which participates in the Monte Titoli system with the following documentation:

- (i) a declaration by the beneficial owner containing all the data identifying such person as the beneficial owner and establishing the existence of all the conditions necessary for the application of the Treaty; and
- (ii) in the case of a U.S. holder, a certification (Form 6166) issued by the U.S. Internal Revenue Service that states that the beneficial owner is a U.S. resident for tax purposes. The certification is valid until March 31 of the year following the submission.

The processing of requests for certification by the U.S. Internal Revenue Service may take a substantial period of time. Accordingly, in order to be eligible for the procedure described below, eligible ADS holders should begin the process of obtaining Form 6166 as soon as possible after receiving instructions from the Depositary on how to claim the reduced rate provided by the Treaty.

The Depositary's instructions, which will be sent to all ADS holders before the dividend payment date, will specify certain deadlines for delivering to the Depositary any documentation required to obtain the reduced rate provided by the Treaty, including the certification that the eligible ADS holders must obtain from the U.S. Internal Revenue Service. In the case of ADSs held through a broker or other financial intermediary, the required documentation should be delivered to such financial intermediary for transmission to the Depositary. In all other cases, the eligible ADS holders should deliver the required documentation directly to the Depositary.

If the holder of Telecom Italia Shares or ADSs fails to obtain the reduced rate provided by the Treaty at the time the dividend is paid, a refund equal to the difference between the Treaty rate and the Italian tax, withheld at the payment of dividends, may be claimed directly from the Italian tax authorities. Extensive delays have been encountered by U.S. residents seeking payments directly from the Italian authorities.

In the case of dividends paid to a U.S. partnership, the reduction of the tax rate under the Treaty is only available to the extent such dividends are subject to U.S. tax in the hands of the partners.

***Capital Gains Tax***

Under Italian law, capital gains tax ( **CGT** ) is levied on capital gains realized by non-residents from the disposal of shares in companies resident in Italy for tax purposes even if those shares are held outside of Italy. However, capital gains realized by non-resident holders on the sale of non-qualified shareholdings (as defined below) in companies whose shares or ADSs are listed on a stock exchange and resident in Italy for tax purposes (as is the case for Telecom Italia) are not subject to CGT.

A qualified shareholding consists of securities (except for Savings Shares and applicable ADSs) that (i) entitle the holder to exercise more than 2 percent of the voting rights of a company with shares listed on a stock exchange (Telecom Italia is such a company) in the ordinary meeting of the shareholders or (ii) represent more than 5 percent of the share capital of a company with shares listed on a stock exchange (Telecom Italia is

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such a company). A non-qualified shareholding is any shareholding that does not meet the above mentioned requirements to be qualified as a qualified shareholding .

The relevant percentage is calculated taking into account the shareholdings sold during the prior 12-month period (the period starting from the day on which the taxpayer holds shareholding higher than the abovementioned percentages of 2 or 5 percent).

Pursuant to the Treaty, a U.S. resident will not be subject to Italian CGT on a sale of qualified shareholdings unless the Telecom Italia Shares or ADSs form part of the business property of a permanent establishment of the holder in Italy or pertain to a fixed base available to a holder in Italy for the purpose of performing independent personal services. U.S. residents who sell Telecom Italia Shares or ADSs may be required to produce appropriate documentation establishing that the above mentioned conditions of non-taxability pursuant to the Treaty provisions have been satisfied if CGT would otherwise be applicable.

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The transfers of any valuable asset (including Ordinary Shares, Savings Shares and ADSs) as a result of death or donation (or other transfers for no consideration) and the creation of liens on such assets for a specific purpose are taxed as follows:

- (i) transfers in favor of the spouse and of direct descendants or ascendants are subject to an inheritance and gift tax applied at a rate of 4 percent on the value of the inheritance or the gift exceeding 1,000,000 (per beneficiary);
- (ii) transfers in favor of brothers and sisters are subject to an inheritance and gift tax applied at a rate of 6 percent on the value of the inheritance or the gift exceeding 100,000 (per beneficiary). The same tax rate applies in favor of handicapped individuals on the value of inheritance or gift exceeding 1,500,000 (per beneficiary);
- (iii) transfers in favor of all other relatives up to the fourth degree or relatives-in-law up to the third degree, are subject to an inheritance and gift tax applied at a rate of 6 percent on the entire value of the inheritance or the gift;
- (iv) any other transfer is subject to an inheritance and gift tax applied at a rate of 8 percent on the entire value of the inheritance or the gift.

With respect to listed shares, the value for inheritance and gift tax purposes is the average stock exchange price of the last quarter preceding the date of the succession or of the gift (increased by the interest accrued during the interim). With respect to unlisted shares, the value is determined proportionally to the equity resulting from the last approved balance sheet of the company.

There is currently no gift tax convention between Italy and the United States.

***Registration Tax***

Contracts relating to the transfer of securities are subject to the registration tax as follows: (i) public deeds and notarized deeds are subject to fixed registration tax at a rate of 200 euros (168 euros up to December 31, 2013); (ii) private deeds are only subject to registration tax in case of use or voluntary registration.

***Stamp taxes and duties***

On January 1, 2012, a law on stamp duty on securities and financial products entered into force in Italy. The implementing rules on such stamp duty were provided by Decree of the Ministry of Economy and Finance dated as of May 24, 2012. According to the latest amendments introduced by the law December 27, 2013, n. 147 (the Stability Law ) the stamp tax applies on a yearly basis at the rate of 0.20 percent (0.15 percent in 2013) on the market value or if no market value is available on the nominal value or the redemption amount of any financial product or

financial instruments (including the Telecom Italia shares or ADSs). The Stability Law abolished also the minimum threshold of 34.20 euros (in force up to December 31, 2013) and, for taxpayers other than individuals, the cap was increased to 14,000 euros (in 2013, the cap was 4,500 euros).

In the absence of specific guidelines, it may be argued that the stamp duty applies to both Italian resident shareholders and to non-Italian resident shareholders, to the extent that the shares (or ADSs) are held with an Italian-based financial intermediary.

*Tax on financial transactions*

**1. Shares and other equity instrument transactions**

The Italian Financial Transactions TAX ( **FTT** ) was introduced by Law No. 228 as of December 24, 2012. Detailed regulations of such tax were provided by the Decree of the Ministry of Economy and Finance as of February 21, 2013. In accordance with the relevant provisions, starting from March 1, 2013 the FTT applies to:

- a) any transfer of the ownership of shares and participating financial instruments which have been issued by companies registered in Italy; and

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- b) any transfer of the ownership of securities (such as ADSs) representing equity investments referred to in point a) above, irrespective of the country of residence of the issuer of these securities.

The relevant tax criterion is the place of residence (i.e., the place of the registered office) of the issuer of the shares and the participating financial instruments. In contrast, the place of the execution of the relevant transfers and the residence of the contractual parties involved is not relevant in defining taxed transactions. Accordingly, transfers performed outside the Italian territory through foreign intermediaries, are also subject to tax, to the extent they refer to shares, or participating financial instruments issued by companies registered in Italy (or securities representing such equity investments). So, with reference to the transfer of ADSs, the place of residence of the Depository is not relevant. Instead the country of residence of Telecom Italia, as issuer of the shares, is relevant.

The tax is determined proportionally by applying a percentage rate to the value of the countervalue of the transaction that varies in relation to the market on which the transaction is carried out. In particular, the standard FTT rate is:

0.20 percent (increased to 0.22 percent only for 2013) for over-the-counter transactions; and

0.10 percent (increased to 0.12 percent only for 2013) for transactions executed on regulated markets or multilateral trading facility established in a EU Member State or in an EEA country that is included in the white list.

The tax on these types of transactions is owed by the persons to which the ownership of shares, financial instruments and securities representing equity investments (such as ADSs) is transferred, regardless of their country of residence and the place where the contract is concluded. The FTT must be paid by banks, investment companies, notaries and other intermediaries directly involved in the transaction by the 16th day of the month following the execution of the respective transaction. If multiple intermediaries are involved in the same transaction, the FTT must be paid by the intermediary that receives from the purchaser or the final counterparty the execution order.

Generally, a distinction is to be made between the person economically affected by the tax and the person liable for the payment of the tax. Economically, the burden of the tax on transfers of shares (or ADSs) and certificates is imposed on the beneficiary of the transfer of the ownership; in contrast, the person liable for the assessment and the payment of the tax is the intermediary (i.e., banks, trust companies, investment firms and other intermediaries) involved in the execution of such transactions. Where several intermediaries are involved in the execution of the transaction, the tax must be paid by the intermediary that receives the order to execute the transaction directly from the purchaser or the final counterparty.

Non-Italian intermediaries and other non-resident persons involved in the transaction must comply with the obligations deriving from the application of such tax through their Italian permanent establishment, if any. Non-Italian intermediaries and other non-resident persons having no permanent establishment in Italy can appoint a tax representative in order to comply with all the relevant tax obligations. In cases other than the above (i.e., where an intermediary is not interposed in a taxable transaction), the obligations, including the payment of the tax, must be fulfilled directly by the foreign person (purchaser).

Non-residents involved in a financial transaction are deemed to be the purchaser or the final counterparty of the execution order, if established in a State which does not fulfill the exchange of information requirements, i.e. a State not included in the list provided by the Directorial Decree No. 2013/26948, released on March 1, 2013 by the Italian Tax Authorities.

The Italian Tax Authorities approved the FTT annual return form and related instructions on December 27, 2013. The FTT return must be filed by March 31 of each year (with reference to FTT paid over the previous year), but no return needs to be filed if the FTT paid does not exceed 50 euros. Non-residents may file the FTT return through their Italian permanent establishment or through an appointed tax representative. In the absence of a permanent establishment in Italy or of a tax representative, the FTT return can be filed electronically or directly by registered mail.

It should be noted that Italian FTT could be significantly amended in the light of the approval of the EU FTT Directive proposal.



**Table of Contents****Item 10. Additional Information****Taxation****10.6.2 UNITED STATES FEDERAL INCOME TAXATION**

The following is a description of the material U.S. federal income tax consequences to the U.S. Holders described below of owning and disposing of Telecom Italia Shares or ADSs representing Telecom Italia Shares, but it does not purport to be a comprehensive description of all tax considerations that may be relevant to a particular person's decision to hold the securities. This discussion applies only to a U.S. Holder that holds Telecom Italia Shares or ADSs as capital assets for U.S. federal income tax purposes. In addition, it does not describe all of the tax consequences that may be relevant in light of the U.S. Holder's particular circumstances, including alternative minimum tax consequences and the potential application of the provisions of the Internal Revenue Code of 1986, as amended (the **Code**), known as the Medicare contribution tax, and tax consequences applicable to U.S. Holders subject to special treatment, such as:

- certain financial institutions;
- dealers or traders in securities who use a mark-to-market method of tax accounting;
- persons holding Telecom Italia Shares or ADSs as part of a hedging transaction, straddle, wash sale, conversion transaction or integrated transaction or persons entering into a constructive sale with respect to the Telecom Italia Shares or ADSs;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- entities classified as partnerships for U.S. federal income tax purposes;
- tax-exempt entities, including individual retirement accounts or Roth IRAs;
- persons that own or are deemed to own ten percent or more of the voting stock of Telecom Italia;
- persons who acquired Telecom Italia Shares or ADSs pursuant to the exercise of an employee stock option or otherwise as compensation;  
or
- persons holding Telecom Italia Shares in connection with a trade or business conducted outside of the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds Telecom Italia Shares or ADSs, the U.S. federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. Partnerships holding Telecom Italia Shares or ADSs and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of holding and disposing of the Telecom Italia Shares or ADSs.

This discussion is based on the Code, administrative pronouncements, judicial decisions, final, temporary and proposed Treasury regulations, and the Treaty, all as of the date hereof, any of which is subject to change, possibly with retroactive effect. It is also based in part on

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representations by the Depositary and assumes that each obligation under the Deposit Agreement and any related agreement will be performed in accordance with its terms.

A U.S. Holder is a person who, for U.S. federal income tax purposes, is a beneficial owner of Telecom Italia Shares or ADSs who is eligible for the benefits of the Treaty and is:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

In general, a U.S. Holder who owns ADSs will be treated as the owner of the underlying Ordinary Shares or Savings Shares, as the case may be, represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if a U.S. Holder exchanges ADSs for the underlying Ordinary Shares or Savings Shares, as the case may be, represented by those ADSs.

The U.S. Treasury has expressed concern that parties to whom American depositary shares are released before shares are delivered to the depositary ( pre-release ), or intermediaries in the chain of ownership between

**Table of Contents****Item 10. Additional Information****Taxation**

holders and the issuer of the security underlying the American depositary shares, may be taking actions that are inconsistent with the claiming of foreign tax credits by holders of American depositary shares. These actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the creditability of Italian taxes, and the availability of the reduced tax rate for dividends received by certain non-corporate U.S. Holders, each described below, could be affected by actions taken by such parties or intermediaries.

U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and foreign tax consequences of owning and disposing of Telecom Italia Shares or ADSs in their particular circumstances.

This discussion assumes that Telecom Italia has not been and will not become a passive foreign investment company, as described below.

***Taxation of distributions***

Distributions made with respect to the Telecom Italia Shares or ADSs (other than certain pro rata distributions of Telecom Italia Shares or ADSs), including any Italian tax withheld, will generally constitute foreign-source dividend income for U.S. federal income tax purposes to the extent such distributions are made from Telecom Italia's current or accumulated earnings and profits, as determined in accordance with U.S. federal income tax principles. Because Telecom Italia does not maintain calculations of earnings and profits under U.S. federal income tax principles, it is expected that distributions will generally be reported to U.S. Holders as dividends. If you are a non-corporate U.S. Holder, subject to applicable limitations that may vary depending on your particular circumstances and the discussion above regarding concerns expressed by the U.S. Treasury, dividends paid to you may be taxable at the favorable rates applicable to long-term capital gains. Non-corporate U.S. Holders should consult their own tax advisers regarding the availability of the reduced tax rate on dividends. If you are a corporate U.S. Holder you will not be entitled to claim a dividends-received deduction for dividends paid on the Telecom Italia Shares or ADSs. The amount of any cash distribution paid in euros, including the amount of any Italian tax withheld, will be included in your income in an amount equal to the U.S. dollar value of such euros on the date of receipt by the Depositary, in the case of U.S. Holders of ADSs, or by the U.S. Holder, in the case of U.S. Holders of Telecom Italia Shares, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. You may have foreign currency gain or loss if the amount of such dividend is converted into U.S. dollars after the date of its receipt. Gain or loss, if any, recognized on the sale or other disposition of such euros will be U.S.-source ordinary income or loss. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution.

Subject to certain limitations and restrictions and the discussion above regarding concerns expressed by the U.S. Treasury, Italian taxes withheld from distributions on Telecom Italia Shares or ADSs at a rate not in excess of that applicable under the Treaty will be eligible for credit against a U.S. Holder's U.S. federal income tax liability. Italian taxes withheld in excess of the rate applicable under the Treaty will generally not be eligible for credit against a U.S. Holder's U.S. federal income tax liability (See Section 10.6.1 Italian Taxation Income Tax for a discussion of how to obtain the Treaty withholding rate). Instead of claiming a credit, you may, at your election, deduct such Italian taxes in computing your taxable income, subject to generally applicable limitations under U.S. law. An election to deduct foreign taxes instead of claiming foreign tax credits applies to all taxes paid or accrued in the taxable year to foreign countries and possessions of the United States. You should consult your tax adviser concerning the foreign tax credit implications of the payment of any Italian withholding taxes.

***Taxation of capital gains***

A U.S. Holder will generally recognize U.S.-source capital gain or loss on the sale or other disposition of Telecom Italia Shares or ADSs, which will be long-term capital gain or loss if the U.S. Holder held the Telecom Italia Shares or ADSs for more than one year. The amount of gain or loss will be equal to the difference between the gross amount realized and the U.S. Holder's adjusted tax basis in the Telecom Italia Shares or ADSs, in each case as determined in U.S. dollars. U.S. Holders should consult their own tax advisers about the treatment of capital gains, which may be taxed at lower rates than ordinary income for non-corporate taxpayers, and capital losses, the deductibility of which may be limited.

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**Taxation**

***Passive Foreign Investment Company Rules***

Telecom Italia believes that it was not a passive foreign investment company ( **PFIC** ) for U.S. federal income tax purposes for 2013, or in previous years. However, since PFIC status depends upon the composition of Telecom Italia's income and assets and the market value of Telecom Italia's assets (including, among others, less than 25 percent owned equity investments) from time to time, there can be no assurance that Telecom Italia will not be a PFIC for any taxable year. If Telecom Italia were a PFIC for any taxable year during which a U.S. Holder held Telecom Italia Shares or ADSs, certain adverse tax consequences could apply to the U.S. Holder.

***Information Reporting and Backup Withholding***

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting, and may be subject to backup withholding, unless (i) the U.S. Holder is an exempt recipient or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding.

The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the Internal Service Revenue.

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**Item 10. Additional Information**

**Documents On Display**

**10.7 DOCUMENTS ON DISPLAY**

We file Annual Reports on Form 20-F and furnish periodic reports on Form 6-K to the SEC. You may read and copy any of these reports at the SEC's public reference room in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public from commercial document retrieval services. Some of our SEC filings are also available at the website maintained by the SEC at the website [www.sec.gov](http://www.sec.gov).

Our ADSs are listed on the New York Stock Exchange under the symbol **TI**. You may inspect any periodic reports and other information filed with or furnished to the SEC by us at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

As a foreign private issuer, we are exempt from the rules under the Exchange Act which prescribe the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We are subject to the informational requirements of the Italian securities commission and the Italian stock exchanges, and we file reports and other information relating to our business, financial condition and other matters with the Italian securities commission and the Italian stock exchange. You may read such reports, statements and other information, including the annual, semi-annual and quarterly financial statements, at the website [www.borsaitaliana.it](http://www.borsaitaliana.it). Some of our Italian securities commission filings are also available at the website maintained by the Italian securities commission at the website [www.consob.it](http://www.consob.it).

As described elsewhere in this Annual Report, certain reports, statements and presentations related to Telecom Italia can be found on our website at [www.telecomitalia.com](http://www.telecomitalia.com).

We have appointed JPMorgan Chase Bank, N.A. to act as depositary for our ADSs. JPMorgan Chase Bank will, as provided in the deposit agreement, arrange for the mailing of summaries in English of such reports and communications to all record holders of our ADSs. Any record holder of our ADSs may read such reports and communications or summaries thereof at JPMorgan Chase Bank's office located at 4 New York Plaza, New York, New York 10004.

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**Item 11. Quantitative And Qualitative Disclosures About Market Risks**

**Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

With regard to the quantitative and qualitative disclosures about market risks, please see the Note Financial Risk Management of the Notes to the Consolidated Financial Statements included elsewhere herein, which provides:

- the objectives and the policies for the management of the financial risks of the Telecom Italia Group, and
- the sensitivity analyses of the market risks we are exposed to.

The above mentioned Note should be read in conjunction with the Note Accounting Policies , Note Derivatives and Note Supplemental Disclosures on Financial Instruments of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report, which provide other information relating to financial instruments.

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**Item 12. Description Of Securities Other Than Equity Securities**

**Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

**Item 12A. DEBT SECURITIES**

Not applicable.

**Item 12B. WARRANTS AND RIGHTS**

Not applicable.

**Item 12C. OTHER SECURITIES**

Not applicable.

**Item 12D. AMERICAN DEPOSITARY SHARES**

***Description of fees and charges paid by ADR Holders***

As provided for in the American Depositary Receipt included as Exhibit A to the Deposit Agreement between JP Morgan Chase Bank, as depositary (the **Depositary**), Telecom Italia S.p.A. and Holders of American Depositary Receipts dated as of July 17, 2003, holders of American Depositary Shares may be charged, directly or indirectly, the following amounts in relation to the ownership of depositary receipts held in the Company's ADR Program, which amounts are payable to the Depositary.



**Table of Contents****Item 12. Description Of Securities Other Than Equity Securities**

| <b>Category of Service</b>                           | <b>Depository Actions</b>  | <b>Associated Fee</b>  |
|--|--|--|
| a) Deposit of underlying shares or surrender of ADRs | Each person to whom ADSs are issued against deposits of shares, including deposits in respect of share distributions, rights and other distributions.(1)   | US\$5.00 for each 100 ADSs (or portion thereof) delivered or surrendered.  |
| b) Cash dividends or distributions                   | Each person surrendering ADRs for the withdrawal of deposited securities.<br>Distribution of cash resulting from a cash dividend or other cash distribution.   | Subject to deduction of Depository's expenses in (i) converting foreign currency to US dollars by sale or such other manner considered reasonable by the Depository (ii) transferring the foreign or US dollars to the United States and (iii) obtaining any license or approval of any governmental authority required for such conversion or transfer. |
| c) Distribution of securities                        | Distribution of securities (the fee being an amount equal to the fees for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities).   | US\$5.00 for each 100 ADSs (or portion thereof) delivered or surrendered.  |
| d) Expenses of the Depository                        | Expenses incurred on behalf of Holders in connection with: <ul style="list-style-type: none"> <li>i) Stock transfer or other taxes and other governmental charges.</li> <li>ii) Cable, telex and facsimile transmission and delivery.</li> <li>iii) Expenses of the Depository in connection with the conversion of foreign currency into US dollars (which are paid out of such foreign currency).</li> <li>iv) Such fees and expenses as are incurred by the Depository (including without limitation expenses incurred on behalf of Holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in delivery of deposited securities or otherwise in connection with the Depository's or its Custodian's compliance with applicable law, rule or regulation.</li> </ul> | As necessary.<br>US\$20.00 per transaction.<br>As necessary.<br>As necessary.  |

(1) The Depository may sell (by public or private sale) sufficient securities and property received in respect of such share distributions, rights and other distributions prior to such deposit to cover such charge.

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**Item 12. Description Of Securities Other Than Equity Securities**

*Direct and indirect payments made by J.P. Morgan to Telecom Italia in relation to the Company's ADR program*

J.P. Morgan, as Depositary, has agreed to reimburse the Company for reasonable expenses incurred related to the Company's ADR Program including legal fees, investor relations servicing, investor relations presentations, broker reimbursements, ADR related advertising and public relations, accountant's fees and other bona fide third party expenses. In 2013 the Depositary reimbursed the Company in the amount of US\$787,482.56, all of which was used to cover accounting fees incurred in connection with the preparation of the 2011 and 2012 Form 20-F.

As part of its service to the Company, J.P. Morgan has agreed to cover the standard costs associated with the administration of the ADR Program. Such costs include fees and expenses related to (1) general services (administration of the ADR Program, administration of ADR holders' accounts, maintenance of the ADR registry and other general services), services related to distribution of dividends and other cash distributions and tax and regulatory compliance services; (2) services related to the annual meeting; and (3) services to investor relations such as market updates, quarterly newsletters and market research.

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**Item 13. Defaults, Dividend Arrearages And Delinquencies**

**PART II**

**Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Not applicable.

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**Item 14. Material Modification to the Rights Of Security Holders And Use Of Proceeds**

**Item 14. MATERIAL MODIFICATION TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not applicable.

**Table of Contents****Item 15. Controls And Procedures****Disclosure Controls And Procedures****Management's Annual Report On Internal Control Over Financial Reporting****Item 15. CONTROLS AND PROCEDURES****15.1. DISCLOSURE CONTROLS AND PROCEDURES**

The Company, under the supervision of the Chief Executive Officer and of the Head of Administration, Finance and Control, according to the Company's 404 Process guidelines (revised also to meet the reporting requirements set forth by article 154-bis of the Italian Legislative Decree 58/1998; the aforementioned Italian rule provides for a special report by the Chief Executive Officer and the Head of Administration, Finance and Control of the issuer, broadly corresponding in scope to the certifications and the management's report on internal control over financial reporting required by the Sarbanes Oxley Act) performed an evaluation of the effectiveness of the Company's disclosure controls and procedures as of December 31, 2013. The Company's management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which by their nature can provide only reasonable assurance regarding management's control objectives. Based on this evaluation, the Company's Chief Executive Officer and the Company's Head of Administration, Finance and Control concluded that the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) are effective at the reasonable assurance level.

**15.2. MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the Company's Chief Executive Officer and the Company's Head of Administration, Finance and Control and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transaction and dispositions of the assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures for the company are being made only in accordance with authorizations of management and directors of the company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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The Company's management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2013. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ( **COSO** ) in *Internal Control-Integrated Framework (1992)*.

Based on management's assessment, management has concluded that, as of December 31, 2013, the Company's internal control over financial reporting is effective based on those criteria.

PricewaterhouseCoopers S.p.A., the independent registered public accounting firm that audited the consolidated financial statements included in this annual report, has audited the effectiveness of internal control over financial reporting as of December 31, 2013. Their attestation report on internal control over financial reporting is included herein.

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**Item 15. Controls And Procedures**

**Changes In Internal Control Over Financial Reporting**

**15.3. CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There has been no change in the Company's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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**Item 16A. Audit Committee Financial Expert**

**Item 16B. Code Of Ethics And Conduct**

**Item 16. [RESERVED]**

**Item 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

The Board of Auditors in office as of April, 8, 2014 determined that each of its members is an audit committee financial expert as defined in Item 16A of Form 20-F. For the names of the members of the Board of Auditors, see Item 6 Directors, Senior Management and Employees 6.3 Board of Auditors .

**Item 16B. CODE OF ETHICS AND CONDUCT**

On March 23, 2004, Telecom Italia adopted its Code of Ethics and Conduct which applies to among others the Chief Executive Officer, the Chief Financial Officer, as well as to all the Group s employees in and outside Italy; the suppliers of the Company are required to accept and apply it, too. The Code of Ethics and Conduct has subsequently been amended from time to time by the Board of Directors, which acted on the basis of opinions by the Control and Risk Committee and the Board of Statutory Auditors, in order to conform it to the developments in the applicable law and market regulations, taking into account national and international best practices (the last version of the Code was adopted on October 3, 2013: the text was comprehensively revised to simplify it and bring it closer to the daily routine of the people who work in the Company). The Code of Ethics and Conduct in force is available on Telecom Italia s website at [www.telecomitalia.com](http://www.telecomitalia.com). See also under Item 16G. Corporate Governance 16.1 Differences in Telecom Italia s Corporate Governance and New York Stock Exchange Corporate Governance Practices and Item 10 Additional Information 10.1 Corporate Governance .



**Table of Contents****Item 16C. Principal Accountant Fees And Services****Item 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

For the year ended December 31, 2013, PricewaterhouseCoopers S.p.A. is serving as Telecom Italia's independent auditor.

PricewaterhouseCoopers means PricewaterhouseCoopers S.p.A., the auditor of the Company, as well as all the Italian and foreign entities belonging to the PricewaterhouseCoopers network.

The following table sets forth the aggregate fees for professional services and other services rendered by PricewaterhouseCoopers in 2013 and in 2012.

| Type of Fees          | Fiscal year ended<br>December 31, |              |
|-----------------------|-----------------------------------|--------------|
|                       | 2013                              | 2012         |
| Audit Fees(1)         | 10,006                            | 7,729        |
| Audit-related Fees(2) | 55                                | 244          |
| Tax Fees(3)           | 109                               | 157          |
| <b>Total</b>          | <b>10,170</b>                     | <b>8,130</b> |

(1) Audit fees consist of fees billed for professional services in connection with Telecom Italia's annual financial statements, reviews of interim financial statements as well as comfort letters issued in relation to capital market transactions, agreed upon procedures for certain financial statement areas, included those required for some transactions by regulations in Italy and abroad, and technical accounting consultations.

(2) Audit-related fees consist of fees billed for professional services rendered in connection with assurance and related services not included under Audit Fees.

(3) Tax fees consist of fees billed for professional services rendered for tax compliance and tax advice.

The Board of Auditors (also in its role as Telecom Italia's Audit Committee), in accordance with and to the extent permitted by applicable Italian law, is responsible for the appointment, retention and oversight of the work of the Company's external auditors engaged for the purpose of issuing the audit report on the annual financial statements. To this effect, according to current Italian law, the Board of Auditors makes a reasoned proposal to the Shareholders' Meeting which appoints the external auditors and determines their compensation.

In March 2010, Telecom Italia, together with its Board of Auditors, adopted new Guidelines for the Appointment of external Auditors (the **Group Procedure**). Such procedure became effective concurrently with the appointment of PricewaterhouseCoopers S.p.A. as Telecom Italia's primary independent auditors.

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The above mentioned Group Procedure provides instructions, among other things, for the following:

- appointment to audit the Company's financial statements: the appointment is authorized by Telecom Italia's shareholders' meeting, acting on a reasoned proposal from the Board of Auditors; and
- additional appointments: the pre-approval, by Telecom Italia's Board of Auditors, of certain audit and permissible non-audit services to be provided by the external auditors (and associated persons) and the prohibition for certain services.

An approval is not granted if the service falls within a category of services not permitted by current law or if it is inconsistent with maintaining auditor independence.

According to the Group Procedure, the Telecom Italia Board of Auditors pre-approved the following audit and permitted non-audit services.

### **Audit Services:**

- audit of the financial statements and reporting packages for consolidation of Telecom Italia's subsidiaries;
- review of the working papers of another auditor when necessary for the audit of the financial reports of Telecom Italia or companies it controls;

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### **Item 16C. Principal Accountant Fees And Services**

- verification services for the issue of consent letters;
- audit of financial statements and/or balance sheets to be published in prospectuses and information documents, offering memoranda and the like;
- accounting assistance and advice, including in relation to requests coming from CONSOB, the United States Securities and Exchange Commission and similar authorities;
- audit/verification services in connection with the awarding of grants/loans or obtaining specific tax or social security contribution treatment;
- verification of the conformity of so-called sustainability and social reports;
- issuance of comfort letters in relation to the implementation of extraordinary corporate actions;
- reports and opinions requested under law from the Appointed Auditor; and
- attestations to participate in competitive tenders organized by (national or supranational) governmental bodies.

### **Permitted Non-audit Services:**

- agreed procedures for aspects of regulatory accounting; and
- accounting due diligence procedures for companies to be sold or acquired.

The Board of Auditors has the right to establish guidelines and qualitative and quantitative criteria regarding the appointment of auditors to provide both audit and non-audit services, valid for the entire Group, which it did by requiring the introduction, from January 1, 2012, of an operative procedure which provides for prior examination by the Board of Auditors (even for pre-approved appointments and services) if certain qualitative conditions or when specific quantitative thresholds are exceeded. The Board of Auditors also stated that it will endorse the corresponding determinations adopted by the audit committees of the SEC-registered subsidiary companies, provided that they are made on the basis of rules compliant with the applicable regulations including United States regulations and in conformity with the Group Guidelines.

Furthermore, in accordance with the Group Procedure above, the Manager responsible for preparing the Company's financial reports (who acts under the supervision of the Telecom Italia Board of Auditors) sends, on a quarterly basis, to the Board of Auditors and the Control and Risk Committee, the information gathered on any Additional Appointments awarded and services provided. In relation to the above-mentioned appointments, the Board of Auditors and the Control and Risk Committee may have any verifications of compliance deemed necessary carried out by the Internal Control Manager.



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**Item 16D. Exemptions From The Listing Standards For Audit Committees**

**Item 16E. Repurchases Of Equity Securities**

**Item 16F. Change In Registrant s Certifying Accountant**

**Item 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Please see Item 10. Additional Information 10.1. Corporate Governance .

**Item 16E. REPURCHASES OF EQUITY SECURITIES**

From January 1, 2013, to December 31, 2013, no purchases of Shares or Savings Shares were made by or on behalf of Telecom Italia or any affiliated company.

**Item 16F. CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANT**

Not applicable.

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**Item 16G. Corporate Governance**

**Differences In Telecom Italia s Corporate Governance And  
New York Stock Exchange Corporate Governance Practices**

**Item 16G. CORPORATE GOVERNANCE**

**16.1 DIFFERENCES IN TELECOM ITALIA S CORPORATE GOVERNANCE AND NEW YORK STOCK EXCHANGE CORPORATE GOVERNANCE PRACTICES**

We believe the following to be the significant differences between our corporate governance practices and NYSE corporate governance rules applicable to US companies.

*Independent Directors.* Under NYSE listing rules applicable to US companies, independent directors must comprise a majority of the board of directors.

Article 147-ter of the Italian Consolidated Law on Finance requires boards, with more than seven members, to have at least two directors who meet the criteria set forth by Article 148 for the independence of the members of the Board of Statutory Auditors; in addition the Borsa Italiana Corporate Governance Code requires Boards of Directors to have an adequate number of independent members, and defines the criteria to be applied in determining independence. Telecom Italia s Corporate Governance Principles incorporate by reference the same independence criteria set forth by the Borsa Italiana Code. As of April 8, 2014, 5 out of 11 members of the Telecom Italia Board qualify as independent, as they meet both the requirements set forth by Article 148, and the criteria set forth by the Borsa Italiana Corporate Governance Code.

While convening the Shareholders Meeting to be held on April 16, 2014, at which a new Board of Directors will be elected, the existing Board recommended a robust and substantial interpretation of the independence requirements and that the majority of the candidates in each slate to be filed, be independent. For further details, see also 10.1 Corporate Governance General Board of Directors Independent Directors .

*Non-management Directors Meeting.* Pursuant to NYSE listing standards, non-management directors must meet on a regular basis without management present and independent directors must meet separately at least once per year. Borsa Italiana s Corporate Governance Code requires independent directors to meet at least once a year without management present.

Telecom Italia s Corporate Governance Principles establish the position of Lead Independent Director. The position is intended to provide a point of reference and coordination for the needs and inputs of the independent directors and is entrusted with the power to call special meetings of independent members (Independent Directors Executive Sessions) to discuss, separately from the management, issues related to the working of the Board and the management of the business. In 2013 a total of ten such sessions were held. The Lead Independent Director may use the Company s support functions in performing his tasks. As of April 8, 2014 the position is held by Luigi Zingales. For further details, see also 10.1 Corporate Governance General Board of Directors Executive Directors and Activities of the Board .

*Board of Directors Internal Committees.* According to NYSE listing standards, US companies listed on the NYSE are required to have a Nominating/Corporate Governance Committee, a Compensation Committee and an Audit Committee. Also according to Borsa Italiana s Corporate Governance Code, the Board of Directors shall establish among its members a Nominating Committee (made up, for the majority, of

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independent directors) a Remuneration Committee (made up of independent directors or of non executive directors, the majority of which are to be independent) and a Control and Risk Committee (made up of independent directors of non executive directors, the majority of which being independent).

Telecom Italia specifically established a Nomination and Remuneration Committee (thus combining responsibilities and roles of the Nominating Committee and the Remuneration Committee) and a Control and Risk Committee, in addition to an Executive Committee.

*Nominating/Corporate Governance Committee.* Under NYSE standards, the nominating/corporate governance committee is composed entirely of independent directors. In addition to identifying individuals qualified to become board members, this committee must develop and recommend to the board a set of corporate governance principles. Pursuant to NYSE standards, this committee should also adopt a written charter.

Article 9 of Telecom Italia's bylaws provides for the members of the Board of Directors to be elected using the slate system, which permits shareholders, who, alone or together, hold shares representing at least 0.5% of the

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**Item 16G. Corporate Governance**

**Differences In Telecom Italia s Corporate Governance And**

**New York Stock Exchange Corporate Governance Practices**

share capital (in accordance with a recent interpretation of the corporate Bylaws by the Board of Directors, following a suggestion coming from Consob: in disregard of the different stake annually required to this end by Consob), to put forward slates of nominees for the appointment as directors: the system is intended to ensure the presence on the Board of persons designated by minority shareholders. Thus, the Company s view is that using the slate system meets the needs otherwise served by the creation of a Nominating Committee.

On the other hand, the Nomination and Remuneration Committee (made up of non-executive directors only, a majority of whom must be independent, one of them chosen from a minority slate), among other activities, is in charge of submitting to the Board of Directors candidates for appointment as director in case of co-optation, should the replacement of independent directors be necessary. In addition Telecom Italia has a Control and Risk Committee (made up of non-executive directors only, a majority of whom must be independent, one of them chosen from a minority slate) which, among other activities, actively participates and assists in developing and implementing the corporate governance procedures adopted by Telecom Italia.

For further details, see also 10.1 Corporate Governance General Board of Directors Internal Committees .

*Remuneration Committee.* Under NYSE standards, the Remuneration Committee is composed entirely of independent directors. In addition to the review and approval of corporate goals relevant to CEO compensation and evaluation of the CEO performance in light of those given, this committee must determine and approve the CEO s compensation and make recommendations to the Board of Directors with respect to non-CEO compensation, incentive-compensation plans and equity-based plans.

Telecom Italia has a Nomination and Remuneration Committee, made up of a majority of independent directors (one of them chosen from a minority slate). Pursuant to the Company s Corporate Governance Principles, the Remuneration Committee shall, among other things:

- (1) oversee the succession plan for Executive Directors, and monitor the updating of the company management replacement lists, prepared by the Executive directors;
- (2) establish the procedure and period for the annual evaluation of the Board of Directors;
- (3) propose the criteria for allocating the total annual compensation established by the Shareholders Meeting for the whole Board of Directors;
- (4) perform other duties assigned to it by the Board of Directors;
- (5) express opinions to the Board of Directors regarding its size and composition and express recommendations with regard to the professional skills necessary within the Board;
- (6) submit the Board of Directors candidates for directors offices in case of cooptation, should the replacement of independent directors be necessary;



- (7) periodically evaluate the adequacy, overall consistency and actual application of the policy for the remuneration of directors and key management personnel, on the basis of the information provided by the managing directors; it shall formulate proposals to the Board of Directors in that regard;
- (8) submit proposals or issues opinions to the Board of Directors for the remuneration of executive directors and other directors who cover particular offices as well as for the identification of performance objectives related to the variable component of that remuneration; it shall monitor the implementation of decisions adopted by the Board of Directors and verify, in particular, the actual achievement of performance objectives.

According to the procedure for transactions with the Company's related parties, adopted by board resolution of November 4, 2010 and subsequently amended (available on the [www.telecomitalia.com](http://www.telecomitalia.com) website, Governance section Governance System channel), in case of resolutions regarding the remuneration of directors and key managers with strategic responsibilities the tasks assigned to the board committee by the Telecom Italia procedure are in this case performed by the Nomination and Remuneration Committee.

For further details, see also 10.1 Corporate Governance General Board of Directors Internal Committees .

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**Item 16G. Corporate Governance**

**Differences In Telecom Italia s Corporate Governance And**

**Item 16H. Mine Safety Disclosure**

**New York Stock Exchange Corporate Governance Practices**

*Audit Committee.* US companies listed on the NYSE are required to establish an Audit Committee that satisfies the requirements of Rule 10A-3 under the 1934 Act.

The Board of Auditors, as permitted by Rule 10A-3, is performing the corresponding functions for Telecom Italia, which therefore is exempted from the requirement to have a separate audit committee.

A Rule 303A written affirmation to this end was submitted to the NYSE on April 24, 2013. For further details, see also 10.1 Corporate Governance General Board of Directors and 10.1 Corporate Governance General Board of Auditors .

*Adoption and Disclosure of Corporate Governance Guidelines.* US companies listed on the NYSE are required to adopt and disclose corporate governance guidelines.

Such disclosures are included in this Form 20-F and English translations of the Telecom Italia Group s corporate governance policies can be found on Telecom Italia s website: [www.telecomitalia.com](http://www.telecomitalia.com) under Governance .

*Code of business conduct and ethics.* NYSE listing standards require US companies to adopt a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. The code should provide for the reporting of violations of its provisions or of laws and regulations.

Telecom Italia has adopted such a Code. See also under 16B. Code of Ethics and Conduct .

*Annual Certification by The Chief Executive Officer.* A chief executive officer of a US company listed on the NYSE must annually certify that he or she is not aware of any violation by the company of NYSE corporate governance standards.

In accordance with NYSE listing rules applicable to foreign private issuers, Telecom Italia submitted its foreign private issuer annual written affirmation on April 24, 2013.

**Item 16H. MINE SAFETY DISCLOSURE**

Not applicable.



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**Item 17. Financial Statements**

**PART III**

**Item 17. FINANCIAL STATEMENTS**

Not applicable.

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**Item 18. Financial Statements**

**Item 19. Financial Statements and Exhibits**

**Item 18. FINANCIAL STATEMENTS**

Reference is made to Item 19 for a list of all financial statements filed as part of this Annual Report.

**Item 19. FINANCIAL STATEMENTS AND EXHIBITS**

*(a) Financial Statements*

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*(b) Exhibits*

1.1 Bylaws of the Company.

2.1 Deposit Agreements.

(a) Deposit Agreement dated as of July 17, 2003, as amended, among the Company, JPMorgan Chase Bank, as Depository and the holders from time to time of American Depositary Receipts representing Ordinary Shares of the Company.(1)

(b) Deposit Agreement dated as of July 17, 2003, as amended, among the Company, JPMorgan Chase Bank, as Depository and holders from time to time of American depositary Receipts representing Savings shares of the Company.(2)

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2.2 Trust deed dated January 23, 2004, between Telecom Italia (as Issuer and Guarantor), Telecom Italia Finance (as Issuer) and J.P. Morgan Corporate Trustee Services Limited relating to a 10 billion euros Medium Term Note Program. We hereby agree to furnish to the Commission, upon its request, a copy of any instrument defining the rights of holders of our long-term debt or that of our subsidiaries for which consolidated or unconsolidated financial statements are required to be filed.(3)

### 4.1 Public Telecommunications Authorization.(4)

(a) Decision No. 820/00/CONS of 22.11.2000. General Authorization, former individual license for installation and supply of public telecommunications network and for the provision to the public of a voice telephony service (*modifications to the concessions and annexed conventions, ex SIP, Iritel and Italcable*).

### 4.2 Stock Option Plans

(a) Top 2008 Plan Stock Option Plan reserved to the Chairman and the Chief Executive Officer of Telecom Italia S.p.A.(5)

(b) Long Term Incentive Plan 2010-2015.(6)

(c) Long Term Incentive Plan 2011.(7)

(d) Long Term Incentive Plan 2012.(8)

7.1 Statement explaining computation of ratio of Earnings to fixed charges under IFRS.

8.1 List of Subsidiaries.(9)

12(a) Certification by the Chief Executive Officer of Telecom Italia S.p.A.

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**Item 19. Financial Statements and Exhibits**

12(b) Certification by the Head of Administration, Finance and Control of Telecom Italia S.p.A.

13.1 Section 906 Certification submitted for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code.

- (1) Incorporated by reference to exhibit (a) filed with Olivetti s Registration Statement on Form F-6 filed with the SEC on July 18, 2003 (File No. 333-107144).
- (2) Incorporated by reference to exhibit (a) filed with Olivetti s Registration Statement on Form F-6 filed with the SEC on July 18, 2003 (File No. 333-107142).
- (3) Incorporated by reference to the Exhibits filed with the Company s Annual Report on Form 20-F on June 10, 2004 (File No. 001-13882).
- (4) Incorporated by reference to the Exhibits filed with the Company s Annual Report on Form 20-F/A on June 29, 2001 (File No. 001-13882).
- (5) Incorporated by reference to the Exhibits filed with the Company s Annual Report on Form 20-F on May 8, 2008 (File No. 001-13882).
- (6) Incorporated by reference to the Exhibits filed with the Company s Annual Report on Form 20-F on April 11, 2011 (File No. 001-13882).
- (7) Incorporated by reference to the Exhibits filed with the Company s Annual Report on Form 20-F on May 14, 2012 (File No. 001-13882).
- (8) Incorporated by reference to the Exhibits filed with the Company s Annual Report on Form 20-F on April 16, 2013 (File No. 001-13882).
- (9) Please see Note List of Companies of the Telecom Italia Group of the Notes to the Consolidated Financial Statements included elsewhere herein.

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**Item 19. Financial Statements and Exhibits**

**SIGNATURE**

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all the requirements for filing on Form 20-F and has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

**TELECOM ITALIA S.p.A**

**By:** /s/ MARCO PATUANO  
**Name:** Marco Patuano  
**Title:** Chief Executive Officer

Dated April 15, 2014



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**Consolidated Financial Statements**

**Report Of Independent Registered Public Accounting Firm**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders of Telecom Italia SpA

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of income, comprehensive income, changes in equity and cash flows present fairly, in all material respects, the financial position of Telecom Italia SpA and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control Over Financial Reporting appearing in Item 15.2 of the 2013 Annual Report to Shareholders. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers SpA

Rome, Italy

April 15, 2014

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**Table of Contents****Consolidated Financial Statements****Consolidated Statements Of Financial Position****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2013****AND 2012 ASSETS**

|   | Note | As of<br>December 31,<br>2013 | As of<br>December 31,<br>2012 |
|---|------|-------------------------------|-------------------------------|
| (millions of euros)   |      |                               |                               |
| <b>NON-CURRENT ASSETS</b>   |      |                               |                               |
| <b>Intangible assets</b>  |      |                               |                               |
| Goodwill  | 5    | 29,932                        | 32,410                        |
| Other intangible assets   | 6    | 6,280                         | 7,927                         |
|   |      | <b>36,212</b>                 | <b>40,337</b>                 |
| <b>Tangible assets</b>  |      |                               |                               |
|   | 7    |                               |                               |
| Property, plant and equipment owned   |      | 12,299                        | 14,465                        |
| Assets held under finance leases  |      | 920                           | 1,014                         |
|   |      | <b>13,219</b>                 | <b>15,479</b>                 |
| <b>Other non-current assets</b>   |      |                               |                               |
| Investments in associates and joint ventures accounted for using the equity method          | 8    | 65                            | 65                            |
| Other investments   | 8    | 42                            | 39                            |
| Non-current financial assets  | 9    | 1,256                         | 2,496                         |
| Miscellaneous receivables and other non-current assets                                      | 10   | 1,607                         | 1,496                         |
| Deferred tax assets   | 11   | 1,039                         | 1,432                         |
|   |      | <b>4,009</b>                  | <b>5,528</b>                  |
| <b>TOTAL NON-CURRENT ASSETS (A)</b>   |      | <b>53,440</b>                 | <b>61,344</b>                 |
| <b>CURRENT ASSETS</b>   |      |                               |                               |
| Inventories   | 12   | 365                           | 436                           |
| Trade and miscellaneous receivables and other current assets                                | 13   | 5,389                         | 7,006                         |
| Current income tax receivables  | 11   | 123                           | 77                            |
| Current financial assets  | 9    |                               |                               |
| Securities other than investments, financial receivables and other current financial assets |      | 1,631                         | 1,256                         |
| Cash and cash equivalents   |      | 5,744                         | 7,436                         |
|   |      | <b>7,375</b>                  | <b>8,692</b>                  |

|  |    |               |               |
|--|----|---------------|---------------|
| <b>Current assets sub-total</b>                                  |    | <b>13,252</b> | <b>16,211</b> |
| <b>Discontinued operations /Non-current assets held for sale</b> | 14 |               |               |
| of a financial nature  |    | 657           |               |
| of a non-financial nature  |    | 2,871         |               |
|  |    | <b>3,528</b>  |               |
| <b>TOTAL CURRENT ASSETS (B)</b>                                  |    | <b>16,780</b> | <b>16,211</b> |
| <b>TOTAL ASSETS (A+B)</b>  |    | <b>70,220</b> | <b>77,555</b> |

The accompanying notes are an integral part of these consolidated financial statements

**Table of Contents****Consolidated Financial Statements****Consolidated Statements Of Financial Position****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2013****AND 2012 EQUITY AND LIABILITIES**

|  | Note | As of<br>December 31,<br>2013 | As of<br>December 31,<br>2012 |
|--|------|-------------------------------|-------------------------------|
| (millions of euros)  |      |                               |                               |
| <b>EQUITY</b>  | 15   |                               |                               |
| Share capital issued   |      | 10,693                        | 10,693                        |
| Less: treasury shares  |      | (89)                          | (89)                          |
| Share capital  |      | 10,604                        | 10,604                        |
| Paid-in capital  |      | 1,704                         | 1,704                         |
| Other reserves and retained earnings (accumulated losses), including profit (loss) for the year      |      | 4,753                         | 7,070                         |
| <b>Equity attributable to owners of the Parent</b>   |      | <b>17,061</b>                 | <b>19,378</b>                 |
| <b>Non-controlling interests</b>   |      | <b>3,125</b>                  | <b>3,634</b>                  |
| <b>TOTAL EQUITY (A)</b>  |      | <b>20,186</b>                 | <b>23,012</b>                 |
| <b>NON-CURRENT LIABILITIES</b>   |      |                               |                               |
| Non-current financial liabilities  | 16   | 31,084                        | 34,091                        |
| Employee benefits  | 20   | 889                           | 872                           |
| Deferred tax liabilities   | 11   | 234                           | 848                           |
| Provisions   | 21   | 699                           | 863                           |
| Miscellaneous payables and other non-current liabilities   | 22   | 779                           | 1,053                         |
| <b>TOTAL NON-CURRENT LIABILITIES (B)</b>   |      | <b>33,685</b>                 | <b>37,727</b>                 |
| <b>CURRENT LIABILITIES</b>   |      |                               |                               |
| Current financial liabilities  | 16   | 6,119                         | 6,150                         |
| Trade and miscellaneous payables and other current liabilities                                       | 23   | 8,649                         | 10,542                        |
| Current income tax payables  | 11   | 20                            | 124                           |
| <b>Current liabilities sub-total</b>   |      | <b>14,788</b>                 | <b>16,816</b>                 |
| <b>Liabilities directly associated with Discontinued operations/Non-current assets held for sale</b> | 14   |                               |                               |
| of a financial nature  |      | 27                            |                               |
| of a non-financial nature  |      | 1,534                         |                               |

|   |               |               |
|---|---------------|---------------|
|   | <b>1,561</b>  |               |
| <b>TOTAL CURRENT LIABILITIES (C)</b>      | <b>16,349</b> | <b>16,816</b> |
| <b>TOTAL LIABILITIES (D=B+C)</b>          | <b>50,034</b> | <b>54,543</b> |
| <b>TOTAL EQUITY AND LIABILITIES (A+D)</b> | <b>70,220</b> | <b>77,555</b> |

The accompanying notes are an integral part of these consolidated financial statements

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**Table of Contents****Consolidated Financial Statements****Separate Consolidated Income Statements**

**SEPARATE CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2013,  
2012 AND 2011**

|  | Note | Year ended December 31,<br>(millions of euros) |                |                |
|--|------|--|----------------|----------------|
|  |      | 2013   | 2012           | 2011           |
| Revenues   | 25   | 23,407   | 25,759         | 26,772         |
| Other income   | 26   | 324  | 285            | 294            |
| <b>Total operating revenues and other income</b>   |      | <b>23,731</b>                                  | <b>26,044</b>  | <b>27,066</b>  |
| Acquisition of goods and services  | 27   | (10,377)                                       | (11,289)       | (11,495)       |
| Employee benefits expenses   | 28   | (3,087)  | (3,333)        | (3,514)        |
| Other operating expenses   | 29   | (1,318)  | (1,474)        | (1,528)        |
| Change in inventories  |      | 48   | (4)            | 40             |
| Internally generated assets  | 30   | 543  | 581            | 569            |
| Depreciation and amortization  | 31   | (4,553)  | (4,689)        | (4,974)        |
| Gains (losses) on disposals of non-current assets  | 32   | (82)   | 52             | 4              |
| Impairment reversals (losses) on non-current assets  | 33   | (2,187)  | (4,179)        | (7,358)        |
| <b>Operating profit (loss)</b>   |      | <b>2,718</b>                                   | <b>1,709</b>   | <b>(1,190)</b> |
| Share of profits (losses) of associates and joint ventures accounted for using the equity method | 8    |  | (6)            | (39)           |
| Other income (expenses) from investments   | 34   | (3)  | 2              | 16             |
| Finance income   | 35   | 2,003  | 1,983          | 2,400          |
| Finance expenses   | 35   | (4,186)  | (3,981)        | (4,440)        |
| <b>Profit (loss) before tax from continuing operations</b>                                       |      | <b>532</b>                                     | <b>(293)</b>   | <b>(3,253)</b> |
| Income tax expense   |      | (1,111)  | (1,086)        | (1,423)        |
| <b>Profit (loss) from continuing operations</b>  |      | <b>(579)</b>                                   | <b>(1,379)</b> | <b>(4,676)</b> |
| Profit (loss) from Discontinued operations/Non-current assets held for sale                      |      | 341  | 102            | 310            |
| <b>Profit (loss) for the year</b>  | 36   | <b>(238)</b>                                   | <b>(1,277)</b> | <b>(4,366)</b> |
| <i>Attributable to:</i>  |      |  |                |                |
| <i>Owners of the Parent</i>  |      | <i>(674)</i>                                   | <i>(1,627)</i> | <i>(4,811)</i> |
| <i>Non-controlling interests</i>   |      | <i>436</i>                                     | <i>350</i>     | <i>445</i>     |

**Year ended December 31,**

|  | 2013   | 2012    | 2011   |
|--|--------|---------|--------|
|  |        | (Euros) |        |
| <b>Basic and Diluted Earnings Per Share (EPS)(*)</b>                 | 37     |         |        |
| Ordinary Share   | (0.03) | (0.08)  | (0.25) |
| Savings Share  | (0.03) | (0.08)  | (0.25) |
| <i>Of which:</i>   |        |         |        |
| <i>From continuing operations</i>                                    |        |         |        |
| Ordinary Share   | (0.05) | (0.09)  | (0.27) |
| Savings Share  | (0.05) | (0.09)  | (0.27) |
| <i>From Discontinued operations/Non-current assets held for sale</i> |        |         |        |
| Ordinary Share   | 0.02   | 0.01    | 0.02   |
| Savings Share  | 0.02   | 0.01    | 0.02   |

(\*) Basic EPS is equal to Diluted EPS.

The accompanying notes are an integral part of these consolidated financial statements

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Consolidated Financial Statements

Consolidated Statements Of Comprehensive Income

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED  
DECEMBER 31,****2013, 2012 AND 2011 (see Note 15)**

|   |                | Year ended December 31,<br>2013 2012 2011<br>(millions of euros) |                |                |
|---|----------------|--|----------------|----------------|
| <b>Profit (loss) for the year</b>   | <b>(A)</b>     | <b>(238)</b>   | <b>(1,277)</b> | <b>(4,366)</b> |
| <b>Other components of the Consolidated Statement of<br/>Comprehensive Income:</b>  |                |  |                |                |
| <b>Other components that will not be reclassified subsequently to<br/>Separate Consolidated Income Statement</b>              |                |  |                |                |
| <b>Remeasurements of employee defined benefit plans (IAS19):</b>  |                |  |                |                |
| Actuarial gains (losses)  |                | (29)   | (56)           | 117            |
| Income tax effect   |                | 7  | 14             | (33)           |
|   | <b>(B)</b>     | <b>(22)</b>  | <b>(42)</b>    | <b>84</b>      |
| <b>Share of other comprehensive income (loss) of associates and joint<br/>ventures accounted for using the equity method:</b> |                |  |                |                |
| Profit (loss)   |                |  |                |                |
| Income tax effect   |                |  |                |                |
|   | <b>(C)</b>     |  |                |                |
| <b>Total other components that will not be reclassified subsequently<br/>to Separate Consolidated Income Statement</b>        | <b>(D=B+C)</b> | <b>(22)</b>  | <b>(42)</b>    | <b>84</b>      |
| <b>Other components that will be reclassified subsequently to<br/>Separate Consolidated Income Statement</b>                  |                |  |                |                |
| <b>Available-for-sale financial assets:</b>   |                |  |                |                |
| Profit (loss) from fair value adjustments   |                | 3  | 57             | 5              |
| Loss (profit) transferred to Separate Consolidated Income Statement   |                | (11)   | 1              | 2              |
| Income tax effect   |                | 4  | (11)           | (4)            |
|   | <b>(E)</b>     | <b>(4)</b>   | <b>47</b>      | <b>3</b>       |
| <b>Hedging instruments:</b>   |                |  |                |                |
| Profit (loss) from fair value adjustments   |                | (563)  | (702)          | 523            |
| Loss (profit) transferred to Separate Consolidated Income Statement   |                | 314  | 272            | (230)          |
| Income tax effect   |                | 71   | 121            | (83)           |

|   |                    |                |                |                |
|---|--------------------|----------------|----------------|----------------|
|   | <b>(F)</b>         | <b>(178)</b>   | <b>(309)</b>   | <b>210</b>     |
| <b>Exchange differences on translating foreign operations:</b>  |                    |                |                |                |
| Profit (loss) on translating foreign operations   |                    | (1,747)        | (1,068)        | (612)          |
| Loss (profit) on translating foreign operations transferred to Separate Consolidated Income Statement                     |                    |                |                | 75             |
| Income tax effect   |                    |                |                |                |
|   | <b>(G)</b>         | <b>(1,747)</b> | <b>(1,068)</b> | <b>(537)</b>   |
| <b>Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method:</b> |                    |                |                |                |
| Profit (loss)   |                    | 1              |                |                |
| Loss (profit) transferred to Separate Consolidated Income Statement   |                    |                |                |                |
| Income tax effect   |                    |                |                |                |
|   | <b>(H)</b>         | <b>1</b>       |                |                |
| <b>Total other components that will be reclassified subsequently to Separate Consolidated Income Statement</b>            | <b>(I=E+F+G+H)</b> | <b>(1,928)</b> | <b>(1,330)</b> | <b>(324)</b>   |
| <b>Total other components of the Consolidated Statement of Comprehensive Income</b>                                       | <b>(K=D+I)</b>     | <b>(1,950)</b> | <b>(1,372)</b> | <b>(240)</b>   |
| <b>Total comprehensive income (loss) for the year</b>   | <b>(A+K)</b>       | <b>(2,188)</b> | <b>(2,649)</b> | <b>(4,606)</b> |
| <i>Attributable to:</i>   |                    |                |                |                |
| <i>Owners of the Parent</i>   |                    | (1,758)        | (2,516)        | (4,826)        |
| <i>Non-controlling interests</i>  |                    | (430)          | (133)          | 220            |

The accompanying notes are an integral part of these consolidated financial statements

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## Consolidated Financial Statements

## Consolidated Statements Of Changes In Equity

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31,  
2013, 2012 AND 2011**

**CHANGES IN EQUITY IN 2011 (see Note 15)**

|  | Share<br>capital<br>(a) | Paid-in<br>capital<br>(b) | financial<br>assets<br>(c) | hedging<br>instruments<br>(d) | foreign<br>operations<br>(e) | IAS<br>(19)<br>(f) | equity<br>method<br>(g) | Share<br>of<br>other<br>comprehensive<br>income (loss)<br>and reserves<br>for associates and<br>retained<br>earnings<br>of joint<br>ventures<br>(accumulated<br>losses),<br>including<br>profit<br>attributable<br>to the<br>noncontrolling<br>interests<br>(h) | Share<br>of<br>other<br>comprehensive<br>income (loss)<br>and reserves<br>for associates and<br>retained<br>earnings<br>of joint<br>ventures<br>(accumulated<br>losses),<br>including<br>profit<br>attributable<br>to the<br>noncontrolling<br>interests<br>(h) | Share<br>of<br>other<br>comprehensive<br>income (loss)<br>and reserves<br>for associates and<br>retained<br>earnings<br>of joint<br>ventures<br>(accumulated<br>losses),<br>including<br>profit<br>attributable<br>to the<br>noncontrolling<br>interests<br>(h) | Share<br>of<br>other<br>comprehensive<br>income (loss)<br>and reserves<br>for associates and<br>retained<br>earnings<br>of joint<br>ventures<br>(accumulated<br>losses),<br>including<br>profit<br>attributable<br>to the<br>noncontrolling<br>interests<br>(h) | Total Equity<br>(i+l) |
|--|-------------------------|---------------------------|----------------------------|-------------------------------|------------------------------|--------------------|-------------------------|---|---|---|---|-----------------------|
|  | (a)                     | (b)                       | (c)                        | (d)                           | (e)                          | (f)                | (g)                     | (h)   | (h)   | (h)   | (h)   | (i+l)                 |
|  | (millions of euros)     |                           |                            |                               |                              |                    |                         |   |   |   |   |                       |
| <b>Balance at<br/>December 31,<br/>2010</b>                                  | <b>10,600</b>           | <b>1,697</b>              | <b>(7)</b>                 | <b>(284)</b>                  | <b>1,401</b>                 | <b>112</b>         | <b>(1)</b>              | <b>15,301</b>   | <b>28,819</b>   | <b>3,736</b>  | <b>32,555</b>   |                       |
| <b>Changes in<br/>equity in the<br/>year ended<br/>December 31,<br/>2011</b> |                         |                           |                            |                               |                              |                    |                         |   |   |   |   |                       |
| Dividends<br>approved  |                         |                           |                            |                               |                              |                    |                         | (1,184)   | (1,184)   | (118)   | (1,302)   |                       |
| Total<br>comprehensive<br>income (loss) for<br>the year                      |                         |                           | 3                          | 210                           | (312)                        | 84                 |                         | (4,811)   | (4,826)   | 220   | (4,606)   |                       |
| Grant of equity<br>instruments   | 4                       | 7                         |                            |                               |                              |                    |                         | (4)   | 7   |   | 7   |                       |
| Effect of<br>increase in<br>economic stake                                   |                         |                           |                            |                               |                              |                    |                         | (57)  | (57)  | (153)   | (210)   |                       |

|   |               |              |            |             |              |            |            |              |               |              |               |
|---|---------------|--------------|------------|-------------|--------------|------------|------------|--------------|---------------|--------------|---------------|
| in Argentina<br>Business Unit   |               |              |            |             |              |            |            |              |               |              |               |
| Effect of capital<br>operations of<br>Brazil Business<br>Unit companies |               |              |            |             |              |            |            | 19           | 19            | 221          | 240           |
| Other changes   |               |              |            |             |              |            |            | 12           | 12            | (2)          | 10            |
| <b>Balance at<br/>December 31,<br/>2011</b>                             | <b>10,604</b> | <b>1,704</b> | <b>(4)</b> | <b>(74)</b> | <b>1,089</b> | <b>196</b> | <b>(1)</b> | <b>9,276</b> | <b>22,790</b> | <b>3,904</b> | <b>26,694</b> |

The accompanying notes are an integral part of these consolidated financial statements

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## Consolidated Financial Statements

## Consolidated Statements Of Changes In Equity

**CHANGES IN EQUITY IN 2012 (See Note 15)**

|  | Share<br>capital<br>(a) | Paid-up<br>capital<br>(b) | financial<br>instruments<br>(c) | hedging<br>operations<br>(d) | foreign<br>operations<br>(e) | IAS<br>method<br>(f) | equity<br>for the<br>year<br>(g) | of the<br>Parent<br>(h) | Non-controlling<br>interest<br>(i) | Total<br>Equity<br>(i+l) |         |
|--|-------------------------|---------------------------|---------------------------------|------------------------------|------------------------------|----------------------|----------------------------------|-------------------------|------------------------------------|--------------------------|---------|
|  | (a)                     | (b)                       | (c)                             | (d)                          | (e)                          | (f)                  | (g)                              | (h)                     | (i)                                | (i+l)                    |         |
|  | (millions of euros)     |                           |                                 |                              |                              |                      |                                  |                         |                                    |                          |         |
| <b>Balance at<br/>December 31,<br/>2011</b>                                  | 10,604                  | 1,704                     | (4)                             | (74)                         | 1,089                        | 196                  | (1)                              | 9,276                   | 22,790                             | 3,904                    | 26,694  |
| <b>Changes in<br/>equity in the<br/>year ended<br/>December 31,<br/>2012</b> |                         |                           |                                 |                              |                              |                      |                                  |                         |                                    |                          |         |
| Dividends<br>approved  |                         |                           |                                 |                              |                              |                      |                                  | (895)                   | (895)                              | (143)                    | (1,038) |
| Total<br>comprehensive<br>income (loss) for<br>the year                      |                         |                           | 47                              | (309)                        | (585)                        | (42)                 |                                  | (1,627)                 | (2,516)                            | (133)                    | (2,649) |
| Grant of equity<br>instruments   |                         |                           |                                 |                              |                              |                      |                                  | 2                       | 2                                  |                          | 2       |
| Other changes  |                         |                           |                                 |                              |                              |                      |                                  | (3)                     | (3)                                | 6                        | 3       |
| <b>Balance at<br/>December 31,<br/>2012</b>                                  | 10,604                  | 1,704                     | 43                              | (383)                        | 504                          | 154                  | (1)                              | 6,753                   | 19,378                             | 3,634                    | 23,012  |

The accompanying notes are an integral part of these consolidated financial statements





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## Consolidated Financial Statements

## Consolidated Statements Of Changes In Equity

## CHANGES IN EQUITY IN 2013 (see Note 15)

|  | Share<br>capital<br>(a) | Paid-in<br>capital<br>(b) | financial<br>assets<br>(c) | hedging<br>instruments<br>(d) | foreign<br>operations<br>(e) | Reserve<br>for<br>employee<br>joint<br>earnings<br>exchange<br>defined<br>benefit<br>plans<br>(f) | Share<br>of<br>other<br>comprehensive<br>income<br>(loss)<br>for<br>the<br>year<br>(g) | Share<br>of<br>other<br>comprehensive<br>income<br>(loss)<br>for<br>the<br>year<br>(h) | Reserve<br>of<br>and<br>retained<br>earnings<br>(accumulated<br>differences)<br>(i) | Equity<br>attributable<br>to<br>owners<br>(j) | Non-controlling<br>interests<br>(k) | Total<br>Equity<br>(l) |
|--|-------------------------|---------------------------|----------------------------|-------------------------------|------------------------------|---|--|--|---|---|-------------------------------------|------------------------|
|  | (millions of euros)     |                           |                            |                               |                              |   |  |  |   |   |                                     |                        |
| <b>Balance at<br/>December 31,<br/>2012</b>                                  | <b>10,604</b>           | <b>1,704</b>              | <b>43</b>                  | <b>(383)</b>                  | <b>504</b>                   | <b>154</b>  | <b>(1)</b>   | <b>6,753</b>   | <b>19,378</b>   | <b>3,634</b>                                  | <b>23,012</b>                       |                        |
| <b>Changes in<br/>equity in the<br/>year ended<br/>December 31,<br/>2013</b> |                         |                           |                            |                               |                              |   |  |  |   |   |                                     |                        |
| Dividends<br>approved  |                         |                           |                            |                               |                              |   |  | (452)  | (452)   | (183)   | (635)                               |                        |
| Total<br>comprehensive<br>income (loss) for<br>the year                      |                         |                           | (4)                        | (178)                         | (881)                        | (22)  | 1  | (674)  | (1,758)   | (430)   | (2,188)                             |                        |
| Effect of equity<br>transactions of TI<br>Media                              |                         |                           |                            |                               |                              |   |  | (25)   | (25)  | 25  |                                     |                        |
| Effect of equity<br>transactions of<br>Sofora Telecom<br>Argentina group     |                         |                           |                            |                               |                              |   |  | (67)   | (67)  | 71  | 4                                   |                        |
| Grant of equity<br>instruments   |                         |                           |                            |                               |                              |   |  | 1  | 1   |   | 1                                   |                        |
| Other changes  |                         |                           |                            |                               |                              |   |  | (16)   | (16)  | 8   | (8)                                 |                        |
|  | <b>10,604</b>           | <b>1,704</b>              | <b>39</b>                  | <b>(561)</b>                  | <b>(377)</b>                 | <b>132</b>  |  | <b>5,520</b>   | <b>17,061</b>   | <b>3,125</b>                                  | <b>20,186</b>                       |                        |

**Balance at  
December 31,  
2013**

The accompanying notes are an integral part of these consolidated financial statements

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**Table of Contents****Consolidated Financial Statements****Consolidated Statements Of Cash Flows****CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED****DECEMBER 31, 2013, 2012 AND 2011**

|  | Note | Year ended December 31,<br>(millions of euros) |              |              |
|--|------|--|--------------|--------------|
|  |      | 2013   | 2012         | 2011         |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |      |  |              |              |
| Profit (loss) from continuing operations   |      | (579)  | (1,379)      | (4,676)      |
| <i>Adjustments for:</i>  |      |  |              |              |
| Depreciation and amortization  |      | 4,553  | 4,689        | 4,974        |
| Impairment losses (reversals) on non-current assets (including investments)                                      |      | 2,197  | 4,181        | 7,365        |
| Net change in deferred tax assets and liabilities  |      | 347  | 279          | 256          |
| Losses (gains) realized on disposals of non-current assets (including investments)                               |      | 82   | (53)         | (19)         |
| Share of losses (profits) of associates and joint ventures accounted for using the equity method                 |      |  | 6            | 39           |
| Change in provisions for employee benefits   |      | (49)   | (229)        | (172)        |
| Change in inventories  |      | (23)   | 12           | (30)         |
| Change in trade receivables and net amounts due from customers on construction contracts                         |      | 1,074  | 825          | (67)         |
| Change in trade payables   |      | (489)  | (83)         | (112)        |
| Net change in current income tax receivables/payables  |      | (104)  | (434)        | 70           |
| Net change in miscellaneous receivables/payables and other assets/liabilities                                    |      | (268)  | (113)        | (47)         |
| <b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES (A)</b>  |      | <b>6,741</b>                                   | <b>7,701</b> | <b>7,581</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |      |  |              |              |
| <i>Purchase of intangible assets on an accrual basis</i>   | 6    | (1,895)  | (1,851)      | (2,931)      |
| <i>Purchase of tangible assets on an accrual basis</i>   | 7    | (2,505)  | (2,788)      | (2,625)      |
| Total purchase of intangible and tangible assets on an accrual basis   |      | (4,400)  | (4,639)      | (5,556)      |
| <i>Change in amounts due to fixed asset suppliers</i>  |      | 9  | (63)         | 552          |
| Total purchase of intangible and tangible assets on a cash basis   |      | (4,391)  | (4,702)      | (5,004)      |
| Acquisition of control of subsidiaries or other businesses, net of cash acquired                                 |      | (8)  | (7)          | (668)        |
| Acquisitions/disposals of other investments  |      |  | (3)          | (1)          |
| Change in financial receivables and other financial assets   |      | 604  | 616          | (583)        |
| Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of |      | (104)  | 40           | 51           |
| Proceeds from sale/repayments of intangible, tangible and other non-current assets                               |      | 88   | 74           | 427          |

|   |           |                |                |                |
|---|-----------|----------------|----------------|----------------|
| <b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES (B)</b>                                     |           | <b>(3,811)</b> | <b>(3,982)</b> | <b>(5,778)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |           |                |                |                |
| Change in current financial liabilities and other   |           | (1,785)        | (787)          | 1,348          |
| Proceeds from non-current financial liabilities (including current portion)                   |           | 4,153          | 4,616          | 4,523          |
| Repayments of non-current financial liabilities (including current portion)                   |           | (5,551)        | (5,579)        | (5,169)        |
| Share capital increases/decreases and other changes in equity (including subsidiaries)        |           | 9              | (2)            | 240            |
| Dividends paid  |           | (537)          | (964)          | (1,253)        |
| Changes in ownership interests in consolidated subsidiaries                                   |           | 79             |                | (211)          |
| <b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES (C)</b>                                     |           | <b>(3,632)</b> | <b>(2,716)</b> | <b>(522)</b>   |
| <b>CASH FLOWS FROM (USED IN) DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE (D)</b> | <b>14</b> | <b>127</b>     | <b>(29)</b>    | <b>217</b>     |
| <b>AGGREGATE CASH FLOWS (E=A+B+C+D)</b>   |           | <b>(575)</b>   | <b>974</b>     | <b>1,498</b>   |
| <b>NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR (F)</b>                             |           | <b>7,397</b>   | <b>6,670</b>   | <b>5,282</b>   |
| <b>Net foreign exchange differences on net cash and cash equivalents (G)</b>                  |           | <b>(526)</b>   | <b>(247)</b>   | <b>(110)</b>   |
| <b>NET CASH AND CASH EQUIVALENTS AT END OF THE YEAR (H=E+F+G)</b>                             |           | <b>6,296</b>   | <b>7,397</b>   | <b>6,670</b>   |

The accompanying notes are an integral part of these consolidated financial statements

**Table of Contents****Consolidated Financial Statements****Consolidated Statements Of Cash Flows****CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED****DECEMBER 31, 2013, 2012 AND 2011**

|   | <b>Year ended December 31,</b> |              |              |
|---|--------------------------------|--------------|--------------|
|   | <b>2013</b>                    | <b>2012</b>  | <b>2011</b>  |
|   | <b>(millions of euros)</b>     |              |              |
| <b>ADDITIONAL CASH FLOW INFORMATION:</b>  |                                |              |              |
| Income taxes (paid) received  | (863)                          | (1,241)      | (1,165)      |
| Interest expense paid   | (4,456)                        | (3,496)      | (3,036)      |
| Interest income received  | 2,729                          | 1,633        | 1,300        |
| Dividends received  | 2                              | 2            | 2            |
| <b>ANALYSIS OF NET CASH AND CASH EQUIVALENTS:</b>   |                                |              |              |
| <b>NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR:</b>                                    |                                |              |              |
| Cash and cash equivalents from continuing operations  | 6,947                          | 6,196        | 5,225        |
| Bank overdrafts repayable on demand from continuing operations                                    | (39)                           | (44)         | (244)        |
| Cash and cash equivalents from Discontinued operations/Non-current assets held for sale           | 489                            | 518          | 301          |
| Bank overdrafts repayable on demand from Discontinued operations/Non-current assets held for sale |                                |              |              |
|   | <b>7,397</b>                   | <b>6,670</b> | <b>5,282</b> |
| <b>NET CASH AND CASH EQUIVALENTS AT END OF THE YEAR:</b>  |                                |              |              |
| Cash and cash equivalents from continuing operations  | 5,744                          | 6,947        | 6,196        |
| Bank overdrafts repayable on demand from continuing operations                                    | (64)                           | (39)         | (44)         |
| Cash and cash equivalents from Discontinued operations/Non-current assets held for sale           | 616                            | 489          | 518          |
| Bank overdrafts repayable on demand from Discontinued operations/Non-current assets held for sale |                                |              |              |
|   | <b>6,296</b>                   | <b>7,397</b> | <b>6,670</b> |

The accompanying notes are an integral part of these consolidated financial statements



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**NOTE 1 FORM, CONTENT AND OTHER GENERAL INFORMATION**

**Form and content**

Telecom Italia S.p.A. (the **Parent** ) and its subsidiaries form the **Telecom Italia Group** or the **Group** .

Telecom Italia is a joint-stock company (S.p.A.) organized under the laws of the Republic of Italy.

The registered offices of the Parent are located in Milan at Piazza degli Affari 2, Italy.

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

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

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

The Telecom Italia Group consolidated financial statements for the year ended December 31, 2013 have been prepared on a going concern basis (for further details see Note Accounting policies ) and in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (designated as **IFRS** ).

In 2013, the Group has applied the accounting policies on a basis consistent with those of the previous years, except for the new standards and interpretations adopted by the Group since January 1, 2013 and described below.

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets held for trading and derivative financial instruments which have been measured at fair value. The carrying amounts of hedged assets and liabilities have been adjusted to reflect the changes in fair value of the hedged risks (fair value hedge).

In accordance with IAS 1 (*Presentation of Financial Statements*) comparative information included in the consolidated financial statements is, unless otherwise indicated, that of the preceding two years.

The Telecom Italia Group consolidated financial statements are expressed in euro (rounded to the nearest million, unless otherwise indicated).

Publication of the Telecom Italia Group consolidated financial statements for the year ended December 31, 2013 was approved by resolution of the Board of Directors meeting held on March 6, 2014.

**Financial statement formats**

The financial statement formats adopted are consistent with those indicated in IAS 1. In particular:

- the **consolidated statement of financial position** has been prepared by classifying assets and liabilities according to current and non-current criterion;
- the **separate consolidated income statement** has been prepared by classifying operating expenses by nature of expense as this form of presentation is considered more appropriate and representative of the specific business of the Group, conforms to internal reporting and is in line with Telecom Italia Group's industrial sector;
- the **consolidated statement of comprehensive income** includes the profit or loss for the year as shown in the separate consolidated income statement and all other non-owner changes in equity;
- the **consolidated statement of cash flows** has been prepared by presenting cash flows from operating activities according to the indirect method, as permitted by IAS 7 (*Statement of Cash Flows*).



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An operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources (for the Telecom Italia Group, the Board of Directors of the Parent) to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

In particular, the operating segments of the Telecom Italia Group are organized according to the relative geographical location of the telecommunications business (Domestic and Brazil) and according to the specific businesses for the other segments. Furthermore, as a result of including, during the fourth quarter of 2013, the Sofora Telecom Argentina group in Discontinued operations, the Argentina Business Unit is no longer separately presented.

The term "operating segment" is considered synonymous with "Business Unit". The operating segments of the Telecom Italia Group are as follows:

- **Domestic:** includes operations in Italy for voice and data services on fixed and mobile networks for final customers (retail) and other operators (wholesale), the operations of the Telecom Italia Sparkle group (International wholesale) as well as the related support activities;
- **Brazil:** includes mobile (TIM Celular) and fixed (TIM Celular and Intelig) telecommunications operations in Brazil;
- **Media:** carries out the network operator activities through Telecom Italia Media Broadcasting;
- **Olivetti:** includes manufacturing operations for products and services for Information Technology. It carries out Solution Provider activities to automate processes and business activities for small and medium-size enterprises, large corporations and vertical markets;
- **Other Operations:** includes finance companies and other minor companies not strictly related to the core business of the Telecom Italia Group.

Further details are provided in Note *List of companies of the Telecom Italia Group* .

## **NOTE 2 ACCOUNTING POLICIES**

### **Going concern**

The consolidated financial statements for the year ended December 31, 2013 have been prepared on a going concern basis as there is the reasonable expectation that Telecom Italia will continue its operational activities in the foreseeable future (and in any event with a time horizon of at least twelve months).

In particular, consideration has been given to the following factors which management believes, at this time, do not raise doubts as to the Group's ability to continue as a going concern:

- the main risks and uncertainties (that are for the most part of an external nature) to which the Group and the various activities of the Telecom Italia Group are exposed:
  - changes in the general macroeconomic condition in the Italian, European and South American markets, as well as the volatility of financial markets in the Eurozone;
  - variations in business conditions;
  - changes to laws and regulations (price and rate variations);
  - outcomes of legal disputes and proceedings with regulatory authorities, competitors and other parties;
  - financial risks (interest rate and/or exchange rate trends, changes in credit rating by rating agencies);

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- the optimal mix between risk capital and debt capital as well as the policy for the remuneration of risk capital, described in the paragraph Share capital information under the Note Equity ;
- the policy for financial risk management (market risk, credit risk and liquidity risk) described in the Note Financial risk management .

**Principles of consolidation**

The consolidated financial statements include the financial statements of all subsidiaries from the date control over such subsidiaries commences until the date that control ceases.

The statement of financial position date of all the subsidiaries financial statements coincides with that of the Parent.

Control exists when the Parent has all the following:

- power over the investee, which includes the ability to direct the relevant activities of the investee, i.e. the activities that significantly affect the investee s returns;
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect the amount of the investor s returns.

Telecom Italia assesses whether it controls an investee if facts and circumstances indicate that there are changes in one or more of the three control elements.

In the preparation of the consolidated financial statements, assets, liabilities, revenues and expenses of the consolidated companies are consolidated on a line-by-line basis and non-controlling interests in equity and in the profit (loss) for the year are disclosed separately under appropriate captions, respectively, in the consolidated statement of financial position, in the separate consolidated income statement and in the consolidated statement of comprehensive income.

Under IFRS 10 (*Consolidated financial statements*), the total comprehensive loss (including the profit or loss for the year) is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intragroup balances and transactions and any gains and losses arising from intragroup transactions are eliminated in consolidation.

The carrying amount of the investment in each subsidiary is eliminated against the corresponding share of equity in each subsidiary, after adjustment, if any, to fair value at the acquisition date of control. At that date, goodwill is recorded as an intangible asset, as described below, whereas any gain from a bargain purchase or negative goodwill is recognized in the separate consolidated income statement.

Assets and liabilities of foreign consolidated subsidiaries expressed in currencies other than euro are translated using the exchange rates in effect at the statement of financial position date (the current method); income and expenses are translated at the average exchange rates for the year. Exchange differences resulting from the application of this method are classified as equity until the entire disposal of the investment or upon loss of control of the foreign subsidiary. Upon partial disposal, without losing control, the proportionate share of the cumulative amount of exchange differences related to the disposed interest is recognized in non-controlling interests.

The cash flows of foreign consolidated subsidiaries expressed in currencies other than Euro included in the consolidated statement of cash flows are translated into Euro at the average exchange rates for the year.

Goodwill and fair value adjustments arising from the allocation of the purchase price of a foreign entity are recorded in the relevant foreign currency and are translated using the year-end exchange rate.

Under IFRS 10, changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any

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difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the Parent.

Under IFRS 10, the parent company in case of loss of control of a subsidiary:

- derecognises:
  - the assets (including any goodwill) and liabilities of the subsidiary;
  - the carrying amount of any non-controlling interests in the former subsidiary;
- recognises:
  - the fair value of the consideration received, if any, from the transaction;
  - any investment retained in the former subsidiary at its fair value at the date when control is lost;
  - any gain or loss, resulting from the transaction, in the separate consolidated income statement;
  - the reclassification to the separate consolidated income statement, of the amounts previously recognized in other comprehensive income in relation to the subsidiary.

In the consolidated financial statements, investments in associates and joint ventures are accounted for using the equity method, as provided, respectively, by IAS 28 (*Investments in Associates and Joint Ventures*) and IFRS 11 (*Joint Arrangements*).

Associates are enterprises in which the Group holds at least 20% of the voting rights or exercises significant influence, but no control or joint control over the financial and operating policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Associates and joint ventures are included in the consolidated financial statements from the date that significant influence or joint control commences until the date such significant influence or joint control ceases.

Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the investee's profit or loss is recognised in the investor's income statement. Dividends received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investee's other comprehensive income (i.e. those arising from foreign exchange translation differences). The investor's share of those changes is recognised in the investor's other comprehensive income.

If an investor's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the investor discontinues recognising its share of further losses.

After the investor's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Gains and losses resulting from upstream and downstream transactions between an investor (including its consolidated subsidiaries) and its associate or joint venture are recognised in the investor's financial statements only to the extent of unrelated investors' interests in the associate or joint venture.

Gains and losses arising from transactions with associates or joint ventures are eliminated to the extent of the Group's interest in those entities.

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**Intangible assets**

**Goodwill**

Under IFRS 3 (*Business Combinations*), goodwill is recognized as of the acquisition date of control and measured as the excess of (a) over (b) below:

a) the aggregate of:

- the consideration transferred (measured in accordance with IFRS 3; it is generally recognized on the basis of the acquisition date fair value);
- the amount of any non-controlling interest in the acquiree measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets at the acquisition date fair value;
- in a business combination achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree;

b) the acquisition date fair value of the identifiable assets acquired net of the identifiable liabilities assumed measured at the acquisition date of control.

IFRS 3 requires, *inter alia*, the following:

- incidental costs incurred in connection with a business combination are charged to the separate consolidated income statement;
- in a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its fair value at the acquisition date of control and recognize the resulting gain or loss, if any, in the separate consolidated income statement.

Goodwill is classified in the statement of financial position as an intangible asset with an indefinite useful life.

Goodwill initially recorded is subsequently reduced only for impairment losses. Further details are provided in the accounting policy Impairment of tangible and intangible assets Goodwill, reported below. In case of loss of control of a subsidiary, the relative amount of goodwill is taken into account in calculating the gain or loss on disposal.

In the context of IFRS first-time adoption, the Group elected not to apply IFRS 3 retrospectively to those business combinations which had arisen before January 1, 2004. As a consequence, goodwill on acquisitions before the date of

transition to IFRS was brought forward at the previous Italian GAAP amounts, and was tested for impairment at that date.

**Other intangible assets with an indefinite useful life**

Intangible assets with an indefinite useful life are not amortized systematically. Instead, they undergo impairment testing at least annually.

**Development costs**

Costs incurred internally for the development of new products and services represent either intangible assets (mainly costs for software development) or tangible assets produced internally. Such costs are capitalized only when all the following conditions are satisfied: i) the cost attributable to the development phase of the asset can be measured reliably, ii) there is the intention, the availability of financial resources and the technical ability to complete the asset and make it available for use or sale and iii) it can be demonstrated that the asset will be able to generate future economic benefits.

Capitalized development costs comprise only expenditures that can be attributed directly to the development process and are amortized systematically over the estimated product or service life so that the amortization method reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group.



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**Other intangible assets with a finite useful life**

Other purchased or internally-generated assets with a finite useful life are recognized as assets, in accordance with IAS 38 (*Intangible Assets*), where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be measured reliably.

Such assets are recorded at purchase or production cost and amortized on a straight-line basis over their estimated useful lives; the amortization rates are reviewed annually and revised if the current estimated useful life is different from that estimated previously. The effect of such changes is recognized in the separate consolidated income statement prospectively.

For a small portion of mobile and broadband offerings, the Group capitalizes directly attributable subscriber acquisition costs (represented by commissions for the sales network and subsidies for the purchase of handsets) when the following conditions are met:

- the capitalized costs can be measured reliably;
- there is a contract binding the customer for a specific period of time;
- it is probable that the amount of the capitalized costs will be recovered through the revenues generated by the services contractually provided, or, where the customer withdraws from the contract in advance, through the collection of a penalty.

Capitalized subscriber acquisition costs are amortized on a straight-line basis over the foreseen minimum period of the underlying contract (between 18 and 30 months).

In all other cases, subscriber acquisition costs are expensed when incurred.

**Tangible assets**

**Property, plant and equipment owned**

Property, plant and equipment owned is stated at acquisition or production cost. Subsequent expenditures are capitalized only if they increase the future economic benefits embodied in the related item of property, plant and equipment. All other expenditures are expensed as incurred.

Cost also includes the expected costs of dismantling the asset and restoring the site if a legal or constructive obligation exists. The corresponding liability is recognized at its present value as a provision in the statement of financial position when the obligation arises. These capitalized costs are depreciated and charged to the separate consolidated income statement over the useful life of the related tangible assets.

The recalculation of estimates for dismantling costs, discount rates and the dates in which such costs are expected to be incurred is reviewed annually, at each financial year-end. Changes in the above liability must be recognized as an increase or decrease of the cost of the relative asset; the amount deducted from the cost of the asset must not exceed its carrying amount. The excess if any, should be recorded immediately in the separate consolidated income statement, conventionally under the line item Depreciation .

Depreciation of property, plant and equipment owned is calculated on a straight-line basis over the estimated useful life of the assets.

The depreciation rates are reviewed annually and revised if the current estimated useful life is different from that estimated previously. The effect of such changes is recognized in the separate consolidated income statement prospectively.

Land, including land pertaining to buildings, is not depreciated.

#### **Assets held under finance leases**

Assets held under finance leases, in which substantially all the risks and rewards of ownership are transferred to the Group, are initially recognized as assets of the Group at fair value or, if lower, at the present value of the minimum lease payments, including bargain purchase options. The corresponding liability due to the lessor is included in the statement of financial position under financial liabilities.

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Lease payments are apportioned between interest (recognized in the separate consolidated income statement) and principal (recognized as a deduction from liabilities). This split is determined so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Furthermore, gains realized on sale and leaseback transactions that are recorded under finance lease contracts are deferred over the lease term.

The depreciation policy for depreciable assets held under finance leases is consistent with that for depreciable assets that are owned. If there is no reasonable certainty over the acquisition of the ownership of the asset at the end of the lease period, assets held under finance leases are depreciated over the shorter of the lease term and their useful lives.

Leases where the lessor retains substantially all the risks and rewards of ownership of the assets are accounted for as operating leases. Operating lease rentals are charged to the separate consolidated income statement on a straight-line basis over the lease term.

**Capitalized borrowing costs**

Under IAS 23 (*Borrowing Costs*), the Group capitalizes borrowing costs only if they are directly attributable to the acquisition, construction or production of a qualifying asset, that is an asset that takes a substantial period of time (conventionally more than 12 months) to get ready for its intended use or sale.

Capitalized borrowing costs are recorded in the separate consolidated income statement and deducted from the finance expense line item to which they relate.

**Impairment of intangible and tangible assets****Goodwill**

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

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

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

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

costs to sell and its value in use.

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

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

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

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

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

**Intangible and tangible assets with a finite useful life**

At every closing date, the Group assesses whether there are any indications of impairment of intangible and tangible assets with a finite useful life. Both internal and external sources of information are used for this purpose. Internal sources include obsolescence or physical damage, and significant changes in the use of the asset and the economic performance of the asset compared to estimated performance. External sources include the market value of the asset, changes in technology, markets or laws, trend in market interest rates and the cost of capital used to evaluate investments, and an excess of the carrying amount of the net assets of the Group over market capitalization.

When indicators of impairment exist, the carrying amount of the assets is reduced to the recoverable amount. The recoverable amount of an asset is the higher of fair value less costs to sell and its value in use. In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment losses are recognized in the separate consolidated income statement.

When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, up to the carrying amount that would have been recorded had no impairment loss been recognized. The reversal of an impairment loss is recognized as income in the separate consolidated income statement.

**Financial instruments**

**Other investments**

Other investments (other than those in subsidiaries, associates and joint ventures) are classified as non-current or current assets if they will be kept in the Group's portfolio for a period of more or not more than 12 months, respectively.

Upon acquisition, investments are classified in the following categories:

- available-for-sale financial assets , as non-current or current assets;
- financial assets at fair value through profit or loss , as current assets held for trading.

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Other investments classified as available-for-sale financial assets are measured at fair value; changes in the fair value of these investments are recognized in a specific equity reserve under the other components of the statement of comprehensive income (*Reserve for available-for-sale financial assets*) until the financial asset is disposed of or impaired, at which time the equity reserve is reversed to the separate consolidated income statement.

Other unlisted investments classified as available-for-sale financial assets whose fair value cannot be measured reliably are measured at cost adjusted by any impairment losses which are recognized in the separate consolidated income statement, as required by IAS 39 (*Financial instruments: recognition and measurement*).

Impairment losses recognized on other investments classified as available-for-sale financial assets are not reversed.

Changes in the value of other investments classified as financial assets at fair value through profit or loss are recognized directly in the separate consolidated income statement.

**Securities other than investments**

Securities other than investments classified as non-current assets are those held to maturity. The assets are recorded on the trade date and, on initial recognition, are stated at acquisition cost, including transaction costs, and subsequently measured at amortized cost.

Amortized cost represents the initial cost of the financial instrument net of principal repayments received, adjusted (up or down) by the amortization of any differences between the initial amount and the maturity amount using the effective interest method, less any writedown for impairment or uncollectibility, if any.

Securities other than investments classified as current assets are those that, by decision of the directors, are intended to be kept in the Group's portfolio for a period of not more than 12 months, and are included in the following categories:

- held to maturity (originally more than 3 months but less than 12 months, or, with an original maturity of more than 12 months but the remaining maturity at the date of purchase is more than 3 months but less than 12 months) and measured at amortized cost;
- held for trading and measured at fair value through profit or loss;
- available-for-sale and measured at fair value with a contra-entry to an equity reserve (*Reserve for available-for-sale financial assets*) which is reversed to the separate consolidated income statement when the financial asset is disposed of or impaired.

When the conditions that gave rise to impairment losses on securities other than investments held to maturity or classified as available-for-sale financial assets no longer exist, the impairment losses are reversed.

**Receivables and loans**

Receivables and loans classified as either non-current or current assets are initially recognized at fair value and subsequently measured at amortized cost.

### **Cash and cash equivalents**

Cash and cash equivalents are recorded, according to their nature, at nominal value or amortized cost.

Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash, subject to an insignificant risk of change in value and their original maturity or the remaining maturity at the date of purchase does not exceed 3 months.

### **Impairment of financial assets**

At every closing date, assessments are made as to whether there is any objective evidence that a financial asset or a group of financial assets may be impaired. If any such evidence exists, an impairment loss is recognized in the separate consolidated income statement for financial assets measured at cost or amortized cost; for available-for-sale financial assets reference should be made to the accounting policy described above.



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**Financial liabilities**

Financial liabilities comprise financial debt, including advances received on the assignment of accounts receivable, and other financial liabilities such as derivatives and finance lease obligations.

In accordance with IAS 39, they also include trade and other payables.

Financial liabilities other than derivatives are initially recognized at fair value and subsequently measured at amortized cost.

Financial liabilities hedged by derivative instruments designed to manage exposure to changes in fair value of the liabilities (*fair value hedge derivatives*) are measured at fair value in accordance with the hedge accounting principles of IAS 39. Gains and losses arising from re-measurement at fair value, to the extent of the hedged component, are recognized in the separate consolidated income statement and are offset by the effective portion of the gain or loss arising from re-measurement at fair value of the hedging instrument.

Financial liabilities hedged by derivative instruments designed to manage exposure to variability in cash flows (*cash flow hedge derivatives*) are measured at amortized cost in accordance with the hedge accounting principles of IAS 39.

**Derivatives**

Derivatives are used by the Telecom Italia Group to manage its exposure to exchange rate and interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to within pre-established operational limits.

In accordance with IAS 39, derivative financial instruments qualify for hedge accounting only when:

- a) at the inception of the hedge, the hedging relationship is formally designated and documented;
- b) the hedge is expected to be highly effective;
- c) its effectiveness can be reliably measured;
- d) the hedge is highly effective throughout the financial reporting periods for which it is designated.

All derivative financial instruments are measured at fair value in accordance with IAS 39.

When derivative financial instruments qualify for hedge accounting, the following accounting treatment applies:

Fair value hedge Where a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of an asset or liability due to a particular risk, the gain or loss from re-measuring the hedging instrument at fair value is recognized in the separate consolidated income statement. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in the separate consolidated income statement.

· Cash flow hedge Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows of an asset or liability or a highly probable forecasted transaction, the effective portion of any gain or loss on the derivative financial instrument is recognized directly in a specific equity reserve (*Reserve for hedging instruments*). The cumulative gain or loss is removed from equity and recognized in the separate consolidated income statement at the same time the hedged transaction affects the separate consolidated income statement. The gain or loss associated with the ineffective portion of a hedge is recognized in the separate consolidated income statement immediately. If the hedged transaction is no longer probable, the cumulative gains or losses included in the equity reserve are immediately recognized in the separate consolidated income statement.

If hedge accounting is not appropriate, gains or losses arising from the measurement of the fair value of derivative financial instruments are directly recognized in the separate consolidated income statement.

### **Sales of receivables**

The Telecom Italia Group carries out sales of receivables under factoring arrangements in accordance with Law 52/1991. These sales, in the majority of cases, are characterized by the transfer of substantially all the risks

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and rewards of ownership of the receivables to third parties, meeting IFRS requirements for derecognition. Specific servicing contracts, through which the buyer confers a mandate to Telecom Italia S.p.A. for the collection and management of the receivables, leave the current Company/customer relationship unaffected.

**Amounts due from customers on construction contracts**

Amounts due from customers on construction contracts, regardless of the duration of the contracts, are recognized in accordance with the percentage of completion method and classified under current assets.

Losses on such contracts, if any, are recorded in full in the separate consolidated income statement when they become known.

**Inventories**

Inventories are measured at the lower of purchase and production cost and estimated realizable value; cost is determined on a weighted average basis. Provision is made for obsolete and slow-moving inventories based on their expected future use and estimated realizable value.

**Non-current assets held for sale/Discontinued operations**

Non-current assets (or disposal groups) whose carrying amount will mainly be recovered through sale, rather than through ongoing use, are classified as held for sale and shown separately in the consolidated statement of financial position from other assets and liabilities. The corresponding amounts for the previous period are not reclassified in the consolidated statement of financial position however, these amounts are shown separately in a specific column in the tables disclosing the movements (where required) of assets and liabilities in the year in which the non-current assets held for sale or the disposal groups are classified as such. An operating asset sold (*Discontinued Operations*) is a component of an entity that has been disposed of or classified as held for sale and:

- represents a major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

The results arising from Discontinued Operations whether disposed of or classified as held for sale are shown separately in the separate consolidated income statement, net of tax effects. The corresponding values for the previous periods, where present, are reclassified and reported separately in the separate consolidated income statement, net of tax effects, for comparative purposes.

Non-current assets (or disposal groups) classified as held for sale are first recognized in compliance with the appropriate IFRS applicable to the specific assets and liabilities and subsequently measured at the lower of the

carrying amount and fair value, less costs to sell. Any subsequent impairment losses are recognized as a direct adjustment to the non-current assets (or disposal groups) classified as held for sale and expensed in the separate consolidated income statement.

An entity shall recognize a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized.

## **Employee benefits**

### **Provision for employee severance indemnity**

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

Under IAS 19 (*Employee Benefits*), the employee severance indemnity as calculated is considered a Defined benefit plan and the related liability recognized in the statement of financial position (*Provision for employee severance indemnities*) is determined by actuarial calculations.

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The remeasurements of employee benefit are recognized in other components of other comprehensive income. Service cost of Italian companies that employ less than 50 employees, as well as interest expenses related to the time value component of the actuarial calculations (the latter classified as Finance expenses), are recognized in the separate consolidated income statement.

Starting from January 1, 2007, Italian Law introduced for employees the choice to direct their accruing indemnity either to supplementary pension funds or leave the indemnity as an obligation of the Company. Companies that employ at least 50 employees should transfer the employee severance indemnity to the Treasury fund managed by INPS, the Italian Social Security Institute.

Consequently, the Group's obligation to INPS and the contributions to supplementary pension funds take the form, under IAS 19, of a Defined contribution plan.

**Equity compensation plans**

The companies of the Group provide additional benefits to certain managers of the Group through equity compensation plans (stock options and long-term incentive plans). The above plans are recognized in accordance with IFRS 2 (*Share-Based Payment*).

In accordance with IFRS 2, such plans represent a component of the beneficiaries' compensation. Therefore, for the plans that provide for compensation in equity instruments, the cost is represented by the fair value of such instruments at the grant date, and is recognized in the separate consolidated income statement in Employee benefits expenses over the period between the grant date and vesting date with a contra-entry to an equity reserve denominated Other equity instruments. Changes in the fair value subsequent to the grant date do not affect the initial measurement. At the end of each year, adjustments are made to the estimate of the number of rights that will vest up to expiry. The impact of the change in estimate is deducted from Other equity instruments with a contra-entry to Employee benefits expenses.

For the portion of the plans that provide for the payment of compensation in cash, the amount is recognized in liabilities as a contra-entry to Employee benefits expenses; at the end of each year such liability is measured at fair value.

**Provisions**

The Group records provisions for risks and charges when it has a present obligation, legal or constructive, to a third party, as a result of a past event, when it is probable that an outflow of Group resources will be required to satisfy the obligation and when the amount of the obligation can be estimated reliably.

If the effect of the time value is material, and the payment date of the obligations can be reasonably estimated, provisions to be accrued are the present value of the expected cash flows, taking into account the risks associated with the obligation. The increase in the provision due to the passage of time is recognized as Finance expenses.

**Treasury shares**

Treasury shares are recognized as a deduction from equity. In particular, the treasury shares are reported as a deduction from the share capital issued in the amount corresponding to the accounting par value, that is the ratio of

total share capital and the number of issued shares, while the excess cost of acquisition over the accounting par value is presented as a deduction from Other reserves and retained earnings (accumulated losses), including profit (loss) for the year .

**Foreign currency transactions**

Transactions in foreign currencies are recorded at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate prevailing at the statement of financial position date. Exchange differences arising from the settlement of monetary items or from their conversion at rates different from those at which they were initially recorded during the year or at the end of the prior year, are recognized in the separate consolidated income statement.

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Revenues include only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenues.

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

· *Revenues from services rendered*

Revenues from services rendered are recognized in the separate consolidated income statement according to the stage of completion of the service and only when the outcome of the service rendered can be estimated reliably. Traffic revenues from interconnection and roaming are reported gross of the amounts due to other TLC operators. Revenues for delivering information or other content are recognized on the basis of the amount invoiced to the customer, when the service is rendered directly by the Group. In the event that the Group is acting as agent (for example non-geographic numbers) only the commission received from the content provider is recognized as revenue.

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

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

· *Revenues from sales and bundled offerings*

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

For offerings which include the sale of mobile handsets and service contracts, the Telecom Italia Group recognizes revenues related to the sale of the handset when it is delivered to the final customer whereas traffic revenues are recorded on the basis of the minutes used; the related subscriber acquisition costs, including handset subsidies and sales commissions, are expensed as incurred. The revenues allocated to the handset sale are limited to the contract amount that is not contingent upon the rendering of telecommunication services, i.e. the residual of the amount paid by the customer exceeding the services value.

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

described in the related accounting policy are met.

· Revenues on construction contracts

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

**Research costs and advertising expenses**

Research costs and advertising expenses are charged directly to the separate consolidated income statement in the year in which they are incurred.



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**Finance income and expenses**

Finance income and expenses are recognized on an accrual basis and include: interest accrued on the related financial assets and liabilities using the effective interest rate method, the changes in fair value of derivatives and other financial instruments measured at fair value through profit or loss, gains and losses on foreign exchange and financial instruments (including derivatives).

**Dividends**

Dividends received from companies other than subsidiaries, associates and joint ventures are recognized in the separate consolidated income statement in the year in which they become receivable following the resolution by the shareholders' meeting for the distribution of dividends of the investee companies.

Dividends payable to third parties are reported as a change in equity in the year in which they are approved by the shareholders' meeting.

**Taxes**

Income taxes include all taxes calculated on the basis of the taxable income of the companies of the Group.

Income taxes are recognized in the separate consolidated income statement, except to the extent that they relate to items directly charged or credited to equity, in which case the related tax is recognized in the relevant equity reserves. In the Statement of comprehensive income the amount of income taxes relating to each item included as Other components of the Statement of comprehensive income is indicated.

The income tax expense that could arise on the remittance of a subsidiary's retained earnings is only recognized where there is the actual intention to remit such earnings.

Deferred tax liabilities / assets are recognized using the Balance sheet liability method. They are calculated on all temporary differences that arise between the tax base of an asset or liability and the carrying amounts in the consolidated financial statements, except for non tax-deductible goodwill and for those differences related to investments in subsidiaries which will not reverse in the foreseeable future. Deferred tax assets relating to unused tax loss carryforwards are recognized to the extent that it is probable that future taxable income will be available against which they can be utilized. Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same tax authority and there is a legally enforceable right of offset. Deferred tax assets and liabilities are determined based on enacted tax rates in the respective jurisdictions in which the Group operates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Taxes, other than income taxes, are included in Other operating expenses.

**Earnings per share**

Basic earnings per ordinary share is calculated by dividing the Group's profit attributable to ordinary shares by the weighted average number of ordinary shares outstanding during the year, including the shares relating to the bond issued in November 2013 by Telecom Italia Finance S.A. with mandatory conversion to Telecom Italia shares and

excluding treasury shares. Similarly, basic earnings per savings share is calculated by dividing the Group's profit attributable to savings shares by the weighted average number of savings shares outstanding during the year.

As stated above, the weighted average number of ordinary shares outstanding during the year also takes account of the ordinary shares that are expected to be issued for the conversion of the above-mentioned bond of Telecom Italia Finance S.A. with mandatory conversion to Telecom Italia shares. For diluted earnings per ordinary share, the weighted average number of shares outstanding during the year is adjusted by all dilutive potential shares (for example, the exercise of rights on shares with dilutive effects). The Group profit is also adjusted to reflect the impact of these transactions net of the related tax effects.

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The preparation of consolidated financial statements and related disclosure in conformity with IFRS requires management to make estimates and assumptions based also on subjective judgments, past experience and hypotheses considered reasonable and realistic in relation to the information known at the time of the estimate. Such estimates have an effect on the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the amount of revenues and costs during the year. Actual results could differ, even significantly, from those estimates owing to possible changes in the factors considered in the determination of such estimates. Estimates are reviewed periodically.

The most important accounting estimates which require a high degree of subjective assumptions and judgments are addressed below:

**Financial statement****line item/area****Accounting estimates**

Goodwill

The impairment test on goodwill is carried out by comparing the carrying amount of cash-generating units and their recoverable amount. The recoverable amount of a cash-generating unit is the higher of fair value, less costs to sell, and its value in use. This complex valuation process entails the use of methods such as the discounted cash flow method which uses assumptions to estimate cash flows. The recoverable amount depends significantly on the discount rate used in the discounted cash flow model as well as the expected future cash flows and the growth rate used for the extrapolation. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are detailed in the Note Goodwill .

Business combinations

The recognition of business combinations requires that assets and liabilities of the acquiree be recorded at their fair value at the acquisition date of control, as well as the possible recognition of goodwill, through the use of a complex process in determining such values.

Bad debt provision

The recoverability of receivables is measured by considering the uncollectibility of receivables, their age and losses on receivables recognized in the past by type of similar receivables.

Depreciation and amortization expense

Changes in the economic conditions of the markets, technology and competitive forces could significantly affect the estimated useful lives of tangible and intangible non-current assets and may lead to a difference in the timing and amount of depreciation and amortization expense.

Accruals, contingent liabilities and employee benefits

As regards the provisions for restoration costs the estimate of future costs to dismantle tangible assets and restore the site is a complex process that requires an assessment of the liability arising from such obligations which seldom are entirely defined by law, administrative regulations or contract clauses and which normally are to be complied with after an interval of several years.

The accruals related to legal, arbitration and fiscal disputes are the result of a complex estimation process based upon the probability of an unfavorable outcome.

Employee benefits, especially the provision for employee severance indemnities, are calculated using actuarial assumptions; changes in such assumptions could have a material impact on such liabilities.

Revenues

Revenue recognition is influenced by:

- the expected duration of the relationship with the customer for revenues from telephone service activations (as well as the related costs);
- the estimate of the amount of discounts, allowances and returns to be recorded as a direct deduction from revenues.

**Table of Contents****Consolidated Financial Statements****Notes To Consolidated Financial Statements****Financial statement****line item/area****Accounting estimates**

Income taxes

Income taxes (current and deferred) are calculated in each country in which the Group operates according to a prudent interpretation of the tax laws in effect. This process sometimes involves complex estimates to determine taxable income and deductible and taxable temporary differences between the carrying amounts and the taxable amounts. In particular, deferred tax assets are recognized to the extent that future taxable income will be available against which they can be utilized. The measurement of the recoverability of deferred tax assets, recognized based on both unused tax loss carryforwards to future years and deductible differences, takes into account the estimate of future taxable income and is based on conservative tax planning.

Derivative instruments and equity instruments

The fair value of derivative instruments and equity instruments is determined both using valuation models which also take into account subjective measurements such as, for example, cash flow estimates, expected volatility of prices, etc., or on the basis of either prices in regulated markets or quoted prices provided by financial counterparts. For further details please see also Note Supplementary disclosures on financial instruments .

As required by IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*) par. 10, in the absence of a Standard or an Interpretation that specifically applies to a particular transaction, management carefully considers subjective valuation techniques and uses its judgment as to the accounting methods to adopt with a view to providing financial statements which faithfully represent the financial position, the results of operations and the cash flows of the Group, which reflect the economic substance of the transactions, are neutral, prepared on a prudent basis and complete in all material respects.

**New Standards and Interpretations issued by IASB and in force from January 1, 2013**

In accordance with IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*), the IFRS in force starting from January 1, 2013 are indicated and briefly described below.

- **Amendments to IAS 1 (*Presentation of Financial Statements*)**

Such amendments to IAS 1 made by the IASB, concern the presentation of items of other comprehensive income. Specifically, these amendments require that other items of comprehensive income be separately grouped, distinguishing between those that may be reclassified ( transferred ) to the separate income statement and those that may not be reclassified.

The adoption of these amendments had no impact in terms of the measurement of financial statement items, and had a limited impact on the disclosure provided in these consolidated financial statements at December 31, 2013.

- **Amendments to IFRS 7 (*Financial Instruments: Disclosures Offsetting Financial Assets and Financial Liabilities*)**

Such amendments to IFRS 7 made by the IASB, concern disclosures on the offsetting of financial assets and liabilities.

The adoption of these amendments had no impact on these consolidated financial statements at December 31, 2013.

· **Amendments to IAS 12 (*Income Taxes*)**

According to IAS 12, an entity shall determine deferred tax liabilities relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale of the asset. The amendment establishes the assumption that the carrying amount is usually recovered through sale.

The adoption of these amendments had no impact on these consolidated financial statements at December 31, 2013.

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· **IFRS 10 (*Consolidated Financial Statements*) and IAS 27 (*Separate Financial Statements*)**

In May 2011, IASB issued IFRS 10, which fully replaces SIC 12 (*Consolidation - Special Purpose Entities - Vehicle Companies*), as well as the parts of IAS 27 ( *Consolidated and Separate Financial Statements* , now renamed *Separate Financial Statements* ) that establish how and when consolidated financial statements must be prepared.

IFRS 10 introduces some changes to the definition of the concept of control, including several application guidelines (including agency relationships and the ownership of potential voting rights).

The verification of control requirements must be conducted on an ongoing basis, not just at the time the investment is acquired.

IAS 27 revised defines the accounting principles for investments in subsidiaries, joint ventures and associates when a company decides, or is required by local law, to draw up separate (not consolidated) financial statements.

Their application had no impact on the consolidated financial statements at December 31, 2013.

· **IFRS 11 (*Joint Arrangements*)**

In May 2011 IASB issued IFRS 11, which fully replaces IAS 31 (*Interests in Joint Ventures*), as well as SIC 13 (*Jointly Controlled Entities - Non-Monetary Contributions by Venturers*).

According to IFRS 11, participants in a joint venture must measure their investments using the equity method. Thus, proportionate consolidation is no longer permitted.

The application had no impact on the consolidated financial statements at December 31, 2013.

· **IAS 28 (*Investments in Associates and Joint Ventures*)**

In May 2011 the IASB issued IAS 28 revised, which aims to define the accounting principles for investments in associates and the requirements for applying the equity method when accounting for investments in associates and joint ventures.

The application had no impact on the consolidated financial statements at December 31, 2013.

· **IFRS 12 (*Disclosure of Interests in Other Entities*)**

In May 2011 the IASB issued IFRS 12, which defines the disclosure to be provided in the financial statements in order to evaluate the nature of, and risks associated with all forms of investment in other entities, including joint arrangements, subsidiaries, associates, vehicle companies and special purpose companies.

The disclosure required is provided in the notes to these consolidated financial statements at December 31, 2013.

· **IFRS 13 (*Fair Value Measurement*)**

In May 2011 the IASB issued IFRS 13, which aims to improve consistency and comparability in fair value measurement through the fair value hierarchy . This hierarchy categorizes into three levels the inputs to valuation techniques used to measure fair value, giving the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

IFRS 13, which must be adopted prospectively, does not extend the use of fair value accounting, but provides guidance on how it should be applied.



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Specifically, IFRS 13:

defines the concept of fair value as follows: the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date ;

sets out a single framework of provisions for all fair value measurements;

introduces specific disclosure requirements to be provided concerning fair value measurement.

Despite the fact that many of the concepts in IFRS 13 are consistent with current practice, some aspects of the new standard have impacts on the Telecom Italia Group. The main impact is the result of the specifications concerning the measurement of default risk in determining the fair value of derivative contracts. This risk includes both the changes in the counterparty's credit rating and those of the Telecom Italia Group. Further details are provided in the Note Supplementary disclosure on financial instruments . The application of IFRS 13 had a positive effect on loss attributable to owners of the Parent for 2013 and on equity attributable to owners of the Parent as of December 31, 2013 of 18 million euros.

The application of IFRS 13 had no impact on basic and diluted earnings per share, expressed in euro cents.

· **Improvements to the IFRS (2009-2011 cycle)**

The improvements to the IFRS specifically concern the following aspects:

IAS 1 clarification of the requirements for comparative information;

IAS 16 classification of spare parts and servicing equipment;

IAS 32 tax effect of distributions to holders of equity instruments;

IAS 34 additional disclosure in interim financial reporting for total assets and liabilities segment information. The adoption of these improvements had no impact on the measurement of the consolidated financial statement line items at December 31, 2013.

· **Transition Guidance: Amendments to IFRS 10, IFRS 11 and IFRS 12**

This document amends IFRS 10 (*Consolidated financial statements*) to clarify that an investor must retrospectively adjust the comparative period if the conclusions on consolidation are not the same according to IAS 27 / SIC 12 and IFRS 10 at the initial application date .

This document also amended IFRS 11 (*Joint Arrangements*) and IFRS 12 (*Disclosure of Interests in Other Entities*), providing relief for the presentation or amendment of comparative information for periods prior to the period defined as the period immediately preceding .

Such adoption had no impact on the consolidated financial statements at December 31, 2013.

· **Investment Entities (*Amendments to IFRS 10, IFRS 12 and IAS 27*)**

These amendments shall be applied to the so called *Investment Entities* . The IASB uses the term *Investment Entities* to refer to an entity that:

- obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measures and evaluates the performance of substantially all of its investments on a fair value basis.

These entities include private equity and venture capital organizations, pension funds, sovereign and other investment funds.

These amendments are not currently applicable to Telecom Italia Group, as there are no investment entities within the Group.

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At the date of preparation of the accompanying consolidated financial statements, the following IFRS, Amendments and IFRIC interpretations had been published, but their application was not yet mandatory:

| <b>IASB/IFRIC documents</b>  | <b>Mandatory application:<br/>annual periods<br/>beginning on or after</b> |
|--|--|
| Amendments to IAS 36: <i>Recoverable Amount Disclosures for Non-Financial Assets</i>                                   | January 1, 2014  |
| Amendments to IAS 39: <i>Novation of Derivatives and Continuation of Hedge Accounting</i>                              | January 1, 2014  |
| Amendments to IAS 32: <i>Financial instruments: Presentation Offsetting Financial Assets and Financial Liabilities</i> | January 1, 2014  |
| Annual Improvements to <i>IFRSs 2010-2012 Cycle</i>  | January 1, 2015  |
| Annual Improvements to <i>IFRSs 2011-2013 Cycle</i>  | January 1, 2015  |
| <i>Defined Benefit Plans: Employee Contributions</i><br>(Amendments to IAS 19)   | January 1, 2015  |
| IFRIC Interpretation 21 <i>Levies</i>  | January 1, 2014  |
| IFRS 14 <i>Regulatory Deferral Accounts</i>  | January 1, 2016  |
| IFRS 9 ( <i>Financial Instruments</i> ) and subsequent amendments  | Postponed  |

The impacts, if any, arising from their application on the consolidated financial statements are currently being assessed.

**NOTE 3 SCOPE OF CONSOLIDATION****Investments in consolidated subsidiaries****Composition of the Group**

Telecom Italia holds a majority of the voting rights in all the subsidiaries included in the scope of consolidation.

A complete list of consolidated subsidiaries is provided in the Note List of companies of the Telecom Italia Group .

**Scope of consolidation**

The changes in the scope of consolidation at December 31, 2013 compared to December 31, 2012 are listed below. Such changes did not materially impact the consolidated financial statements as of, and for the year ended December 31, 2013.

**Entry of companies in the scope of consolidation:**

| <b>Company</b>                          |             | <b>Business Unit</b> | <b>Month</b>   |
|---|-------------|----------------------|----------------|
| LATIN AMERICAN NAUTILUS PUERTO RICO LLC | New company | Domestic             | September 2013 |

**Exit of companies from the scope of consolidation:**

| <b>Company</b>             |            | <b>Business Unit</b> | <b>Month</b>   |
|----------------------------|------------|----------------------|----------------|
| La7 S.r.l.                 | sold       | Media                | April 2013     |
| Tecnoservizi Mobili S.r.l. | liquidated | Domestic             | June 2013      |
| MTV PUBBLICITA S.r.l.      | sold       | Media                | September 2013 |
| MTV ITALIA S.r.l.          | sold       | Media                | September 2013 |

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The breakdown by number of Telecom Italia Group subsidiaries, associates and joint ventures at December 31, 2013 and December 31, 2012 is as follows:

| <b>Companies:</b>                                    | <b>12/31/2013</b> |                      | <b>Total</b> |
|--|-------------------|----------------------|--------------|
|  | <b>Italy</b>      | <b>Outside Italy</b> |              |
| subsidiaries consolidated line-by-line               | 38                | 62                   | 100          |
| joint ventures accounted for using the equity method |                   |                      |              |
| associates accounted for using the equity method     | 14                |                      | 14           |
| <b>Total companies</b>                               | <b>52</b>         | <b>62</b>            | <b>114</b>   |

| <b>Companies:</b>                                    | <b>12/31/2012</b> |                      | <b>Total</b> |
|--|-------------------|----------------------|--------------|
|  | <b>Italy</b>      | <b>Outside Italy</b> |              |
| subsidiaries consolidated line-by-line               | 42                | 61                   | 103          |
| joint ventures accounted for using the equity method | 1                 |                      | 1            |
| associates accounted for using the equity method     | 15                |                      | 15           |
| <b>Total companies</b>                               | <b>58</b>         | <b>61</b>            | <b>119</b>   |

**Subsidiaries with significant non-controlling interests**

At December 31, 2013, Telecom Italia Group held equity investments in subsidiaries with significant non-controlling interests in Sofora-Telecom Argentina group and Tim Brasil group.

For information on Sofora-Telecom Argentina group, see the disclosures provided in the Note Discontinued operations/Non-current assets held for sale .

As concerns Tim Brasil group, the figures provided below, stated gross of elimination of intragroup accounts, have been prepared in accordance with IFRS and take account of adjustments made due to differences in the accounting policies adopted, as well as adjustments made at the acquisition date to align the assets and liabilities acquired to their fair value and goodwill related to the Brazil Business Unit recognized at the Telecom Italia consolidation level.

**Tim Brasil group Brazil Business Unit**

Non-controlling interests held at December 31, 2013 and at December 31, 2012 amounted to 33.3% of the share capital of Tim Participações (which in turn holds 100% of the share capital of the operating companies Tim Celular S.A. and Intelig Telecomunicações Ltda.), equivalent to the corresponding share of voting rights.

**Statement of Financial Position Data Tim Brasil group**

|   | <b>Year ended December 31,</b> |               |
|---|--------------------------------|---------------|
|   | <b>2013</b>                    | <b>2012</b>   |
|   | <b>(millions of euros)</b>     |               |
| Non-current assets                        | 6,373                          | 7,154         |
| Current assets                            | 3,343                          | 3,732         |
| <b>Total Assets</b>                       | <b>9,716</b>                   | <b>10,886</b> |
| Non-current liabilities                   | 1,701                          | 1,818         |
| Current liabilities                       | 2,420                          | 2,655         |
| <b>Total Liabilities</b>                  | <b>4,121</b>                   | <b>4,473</b>  |
| <b>Equity</b>                             | <b>5,595</b>                   | <b>6,413</b>  |
| <i>of which Non-controlling interests</i> | <i>1,540</i>                   | <i>1,748</i>  |

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|   | <b>Year ended December 31,</b> |             |
|---|--------------------------------|-------------|
|   | <b>2013</b>                    | <b>2012</b> |
|   | <b>(millions of euros)</b>     |             |
| Revenues                                  | 6,945                          | 7,477       |
| <b>Profit (loss) for the year</b>         | <b>531</b>                     | <b>605</b>  |
| <i>of which Non-controlling interests</i> | <i>177</i>                     | <i>202</i>  |

**Financial Data Tim Brasil group**

Aggregate cash flows generated a negative 12 million euros in 2013, essentially due to a negative exchange rate effect of 307 million euros; excluding that effect, cash flow would have generated a positive 295 million euros. In 2012, aggregate cash flows generated a positive 297 million euros, which was reduced by a negative exchange rate effect of 168 million euros; excluding that effect, cash flow would have generated a positive 465 million euros. Dividends paid to non-controlling interests totaled 86 million euros in 2013, compared to 69 million euros in 2012.

The main risk factors that could impact, also significantly, the operations of the Tim Brasil group are listed below:

- strategic risks (risks related to macroeconomic and political factors, as well as risks associated with foreign exchange restrictions and competition);
- operational risks (risks related to business continuity and development of the fixed and mobile networks, as well as risks associated with litigation and disputes);
- financial risks; and
- regulatory and compliance risks.

**NOTE 4 BUSINESS COMBINATIONS****YEAR 2013**

In 2013, there were no business combinations transactions as defined in IFRS 3.

**YEAR 2012**

In 2012, there were no business combinations transactions as defined in IFRS 3.

## YEAR 2011

### Acquisition of the 4G Holding group (4GH)

On July 27, 2011, Telecom Italia, after having received authorization from the Antitrust Authority, finalized the acquisition of a 71% interest in the company 4G Holding S.p.A., which in turn held a 100% interest in 4G Retail S.r.l. The acquisition involved an outlay of about 8.6 million euros (including incidental expenses). The transaction was carried out through TLC Commercial Services S.r.l., a wholly-owned subsidiary of the Parent.

4G Holding S.p.A. and 4G Retail S.r.l. were merged in 2012.

In view of the reciprocal commitments already undertaken by the Telecom Italia Group and the current sole minority shareholder, Gir S.r.l., as regards the future transfer of the shares held by the latter, the accounting effects of the business combination have been calculated based on an economic interest of 100% and, as set forth in IFRS 3, can be summarized as follows:

- the measurement of the interest acquired is equal to 16 million euros and is inclusive of the measurement of the future acquisition of the interest held by the minority shareholder;
- all the assets acquired and the liabilities assumed of the acquired group have been measured for their recognition at fair value.



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Following the measurement of the assets acquired and liabilities assumed by 4G group for their recognition at fair value, the amounts originally determined were confirmed and are shown below:

|                              |                | <b>Final fair value amount<br/>(millions of euros)</b> |
|------------------------------|----------------|--|
| Measurement of consideration | (a)            | 16   |
| Value of assets acquired     | (b)            | 67   |
| Value of liabilities assumed | (c)            | (67)   |
| <b>Goodwill</b>              | <b>(a-b-c)</b> | <b>16</b>  |

In addition, the amounts of the most important assets and liabilities of the 4G group as of the acquisition date are summarized as follows:

**4G group acquisition-date amounts**

|  |              | <b>Final fair value<br/>amount<br/>(millions of euros)</b> | <b>Carrying<br/>amount</b> |
|--|--------------|--|----------------------------|
| Goodwill deriving from business combinations |              | 16   |                            |
| Other non-current assets                     |              | 22   | 29                         |
| Current assets                               |              | 45   | 45                         |
| <b>Total assets</b>                          | <b>(a)</b>   | <b>83</b>  | <b>74</b>                  |
| Total non-current liabilities                |              | 12   | 5                          |
| Total current liabilities                    |              | 55   | 55                         |
| <b>Total liabilities</b>                     | <b>(b)</b>   | <b>67</b>  | <b>60</b>                  |
| <b>Net assets</b>                            | <b>(a-b)</b> | <b>16</b>  | <b>14</b>                  |

**Acquisition of Tim Fiber SP and Tim Fiber RJ**

On October 31, 2011, the acquisition, through the subsidiary Tim Celular S.A., of telecommunications infrastructure operators in the states of São Paulo and Rio de Janeiro from Companhia Brasileira de Energia was finalized and the companies were renamed Tim Fiber SP and Tim Fiber RJ. The acquisition involved an outlay of approximately 656 million euros (including incidental expenses).

As a result of the above transaction, a 100% interest has been acquired in the company Tim Fiber SP and a 98.3% interest, subsequently increased to 100%, in the company Tim Fiber RJ.

The accounting effects of the business combination have been calculated based on 100% ownership, as required by IFRS 3, and can be summarized as follows on a provisional basis:

- the measurement of the consideration for both companies is equal to 657 million euros and is inclusive of the non-controlling interest acquired after October 31, 2011;
- all the assets acquired and the liabilities assumed of the acquired group have been measured for their recognition at fair value.

During the course of 2012 and in any case within 12 months of acquisition the provisional amounts of the assets and liabilities recorded at the acquisition date have been adjusted with retroactive effect to take into account their acquisition-date fair value with the consequent recalculation of goodwill. In addition to the amounts of the assets acquired and liabilities assumed, overall final goodwill of 499 million euros was recognized, calculated as illustrated in the following table:

|                              |              | <b>Tim Fiber SP + Tim<br/>Fiber<br/>RJ<br/>Final<br/>fair<br/>value<br/>amount</b> | <b>Tim Fiber SP + Tim<br/>Fiber RJ<br/>Provisional fair value<br/>amount<br/>(millions of euros)</b> | <b>Change</b> |
|------------------------------|--------------|--|--|---------------|
| Measurement of consideration | (a)          | 657  | 657  |               |
| Net assets acquired          | (b)          | 158  | 101  | 57            |
| <b>Goodwill</b>              | <b>(a-b)</b> | <b>499</b>   | <b>556</b>   | <b>(57)</b>   |

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The most important acquisition-date amounts of the assets and liabilities of the companies Tim Fiber SP and Tim Fiber RJ are summarized as follows:

**Tim Fiber SP and Tim Fiber RJ acquisition-date amounts**

|   |              | <b>Tim Fiber SP +<br/>Tim Fiber RJ</b> |                                       |                         |               |
|---|--------------|--|---------------------------------------|-------------------------|---------------|
|   |              | <b>Final fair value</b>                | <b>Provisional<br/>Fair<br/>value</b> |                         |               |
|   |              | <b>amount</b>                          | <b>amount</b>                         | <b>Carrying amounts</b> | <b>Change</b> |
|   |              | <b>(a)</b>                             | <b>(b)</b>                            |                         | <b>(a-b)</b>  |
|   |              | <b>(millions of euros)</b>             |                                       |                         |               |
| Goodwill arising from the business combinations |              | 499                                    | 556                                   |                         | (57)          |
| Other non-current assets                        |              | 218                                    | 131                                   | 131                     | 87            |
| Current assets                                  |              | 39                                     | 39                                    | 39                      |               |
| <b>Total assets</b>                             | <b>(a)</b>   | <b>756</b>                             | <b>726</b>                            | <b>170</b>              | <b>30</b>     |
| Total non-current liabilities                   |              | 72                                     | 42                                    | 42                      | 30            |
| Total current liabilities                       |              | 27                                     | 27                                    | 27                      |               |
| <b>Total liabilities</b>                        | <b>(b)</b>   | <b>99</b>                              | <b>69</b>                             | <b>69</b>               | <b>30</b>     |
| <b>Net assets</b>                               | <b>(a-b)</b> | <b>657</b>                             | <b>657</b>                            | <b>101</b>              |               |

The final allocation of the consideration paid led to a higher loss for the year of 1 million euros in the 2011 separate consolidated income statement. In addition, the changes shown in the table above were mainly due to the effect of changes in exchange rates.

**NOTE 5 GOODWILL**

Goodwill shows the following breakdown and changes during 2012 and 2013:

|                         | <b>As of<br/>December 31,<br/>2011</b> | <b>Increase</b> | <b>Decrease</b> | <b>Impairments</b> | <b>Exchange<br/>differences</b> | <b>As of<br/>December 31,<br/>2012</b> |
|-------------------------|--|-----------------|-----------------|--------------------|---------------------------------|--|
|                         | <b>(millions of euros)</b>             |                 |                 |                    |                                 |  |
| Domestic                | 34,646                                 |                 |                 | (4,016)            |                                 | 30,630                                 |
| Core Domestic           | 34,231                                 |                 |                 | (4,016)            |                                 | 30,215                                 |
| International Wholesale | 415                                    |                 |                 |                    |                                 | 415                                    |

|                  |               |  |                |              |
|------------------|---------------|--|----------------|--------------|
| Brazil           | 1,954         |  | (195)          | 1,759        |
| Argentina        | 176           |  | (168)          | (8)          |
| Media            | 126           |  | (105)          | 21           |
| Other operations |               |  |                |              |
| <b>Total</b>     | <b>36,902</b> |  | <b>(4,289)</b> | <b>(203)</b> |

|                  | As of<br>December 31,<br>2012 | Discontinued<br>Operation | Increase | Decrease | Impairments    | Exchange<br>differences | As of<br>December 31,<br>2013 |
|------------------|-------------------------------|---------------------------|----------|----------|----------------|-------------------------|-------------------------------|
|                  | (millions of euros)           |                           |          |          |                |                         |                               |
| Domestic         | 30,630                        |                           |          |          | (2,187)        |                         | 28,443                        |
| Core Domestic    | 30,215                        |                           |          |          | (2,187)        |                         | 28,028                        |
| International    |                               |                           |          |          |                |                         |                               |
| Wholesale        | 415                           |                           |          |          |                |                         | 415                           |
| Brazil           | 1,759                         |                           |          |          |                | (291)                   | 1,468                         |
| Media            | 21                            |                           |          |          |                |                         | 21                            |
| Other operations |                               |                           |          |          |                |                         |                               |
| <b>Total</b>     | <b>32,410</b>                 |                           |          |          | <b>(2,187)</b> | <b>(291)</b>            | <b>29,932</b>                 |

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The decrease of 2,478 million euros recognized in 2013 included:

- the goodwill impairment loss of 2,187 million euros for the Domestic Business Unit, due to the result of the impairment test conducted at December 31, 2013, implemented using the same method adopted in previous impairment tests and in particular comparing the value in use of the Core Domestic Cash Generating Unit (CGU) with its recoverable amount at the same date. In particular, in the first half of 2013, the Group tested Goodwill for impairment. The results of this testing led to an impairment loss of 2,187 million euros on the goodwill allocated to the Core Domestic Cash Generating Unit. This valuation, in compliance with the Group's procedures, considered the deterioration of the macroeconomic situation, both in general terms with reference to the outlook for the Italian economy, and in specific terms, in relation to management's expectations of the forecasted impact on the entire year 2013 and coming years of the recent AGCom decisions on wholesale copper network access rates, as well as the commercial performance of the Domestic Business Unit in the first half of 2013. The valuation also considered analyst forecasts of the expected performance of the Business Unit, as well as the performance of financial indicators and interest rates. The impairment test was repeated for the financial statements at December 31, 2013 on the basis of the updated Industrial Plan; no further impairment losses resulted from such test compared to the 2,187 million euros already recognized in the first half of 2013;
- negative exchange differences, totaling 291 million euros, relating to the goodwill of the Brazil Business Unit.

On November 13, 2013, the Telecom Italia Group accepted the offer for the purchase of the entire controlling interest held in the Sofora Telecom Argentina group. As a result, pursuant to IFRS 5 (Non-current assets held for sale and discontinued operations), the investment in the Sofora Telecom Argentina group was classified under Discontinued operations.

The gross carrying amounts of goodwill and the relative accumulated impairment losses from January 1, 2004 (date of allocation to the Cash Generating Units) to December 31, 2013 and 2012 can be summarized as follows:

|                         | As of December 31, 2013 |                               |                     | As of December 31, 2012 |                               |                     |
|-------------------------|-------------------------|-------------------------------|---------------------|-------------------------|-------------------------------|---------------------|
|                         | Gross carrying amount   | Accumulated impairment losses | Net carrying amount | Gross carrying amount   | Accumulated impairment losses | Net carrying amount |
|                         |                         |                               | (millions of euros) |                         |                               |                     |
| Domestic                | 42,245                  | (13,802)                      | 28,443              | 42,245                  | (11,615)                      | 30,630              |
| Core Domestic           | 41,830                  | (13,802)                      | 28,028              | 41,830                  | (11,615)                      | 30,215              |
| International Wholesale | 415                     |                               | 415                 | 415                     |                               | 415                 |
| Brazil                  | 1,475                   | (7)                           | 1,468               | 1,766                   | (7)                           | 1,759               |
| Argentina (*)           |                         |                               |                     | 151                     | (151)                         |                     |
| Media (**)              | 181                     | (160)                         | 21                  | 229                     | (208)                         | 21                  |
| Olivetti                | 6                       | (6)                           |                     | 6                       | (6)                           |                     |

## Other operations

|              |               |                 |               |               |                 |               |
|--------------|---------------|-----------------|---------------|---------------|-----------------|---------------|
| <b>Total</b> | <b>43,907</b> | <b>(13,975)</b> | <b>29,932</b> | <b>44,397</b> | <b>(11,987)</b> | <b>32,410</b> |
|--------------|---------------|-----------------|---------------|---------------|-----------------|---------------|

(\* Following the classification of Sofora Telecom Argentina group as Discontinued Operations, amounts for the Argentina Business Unit are no longer stated (goodwill allocated to the unit, totaling 979 million Argentine pesos, was written down completely in 2012).

(\*\*) The reduction in both the gross carrying amount and the accumulated impairment losses was due to the disposals of investments held in La7 and MTV Italia.

Goodwill allocated to the Brazil Business Unit is stated in euros, converted at the spot exchange rate at the closing date of the financial statements. The gross carrying amount of goodwill for the Brazil Business Unit corresponds to 4,742 million Brazilian reais.

Goodwill, under IAS 36, is not amortized but is tested for impairment annually or more frequently if specific events or circumstances indicate that it may be impaired.

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The impairment test at December 31, 2013 was carried out on two levels. At a first level, an estimate was made of the recoverable amount of the individual Cash Generating Units (or groups of units) to which goodwill is allocated; at a second level the group was considered as a whole.

The Cash Generating Units (or groups of units) to which goodwill has been allocated are the following:

| <b>Segment</b> | <b>Cash-generating units (or groups of units)</b> |
|----------------|---|
| Domestic       | Core Domestic<br>International Wholesale          |
| Brazil         | Tim Brasil group                                  |
| Media          | Telecom Italia Media group                        |

The value used to determine the recoverable amount of the Cash Generating Units (or groups of units) to which goodwill has been allocated is the value in use for the CGUs of the Domestic segment; the recoverable amount of the Brazil and Media CGUs is instead based on market capitalization (fair value).

The impairment test at December 31, 2013 did not identify any additional impairment loss with respect to the 2,187 million euros recognized in the first half of 2013, as the estimate of the recoverable amount of all the CGUs examined was higher than their carrying amount.

The main variables that had a significant influence on the value in use, for the two CGUs for which this value is used (Core Domestic and International Wholesale), are detailed in the table below:

| <b>Core Domestic</b>  | <b>International Wholesale</b>                                |
|---|---|
| EBITDA margin (EBITDA/revenues) during the period of the plan | EBITDA margin (EBITDA/revenues) during the period of the plan |
| Growth of EBITDA during the period of the plan                | Growth of EBITDA during the period of the plan                |
| Capital expenditures rate<br>(capex/revenues)                 | Capital expenditures rate<br>(capex/revenues)                 |
| Cost of capital   | Cost of capital   |
| Long-term growth rate   | Long-term growth rate   |

In keeping with the new procedure already adopted for the annual impairment test, the estimate of the value in use for the Core Domestic CGU is based on the analytical forecasts of plan cash flows (2014-2016) extended to cover a time period of five years (2014-2018).

For the estimate of the value in use of the Core Domestic CGU, the analytical forecasts of EBITDA Capex flows used over the plan period were brought within the range of the analyst forecasts produced following the announcement of the industrial plan, after having taken account of downside scenarios with respect to the plan scenarios.

The estimate of the value in use for the International Wholesale CGU is based on the figures in the 2014-2016 industrial plan, without further extensions.

The nominal growth rates used to estimate the terminal value are the following:

| <b>Core Domestic</b> | <b>International Wholesale</b> |
|----------------------|--------------------------------|
| <b>+0.0%</b>         | <b>+0.0%</b>                   |

In particular, the growth rates for the CGUs of the Domestic segment are in line with the range of growth rates applied by the analysts who follow Telecom Italia shares (as can be seen in the reports published after the presentation of the industrial plan).



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Since the growth rate in the terminal value is in relation to the level of capital expenditures (capex) necessary to sustain such growth, for purposes of the estimate of the earnings flow to be capitalized a level of capital expenditure (capex/revenues) of the Core Domestic CGU in line with the median of the analysts' terminal year forecasts (equal to 18.69%) was used.

The cost of capital was estimated by considering the following:

- the criterion applied was the criterion for the estimate of CAPM Capital Asset Pricing Model (the criterion used by the Group to estimate the value in use and referred to in Annex A of IAS 36);
  - in the case of International Wholesale, a full equity financial structure was considered since it is representative of the normal financial structure of the business; for the Core Domestic CGU, a Group target financial structure was assumed in line with the average of the European telephone incumbents, including Telecom Italia itself;
  - the Beta coefficient for the Core Domestic CGU and the International Wholesale CGU was arrived at by using the Beta coefficients of the European telephone incumbents, including Telecom Italia itself, adjusted to take into account the financial structure (Core Domestic CGU beta coefficient = 1.31; International Wholesale CGU beta coefficient = 0.75 (unlevered beta));
  - for the Core Domestic CGU a base estimate of weighted average cost of capital (WACC) was used.
- On the basis of these elements, the post-tax and pre-tax weighted average cost of capital and the related capitalization rates (WACC g) have been estimated for each Cash Generating Unit as follows:

|                 | <b>Core Domestic</b> | <b>International<br/>Wholesale</b> |
|-----------------|----------------------|------------------------------------|
|                 | %                    | %                                  |
| WACC post-tax   | 8.00                 | 8.43                               |
| WACC post-tax g | 8.00                 | 8.43                               |
| WACC pre-tax    | 11.61                | 12.38                              |
| WACC pre-tax g  | 11.61                | 12.38                              |

The differences between the values in use and the carrying amounts before impairment test at December 31, 2013 for the two CGUs considered amount to:

**Core Domestic**

**International  
Wholesale**  
(millions of euros)

|  |             |            |
|--|-------------|------------|
| <b>Difference between values in use and carrying amounts</b> | <b>+995</b> | <b>+61</b> |
|--|-------------|------------|

For purposes of the sensitivity analysis, four principal variables were considered for the two CGUs whose value in use is in excess of the carrying amount: the WACC pre-tax discount rate, the growth rate in the terminal value (g), the compound annual growth rate of EBITDA (CAGR 13- 18 Core Domestic; CAGR 13- 16 International Wholesale) and capital expenditures in proportion to revenues (capex/revenues). The following tables report the values of the key variables used in estimating the value in use and the changes in such variables needed to render the recoverable amount of the respective CGUs equal to their carrying amount.

**Value of key variables used in estimating the value in use**

|  | <b>Core Domestic</b><br>% | <b>International<br/>Wholesale</b><br>% |
|--|---------------------------|---|
| Pre-tax discount rate                        | 11.61                     | 12.38                                   |
| Long-term growth rate (g)                    | 0                         | 0                                       |
| Compound Annual Growth Rate (CAGR) of EBITDA | 0.41                      | 0.33                                    |
| Capital expenditures rate (Capex/Revenues)   | from 17.57 to 19.05       | from 6.03 to 7.48                       |

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|  | <b>Core Domestic</b><br>% | <b>International<br/>Wholesale</b><br>% |
|--|---------------------------|---|
| Pre-tax discount rate                        | 0.28                      | 0.97                                    |
| Long-term growth rate (g)                    | -0.44                     | -1.27                                   |
| Compound Annual Growth Rate (CAGR) of EBITDA | -0.65                     | -1.68                                   |
| Capital expenditures rate (Capex/Revenues)   | 0.76                      | 0.35                                    |

A second level impairment test was then conducted to test for impairment at the level of the entire Group, in order to include the Central Functions and the financial Cash Generating Units of the Group without any goodwill allocation (Olivetti). The total recoverable amount of all the Cash Generating Units of the Group was compared to the carrying amount of the total operating capital referring to the same units/segments post-first level impairment testing. No impairment losses resulted at this further level of testing.

**NOTE 6 OTHER INTANGIBLE ASSETS**

Other intangible assets decreased by 710 million euros compared to December 31, 2011. Details on the composition and movements are as follows:

|   | <b>As of<br/>December 31,<br/>2011</b> | <b>Addition</b> | <b>Amortization</b> | <b>Impairment<br/>losses/<br/>Reversals</b> | <b>Disposal</b> | <b>Exchange<br/>Differences</b> | <b>Capitalized<br/>borrowing<br/>costs</b> | <b>Other<br/>changes</b> | <b>As of<br/>December 31,<br/>2012</b> |
|---|--|-----------------|---------------------|---|-----------------|---------------------------------|--|--------------------------|--|
|   | (millions of euros)                    |                 |                     |   |                 |                                 |  |                          |  |
| Industrial patents and intellectual property rights     | 2,575                                  | 1,051           | (1,382)             | (40)  | (1)             | (96)                            |  | 228                      | 2,335                                  |
| Concessions, licenses, trademarks and similar rights    | 3,336                                  | 192             | (336)               |   |                 | (190)                           |  | 168                      | 3,170                                  |
| <i>of which Licenses with an indefinite useful life</i> | 441                                    |                 |                     |   |                 | (63)                            |  |                          | 378                                    |
| Other intangible assets with a finite useful life       | 1,134                                  | 350             | (494)               | (85)  |                 | (108)                           |  | (2)                      | 795                                    |
| Work in progress and advance payments                   | 1,592                                  | 402             |                     | (2)   | (4)             | (1)                             | 52   | (412)                    | 1,627                                  |
| <b>Total</b>  | <b>8,637</b>                           | <b>1,995</b>    | <b>(2,212)</b>      | <b>(127)</b>                                | <b>(5)</b>      | <b>(395)</b>                    | <b>52</b>                                  | <b>(18)</b>              | <b>7,927</b>                           |

Other intangible assets decreased by 1,647 million euros compared to December 31, 2012. Details on the composition and movements are as follows:

|   | As of<br>December 31,<br>2012 | Discontinued<br>Operations | Addition     | Amortization   | Impairment<br>losses/<br>Reversal | Disposal   | Exchange<br>Differences | Other<br>changes | As of<br>December 31,<br>2013 |
|---|-------------------------------|----------------------------|--------------|----------------|-----------------------------------|------------|-------------------------|------------------|-------------------------------|
|   | (millions of euros)           |                            |              |                |                                   |            |                         |                  |                               |
| Industrial patents<br>and intellectual<br>property rights       | 2,335                         |                            | 1,262        | (1,392)        |                                   | (1)        | (159)                   | 287              | 2,332                         |
| Concessions,<br>licenses, trademarks<br>and similar rights      | 3,170                         | (664)                      | 236          | (369)          |                                   |            | (132)                   | 1,153            | 3,394                         |
| <i>of which Licenses<br/>with an indefinite<br/>useful life</i> | <i>378</i>                    | <i>(378)</i>               |              |                |                                   |            |                         |                  |                               |
| Other intangible<br>assets with a finite<br>useful life         | 795                           | (565)                      | 281          | (251)          |                                   |            | (4)                     | 1                | 257                           |
| Work in progress<br>and advance<br>payments                     | 1,627                         |                            | 116          |                |                                   | (4)        | (2)                     | (1,440)          | 297                           |
| <b>Total</b>  | <b>7,927</b>                  | <b>(1,229)</b>             | <b>1,895</b> | <b>(2,012)</b> |                                   | <b>(5)</b> | <b>(297)</b>            | <b>1</b>         | <b>6,280</b>                  |

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Additions in 2013 included 307 million euros of internally generated assets (295 million euros in 2012). Further details are provided in the Note Internally generated assets .

Other net changes in 2013 included, among others, the effects of changes in the scope of consolidation due to the sale of La7 S.r.l. on April 30, 2013 (9 million euros) and of MTV group on September 12, 2013 (10 million euros).

Industrial patents and intellectual property rights at December 31, 2013 consisted mainly of application software purchased outright and user license rights acquired, amortized over a period between 2 and 5 years. They mainly related to Telecom Italia S.p.A. (1,468 million euros) and to the Brazil Business Unit (833 million euros). The sale of La7 S.r.l. resulted in a reduction of 8 million euros, and the sale of the MTV group resulted in a reduction of 9 million euros.

With regard to amortization, it is noted that, based on the recent evolution of the commercial offers of the Parent Telecom Italia, the useful life of the software applications developed to support those offers has been reduced from 3 to 2 years, with effect from January 1, 2013; this resulted in higher amortization charges recognized for 2013 of 109 million euros.

Listed below are the estimated impacts on amortization for the subsequent years, calculated based on non-current assets at December 31, 2013:

- higher charges of 21 million euros in the year 2014;
- lower charges of 45 million euros in the year 2015;
- lower charges of 85 million euros in the year 2016.

Concessions, licenses, trademarks and similar rights at December 31, 2013 mainly related to:

- net carrying amount of telephone licenses and similar rights (2,349 million euros for Telecom Italia S.p.A. and 506 million euros for the Brazil Business Unit);
- Indefeasible Rights of Use IRU (256 million euros) mainly relating to companies of the Telecom Italia Sparkle group (International Wholesale);
- TV frequencies of the Media Business Unit (102 million euros). The user rights to the frequencies used for digital terrestrial transmission are amortized over 20 years.

The net carrying amount of telephone licenses and similar rights, totaling 2,855 million euros, was broken down as follows:

| Type of license               | Net carrying amount at December 31, 2013 (millions of euros) | Amortization period (years) | Amortization charges for 2013 (millions of euros) |
|-------------------------------|--|-----------------------------|---|
| <b>Telecom Italia S.p.A.:</b> |  |                             |   |
| UMTS                          | 1,074  | 18                          | 134   |
| UMTS 2100 MHz                 | 59   | 12                          | 7   |
| Wireless Local Loop           | 3  | 15                          | 1   |
| WiMax                         | 9  | 15                          | 1   |
| LTE 1800 MHz                  | 137  | 18                          | 9   |
| LTE 2600 MHz                  | 106  | 17                          | 7   |
| LTE 800 MHz                   | 961  | 17                          | 60  |
| <b>Tim Brasil group:</b>      |  |                             |   |
| GSM and 3G (UMTS)             | 393  | 9-15                        | 98  |
| 4G (LTE)                      | 113  | 15                          | 6   |
| TDMA                          |  | 14                          | 4   |
|                               | 2,855  |                             |   |

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Other intangible assets with a finite useful life at December 31, 2013 essentially consisted of 230 million euros of capitalized subscriber acquisition costs (SAC) connected with certain commercial deals offered by Telecom Italia S.p.A.. Subscriber acquisition costs are amortized over the underlying minimum contract period (between 24 or 30 months).

Work in progress and advance payments showed a decrease primarily due to the effect of the entry into force from January 1, 2013 of the user rights for the 800 and 2600 MHz LTE frequencies to be allocated to broadband mobile services, acquired by Telecom Italia S.p.A. during the year 2011; as a consequence, the related finance expenses have no longer been capitalized. At December 31, 2012, the item totaled 64 million euros.

Amortization and impairment losses are recorded in the income statement as components of the operating result.

The gross carrying amount, accumulated impairment losses and accumulated amortization at December 31, 2013 and 2012 can be summarized as follows:

|  | Gross carrying amount | As of December 31, 2013       |                          | Net carrying amount |
|--|-----------------------|-------------------------------|--------------------------|---------------------|
|  |                       | Accumulated impairment losses | Accumulated amortization |                     |
| (millions of euros)                                      |                       |                               |                          |                     |
| Industrial patents and intellectual property rights      | 12,597                | (8)                           | (10,257)                 | 2,332               |
| Concessions, licenses, trademarks and similar rights     | 6,387                 | (234)                         | (2,759)                  | 3,394               |
| Other intangible assets with a finite useful life        | 783                   |                               | (526)                    | 257                 |
| Work in progress and advance payments                    | 299                   | (2)                           |                          | 297                 |
| <b>Total intangible assets with a finite useful life</b> | <b>20,066</b>         | <b>(244)</b>                  | <b>(13,542)</b>          | <b>6,280</b>        |
| <b>Intangible assets with an indefinite useful life</b>  |                       |                               |                          |                     |
| <b>Total Other intangible assets</b>                     | <b>20,066</b>         | <b>(244)</b>                  | <b>(13,542)</b>          | <b>6,280</b>        |

|  | Gross carrying amount | As of December 31, 2012       |                          | Net carrying amount |
|--|-----------------------|-------------------------------|--------------------------|---------------------|
|  |                       | Accumulated impairment losses | Accumulated amortization |                     |
| (millions of euros)                                      |                       |                               |                          |                     |
| Industrial patents and intellectual property rights      | 12,544                | (46)                          | (10,163)                 | 2,335               |
| Concessions, licenses, trademarks and similar rights     | 5,750                 | (245)                         | (2,713)                  | 2,792               |
| Other intangible assets with a finite useful life        | 1,703                 | (77)                          | (831)                    | 795                 |
| Work in progress and advance payments                    | 1,631                 | (4)                           |                          | 1,627               |
| <b>Total intangible assets with a finite useful life</b> | <b>21,628</b>         | <b>(372)</b>                  | <b>(13,707)</b>          | <b>7,549</b>        |

|   |               |              |                 |              |
|---|---------------|--------------|-----------------|--------------|
| <b>Intangible assets with an indefinite useful life</b> | <b>378</b>    |              |                 | <b>378</b>   |
| <b>Total Other intangible assets</b>                    | <b>22,006</b> | <b>(372)</b> | <b>(13,707)</b> | <b>7,927</b> |

Impairment losses on Industrial patents and intellectual property rights decreased following the sale of La7 S.r.l.. During the year, Telecom Italia S.p.A. posted a total of 778 million euros in gross disposals and a total of 1 million euros in net disposals connected with the discarding or upgrading of software.

Impairment losses on Concessions, licenses, trademarks and similar rights, relating mainly to reporting periods prior to 2004, referred to the infeasible rights of use (IRU) for the transmission capacity and cables for international connections acquired by the Lan Med group. The change shown was essentially due to the translation into euros of accounts denominated in U.S. dollars.

The cancellation of accumulated impairment losses on Other intangible assets with a finite useful life was due to the classification of Sofora Telecom Argentina group as a discontinued operation, which also entailed the cancellation of the carrying amounts of the relative intangible assets with an indefinite useful life.

Finally, Other intangible assets with a finite useful life included 153 million euros in gross disposals connected with subscriber acquisition costs that were fully amortized by Telecom Italia S.p.A.



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Property, plant and equipment owned decreased by 434 million euros compared to December 31, 2011. Details on the breakdown and movements are as follows:

|   | As of<br>December 31,<br>2011 | Addition     | Depreciation   | Impairment<br>losses /<br>Reversals | Disposals   | Exchange<br>Differences | Other<br>changes | As of<br>December 31,<br>2012 |
|---|-------------------------------|--------------|----------------|-------------------------------------|-------------|-------------------------|------------------|-------------------------------|
|   | (millions of euros)           |              |                |                                     |             |                         |                  |                               |
| Land  | 235                           |              |                |                                     |             | (17)                    | 14               | 232                           |
| Buildings (civil and industrial)              | 795                           | 12           | (73)           | (1)                                 |             | (50)                    | 15               | 698                           |
| Plant and equipment                           | 12,108                        | 2,215        | (2,614)        | (12)                                | (20)        | (395)                   | 555              | 11,837                        |
| Manufacturing and distribution equipment      | 32                            | 12           | (14)           |                                     |             |                         | 9                | 39                            |
| Other   | 724                           | 194          | (306)          | (2)                                 | (7)         | (50)                    | 124              | 677                           |
| Construction in progress and advance payments | 1,005                         | 726          |                | (1)                                 | (1)         | (64)                    | (683)            | 982                           |
| <b>Total</b>                                  | <b>14,899</b>                 | <b>3,159</b> | <b>(3,007)</b> | <b>(16)</b>                         | <b>(28)</b> | <b>(576)</b>            | <b>34</b>        | <b>14,465</b>                 |

Property, plant and equipment owned decreased by 2,166 million euros compared to December 31, 2012. Details on the breakdown and movements are as follows:

|  | As of<br>December 31,<br>2012 | Discontinued<br>Operations | Addition | Depreciation | Impairment<br>losses /<br>Reversals | Disposals | Exchange<br>Differences | Other<br>changes | As of<br>December 31,<br>2013 |
|--|-------------------------------|----------------------------|----------|--------------|-------------------------------------|-----------|-------------------------|------------------|-------------------------------|
|  | (millions of euros)           |                            |          |              |                                     |           |                         |                  |                               |
| Land                                     | 232                           | (93)                       |          |              |                                     | (1)       | (3)                     |                  | 135                           |
| Buildings (civil and industrial)         | 698                           | (282)                      | 12       | (44)         |                                     | (1)       | (4)                     | 1                | 380                           |
| Plant and equipment                      | 11,837                        | (876)                      | 1,986    | (2,166)      |                                     | (14)      | (414)                   | 241              | 10,594                        |
| Manufacturing and distribution equipment | 39                            | (3)                        | 14       | (14)         |                                     |           |                         | 5                | 41                            |
| Other                                    | 677                           | (191)                      | 155      | (194)        |                                     | (5)       | (30)                    | 42               | 454                           |
| Construction in progress and             | 982                           | (236)                      | 296      |              |                                     | (1)       | (43)                    | (303)            | 695                           |

advance payments

|              |               |                |              |                |             |              |             |               |
|--------------|---------------|----------------|--------------|----------------|-------------|--------------|-------------|---------------|
| <b>Total</b> | <b>14,465</b> | <b>(1,681)</b> | <b>2,463</b> | <b>(2,418)</b> | <b>(22)</b> | <b>(494)</b> | <b>(14)</b> | <b>12,299</b> |
|--------------|---------------|----------------|--------------|----------------|-------------|--------------|-------------|---------------|

Land comprises both built-up land and available land and is not subject to depreciation. The balance at December 31, 2013 mainly related to Telecom Italia S.p.A. (115 million euros).

Buildings (civil and industrial) almost exclusively includes buildings for industrial use hosting telephone exchanges or for office use and light constructions. The balance at the end of 2013 was mainly attributable to Telecom Italia S.p.A. (327 million euros).

Plant and equipment includes the aggregate of all the structures used for the functioning of voice and data telephone traffic. The balance at December 31, 2013 mainly related to Telecom Italia S.p.A. (8,110 million euros) and to companies of the Brazil Business Unit (2,127 million euros).

Manufacturing and distribution equipment consists of instruments and equipment used for the running and maintenance of plant and equipment; the amount was in line with the end of the prior year and was primarily carried by Telecom Italia S.p.A.

Other is mostly made up of hardware for the functioning of the Data Center and for work stations, furniture and fixtures and, to a minimal extent, transport vehicles and office machines.

Construction in progress and advance payments refer to the internal and external costs incurred for the acquisition and internal production of tangible assets, which are not yet in use.

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Additions in 2013 also included 236 million euros of internally generated assets (286 million euros in 2012). Further details are provided in the Note Internally generated assets .

Depreciation, impairment losses and reversals have been recorded in the income statement as components of the operating result.

Depreciation for the years 2013 and 2012 is calculated on a straight-line basis over the estimated useful lives of the assets according to the following minimum and maximum rates:

|  |         |
|--|---------|
| Buildings (civil and industrial)         | 3.33%   |
| Plant and equipment                      | 3%-50%  |
| Manufacturing and distribution equipment | 20%     |
| Other                                    | 11%-33% |

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2013 and 2012 can be summarized as follows:

|   | Gross carrying amount | As of December 31, 2013       |                          | Net carrying amount |
|---|-----------------------|-------------------------------|--------------------------|---------------------|
|   |                       | Accumulated impairment losses | Accumulated depreciation |                     |
| (millions of euros)                           |                       |                               |                          |                     |
| Land  | 135                   |                               |                          | 135                 |
| Buildings (civil and industrial)              | 1,424                 | (2)                           | (1,042)                  | 380                 |
| Plant and equipment                           | 64,370                | (51)                          | (53,725)                 | 10,594              |
| Manufacturing and distribution equipment      | 276                   | (1)                           | (234)                    | 41                  |
| Other   | 3,866                 | (3)                           | (3,409)                  | 454                 |
| Construction in progress and advance payments | 696                   | (1)                           |                          | 695                 |
| <b>Total</b>                                  | <b>70,767</b>         | <b>(58)</b>                   | <b>(58,410)</b>          | <b>12,299</b>       |

|  | Gross carrying amount | As of December 31, 2012       |                          | Net carrying amount |
|--|-----------------------|-------------------------------|--------------------------|---------------------|
|  |                       | Accumulated impairment losses | Accumulated depreciation |                     |
| (millions of euros)                      |                       |                               |                          |                     |
| Land                                     | 232                   |                               |                          | 232                 |
| Buildings (civil and industrial)         | 1,768                 | (6)                           | (1,064)                  | 698                 |
| Plant and equipment                      | 65,174                | (67)                          | (53,270)                 | 11,837              |
| Manufacturing and distribution equipment | 268                   | (2)                           | (227)                    | 39                  |

|   |               |             |                 |               |
|---|---------------|-------------|-----------------|---------------|
| Other   | 4,211         | (6)         | (3,528)         | 677           |
| Construction in progress and advance payments | 983           | (1)         |                 | 982           |
| <b>Total</b>                                  | <b>72,636</b> | <b>(82)</b> | <b>(58,089)</b> | <b>14,465</b> |

The reduction in accumulated impairment losses was primarily connected with changes in the scope of consolidation due to the sale of La7 S.r.l.

*Assets held under finance leases*

Assets held under finance lease decreased by 80 million euros compared to December 31, 2011. Details on the breakdown and movements are as follows:

|   | As of<br>December 31,<br>2011 | Addition  | Depreciation<br>(millions of euros) | Other<br>changes | As of<br>December 31,<br>2012 |
|---|-------------------------------|-----------|-------------------------------------|------------------|-------------------------------|
| Buildings (civil and industrial)              | 1,042                         | 24        | (113)                               | 19               | 972                           |
| Other   | 16                            | 10        | (8)                                 | (1)              | 17                            |
| Construction in progress and advance payments | 36                            | 8         |                                     | (19)             | 25                            |
| <b>Total</b>                                  | <b>1,094</b>                  | <b>42</b> | <b>(121)</b>                        | <b>(1)</b>       | <b>1,014</b>                  |

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Assets held under finance lease decreased by 94 million euros compared to December 31, 2012. Details on the breakdown and movements are as follows:

|   | As of<br>December 31,<br>2012 | Discontinued<br>Operations | Addition  | Depreciation | Other<br>changes | As of<br>December 31,<br>2013 |
|---|-------------------------------|----------------------------|-----------|--------------|------------------|-------------------------------|
|   | (millions of euros)           |                            |           |              |                  |                               |
| Buildings (civil and industrial)              | 972                           |                            | 21        | (117)        | 7                | 883                           |
| Other   | 17                            | (8)                        | 2         | (6)          |                  | 5                             |
| Construction in progress and advance payments | 25                            |                            | 19        |              | (12)             | 32                            |
| <b>Total</b>                                  | <b>1,014</b>                  | <b>(8)</b>                 | <b>42</b> | <b>(123)</b> | <b>(5)</b>       | <b>920</b>                    |

Buildings (civil and industrial) includes those under long rent leases and related building adaptations. They refer almost entirely to Telecom Italia S.p.A.

Other basically comprises the capitalization of finance leases of Data Center hardware.

Depreciation and impairment losses are recorded in the income statement as components of the operating result.

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2013 and 2012 can be summarized as follows:

|   | Gross<br>carrying<br>amount | As of December 31, 2013             |                             | Net carrying<br>amount |
|---|-----------------------------|-------------------------------------|-----------------------------|------------------------|
|   |                             | Accumulated<br>impairment<br>losses | Accumulated<br>depreciation |                        |
|   | (millions of euros)         |                                     |                             |                        |
| Buildings (civil and industrial)              | 2,106                       | (27)                                | (1,196)                     | 883                    |
| Other   | 90                          |                                     | (85)                        | 5                      |
| Construction in progress and advance payments | 32                          |                                     |                             | 32                     |
| <b>Total</b>                                  | <b>2,228</b>                | <b>(27)</b>                         | <b>(1,281)</b>              | <b>920</b>             |

|  | Gross<br>carrying<br>amount | As of December 31, 2012             |                             | Net carrying<br>amount |
|--|-----------------------------|-------------------------------------|-----------------------------|------------------------|
|  |                             | Accumulated<br>impairment<br>losses | Accumulated<br>depreciation |                        |

|   | (millions of euros) |             |                |              |
|---|---------------------|-------------|----------------|--------------|
| Buildings (civil and industrial)              | 2,078               | (27)        | (1,079)        | 972          |
| Other   | 98                  |             | (81)           | 17           |
| Construction in progress and advance payments | 25                  |             |                | 25           |
| <b>Total</b>                                  | <b>2,201</b>        | <b>(27)</b> | <b>(1,160)</b> | <b>1,014</b> |

At December 31, 2013 and 2012, finance lease payments due in future years and their present value are as follows:

|                   | As of December 31,        |   |                           |  |
|-------------------|---------------------------|---|---------------------------|--|
|                   | Minimum lease<br>payments | 2013  | 2012                      |  |
|                   |                           | Present value of<br>minimum<br>lease<br>payments<br>(millions of euros) | Minimum lease<br>payments | Present value of<br>minimum<br>lease<br>payments |
| Within 1 year     | 215                       | 194   | 229                       | 204  |
| From 2 to 5 years | 882                       | 582   | 880                       | 599  |
| Beyond 5 years    | 741                       | 379   | 857                       | 364  |
| <b>Total</b>      | <b>1,838</b>              | <b>1,155</b>  | <b>1,966</b>              | <b>1,167</b>                                     |

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|  | <b>As of December 31,</b>  |              |
|--|----------------------------|--------------|
|  | <b>2013</b>                | <b>2012</b>  |
|  | <b>(millions of euros)</b> |              |
| Future net minimum lease payments          | 1,838                      | 1,966        |
| Interest portion                           | (683)                      | (799)        |
| <b>Present value of lease payments</b>     | <b>1,155</b>               | <b>1,167</b> |
| Financial lease liabilities                | 1,293                      | 1,378        |
| Financial receivables for lease contracts  | (138)                      | (211)        |
| <b>Total net finance lease liabilities</b> | <b>1,155</b>               | <b>1,167</b> |

At December 31, 2013, the inflation adjustment to finance lease payments was approximately 35 million euros (approximately 31 million euros at December 31, 2012) and related almost entirely to Telecom Italia S.p.A.

**NOTE 8 INVESTMENTS**

Investments, which were substantially unchanged with respect to December 31, 2012, consisted of:

|   | <b>As of December 31,</b>  |             |
|---|----------------------------|-------------|
|   | <b>2013</b>                | <b>2012</b> |
|   | <b>(millions of euros)</b> |             |
| <b>Investments accounted for using the equity method:</b> |                            |             |
| Associates  | 65                         | 65          |
| Joint Ventures  |                            |             |
| <b>Total</b>  | <b>65</b>                  | <b>65</b>   |

Investments in associates accounted for using the equity method are detailed as follows:

|                     | <b>As<br/>of<br/>December 31,<br/>2011</b> | <b>Investments</b> | <b>Disposals<br/>and<br/>reimbursements of<br/>capital<br/>(millions of euros)</b> | <b>Valuation<br/>using<br/>equity<br/>method</b> | <b>Other changes</b> | <b>As of<br/>December 31,<br/>2012</b> |
|---------------------|--|--------------------|--|--|----------------------|--|
| Trentino NGN S.r.l. |  |                    |  |  | 25                   | 25                                     |
| Tiglio I S.r.l.     | 22   |                    |  | (7)  |                      | 15                                     |
| Tiglio II           | 1  |                    |  |  |                      | 1                                      |
| Others              | 23   | 3                  | (3)  | 1  |                      | 24                                     |

| <b>Total</b>        | <b>46</b>                              | <b>3</b>           | <b>(3)</b>   | <b>(6)</b>                                       | <b>25</b>            | <b>65</b>                              |
|---------------------|--|--------------------|--|--|----------------------|--|
|                     | <b>As of<br/>December 31,<br/>2012</b> | <b>Investments</b> | <b>Disposals<br/>and<br/>reimbursements of<br/>capital<br/>(millions of euros)</b> | <b>Valuation<br/>using<br/>equity<br/>method</b> | <b>Other changes</b> | <b>As of<br/>December 31,<br/>2013</b> |
| Trentino NGN S.r.l. | 25                                     |                    |  |  |                      | 25                                     |
| Tiglio I S.r.l.     | 15                                     |                    |  | (1)  |                      | 14                                     |
| Tiglio II           | 1                                      |                    |  |  |                      | 1                                      |
| Others              | 24                                     |                    |  | 1  |                      | 25                                     |
| <b>Total</b>        | <b>65</b>                              |                    |  |  |                      | <b>65</b>                              |

The list of investments accounted for using the equity method is presented in the Note List of companies of the Telecom Italia Group .

Investments in associates accounted for using the equity method of the Telecom Italia Group are not material both individually or in aggregate form.

#### **Investments in structured entities**

Telecom Italia Group does not hold investments in structured entities.



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Other investments refer to the following:

|                        | As<br>of<br>December 31,<br>2011 | Investments | Disposals<br>and<br>reimbursements of<br>capital<br>(millions of euros) | Measurement<br>at fair<br>value | Other changes | As of<br>December 31,<br>2012 |
|------------------------|----------------------------------|-------------|---|---------------------------------|---------------|-------------------------------|
| Assicurazioni Generali | 2                                |             |   | 1                               |               | 3                             |
| Fin.Priv.              | 10                               |             |   |                                 |               | 10                            |
| Sia                    | 11                               |             |   |                                 |               | 11                            |
| Others                 | 15                               | 1           |   | (1)                             |               | 15                            |
| <b>Total</b>           | <b>38</b>                        | <b>1</b>    |   |                                 |               | <b>39</b>                     |

|                        | As<br>of<br>December 31,<br>2012 | Investments | Disposals<br>and<br>reimbursements of<br>capital<br>(millions of euros) | Measurement<br>at fair<br>value | Other changes | As of<br>December 31,<br>2013 |
|------------------------|----------------------------------|-------------|---|---------------------------------|---------------|-------------------------------|
| Assicurazioni Generali | 3                                |             |   |                                 |               | 3                             |
| Fin.Priv.              | 10                               |             |   | 4                               |               | 14                            |
| Sia                    | 11                               |             |   |                                 |               | 11                            |
| Others                 | 15                               |             |   |                                 | (1)           | 14                            |
| <b>Total</b>           | <b>39</b>                        |             |   | <b>4</b>                        | <b>(1)</b>    | <b>42</b>                     |

In accordance with IAS 39, other investments represent available-for-sale financial assets.

Further details on Financial Instruments are provided in the Note Supplementary disclosure on financial instruments .

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**Financial assets (non-current and current)** are composed as follows:

|   | <b>As of December 31,</b>  |              |
|---|----------------------------|--------------|
|   | <b>2013</b>                | <b>2012</b>  |
|   | <b>(millions of euros)</b> |              |
| <b>Non-current financial assets</b>   |                            |              |
| <b>Securities, financial receivables and other non-current financial assets:</b>                                |                            |              |
| Securities other than investments   | 6                          | 22           |
| Financial receivables for lease contracts   | 58                         | 110          |
| Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature | 1,018                      | 2,291        |
| Receivables from employees  | 31                         | 34           |
| Non-hedging derivatives   | 137                        | 33           |
| Other financial receivables   | 6                          | 6            |
| <b>Total non-current financial assets</b>   | <b>(A) 1,256</b>           | <b>2,496</b> |
| <b>Current financial assets</b>   |                            |              |
| <b>Securities other than investments</b>  |                            |              |
| Held for trading  |                            |              |
| Held to maturity  |                            |              |
| Available for sale  | 1,348                      | 754          |
|   | <b>1,348</b>               | <b>754</b>   |
| <b>Financial receivables and other current financial assets:</b>  |                            |              |
| Liquid assets with banks, financial institutions and post offices (with a maturity greater than 3 months)       |                            | 83           |
| Receivables from employees  | 12                         | 13           |
| Financial receivables for lease contracts   | 80                         | 101          |
| Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature     | 173                        | 246          |
| Non-hedging derivatives   | 7                          | 39           |
| Other short-term financial receivables  | 11                         | 20           |
|   | <b>283</b>                 | <b>502</b>   |
| <b>Cash and cash equivalents</b>  | <b>5,744</b>               | <b>7,436</b> |
| <b>Total current financial assets</b>   | <b>(B) 7,375</b>           | <b>8,692</b> |
|   | <b>(C) 657</b>             |              |

**Financial assets relating to Discontinued operations/Non-current assets held for sale**

|   |                |              |               |
|---|----------------|--------------|---------------|
| <b>Total non-current and current financial assets</b> | <b>(A+B+C)</b> | <b>9,288</b> | <b>11,188</b> |
|---|----------------|--------------|---------------|

Financial receivables for lease contracts refer to:

- Teleleasing lease contracts entered into directly with customers in previous years and for which Telecom Italia is the guarantor;

- portion of rental contracts, with the rendering of accessory services denominated the *full rent* formula.

**Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature** refer to the mark-to-market component, while **Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature** mainly consist of accrued income on derivative contracts. Further details are provided in the Note Derivatives .

The issuance by Telecom Italia Finance S.A. of a total of 1.3 billion euros of Guaranteed Subordinated Mandatory Convertible Bonds due 2016, convertible into ordinary shares of Telecom Italia S.p.A. resulted in the recognition

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in the financial statements of the option embedded in the financial instruments, separate from the debt liability itself. The fair value of the option, classified as Non-current financial assets Non-hedging derivatives, at year end was 63 million euros. Further details are provided in the note Financial liabilities (Non-current and current).

Securities other than investments (included in current assets) related to listed securities, classified as available-for-sale due beyond three months. They consisted of: 258 million euros of Italian government bonds purchased by Telecom Italia S.p.A.; 866 million euros of Italian and European government bonds purchased by Telecom Italia Finance S.A.; 5 million euros of Italian Treasury Certificates (CCTs) (assigned to Telecom Italia S.p.A. as the holder of trade receivables, as per Italian Ministry of the Economy and Finance Decree of December 3, 2012); and 219 million euros of bonds purchased by Telecom Italia Finance S.A. with different maturities, all with an active market and consequently readily convertible into cash. The purchases of government bonds and CCTs which represent investments in sovereign debt securities, were made in accordance with guidelines for the Management and control of financial risk adopted by the Telecom Italia Group in August 2012, in replacement of the previous policy in force as of July 2009.

Cash and cash equivalents decreased, also as a result of the buyback of bonds, by 1,692 million euros compared to December 31, 2012. The breakdown is as follows:

|  | <b>As of December 31,</b>  |              |
|--|----------------------------|--------------|
|  | <b>2013</b>                | <b>2012</b>  |
|  | <b>(millions of euros)</b> |              |
| Liquid assets with banks, financial institutions and post offices    | 4,131                      | 5,761        |
| Checks, cash and other receivables and deposits for cash flexibility | 1                          | 2            |
| Securities other than investments (due within 3 months)              | 1,612                      | 1,673        |
| <b>Total</b>   | <b>5,744</b>               | <b>7,436</b> |

Cash and cash equivalents at December 31, 2013 do not include amounts relating to the Sofora Telecom Argentina group (classified under discontinued operations), totaling 616 million euros, which at December 31, 2012 were instead included for a total of 489 million euros.

The different technical forms used for the investment of liquidity as of December 31, 2013 can be analyzed as follows:

- maturities: all deposits have a maximum maturity date of three months;
- counterpart risks: deposits have been made with leading high-credit-quality banks and financial institutions with a rating of at least BBB- according to Standard & Poor's with regard to Europe and with leading local counterparts with regard to investments in South America;

country risk: deposits have been made mainly in major European financial markets. Securities other than investments (due within 3 months) included 1,610 million euros (1,517 million euros at December 31, 2012) of Brazilian bank certificates of deposit (Certificado de Depósito Bancário) held by the Brazil Business Unit with premier local banking and financial institutions.

#### NOTE 10 MISCELLANEOUS RECEIVABLES AND OTHER NON-CURRENT ASSETS

Miscellaneous receivables and other non-current assets increased by 111 million euros compared to December 31, 2012. They included:

|   | As of December 31, |                     |              |                 |
|---|--------------------|---------------------|--------------|-----------------|
|   | 2013               | Of which IAS 39     | 2012         | Of which IAS 39 |
|   |                    | Financial           |              | Financial       |
|   |                    | Instruments         |              | Instruments     |
|   |                    | (millions of euros) |              |                 |
| Miscellaneous receivables and other non-current assets: |                    |                     |              |                 |
| Miscellaneous receivables                               | 782                | 248                 | 785          | 337             |
| Medium/long-term prepaid expenses                       | 825                |                     | 711          |                 |
| <b>Total</b>  | <b>1,607</b>       | <b>248</b>          | <b>1,496</b> | <b>337</b>      |

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Miscellaneous receivables and other non-current assets amounted to 1,607 million euros (1,496 million euros at December 31, 2012) and included Income tax receivables of 363 million euros (359 million euros at December 31, 2012).

Miscellaneous receivables are mainly related to the Brazil Business Unit (414 million euros), inclusive of court deposits of 227 million euros, and the Domestic Business Unit (361 million euros), inclusive of tax credit on income taxes and related interest of 352 million euros, which are discussed in more detail in the specific Note *Income taxes*.

Medium/long-term prepaid expenses totaled 825 million euros (711 million euros at December 31, 2012) and mainly related to the deferral of costs in connection with the activation of telephone contracts, essentially attributable to the Domestic Business Unit.

Further details on Financial Instruments are provided in the Note *Supplementary disclosure on financial instruments*.

**NOTE 11 INCOME TAXES*****Income tax receivables***

Non-current and current income tax receivables at December 31, 2013 amounted to 486 million euros (436 million euros at December 31, 2012).

Specifically, they consisted of:

- non-current income tax receivables of 363 million euros (359 million euros at December 31, 2012), including 352 million euros relating to the Domestic Business Unit for taxes and interest resulting from the recognized deductibility of IRAP tax on the cost of labor for IRES tax purposes relating to years prior to 2012, following the entry into force of Decree Law 16/2012;
- current income tax receivables of 123 million euros (77 million euros at December 31, 2012) mainly relating to receivables due to Domestic Business Unit companies (107 million euros) and to the Brazil Business Unit companies (15 million euros).

***Deferred tax assets and deferred tax liabilities***

The net balance of 805 million euros at December 31, 2013 (584 million euros at December 31, 2012) mainly related to the Brazil Business Unit, 225 million euros (396 million euros at December 31, 2012), and 565 million euros to the Parent Telecom Italia S.p.A. (842 million euros at December 31, 2012) and was broken down as follows:

| <b>As of December 31,</b>  |             |
|----------------------------|-------------|
| <b>2013</b>                | <b>2012</b> |
| <b>(millions of euros)</b> |             |

|                          |            |            |
|--------------------------|------------|------------|
| Deferred tax assets      | 1,039      | 1,432      |
| Deferred tax liabilities | (234)      | (848)      |
| <b>Total</b>             | <b>805</b> | <b>584</b> |

At December 31, 2012 the net balance also included the Sofora Telecom Argentina group (-487 million euros), reclassified as Discontinued operations/Non-current assets held for sale at December 31, 2013.

Since the presentation of deferred tax assets and liabilities in the financial statements takes account of offsets to the extent that such offsets are legally enforceable, the composition of the gross amounts is presented below:

|                          | <b>As of December 31,</b>  |             |
|--------------------------|----------------------------|-------------|
|                          | <b>2013</b>                | <b>2012</b> |
|                          | <b>(millions of euros)</b> |             |
| Deferred tax assets      | 1,334                      | 1,574       |
| Deferred tax liabilities | (529)                      | (990)       |
| <b>Total</b>             | <b>805</b>                 | <b>584</b>  |

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Upon presentation of the tax return for the year 2008, the Parent, Telecom Italia, took advantage of the possibility of realigning the differences between the IAS financial statements associated with transactions that fall under the derivation regime and the tax amounts at January 1, 2009, pursuant to Legislative Decree 185 of November 29, 2008; this realignment which involved the reabsorption of the relative net deductible temporary differences in equal amounts over five years from 2009 to 2013 resulted in an absorption of net deferred tax assets of approximately 60 million euros per year. In 2013, residual deferred assets of 64 million euros were entirely reabsorbed.

The temporary differences which made up this line item at December 31, 2013 and 2012, as well as the movements during 2013 were as follows:

|  | As of<br>December 31,<br>2012 | Discontinued<br>Operations | Recognized in<br>profit or<br>loss<br>(millions of euros) | Recognized in<br>equity | Change in scope<br>of<br>consolidation<br>and other<br>changes | As of<br>December 31,<br>2013 |
|--|-------------------------------|----------------------------|---|-------------------------|--|-------------------------------|
| <b>Deferred tax assets:</b>  |                               |                            |   |                         |  |                               |
| Tax loss carryforwards   | 409                           | (1)                        | (79)  |                         | (51)   | 278                           |
| Derivatives  | 420                           |                            | 1   | 77                      | (14)   | 484                           |
| Provision for bad debts  | 285                           | (14)                       | (51)  |                         | (7)  | 213                           |
| Provisions   | 203                           | (57)                       | (2)   |                         | (3)  | 141                           |
| Provisions for pension fund<br>integration                                   |                               |                            |   |                         |  |                               |
| Law 58/92  | 13                            |                            | (3)   |                         |  | 10                            |
| Capital grants   | 6                             |                            | (2)   |                         |  | 4                             |
| Taxed depreciation and<br>amortization                                       | 132                           |                            | 6   |                         |  | 138                           |
| Unused tax credit<br>(realignment, Leg. Decree<br>185/08)                    | 64                            |                            | (64)  |                         |  |                               |
| Other deferred tax assets  | 42                            | 71                         | (21)  |                         | (26)   | 66                            |
| <b>Total</b>   | <b>1,574</b>                  | <b>(1)</b>                 | <b>(215)</b>  | <b>77</b>               | <b>(101)</b>   | <b>1,334</b>                  |
| <b>Deferred tax liabilities</b>  |                               |                            |   |                         |  |                               |
| Derivatives  | (297)                         |                            | (24)  | 6                       | 16   | (299)                         |
| Business combinations for<br>step-up of net assets in<br>excess of tax basis | (560)                         | 463                        | (23)  |                         | 15   | (105)                         |
| Deferred gains   | (2)                           |                            | (17)  |                         |  | (19)                          |
| Accelerated depreciation   | (37)                          |                            | 1   |                         |  | (36)                          |
| Discounting of provision for<br>employee severance                           | (33)                          |                            | 1   | 1                       | 1  | (30)                          |



|  |              |            |              |           |             |              |
|--|--------------|------------|--------------|-----------|-------------|--------------|
| indemnities  |              |            |              |           |             |              |
| Other deferred tax liabilities                     | (61)         | 25         | (2)          | (2)       |             | (40)         |
| <b>Total</b>                                       | <b>(990)</b> | <b>488</b> | <b>(64)</b>  | <b>5</b>  | <b>32</b>   | <b>(529)</b> |
| <b>Total net deferred tax assets (liabilities)</b> | <b>584</b>   | <b>487</b> | <b>(279)</b> | <b>82</b> | <b>(69)</b> | <b>805</b>   |

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The expected reversal of deferred tax assets and deferred tax liabilities at December 31, 2013 were as follows:

|  | <b>Within 1 year</b>       | <b>Beyond 1 year</b> | <b>Total at December 31,</b> |
|--|----------------------------|----------------------|------------------------------|
|  | <b>(millions of euros)</b> |                      | <b>2013</b>                  |
| Deferred tax assets                                | 420                        | 914                  | 1,334                        |
| Deferred tax liabilities                           | (93)                       | (436)                | (529)                        |
| <b>Total net deferred tax assets (liabilities)</b> | <b>327</b>                 | <b>478</b>           | <b>805</b>                   |

At December 31, 2013, the Telecom Italia Group had unused tax loss carryforwards of 3,497 million euros mainly referring to the Brazil Business Unit and the companies Telecom Italia Finance and Telecom Italia International, with the following expiration dates:

| <b>Year of expiration</b>                  | <b>(millions of euros)</b> |
|--|----------------------------|
| 2014                                       | 1                          |
| 2015                                       |                            |
| 2016                                       | 1                          |
| 2017                                       | 3                          |
| 2018                                       | 1                          |
| Expiration after 2018                      | 134                        |
| Without expiration                         | 3,357                      |
| <b>Total unused tax loss carryforwards</b> | <b>3,497</b>               |

Tax loss carryforwards considered in the calculation of deferred tax assets amounted to 869 million euros at December 31, 2013 (1,257 million euros at December 31, 2012) and mainly referred to the Brazil Business Unit and the company Telecom Italia International.

Instead, deferred tax assets of 803 million euros (866 million euros at December 31, 2012) have not been recognized on 2,628 million euros of tax loss carryforwards since, at this time, their recoverability is not considered probable

At December 31, 2013, we have not recognized deferred tax liabilities on approximately 1 billion euros of tax-suspended reserves and undistributed earnings of subsidiaries, because we are in a position to control the timing of the distribution and it is probable that such profits will not be distributed in the foreseeable future. The contingent liabilities relating to taxes that should be recognized when these reserves become distributable is in any case not significant.

Deferred taxes have however been recognized (12 million euros) on tax-suspended reserves and undistributed earnings of the Sofora Telecom Argentina group due to its envisaged disposal.

***Income tax payables***

Income tax payables amounted to 75 million euros (183 million euros at December 31, 2012). They were broken down as follows:

|                             | <b>At December 31,</b>     |             |
|-----------------------------|----------------------------|-------------|
|                             | <b>2013</b>                | <b>2012</b> |
|                             | <b>(millions of euros)</b> |             |
| <b>Income tax payables:</b> |                            |             |
| Non-current                 | 55                         | 59          |
| Current                     | 20                         | 124         |
| <b>Total</b>                | <b>75</b>                  | <b>183</b>  |

Specifically, the non-current portion, amounting to 55 million euros, refers entirely to the Brazil Business Unit, while the current portion, amounting to 20 million euros, refers primarily to the Brazil Business Unit (11 million euros).

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Including income taxes on discontinued operations, income tax expense amounted to 1,336 million euros, an increase of 101 million euros compared to 2012 (1,235 million euros).

Details are as follows:

|  |       | 2013                | 2012         | 2011         |
|--|-------|---------------------|--------------|--------------|
|  |       | (millions of euros) |              |              |
| Current taxes for the year   |       | 830                 | 1,233        | 1,285        |
| Net difference in prior years estimates  |       | 2                   | (365)        | (98)         |
| <b>Total current taxes</b>   |       | <b>832</b>          | <b>868</b>   | <b>1,187</b> |
| Deferred taxes   |       | 279                 | 218          | 236          |
| <b>Total taxes on continuing operations</b>                                    | (A)   | <b>1,111</b>        | <b>1,086</b> | <b>1,423</b> |
| <b>Total taxes on Discontinued operations/Non-current assets held for sale</b> | (B)   | <b>225</b>          | <b>149</b>   | <b>187</b>   |
| <b>Total income tax expense for the year</b>                                   | (A+B) | <b>1,336</b>        | <b>1,235</b> | <b>1,610</b> |

In 2012, income tax expense was positively affected by the recognition of a tax credit referring to previous years of 319 million euros for IRES tax refunds of IRAP tax on the cost of labor (Decree Law 16/2012). Net of this effect, in 2013 income tax expense showed a decrease of 218 million euros compared to 2012, mainly as a result of the reduction in the tax base of the Parent Telecom Italia and the Brazil Business Unit, partially offset by the increase in the tax base of Sofora Telecom Argentina group.

The reconciliation between the theoretical tax expense, using the IRES tax rate in force in Italy (27.5%), and the effective tax expense for the years ended December 31, 2013, 2012 and 2011 is the following:

|  |  | 2013                | 2012        | 2011           |
|--|--|---------------------|-------------|----------------|
|  |  | (millions of euros) |             |                |
| <b>Profit (loss) before tax</b>  |  |                     |             |                |
| From continuing operations   |  | 532                 | (293)       | (3,253)        |
| From Discontinued operations/Non-current assets held for sale                        |  | 566                 | 251         | 497            |
| <b>Total profit (loss) before tax</b>  |  | <b>1,098</b>        | <b>(42)</b> | <b>(2,756)</b> |
| <b>Theoretical income taxes</b>  |  | <b>302</b>          | <b>(12)</b> | <b>(758)</b>   |
| Income tax effect on increase (decrease) in variations:                              |  |                     |             |                |
| Tax losses of the year not considered recoverable                                    |  | 17                  | 31          | 15             |
| Tax losses not considered recoverable in prior years and recoverable in future years |  | (10)                | (10)        | (40)           |

|   |              |              |              |
|---|--------------|--------------|--------------|
| Non-deductible costs  | 60           | 39           | 29           |
| Non-deductible goodwill impairment charge                                 | 601          | 1,179        | 2,025        |
| Benefit from IRES tax reimbursement for partial deductibility of IRAP tax |              | (319)        |              |
| Other net differences   | 95           | 7            | 3            |
| Effective income tax recognized in income statement, excluding IRAP tax   | 1,065        | 915          | 1,274        |
| IRAP tax  | 271          | 320          | 336          |
| <b>Total effective income tax recognized in income statements</b>         | <b>1,336</b> | <b>1,235</b> | <b>1,610</b> |

The impact of IRAP tax is shown separately in order to avoid any distortion effect, since the tax only applies to Italian companies and is calculated on a tax base other than pre-tax profit.

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Inventories decreased by 71 million euros compared to December 31, 2012 and consisted of the following:

|  | <b>As of December 31,</b>  |             |
|--|----------------------------|-------------|
|  | <b>2013</b>                | <b>2012</b> |
|  | <b>(millions of euros)</b> |             |
| Raw materials and supplies                 | 2                          | 3           |
| Work in progress and semifinished products | 3                          | 4           |
| Finished goods                             | 360                        | 429         |
| <b>Total</b>                               | <b>365</b>                 | <b>436</b>  |

Inventories particularly refer to Telecom Italia S.p.A. for 154 million euros (112 million euros at December 31, 2012), and to the companies in the Brazil Business Unit for 92 million euros (100 million euros at December 31, 2012). They mainly consist of equipment, handsets and relative fixed and mobile telecommunications accessories.

Another 77 million euros (86 million euros at December 31, 2012) of inventories is carried by the Olivetti Business Unit for office products, specialized printers and gaming terminals.

In 2013, inventories were written down by 6 million euros (13 million euros in 2012), mainly to adjust the carrying amount of fixed and mobile equipment and handsets for marketing to their estimated realizable value.

No inventories are pledged as collateral.

**NOTE 13 TRADE AND MISCELLANEOUS RECEIVABLES AND OTHER CURRENT ASSETS**

Trade and miscellaneous receivables and other current assets decreased by 1,617 million euros compared to December 31, 2012 and consisted of the following:

|  | <b>As of December 31,</b>  |                    |       |       |
|--|----------------------------|--------------------|-------|-------|
|  | <b>2013</b>                | <b>2012</b>        |       |       |
|  | <i>Of which</i>            | <i>Of which</i>    |       |       |
|  | <i>IAS 39</i>              | <i>IAS 39</i>      |       |       |
|  | <i>Financial</i>           | <i>Financial</i>   |       |       |
|  | <i>Instruments</i>         | <i>Instruments</i> |       |       |
|  | <b>(millions of euros)</b> |                    |       |       |
| <b>Amounts due on construction contracts</b> | <b>45</b>                  | <b>63</b>          |       |       |
| <b>Trade receivables:</b>                    |                            |                    |       |       |
| Receivables from customers                   | 3,269                      | 3,269              | 4,254 | 4,254 |

|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| Receivables from other telecommunications operators        | 675          | 675          | 1,184        | 1,184        |
|  | <b>3,944</b> | <b>3,944</b> | <b>5,438</b> | <b>5,438</b> |
| <b>Miscellaneous receivables and other current assets:</b> |              |              |              |              |
| Other receivables  | 898          | 201          | 1,016        | 249          |
| Trade and miscellaneous prepaid expenses                   | 502          |              | 489          |              |
|  | <b>1,400</b> | <b>201</b>   | <b>1,505</b> | <b>249</b>   |
| <b>Total</b>   | <b>5,389</b> | <b>4,145</b> | <b>7,006</b> | <b>5,687</b> |

Further details on Financial Instruments are provided in the Note Supplementary disclosure on financial instruments .

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The aging of financial instruments included in Trade and miscellaneous receivables and other current assets at December 31, 2013 and December 31, 2012 was as follows:

|   | As of<br>December 31,<br>2013 | Total<br>Current | Total<br>overdue | Overdue:     |                |                 | More than<br>365<br>days |
|---|-------------------------------|------------------|------------------|--------------|----------------|-----------------|--------------------------|
|   |                               |                  |                  | 0-90<br>days | 91-180<br>days | 181-365<br>days |                          |
| <b>Trade and miscellaneous receivables and other current assets</b> | <b>4,145</b>                  | <b>3,141</b>     | <b>1,004</b>     | <b>332</b>   | <b>174</b>     | <b>217</b>      | <b>281</b>               |

|   | As of<br>December 31,<br>2012 | Total<br>Current | Total<br>overdue | Overdue:     |                |                 | More than<br>365<br>days |
|---|-------------------------------|------------------|------------------|--------------|----------------|-----------------|--------------------------|
|   |                               |                  |                  | 0-90<br>days | 91-180<br>days | 181-365<br>days |                          |
| <b>Trade and miscellaneous receivables and other current assets</b> | <b>5,687</b>                  | <b>4,116</b>     | <b>1,571</b>     | <b>703</b>   | <b>219</b>     | <b>239</b>      | <b>410</b>               |

The decrease in current receivables, mostly attributable to the decrease in sales, also reflected the classification of the Sofora Telecom Argentina group as Discontinued operations/Non-current assets held for sale that were mainly due in the period 0-90 days.

Overdue receivables also decreased compared to December 31, 2012, particularly the range due in More than 365 days, which decreased by 129 million euros and was mainly influenced by the reaching of agreements and the settlement of several legal disputes with another operator.

Trade receivables amount to 3,944 million euros (5,438 million euros at December 31, 2012) and are net of the provision for bad debts of 776 million euros (910 million euros at December 31, 2012). The reduction in net trade receivables, of 1,494 million euros, reflected the performance of sales and the impact, amounting to 371 million euros, of the classification of the Sofora Telecom Argentina group as Discontinued operations /Non-current assets held for sale.

Trade receivables mainly refer to Telecom Italia S.p.A. (2,413 million euros) and the Brazil Business Unit (1,096 million euros).

Trade receivables included 99 million euros (96 million euros at December 31, 2012) of medium/long-term trade receivables from customers, principally in respect of agreements for the sale of indefeasible rights of use (IRU).

Movements in the provision for bad debts were as follows:



|   | <b>2013</b>                | <b>2012</b> |
|---|----------------------------|-------------|
|   | <b>(millions of euros)</b> |             |
| <b>At January 1</b>                       | <b>910</b>                 | <b>845</b>  |
| Provision charges to the income statement | 272                        | 413         |
| Utilization and decreases                 | (344)                      | (308)       |
| Discontinued operations                   | (32)                       |             |
| Exchange differences and other changes    | (30)                       | (40)        |
| <b>At December 31</b>                     | <b>776</b>                 | <b>910</b>  |

The provision for bad debts consisted of specific write-downs of receivables for a total of 359 million euros (408 million euros at December 31, 2012) and write-downs made on the basis of average uncollectibility for a total of 418 million euros (501 million euros at December 31, 2012).

Provision charges for bad debts are recorded for specific credit positions that have an element of individual risk. On credit positions that do not have such characteristics, provision charges are recorded by customer segment according to the average uncollectibility estimated on the basis of statistics.

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Other receivables amounted to 898 million euros (1,016 million euros at December 31, 2012) and were net of a provision for bad debts of 98 million euros (113 million euros at December 31, 2012). Details are as follows:

|                            | <b>As of December 31,</b>  |              |
|----------------------------|----------------------------|--------------|
|                            | <b>2013</b>                | <b>2012</b>  |
|                            | <b>(millions of euros)</b> |              |
| Advances to suppliers      | 50                         | 31           |
| Receivables from employees | 23                         | 26           |
| Tax receivables            | 435                        | 525          |
| Sundry receivables         | 390                        | 434          |
| <b>Total</b>               | <b>898</b>                 | <b>1,016</b> |

Tax receivables included 384 million euros relating to the Brazil Business Unit, largely with reference to local indirect taxes, and 47 million euros relating to the Domestic Business Unit, partly represented by credits resulting from tax returns, other taxes and also the VAT receivable on the purchase of cars and related accessories for which refunds were requested under Legislative Decree 258/2006, converted with amendments by Law 278/2006.

Sundry receivables mainly included:

- receivables from factoring companies totaling 140 million euros, of which 89 million euros from Mediofactoring (an Intesa Sanpaolo group company) and 52 million euros from other factoring companies;
- receivables from social security and assistance agencies for Telecom Italia S.p.A. of 68 million euros;
- receivable for the Italian Universal Service (27 million euros). This is a regulated contribution in relation to the costs arising from Telecom Italia S.p.A.'s obligation to provide basic telephone services at a sustainable price or to offer special rates solely to subsidized users;
- receivables from the Italian State and the European Union (15 million euros) for grants regarding research and training projects of Telecom Italia S.p.A.;
- miscellaneous receivables due to Telecom Italia S.p.A. from other licensed TLC operators (61 million euros).

Trade and miscellaneous prepaid expenses mainly related to building leases, rentals and maintenance payments, as well as the deferral of costs referring to contracts for the activation of telecommunications services. Trade prepaid expenses included, in particular, 425 million euros of the Parent, Telecom Italia (mainly the deferral of costs

connected with the activation of new contracts for 282 million euros, building leases for 69 million euros, rent and maintenance payments for 23 million euros and insurance premiums for 14 million euros).

**NOTE 14 DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE**

At December 31, 2013, the Sofora Telecom Argentina group was considered a disposal group and, accordingly, all related figures were classified in the statement of financial position, under the specific items Discontinued operations/Non-current assets held for sale and Liabilities directly associated with Discontinued operations/Non-current assets held for sale .

For further details see the Note Accounting policies .

**Agreements for the disposal of the Sofora Telecom Argentina group**

On November 13, 2013, the purchase offer made by the Fintech group for the entire controlling interest held in the Sofora Telecom Argentina group, was accepted by Telecom Italia S.p.A. and its subsidiaries Telecom Italia International and Tierra Argentea, for a total amount of USD 960 million.

Of this amount, USD 859.5 million will be paid as consideration for the sale of:

- 68% of the ordinary shares of Sofora held by Telecom Italia and Telecom Italia International (USD 750.8 million);

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- 15,533,834 class B shares of Telecom Argentina, representing 1.58% of the share capital, held by Tierra Argentea (USD 61.2 million);
- 2,351,752 American Depositary Shares, representing 117,588 Preferred B shares of Nortel, equal to 8% of the Preferred B shares held by Tierra Argentea (USD 47.5 million).

The remaining USD 100.5 million will be paid pursuant to additional agreements related to the transaction, including an agreement to continue providing the Telecom Argentina companies technical support and other services for up to three years, the waiver and amendment of certain rights under the current shareholders' agreement relating to Telecom Argentina, in favor of the Wertheim group, which will retain 32% of the voting shares of Sofora, and the commitment by Fintech to pay amounts already reserved for dividends by Telecom Argentina, if such dividends are not declared and paid by the Telecom Argentina group prior to closing.

Telecom Italia Group has received certain guarantees of performance under the agreements, including the pledge by Fintech of American Depositary Shares representing Preferred B shares of Nortel, in a number equivalent to an initial average market value of USD 100 million.

In implementation of the above-mentioned agreements, on December 10, 2013, the class B shares of Telecom Argentina and the class B shares of Nortel owned by Tierra Argentea were sold for total amount of USD 108.7 million. As a result, the Telecom Italia Group's economic interest in Telecom Argentina is now reduced to 19.3% (22.7% at December 31, 2012).

The sale of the Sofora shares is conditional upon obtaining certain required regulatory approvals.

The breakdown of the assets and liabilities of the Sofora Telecom Argentina group is provided below:

|  | <b>As of December 31,</b>  |
|--|----------------------------|
|  | <b>2013      2012</b>      |
|  | <b>(millions of euros)</b> |
| <b>Discontinued operations /Non-current assets held for sale</b>                                     |                            |
| of a financial nature  | 657                        |
| of a non-financial nature  | 2,871                      |
| <b>Total (a)</b>   | <b>3,528</b>               |
| <b>Liabilities directly associated with Discontinued operations/Non-current assets held for sale</b> |                            |
| of a financial nature  | 27                         |
| of a non-financial nature  | 1,534                      |
| <b>Total (b)</b>   | <b>1,561</b>               |

|   |                |
|---|----------------|
| <b>Net value of the assets related to the disposal group (a-b)</b>                              | <b>1,967</b>   |
| <i>of which amounts accumulated through the Comprehensive Income Statement</i>                  | <i>(1,019)</i> |
| Net value of the assets related to the disposal group attributable to owners of the Parent      | 367            |
| <i>of which amounts accumulated through the Comprehensive Income Statement</i>                  | <i>(170)</i>   |
| Net value of the assets related to the disposal group attributable to Non-controlling interests | 1,600          |
| <i>of which amounts accumulated through the Comprehensive Income Statement</i>                  | <i>(849)</i>   |

The amounts accumulated in Equity through the Comprehensive income statement relate to the Reserve for exchange differences on translating foreign operations .

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The assets of a financial nature are broken down as follows:

|                              | <b>As of December 31,</b>  |             |
|------------------------------|----------------------------|-------------|
|                              | <b>2013</b>                | <b>2012</b> |
|                              | <b>(millions of euros)</b> |             |
| Non-current financial assets | 27                         |             |
| Current financial assets     | 630                        |             |
| <b>Total</b>                 | <b>657</b>                 |             |

The assets of a non-financial nature are broken down as follows:

|                                 | <b>As of December 31,</b>  |             |
|---------------------------------|----------------------------|-------------|
|                                 | <b>2013</b>                | <b>2012</b> |
|                                 | <b>(millions of euros)</b> |             |
| Non-current assets              | 2,322                      |             |
| <i>Intangible assets</i>        | 825                        |             |
| <i>Tangible assets</i>          | 1,473                      |             |
| <i>Other non current assets</i> | 24                         |             |
| Current assets                  | 549                        |             |
| <b>Total</b>                    | <b>2,871</b>               |             |

The liabilities of a financial nature are broken down as follows:

|                                   | <b>As of December 31,</b>  |             |
|-----------------------------------|----------------------------|-------------|
|                                   | <b>2013</b>                | <b>2012</b> |
|                                   | <b>(millions of euros)</b> |             |
| Non-current financial liabilities | 25                         |             |
| Current financial liabilities     | 2                          |             |
| <b>Total</b>                      | <b>27</b>                  |             |

The liabilities of a non-financial nature are broken down as follows:

|  | <b>As of December 31,</b> |             |
|--|---------------------------|-------------|
|  | <b>2013</b>               | <b>2012</b> |

|                         | <b>(millions of euros)</b> |
|-------------------------|----------------------------|
| Non-current liabilities | 491                        |
| Current liabilities     | 1,043                      |
| <b>Total</b>            | <b>1,534</b>               |

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The items relating to Profit (loss) from Discontinued operations/Non-current assets held for sale within the separate consolidated income statements are shown below:

|   | <b>Year ended December 31,</b> |              |              |
|---|--------------------------------|--------------|--------------|
|   | <b>2013</b>                    | <b>2012</b>  | <b>2011</b>  |
|   | <b>(millions of euros)</b>     |              |              |
| <b>Income statement effects from Discontinued operation/Non-current assets held for sale:</b>             |                                |              |              |
| <b>Revenues</b>   | <b>3,749</b>                   | <b>3,784</b> | <b>3,220</b> |
| Other income  | 9                              | 13           | 6            |
| Operating expenses  | (2,721)                        | (2,677)      | (2,190)      |
| Depreciation and amortization, gains (losses) on disposals and impairments of non-current assets          | (495)                          | (653)        | (527)        |
| Goodwill impairment loss attributed to the Sofora Telecom Argentina group and intangible assets           | (24)                           | (253)        |              |
| <b>Operating profit (loss)</b>  | <b>518</b>                     | <b>214</b>   | <b>509</b>   |
| Finance income (expenses)   | 73                             | 33           |              |
| <b>Profit (loss) before tax from Discontinued operations/Non-current assets held for sale</b>             | <b>591</b>                     | <b>247</b>   | <b>509</b>   |
| Income tax expense  | (213)                          | (148)        | (187)        |
| <b>Profit (loss) after tax from Discontinued operations/Non-current assets held for sale</b>              | <b>(A) 378</b>                 | <b>99</b>    | <b>322</b>   |
| <b>Other income statement effects:</b>  |                                |              |              |
| <b>Deferred taxes and other minor entries connected to the sale of the Sofora Telecom Argentina group</b> | <b>(B) (12)</b>                |              |              |
| <b>Incidental costs connected to the sale of Sofora Telecom Argentina group</b>                           | <b>(C) (6)</b>                 | <b>1</b>     | <b>1</b>     |
| <b>Other income/(expenses) connected to sales in previous years</b>                                       | <b>(D) (19)</b>                | <b>2</b>     | <b>(13)</b>  |
| <b>Profit (loss) from Discontinued operations/Non-current assets held for sale</b>                        | <b>(A+B+C+D) 341</b>           | <b>102</b>   | <b>310</b>   |

The income statement effects relate in particular to:

|                                | <b>Year ended December 31,</b> |             |             |
|--------------------------------|--------------------------------|-------------|-------------|
|                                | <b>2013</b>                    | <b>2012</b> | <b>2011</b> |
|                                | <b>(millions of euros)</b>     |             |             |
| Sofora Telecom Argentina group | 360                            | 100         | 323         |



|                               |            |            |            |
|-------------------------------|------------|------------|------------|
| Other discontinued operations | (19)       | 2          | (13)       |
| <b>Total</b>                  | <b>341</b> | <b>102</b> | <b>310</b> |

Profit (loss) from Discontinued operations/Non-current assets held for sale was attributable to the Owners of the Parent for 47 million euros (-108 million euros in 2012 and 53 million euros in 2011) and to Non-controlling interests for 294 million euros (210 million euros in 2012 and 257 million euros in 2011).

Also, the consolidated statements of comprehensive income include translation of foreign operations losses of the Sofora Telecom Argentina group, of -676 million euros in 2013, -396 million euros in 2012 and -107 million euros in 2011. Consequently, the total comprehensive income (loss) from Discontinued operations/Non-current assets held for sale was negative by 335 million euros in 2013, by 294 million euros in 2012 and positive by 203 million euros in 2011.

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Within the consolidated statements of cash flows the net impacts, expressed in terms of contribution to the consolidation, of the Discontinued operations/Non-current assets held for sale are broken down as follows:

|  | <b>Year ended December 31,</b> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <b>2013</b>                    | <b>2012</b> | <b>2011</b> |
|  | <b>(millions of euros)</b>     |             |             |
| <b>Discontinued operations/Non-current assets held for sale:</b> |                                |             |             |
| Cash flows from (used in) operating activities                   | 895                            | 820         | 931         |
| Cash flows from (used in) investing activities                   | (603)                          | (701)       | (523)       |
| Cash flows from (used in) financing activities                   | (165)                          | (148)       | (191)       |
| <b>Total</b>   | <b>127</b>                     | <b>(29)</b> | <b>217</b>  |

**NOTE 15 EQUITY**

Equity consists of:

|   | <b>As of December 31,</b>  |               |
|---|----------------------------|---------------|
|   | <b>2013</b>                | <b>2012</b>   |
|   | <b>(millions of euros)</b> |               |
| Equity attributable to owners of the Parent | 17,061                     | 19,378        |
| Non-controlling interests                   | 3,125                      | 3,634         |
| <b>Total</b>                                | <b>20,186</b>              | <b>23,012</b> |

The composition of the **Equity attributable to owners of the Parent** is the following:

|  | <b>As of December 31,</b>  |               |
|--|----------------------------|---------------|
|  | <b>2013</b>                | <b>2012</b>   |
|  | <b>(millions of euros)</b> |               |
| Share capital  | 10,604                     | 10,604        |
| Paid-in capital  | 1,704                      | 1,704         |
| Other reserves and retained earnings (accumulated losses), including profit (loss) for the year(*) | 4,753                      | 7,070         |
| <b>Total</b>   | <b>17,061</b>              | <b>19,378</b> |

(\*) of which:

|  |       |       |
|--|-------|-------|
| <i>Reserve for available-for-sale financial assets</i>   | 39    | 43    |
| <i>Reserve for hedging instruments</i>   | (561) | (383) |
| <i>Reserve for exchange differences on translating foreign operations</i>  | (377) | 504   |
| <i>Reserve for remeasurements of employee defined benefit plans (IAS 19)</i>   | 132   | 154   |
| <i>Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method</i> |       | (1)   |
| <i>Sundry reserves and retained earnings (accumulated losses), including profit (loss) for the year</i>                  | 5,520 | 6,753 |

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Movements in **share capital** during 2013, 2012 and 2011 are presented in the following tables:

**Reconciliation between the number of outstanding shares at December 31, 2010 and December 31, 2011**

|   | Shares as of<br>December 31, 2010 | Shares issued for<br>plans destined<br>for employees<br>(number of shares) | Shares as of<br>December 31, 2011 | Percentage of<br>Share<br>Capital |
|---|-----------------------------------|--|-----------------------------------|-----------------------------------|
| Ordinary Shares issued (a)                                      | 13,407,963,078                    | 8,876,296  | 13,416,839,374                    | 69.01%                            |
| Less: Treasury Shares (b)                                       | (162,216,387)                     |  | (162,216,387)                     |                                   |
| Ordinary Shares Outstanding (c)                                 | 13,245,746,691                    | 8,876,296  | 13,254,622,987                    |                                   |
| Savings Shares Issued and<br>Outstanding (d)                    | 6,026,120,661                     |  | 6,026,120,661                     | 30.99%                            |
| <b>Total Telecom Italia S.p.A shares<br/>issued (a+d)</b>       | <b>19,434,083,739</b>             | <b>8,876,296</b>   | <b>19,442,960,035</b>             | <b>100.00%</b>                    |
| <b>Total Telecom Italia S.p.A. shares<br/>outstanding (c+d)</b> | <b>19,271,867,352</b>             | <b>8,876,296</b>   | <b>19,280,743,648</b>             |                                   |

**Reconciliation between the number of outstanding shares at December 31, 2011 and December 31, 2012**

|  | Shares as of<br>December 31, 2011 | Shares issued for<br>plans<br>destined<br>for<br>employees<br>(number of shares) | Shares as of<br>December 31, 2012 | Percentage of<br>Share<br>Capital |
|--|-----------------------------------|--|-----------------------------------|-----------------------------------|
| Ordinary Shares issued (a)                                 | 13,416,839,374                    |  | 13,416,839,374                    | 69.01%                            |
| Less: Treasury Shares (b)                                  | (162,216,387)                     |  | (162,216,387)                     |                                   |
| Ordinary Shares Outstanding (c)                            | 13,254,622,987                    |  | 13,254,622,987                    |                                   |
| Savings Shares Issued and<br>Outstanding (d)               | 6,026,120,661                     |  | 6,026,120,661                     | 30.99%                            |
| <b>Total Telecom Italia S.p.A. shares<br/>issued (a+d)</b> | <b>19,442,960,035</b>             |  | <b>19,442,960,035</b>             | <b>100.00%</b>                    |

|   |                       |                       |
|---|-----------------------|-----------------------|
| <b>Total Telecom Italia S.p.A. shares outstanding (c+d)</b> | <b>19,280,743,648</b> | <b>19,280,743,648</b> |
|---|-----------------------|-----------------------|

**Reconciliation between the number of outstanding shares at December 31, 2012 and December 31, 2013**

|   | <b>Shares as of<br/>December 31, 2012</b> | <b>Shares issued for<br/>plans<br/>destined<br/>for<br/>employees<br/>(number of shares)</b> | <b>Shares as of<br/>December 31, 2013</b> | <b>Percentage of<br/>Share<br/>Capital</b> |
|---|---|--|---|--|
| Ordinary Shares issued (a)                                      | 13,416,839,374                            | 204,151  | 13,417,043,525                            | 69.01%                                     |
| Less: Treasury Shares (b)                                       | (162,216,387)                             |  | (162,216,387)                             |  |
| Ordinary Shares Outstanding (c)                                 | 13,254,622,987                            | 204,151  | 13,254,827,138                            |  |
| Savings Shares Issued and<br>Outstanding (d)                    | 6,026,120,661                             |  | 6,026,120,661                             | 30.99%                                     |
| <b>Total Telecom Italia S.p.A. shares<br/>issued (a+d)</b>      | <b>19,442,960,035</b>                     | <b>204,151</b>   | <b>19,443,164,186</b>                     | <b>100.00%</b>                             |
| <b>Total Telecom Italia S.p.A. shares<br/>outstanding (c+d)</b> | <b>19,280,743,648</b>                     | <b>204,151</b>   | <b>19,280,947,799</b>                     |  |

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|  | Share<br>capital<br>as of<br>December 31, 2010 | Change in<br>share<br>capital as a result of<br>plans destined<br>for<br>employees<br>(millions of euros) | Share capital<br>as of<br>December 31, 2011 |
|--|--|---|---|
| Ordinary Shares issued (a)   | 7,375  | 4   | 7,379                                       |
| Less: Treasury Shares (b)  | (89)   |   | (89)  |
| Ordinary Shares Outstanding (c)                                    | 7,286  | 4   | 7,290                                       |
| Savings Shares Issued and Outstanding (d)                          | 3,314  |   | 3,314                                       |
| <b>Total Telecom Italia S.p.A. share capital issued (a+d)</b>      | <b>10,689</b>                                  | <b>4</b>  | <b>10,693</b>                               |
| <b>Total Telecom Italia S.p.A. share capital outstanding (c+d)</b> | <b>10,600</b>                                  | <b>4</b>  | <b>10,604</b>                               |

**Reconciliation between the value of the outstanding shares as of December 31, 2011 and December 31, 2012**

|   | Share<br>capital<br>as of<br>December 31, 2011 | Change in<br>share<br>capital as a result of<br>plans destined<br>for<br>employees<br>(millions of euros) | Share capital<br>as of<br>December 31, 2012 |
|---|--|---|---|
| Ordinary Shares issued (a)                                    | 7,379  |   | 7,379                                       |
| Less: Treasury Shares (b)                                     | (89)   |   | (89)  |
| Ordinary Shares Outstanding (c)                               | 7,290  |   | 7,290                                       |
| Savings Shares Issued and Outstanding (d)                     | 3,314  |   | 3,314                                       |
| <b>Total Telecom Italia S.p.A. share capital issued (a+d)</b> | <b>10,693</b>                                  |   | <b>10,693</b>                               |

|  |               |               |
|--|---------------|---------------|
| <b>Total Telecom Italia S.p.A. share capital outstanding (c+d)</b> | <b>10,604</b> | <b>10,604</b> |
|--|---------------|---------------|

**Reconciliation between the value of the outstanding shares as of December 31, 2012 and December 31, 2013**

|  | <b>Share capital as of December 31, 2012</b> | <b>Change in share capital as a result of plans destined for employees (millions of euros)</b> | <b>Share capital as of December 31, 2013</b> |
|--|--|--|--|
| Ordinary Shares issued (a)   | 7,379  |  | 7,379  |
| Less: Treasury Shares (b)  | (89)   |  | (89)   |
| Ordinary Shares Outstanding (c)                                    | 7,290  |  | 7,290  |
| Savings Shares Issued and Outstanding (d)                          | 3,314  |  | 3,314  |
| <b>Total Telecom Italia S.p.A. share capital issued (a+d)</b>      | <b>10,693</b>                                |  | <b>10,693</b>                                |
| <b>Total Telecom Italia S.p.A. share capital outstanding (c+d)</b> | <b>10,604</b>                                |  | <b>10,604</b>                                |

In 2013, share capital increased 112,283.05 euros as a result of the issuance of ordinary shares as part of the first stage of the Long Term Incentive Plan 2010-2015, approved by the Company's shareholders' meeting of April 29, 2010. For further details see the description provided in the Note Equity compensation plans.

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The total amount of ordinary treasury shares at December 31, 2013 is 508 million euros and recorded as follows: the part relating to par value (89 million euros) is recognized as a deduction from share capital issued and the remaining part as a deduction from Other reserves and retained earnings (accumulated losses), including profit (loss) for the year.

Furthermore, with effect from January 22, 2014, the date in which the resolution passed by the Extraordinary Shareholders Meeting of December 20, 2013 was entered in the Companies Register, the ordinary and savings shares of Telecom Italia S.p.A. shall be without par value.

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**SHARE CAPITAL INFORMATION**

The Telecom Italia S.p.A. ordinary and savings shares are also listed on the NYSE in the form of American Depositary Shares, each ADS corresponding to 10 shares of ordinary or savings shares, respectively, represented by American Depositary Receipts (ADRs) issued by JPMorgan Chase Bank.

In the shareholder resolutions passed to increase share capital against cash payments, the pre-emptive right can be excluded to the extent of a maximum of ten percent of the pre-existing share capital, on condition that the issue price corresponds to the market price of the shares and that this is confirmed in a specific report issued by the firm charged with the audit of the Company.

The Group sources itself with the capital necessary to fund its requirements for business development and operations; the sources of funds are found in a balanced mix of risk capital, permanently invested by the shareholders, and debt capital, to guarantee a balanced financial structure and minimize the total cost of capital, with a resulting advantage to all the stakeholders.

Debt capital is structured according to different maturities and currencies to ensure an adequate diversification of the sources of funding and an efficient access to external sources of financing (taking advantage of the best opportunities offered in the financial markets of the euro, U.S. dollar and Pound sterling areas to minimize costs), taking care to reduce the refinancing risk.

The remuneration of equity is proposed by the board of directors to the shareholders meeting, which meets to approve the annual financial statements, based upon market trends and business performance, once all the other obligations are met, including debt servicing. Therefore, in order to guarantee an adequate remuneration of capital, safeguard company continuity and business development, the Group constantly monitors the change in debt levels in relation to equity, the level of net debt and the operating margin of industrial operations.

**RIGHTS OF SAVINGS SHARES**

The rights of the Telecom Italia S.p.A. savings shares are indicated below:

- the profit shown in the duly approved separate financial statements, less the amount appropriated to the legal reserve, must be distributed to the holders of savings shares in an amount up to 5% of the 0.55 euros per



share;

- after assigning preferred dividends to the savings shares, the distribution of which is approved by the shareholders meeting, the remaining profit shall be assigned to all the shares so that the savings shares have the right to dividends that are higher, than the dividends to which the ordinary shares are entitled, by 2% of 0.55 euros per share;
- if in any one year dividends of below 5% of the 0.55 euros per share are paid to the savings shares, the difference is carried over and added to the preferred dividends for the next two successive years;
- in the case of the distribution of reserves, the savings shares have the same rights as ordinary shares. Moreover, the shareholders meeting called to approve the separate financial statements for the year can, when there is no profit or insufficient profit reported in those separate financial statements to satisfy the rights of the savings shares, resolve to satisfy the dividend right and/or the additional right by distributing available reserves;

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- the reduction of share capital as a result of losses does not affect the savings shares except for the amount of the loss which is not covered by the portion of the share capital represented by the other shares;
- upon the wind-up of Telecom Italia S.p.A., the savings shares have a pre-emptive right in the reimbursement of capital up to the amount of 0.55 euros per share;
- in the event of the cessation of trading in the Company's ordinary or savings shares, the holder of savings shares may ask Telecom Italia S.p.A. to convert its shares into ordinary shares, according to the manner resolved by the special session of the shareholders' meeting called for that purpose within two months of being excluded from trading.

**Paid-in capital**, amounting to 1,704 million euros, is unchanged compared to December 31, 2012.

**Other reserves and retained earnings (accumulated losses), including profit (loss) for the year** comprise:

- The **Reserve for available-for-sale financial assets**, which has a positive balance of 39 million euros at December 31, 2013, down 4 million euros compared to December 31, 2012. The decrease includes unrealized gains on the investments in Assicurazioni Generali and Fin. Priv. (4 million euros) of the Parent, Telecom Italia, as well as the unrealized gains on the securities portfolio of Telecom Italia Finance (4 million euros) and the negative fair value adjustment of other available-for-sale financial assets held by the Parent, Telecom Italia (12 million euros). This reserve is expressed net of deferred tax liabilities of 14 million euros (at December 31, 2012, it was expressed net of deferred tax liabilities of 18 million euros).
- The **Reserve for hedging instruments**, which has a negative balance of 561 million euros at December 31, 2013, decreasing 178 million euros compared to December 31, 2012. This reserve is expressed net of deferred tax assets of 214 million euros (at December 31, 2012, it was expressed net of deferred tax assets of 143 million euros). In particular, this reserve includes the effective portion of gains or losses on the fair value adjustments of derivatives designated as cash flow hedges of the exposure to volatility in the cash flows of assets or liabilities recognized in the financial statements ( cash flow hedge ).
- The **Reserve for exchange differences on translating foreign operations** showed a negative balance of 377 million euros at December 31, 2013, down 881 million euros compared to December 31, 2012. This mainly refers to exchange differences in euros on the translation of the financial statements of the companies in the Brazil Business Unit (negative by 202 million euros) and in the Sofora Telecom Argentina group (negative by 170 million euros).
- The **Reserve for remeasurement of employee defined benefit plans**, shows a positive balance of 132 million euros, down 22 million euros compared to December 31, 2012. This reserve is expressed net of deferred tax liabilities of 53 million euros (at December 31, 2012, it was expressed net of deferred tax

liabilities of 60 million euros). In particular, this reserve includes the recognition of changes in actuarial gains and losses.

- **The Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method**, is nil at December 31, 2013, an increase of 1 million of euros compared to December 31, 2012.
- **Sundry reserves and retained earnings (accumulated losses) including loss for the year** amounted to 5,520 million euros, decreasing 1,233 million euros compared to December 31, 2012. The change is mainly due to the sum of the following:

dividends of 452 million euros (895 million euros in 2012);

loss for the year attributable to owners of the Parent of 674 million euros (loss for the year of 1,627 million euros in 2012).

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**Equity attributable to Non-controlling interests** amounts to 3,125 million euros, mainly relating to the companies of the Brazil Business Unit (1,538 million euros) and the Sofora Telecom Argentina group (1,600 million euros), down 509 million euros compared to December 31, 2012 and is principally represented by the sum of:

- dividends of 183 million euros;
- profit for the year attributable to Non-controlling interests of 436 million euros (350 million euros in 2012);
- negative change in the Reserve for exchange differences on translating foreign operations of 866 million euros. The exchange differences on translating foreign operations mainly relate to the Brazil Business Unit (negative by 169 million euros) and the Sofora Telecom Argentina group (negative by 849 million euros).

**FUTURE POTENTIAL CHANGES IN SHARE CAPITAL**

Details of Future potential changes in share capital are presented in the Note Earnings per share .

**AUTHORIZATIONS FOR THE ISSUE OF CONVERTIBLE BONDS AND THE BUYBACK OF TREASURY SHARES**

On November 7, 2013, the Board of Directors of Telecom Italia approved, to the extent of its responsibility, the issuance of the fixed rate subordinated equity-linked bond already discussed above issued by Telecom Italia Finance S.A. and named *Guaranteed Subordinated Mandatory Convertible Bonds due 2016 convertible into ordinary shares of Telecom Italia S.p.A.* .

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**Non-current and current financial liabilities** (gross financial debt) were broken down as follows:

|   | <b>As of December 31,</b>  |               |
|---|----------------------------|---------------|
|   | <b>2013</b>                | <b>2012</b>   |
|   | <b>(millions of euros)</b> |               |
| <b>Financial payables (medium/long-term):</b>   |                            |               |
| Bonds   | 22,060                     | 23,956        |
| Convertible Bonds   | 1,454                      |               |
| Amounts due to banks  | 4,087                      | 5,944         |
| Other financial payables  | 356                        | 460           |
|   | <b>27,957</b>              | <b>30,360</b> |
| <b>Finance lease liabilities (medium/long-term)</b>   | <b>1,100</b>               | <b>1,159</b>  |
| <b>Other financial liabilities (medium/long-term):</b>  |                            |               |
| Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature | 2,026                      | 2,558         |
| Non-hedging derivatives   |                            | 13            |
| Other liabilities   | 1                          | 1             |
|   | <b>2,027</b>               | <b>2,572</b>  |
| <b>Total non-current financial liabilities</b>  | <b>(A) 31,084</b>          | <b>34,091</b> |
| <b>Financial payables (short-term):</b>   |                            |               |
| Bonds   | 2,503                      | 3,593         |
| Convertible Bonds   | 10                         |               |
| Amounts due to banks  | 2,790                      | 1,287         |
| Other financial payables  | 400                        | 684           |
|   | <b>5,703</b>               | <b>5,564</b>  |
| <b>Finance lease liabilities (short-term)</b>   | <b>193</b>                 | <b>219</b>    |
| <b>Other financial liabilities (short-term):</b>  |                            |               |
| Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature     | 207                        | 350           |
| Non-hedging derivatives   | 16                         | 17            |
| Other liabilities   |                            |               |
|   | <b>223</b>                 | <b>367</b>    |
| <b>Total current financial liabilities</b>  | <b>(B) 6,119</b>           | <b>6,150</b>  |

|  |                |               |               |
|--|----------------|---------------|---------------|
| <b>Financial liabilities directly associated with<br/>Discontinued operations/Non-current assets held for<br/>sale</b> | <b>(C)</b>     | <b>27</b>     |               |
| <b>Total financial liabilities (Gross financial debt)</b>  | <b>(A+B+C)</b> | <b>37,230</b> | <b>40,241</b> |

The fixed-income equity-linked subordinated bond issue of 1,300 million euros with mandatory conversion at maturity (2016), issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A, has been classified under Financial liabilities.

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Gross financial debt according to the original currency of the transaction is as follows:

|                         | As of December 31,<br>2013           |                        | As of December 31,<br>2012           |                        |
|-------------------------|--------------------------------------|------------------------|--------------------------------------|------------------------|
|                         | (millions of<br>foreign<br>currency) | (millions of<br>euros) | (millions of<br>foreign<br>currency) | (millions of<br>euros) |
| USD                     | 8,925                                | 6,472                  | 12,499                               | 9,474                  |
| GBP                     | 2,536                                | 3,043                  | 2,535                                | 3,106                  |
| BRL                     | 3,258                                | 1,008                  | 2,945                                | 1,092                  |
| JPY                     | 19,873                               | 137                    | 19,865                               | 175                    |
| ARS                     | 64                                   | 7                      | 331                                  | 51                     |
| PYG                     |                                      |                        | 123,347                              | 22                     |
| EURO                    |                                      | 26,536                 |                                      | 26,321                 |
|                         |                                      | <b>37,203</b>          |                                      | <b>40,241</b>          |
| Discontinued Operations |                                      | 27                     |                                      |                        |
|                         |                                      | <b>37,230</b>          |                                      | <b>40,241</b>          |

The breakdown of gross financial debt by effective interest rate bracket, excluding the effect of any hedging instruments, is provided below:

|   | As of December 31,  |               |
|---|---------------------|---------------|
|   | 2013                | 2012          |
|   | (millions of euros) |               |
| Up to 2.5%                              | 5,578               | 5,917         |
| From 2.5% to 5%                         | 6,042               | 6,222         |
| From 5% to 7.5%                         | 16,936              | 18,246        |
| From 7.5% to 10%                        | 4,503               | 4,977         |
| Over 10%                                | 468                 | 505           |
| Accruals/deferrals, MTM and derivatives | 3,676               | 4,374         |
|   | <b>37,203</b>       | <b>40,241</b> |
| Discontinued Operations                 |                     | 27            |
|   | <b>37,230</b>       | <b>40,241</b> |

Following the use of derivative hedging instruments, the gross financial debt by nominal interest rate bracket is:

|   | <b>As of</b>               |               |
|---|----------------------------|---------------|
|   | <b>December 31,</b>        |               |
|   | <b>2013</b>                | <b>2012</b>   |
|   | <b>(millions of euros)</b> |               |
| Up to 2.5%                              | 6,452                      | 8,633         |
| From 2.5% to 5%                         | 9,051                      | 8,121         |
| From 5% to 7.5%                         | 13,465                     | 15,180        |
| From 7.5% to 10%                        | 4,022                      | 3,229         |
| Over 10%                                | 537                        | 704           |
| Accruals/deferrals, MTM and derivatives | 3,676                      | 4,374         |
|   | <b>37,203</b>              | <b>40,241</b> |
| Discontinued Operations                 | 27                         |               |
|   | <b>37,230</b>              | <b>40,241</b> |

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The maturities of financial liabilities according to the expected nominal repayment amount, as defined by contract, are the following:

***Detail of the maturities of Financial liabilities nominal repayment amount:***

|  | Maturing by December 31, of the year |              |              |              |              |               | Total         |
|--|--------------------------------------|--------------|--------------|--------------|--------------|---------------|---------------|
|  | 2014                                 | 2015         | 2016         | 2017         | 2018         | After<br>2018 |               |
|  | (millions of euros)                  |              |              |              |              |               |               |
| Bonds(*)                                       | 1,789                                | 2,025        | 2,250        | 2,900        | 2,975        | 11,646        | 23,585        |
| Loans and other financial liabilities          | 2,731                                | 1,195        | 725          | 828          | 748          | 1,649         | 7,876         |
| Finance lease liabilities                      | 177                                  | 127          | 129          | 140          | 149          | 554           | 1,276         |
| <b>Total</b>                                   | <b>4,697</b>                         | <b>3,347</b> | <b>3,104</b> | <b>3,868</b> | <b>3,872</b> | <b>13,849</b> | <b>32,737</b> |
| Current financial liabilities                  | 466                                  |              |              |              |              |               | 466           |
| <b>Total excluding Discontinued Operations</b> | <b>5,163</b>                         | <b>3,347</b> | <b>3,104</b> | <b>3,868</b> | <b>3,872</b> | <b>13,849</b> | <b>33,203</b> |
| Discontinued Operations                        | 26                                   |              |              |              |              |               | 26            |
| <b>Total</b>                                   | <b>5,189</b>                         | <b>3,347</b> | <b>3,104</b> | <b>3,868</b> | <b>3,872</b> | <b>13,849</b> | <b>33,229</b> |

(\*) With regard to the Mandatory Convertible Bond due 2016, the cash repayment has not been considered because its settlement will take place together with the mandatory conversion into shares.

The main components of financial liabilities are commented below.

**Bonds** were broken down as follows:

|   | As of               |               |
|---|---------------------|---------------|
|   | 2013                | 2012          |
|   | December 31,        |               |
|   | (millions of euros) |               |
| Non-current portion                                     | 22,060              | 23,956        |
| Current portion   | 2,503               | 3,593         |
| <b>Total carrying amounts</b>                           | <b>24,563</b>       | <b>27,549</b> |
| Fair value adjustment and measurement at amortized cost | (978)               | (1,226)       |
| <b>Total nominal repayment amount</b>                   | <b>23,585</b>       | <b>26,323</b> |

**Convertible bonds** were broken down as follows:

|   | <b>As of December 31,</b>  |             |
|---|----------------------------|-------------|
|   | <b>2013</b>                | <b>2012</b> |
|   | <b>(millions of euros)</b> |             |
| Non-current portion                                     | 1,454                      |             |
| Current portion   | 10                         |             |
| <b>Total carrying amounts</b>                           | <b>1,464</b>               |             |
| Fair value adjustment and measurement at amortized cost | (164)                      |             |
| <b>Total nominal repayment amount(*)</b>                | <b>1,300</b>               |             |

(\*) The repayment on maturity will take place upon delivery of Telecom Italia S.p.A. ordinary shares. The nominal repayment amount of the bonds and convertible bonds totals 24,885 million euros, down 1,438 million euros compared to December 31, 2012 (26,323 million euros) as a result of the new issues, repayments and buybacks in 2013.

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The following table lists the bonds issued by companies of the Telecom Italia Group, by issuing company, expressed at the nominal repayment amount, net of bond repurchases, and also at market value:

| Currency   | Amount (millions) | Nominal repayment amount (millions of euros) | Coupon                     | Issue date | Maturity date | Issue price (%) | Market price                | Market value                                |
|--|-------------------|--|----------------------------|------------|---------------|-----------------|-----------------------------|---|
|  |                   |  |                            |            |               |                 | as of December 31, 2013 (%) | as of December 31, 2013 (millions of euros) |
| <b>Bonds issued by Telecom Italia S.p.A.</b>   |                   |  |                            |            |               |                 |                             |   |
| Euro   | 284               | 284.1  | 7.875%                     | 01/22/2009 | 01/22/2014    | 99.728          | 100.336                     | 285   |
| Euro   | 557               | 556.8  | 4.750%                     | 05/19/2006 | 05/19/2014    | 99.156          | 101.345                     | 564   |
| Euro   | 750               | 750  | 4.625%                     | 06/15/2012 | 06/15/2015    | 99.685          | 103.707                     | 778   |
| Euro   | 120               | 120  | 3 Month Euribor+0.66%      | 11/23/2004 | 11/23/2015    | 100             | 96.875                      | 116   |
| GBP  | 500               | 599.7  | 5.625%                     | 06/29/2005 | 12/29/2015    | 99.878          | 105.358                     | 632   |
| Euro   | 1,000             | 1,000  | 5.125%                     | 01/25/2011 | 01/25/2016    | 99.686          | 105.716                     | 1,057                                       |
| Euro   | 850               | 850  | 8.250%                     | 03/19/2009 | 03/21/2016    | 99.740          | 112.536                     | 957   |
| Euro   | 400               | 400  | 3 Month Euribor+0.79%      | 06/07/2007 | 06/07/2016    | 100             | 96.703                      | 387   |
| Euro   | 1,000             | 1,000  | 7.000%                     | 10/20/2011 | 01/20/2017    | (a)100.185      | 111.997                     | 1,120                                       |
| Euro   | 1,000             | 1,000  | 4.500%                     | 09/20/2012 | 09/20/2017    | 99.693          | 104.836                     | 1,048                                       |
| GBP  | 750               | 899.6  | 7.375%                     | 05/26/2009 | 12/15/2017    | 99.608          | 110.274                     | 992   |
| Euro   | 750               | 750  | 4.750%                     | 05/25/2011 | 05/25/2018    | 99.889          | 105.036                     | 788   |
| Euro   | 750               | 750  | 6.125%                     | 06/15/2012 | 12/14/2018    | 99.737          | 110.537                     | 829   |
| Euro   | 1,250             | 1,250  | 5.375%                     | 01/29/2004 | 01/29/2019    | 99.070          | 106.732                     | 1,334                                       |
| GBP  | 850               | 1,019.6                                      | 6.375%                     | 06/24/2004 | 06/24/2019    | 98.850          | 104.764                     | 1,068                                       |
| Euro   | 1,000             | 1,000  | 4.000%                     | 12/21/2012 | 01/21/2020    | 99.184          | 99.498                      | 995   |
| Euro   | 1,000             | 1,000  | 4.875%                     | 09/25/2013 | 09/25/2020    | 98.966          | 102.763                     | 1,028                                       |
| Euro   | (b)198            | 198  | 6 Month Euribor (base 365) | 01/01/2002 | 01/01/2022    | 100             | 100                         | 198   |
| Euro   | 1,250             | 1,250  | 5.250%                     | 02/10/2010 | 02/10/2022    | 99.295          | 102.219                     | 1,278                                       |
| GBP  | 400               | 479.8  | 5.875%                     | 05/19/2006 | 05/19/2023    | 99.622          | 96.380                      | 462   |
| Euro   | 670               | 670  | 5.250%                     | 03/17/2005 | 03/17/2055    | 99.667          | 79.735                      | 534   |
| Euro   | 750               | 750  | 7.750%                     | 03/20/2013 | 03/20/2073    | 99.499          | 103.474                     | 776   |
| <b>Sub-Total</b>   |                   | <b>16,577.6</b>                              |                            |            |               |                 |                             | <b>17,226</b>                               |
| <b>Bonds issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A.</b> |                   |  |                            |            |               |                 |                             |   |
| Euro   | (c)1,300          | 1,300  | 6.125%                     | 11/15/2013 | 11/15/2016    | 100             | 105.354                     | 1,370                                       |
| JPY  | 20,000            | 138.2  | 3.550%                     | 04/22/2002 | 05/14/2032    | 99.250          | 91.438                      | 126   |
| Euro   | 1,015             | 1,015  | 7.750%                     | 01/24/2003 | 01/24/2033    | (a)109.646      | 109.949                     | 1,116                                       |
| <b>Sub-Total</b>   |                   | <b>2,453.2</b>                               |                            |            |               |                 |                             | <b>2,612</b>                                |

**Bonds issued by Telecom Italia Capital S.A. and guaranteed by Telecom Italia S.p.A.**

|                  |          |                 |        |            |            |         |         |               |
|------------------|----------|-----------------|--------|------------|------------|---------|---------|---------------|
| USD              | (d)779.5 | 565.2           | 6.175% | 06/18/2009 | 06/18/2014 | 100.000 | 102.184 | 578           |
| USD              | (d)528.3 | 383.1           | 4.950% | 10/06/2004 | 09/30/2014 | 99.651  | 102.527 | 393           |
| USD              | (d)765.2 | 554.9           | 5.250% | 09/28/2005 | 10/1/2015  | 99.370  | 105.319 | 584           |
| USD              | 1,000    | 725.1           | 6.999% | 06/04/2008 | 06/04/2018 | 100     | 110.977 | 805           |
| USD              | 1,000    | 725.1           | 7.175% | 06/18/2009 | 06/18/2019 | 100     | 112.260 | 814           |
| USD              | 1,000    | 725.1           | 6.375% | 10/29/2003 | 11/15/2033 | 99.558  | 91.049  | 660           |
| USD              | 1,000    | 725.1           | 6.000% | 10/06/2004 | 09/30/2034 | 99.081  | 86.468  | 627           |
| USD              | 1,000    | 725.1           | 7.200% | 07/18/2006 | 07/18/2036 | 99.440  | 96.792  | 702           |
| USD              | 1,000    | 725.1           | 7.721% | 06/04/2008 | 06/04/2038 | 100     | 100.147 | 726           |
| <b>Sub-Total</b> |          | <b>5,853.8</b>  |        |            |            |         |         | <b>5,889</b>  |
| <b>Total</b>     |          | <b>24,884.6</b> |        |            |            |         |         | <b>25,727</b> |

(a) Weighted average issue price for bonds issued with more than one tranche.

(b) Reserved for employees.

(c) Mandatory Convertible Bond.

(d) Net of the securities bought back by Telecom Italia S.p.A. on June 3, 2013.

The regulations and/or Offering Circulars relating to the bonds of the Telecom Italia Group described above are available on the corporate website [www.telecomitalia.com](http://www.telecomitalia.com).

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The following tables list the changes in bonds during 2013:

**New issues**

| <b>New issues</b>  | <b>Currency</b> | <b>Amount<br/>(millions of<br/>original<br/>currency)</b> | <b>Issue date</b> |
|--|-----------------|---|-------------------|
| Telecom Italia S.p.A. 750 million euros 7.750% maturing 03/20/2073                               | Euro            | 750   | 03/20/2013        |
| Telecom Italia S.p.A. 1,000 million euros 4.875% maturing 09/25/2020                             | Euro            | 1,000   | 09/25/2013        |
| Telecom Italia Finance S.A. 1,300 million euros 6.125% maturing 11/15/2016                       | Euro            | 1,300   | 11/15/2013        |
| <i>Telecom Italia S.p.A. subordinated bonds, 750 million euros at 7.750%, maturing 3/20/2073</i> |                 |   |                   |

The hybrid debt securities are Telecom Italia's first subordinated issue on the euro market. The bond has a maturity of 60 years, with final maturity in 2073 and a first call date for the issuer in 2018. The call schedule begins on March 20, 2018 at par, and then continues every five years thereafter. The coupon will step up by 25 bps in 2023, and by a further 75 bps in 2038. The effective yield at the first call date will be 7.875%. The notes are listed on the Luxembourg Stock Exchange. The bond was repaid in advance on March 3, 2014. For more details see the Note Events subsequent to December 31, 2013.

*Telecom Italia Finance S.A. 1,300 million euros 6.125% maturing 11/15/2016*

This is a fixed-income equity-linked subordinated bond issue of 1,300 million euros, issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A., with mandatory conversion in Telecom Italia ordinary shares at maturity ( Ordinary Share Bonds ). The minimum conversion price of the Ordinary Share Bonds has been set at 0.6801 euros and the maximum conversion price has been set at 0.8331 euros (or 122.5% of the minimum conversion price). For accounting purposes, the instrument is a financial liability entailing the payment of annual coupons with an optional structure on the basis of which share capital will increase at maturity. This optional structure is considered a derivative financial instrument, measured at fair value through profit or loss over the life of the bond.

The bonds entitle holders to receive at maturity a variable number of Telecom Italia ordinary shares (either existing or newly issued), depending on the market price of the shares. There is, however, a cap and floor on the total number of Telecom Italia ordinary shares that bondholders may receive at maturity. Specifically, if at the maturity date of the bond the market price of Telecom Italia ordinary shares stands:

- between 0.6801 euros and 0.8331 euros, bondholders are entitled to receive a variable number of Telecom Italia ordinary shares with a total value at the current market price equal to the nominal amount of their bonds (for a minimum total of 1,560,436,922 and a maximum total of 1,911,483,605 Telecom Italia ordinary

shares);

- lower than 0.6801 euros, bondholders are entitled to receive a fixed number of Telecom Italia ordinary shares equal to the nominal amount of their bonds divided by 0.6801 euros (for a total of 1,911,483,605 Telecom Italia ordinary shares);
- greater than 0.8331 euros, bondholders are entitled to receive a fixed number of Telecom Italia ordinary shares equal to the nominal amount of their bonds divided by 0.8331 euros (for a total of 1,560,436,922 Telecom Italia ordinary shares).

Accordingly, as of the trading date of the bonds (November 8, 2013), the cap and floor applied to the conversion rate of the bonds have been identified as embedded derivatives and recognized separately in the financial statements. This involves separate recognition of:

- the embedded derivatives, as a single derivative instrument, as a financial asset measured at fair value, with changes in fair value carried in the income statement;
- a financial liability, net of transaction costs, measured using the amortized cost method.

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In the absence of early redemptions of bonds, the issuance to bondholders of Telecom Italia ordinary shares will result in the cancellation of these accounts, without prejudice to the recognition of the deferred annual interest payment, with the reduction in financial liabilities balanced by the recognition of an equivalent increase in consolidated equity.

Under the terms of the issuance, the issuer has the option of choosing to accelerate conversion of the bonds or calling their early conversion. In the event of accelerated conversion, any deferred interest may be settled in cash or in Telecom Italia S.p.A. shares, at the discretion of the issuer.

**Repayments**

| <b>Repayments</b>   | <b>Currency</b> | <b>Amount<br/>(millions of<br/>original<br/>currency)</b> | <b>Repayment date</b> |
|---|-----------------|---|-----------------------|
| Telecom Italia Finance S.A. 6.875% 678 million euros (1)  | Euro            | 678   | 01/24/2013            |
| Telecom Italia S.p.A. 6.750% 432 million euros (2)        | Euro            | 432   | 03/21/2013            |
| Telecom Italia S.p.A. 268 million euros variable rate (3) | Euro            | 268   | 07/19/2013            |
| Telecom Italia Capital S.A. 5.250% 2,000 million USD      | USD             | 2,000   | 11/15/2013            |

(1) Net of buybacks by the Company for 172 million euros during 2011 and 2012.

(2) Net of buybacks by the Company for 218 million euros during 2011 and 2012.

(3) Net of buybacks by the Company for 232 million euros during 2012.

**Buybacks**

On June 3, 2013 Telecom Italia S.p.A. successfully concluded the buyback offer on three bond issues of Telecom Italia Capital S.A. in USD, maturing between June 2014 and October 2015, buying back a total nominal amount of USD 1,577 million (equal to approximately 1.2 billion euros). The repurchased bonds are in the portfolio of the buyer Telecom Italia S.p.A., while at consolidated level the bonds have been eliminated from the liabilities.

Details of the bond issues of Telecom Italia Capital S.A. bought back by Telecom Italia S.p.A. are provided below:

| <b>Buybacks</b>   | <b>Outstanding nominal<br/>amount prior to the<br/>purchase offer</b> | <b>Repurchased nominal<br/>amount</b> | <b>Buyback<br/>price</b> |
|---|---|---------------------------------------|--------------------------|
| Telecom Italia Capital S.A. 6.175%<br>1,000 million USD | US\$ 1,000,000,000  | US\$ 220,528,000                      | 105.382%                 |

|                                    |      |               |      |             |          |
|------------------------------------|------|---------------|------|-------------|----------|
| Telecom Italia Capital S.A. 4.950% |      |               |      |             |          |
| 1,250 million USD                  | US\$ | 1,250,000,000 | US\$ | 721,695,000 | 105.462% |
| Telecom Italia Capital S.A. 5.250% |      |               |      |             |          |
| 1,400 million USD                  | US\$ | 1,400,000,000 | US\$ | 634,797,000 | 108.523% |

Medium/long-term amounts due to banks of 4,087 million euros (5,944 million euros at December 31, 2012) decreased by 1,857 million euros, mainly as a result of the classification of the Revolving Credit Facility maturing in August 2014 under current financial liabilities. Short-term amounts due to banks totaled 2,790 million euros, increasing 1,503 million euros (1,287 million euros at December 31, 2012). Short-term amounts due to banks included 2,616 million euros for the current portion of medium/long-term amount due to banks.

Medium/long-term other financial payables amounted to 356 million euros (460 million euros at December 31, 2012). They included 182 million euros of payable due from Telecom Italia S.p.A. to the Ministry of Economic Development for the purchase of the rights of use for the 800, 1800 and 2600 MHz frequencies due in October 2016, and 139 million euros for Telecom Italia Finance S.A.'s loan of 20,000 million Japanese yen expiring in 2029. Short-term other financial payables amounted to 400 million euros (684 million euros at December 31, 2012), down 284 million euros. They included 108 million euros of the current part of the medium/long-term other financial payables, of which 94 million euros relating to the payable due from Telecom Italia S.p.A. for the purchase of the rights of use for the 800, 1800 and 2600 MHz.

Medium/long-term finance lease liabilities totaled 1,100 million euros (1,159 million euros at December 31, 2012) and mainly related to building sale and leaseback transactions recorded in accordance with the financial method established by IAS 17. Short-term finance lease liabilities amounted to 193 million euros (219 million euros at December 31, 2012).



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Hedging derivatives relating to items classified as non-current liabilities of a financial nature amounted to 2,026 million euros (2,558 million euros at December 31, 2012). Hedging derivatives relating to items classified as current liabilities of a financial nature totaled 207 million euros (350 million euros at December 31, 2012). Further details are provided in the Note Derivatives .

At December 31, 2013 there were no non-hedging derivatives relating to items classified as non-current liabilities of a financial nature (13 million euros at December 31, 2012). Non-hedging derivatives relating to items classified as current liabilities of a financial nature amounted to 16 million euros (17 million euros at December 31, 2012). These refer to the measurement of derivatives which, although put into place for hedging purposes, do not possess the formal requisites to be considered as such under IFRS. Further details are provided in the Note Derivatives .

**Covenants , Negative pledges and other contract clauses in effect at December 31, 2013**

The bonds issued by the Telecom Italia Group do not contain financial covenants (e.g. ratios such as Debt/EBITDA, EBITDA/Interest etc.) or clauses that would force the early redemption of the bonds in relation to events other than the insolvency of the Telecom Italia Group. Furthermore, the repayment of the bonds and the payment of interest are not covered by specific guarantees nor are there commitments provided relative to the assumption of future guarantees, except for the full and unconditional guarantees provided by Telecom Italia S.p.A. for the bonds issued by Telecom Italia Finance S.A. and Telecom Italia Capital S.A.

Since these bonds have been placed principally with institutional investors in major world capital markets (Euromarket and the U.S.A.), the terms which regulate the bonds are in line with market practice for similar transactions effected on these same markets. Consequently, for example, there are commitments not to use the company's assets as collateral for loans ( negative pledges ).

With reference to the loans received by Telecom Italia S.p.A. ( Telecom Italia ) from the European Investment Bank ( EIB ), it is noted that following the downgrade of Telecom Italia to Baa3 by Moody's on February 11, 2013, the EIB performed a review of all the outstanding contracts (which, at the time, came to a total nominal amount of 3,350 million euros). The parties agreed to slightly modify the contracts with reference to the clauses of asset disposal, negative pledge and event of default cases. Furthermore additional costs (in terms of greater interest rate paid on each loan) have been defined at the expense of Telecom Italia from a minimum of 1 bp p.a. to a maximum of 56 bps p.a., according to the loan maturity. Lastly a clause was added on the basis of which if one or more of the credit ratings of the medium and long-term debt not subordinated to and not guaranteed by Telecom Italia is less than BBB- for Standard & Poor's, Baa3 for Moody's and BBB- for Fitch Ratings, the Company must immediately inform the EIB of this. The latter shall have the right to request that additional guarantees be established to its liking, or that Telecom Italia provide another type of guarantee, offering protection in a manner, form and content deemed acceptable by the bank. If Telecom Italia does not comply with the EIB's requests, the latter shall have the right to demand the immediate repayment of the amount disbursed.

Following the downgrade by Moody's on October 8, 2013 and Standard & Poor's on November 14, 2013, the Company provided the contractually required notification and initiated the necessary discussions with the Bank. For the outcome of the discussions please refer to the Note Events Subsequent to December 31, 2013 .

With reference to the EIB loans not secured by bank guarantees for a nominal amount of 1,450 million euros (out of a total nominal amount of 2,850 million euros at December 31, 2013), the following covenants are applied:

- in the event the company becomes the target of a merger, demerger or contribution of a business segment outside the Group, or sells, disposes or transfers assets or business segments (except in certain cases, expressly provided for), it shall immediately inform the EIB which shall have the right to ask for guarantees to be provided or changes to be made to the loan contract, or, only for certain loan contracts, the EIB shall have the option to demand the immediate repayment of the loan (should the merger, demerger or contribution of a business segment outside the Group compromise the Project execution or cause a prejudice to EIB in its capacity as creditor);
- Inclusion clause provided for in the 100 million euros loan of August 5, 2011 and the 300 million euros loan of February 7, 2013: where there are more restrictive clauses (e.g. cross default clauses,

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financial covenants, commitments restricting the sale of goods) conceded by the Company in new loan contracts the EIB shall have the right to ask for guarantees to be set up or changes to be made to the loan contract in order to obtain the equivalent clause in favor of the EIB. The provision in question does not apply to subsidized loans until the remaining total amount of principal is above 500 million euros;

- Network Event contemplated in the 300 million euros financing and in the 100 million euros financing guaranteed by SACE dated both February 7, 2013: against the disposal of the entire fixed network or of a substantial part of it (in any case more than half in quantitative terms) in favor of third parties or in case of disposal of the controlling stake of the company in which the network or a substantial part of it has previously been transferred, Telecom Italia shall immediately inform EIB, which shall have the option of requiring the provision of guarantees or amendment of the loan contract or an alternative solution.

The syndicated bank credit lines of Telecom Italia S.p.A. do not contain financial covenants (e.g. ratios such as Debt/EBITDA, EBITDA/Interests, etc.) which would oblige the Company to repay the outstanding loan if the covenants are not observed. Mechanisms are established for adjusting the cost of funding in relation to Telecom Italia's credit rating.

The syndicated bank line contains the usual other types of covenants, including the commitment not to use the Company's assets as collateral for loans (negative pledges), the commitment not to change the business purpose or sell the assets of the Company unless specific conditions exist (e.g. the sale takes place at fair market value). Covenants with basically the same content are also found in the export credit loan agreement.

In a series of agreements in which Telecom Italia is a party, communication must be provided in case of a change in control. With regard to financing relationships:

- Multi-currency revolving credit facility ( MRCF ) (8,000,000,000 euros) due August 1, 2014. The agreement was signed between Telecom Italia and a syndicate of banks on August 1, 2005 and subsequently modified.

The provisions regarding change of control are similar to those in the syndicated Forward Start Facilities that will enter into force upon expiry of the MRCF on August 1, 2014, and specifically:

*Revolving Credit Facility ( RCF 2017 )* signed on May 24, 2012 for 4 billion euros and expiring on May 24, 2017; and

*Revolving Credit Facility ( RCF 2018 )* signed on March 25, 2013 for 3 billion euros and expiring on March 26, 2018.

In the event of a change in control, Telecom Italia shall inform the agent within five business days and the agent, on behalf of the lending banks, shall negotiate, in good faith, how to continue the relationship. None of the parties shall be obliged to continue such negotiations beyond the term of 30 days, at the end of which, in the absence of an agreement (a) with 2/3 of the Lenders of the MRCF, the facility will cease to be effective and Telecom Italia will be required to repay any sum disbursed to it (currently equal to 1,500,000,000 euros) or (b) with a single bank in the

2017 RCF or 2018 RCF, the bank with which an agreement is not reached may request repayment of the amount disbursed and elimination of the amount relating to its commitment. Conventionally, no change of control is held to exist in the event control, pursuant to art. 2359 of the Italian Civil Code, is acquired (i) by shareholders who at the date of signing the agreement held, directly or indirectly, more than 13% of the voting rights in the shareholders meeting, or (ii) by the investors (Telefónica S.A., Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A. and Mediobanca S.p.A.) which had signed a shareholders agreement on April 28, 2007 regarding the Telecom Italia shares, or (iii) by a combination of parties belonging to the two categories;

· *Bonds:*

fixed rate guaranteed subordinated equity-linked mandatory convertible bonds, convertible into Telecom Italia S.p.A. ordinary shares, issued by Telecom Italia Finance S.A. (the Issuer ) and guaranteed by Telecom Italia S.p.A. (the Guarantor ). The trust deed established that if there is a change of control, the Issuer must provide immediate notification of this to the Trustee and the

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bondholders, and the bondholders will have the right to convert their bonds into ordinary shares of the guarantor within the following 60 days. Acquisition of control is not considered to have taken place if the control is acquired (i) by shareholders of the Guarantor who at the date of signature of the agreement held, directly or indirectly, more than 13% of the voting rights in shareholders meetings of the Guarantor, or (ii) of the parties to the Telco shareholders agreement dated February 29, 2012 and amended on September 24, and November 12, 2013, or (iii) by a combination of parties belonging to the two categories;

the regulations covering the bonds issued under the EMTN Programme by both Olivetti and Telecom Italia and bonds denominated in U.S. dollars typically provide that, in the event of mergers or transfer of all or substantially all of the assets of the issuing company or of the guarantor, the incorporating or transferee company shall assume all of the obligations of the merged or transferor company. Non-fulfillment of the obligation, for which a solution is not found, is an event of default;

· *Contracts with the European Investment Bank (EIB).* The total nominal amount is 2.85 billion euros:

the contracts signed by Telecom Italia with the EIB, for an amount of 2.15 billion euros, carry the obligation of promptly informing the bank about changes regarding the bylaws or the allocation of share capital among the shareholders which can bring about a change in control. Failure to communicate this information to the bank shall result in the termination of the contract. The contract shall also be terminated when a shareholder, which, at the date of signing the contract does not hold at least 2% of the share capital, comes to hold more than 50% of the voting rights in the ordinary shareholders meeting or, in any case, a number of shares such that it represents more than 50% of the share capital. Whenever, in the bank's reasonable opinion, this fact could cause a detriment to the bank or could compromise the execution of the loan project, the bank has the right to ask Telecom Italia to provide guarantees or modify the contract or find an alternative solution. Should Telecom Italia not comply with the requests of EIB, the bank has the right to terminate the contract;

the contracts signed by Telecom Italia with the EIB in 2011 and in 2013, for an amount of 600 million euros, carry the obligation of promptly informing the bank about changes involving its bylaws or shareholder structure. Failure to communicate this information to the bank shall result in the termination of the contract. With regard to the contracts in question, a change of control is generated if a subject or group of subjects acting in concert acquires control of Telecom Italia, or of the entity that, directly or indirectly, controls Telecom Italia. No change of control is held to exist in the event control is acquired, directly or indirectly (i) by any shareholder of Telecom Italia that at the date of the contract holds, directly or indirectly, at least 13% of the voting rights in the shareholders meeting, or (ii) by the investors Telefónica S.A., Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A. or Mediobanca S.p.A. or their subsidiaries. Under the assumption that there is a change in control, the bank has the right to ask for the early repayment of the loan;

the three contracts covered by guarantees, signed on September 26, 2011, for a total amount of 200 million euros and the agreements backed by a SACE guarantee concluded on February 7, 2013 for an amount of 100 million euros, contain an inclusion clause according to which in the event Telecom Italia commits to uphold in other loan contracts financial covenants which are not present or are more stringent than those granted to the EIB, then the EIB will have the right to request the providing of guarantees or the modification of the loan contract in order to envisage an equivalent provision in favor of the EIB. The provision in question does not apply to subsidized loans until the remaining total amount of principal is above 500 million euros.

- Loan contracts in general: the outstanding loans generally contain a commitment by Telecom Italia whose breach is an Event of Default of not implementing mergers, demergers or transfer of business, involving entities outside the Group. Such Event of Default may entail, upon request of the Lender, the early redemption of the drawn amounts and/or the annulment of the undrawn commitment amounts.
- *Senior Secured Syndicated Facility.* The contract was signed in October 2011 by BBVA Banco Francés and Tierra Argentea S.A (a wholly-owned subsidiary of the Telecom Italia Group) for a facility of 312,464,000 Argentine pesos, and provides for the repayment of the loan in 2016. Following the signing of a Waiver & Prepayment Agreement on March 6, 2013 and a Second Prepayment and Waiver

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Agreement on January 15, 2014, the residual capital amount is 39,664,000 Argentine pesos (equal to approximately 4 million euros). The loan is secured by an on-demand bank guarantee for an amount equal to the residual value of the facility. The covenants established by contract, in the form of negative covenants or financial covenants, are consistent with those of syndicated loans and with local practice; there is also a change of control clause that requires the full early repayment of the loan should the Telecom Italia Group hold less than a 100% interest in Tierra Argentea S.A. or lose control of the other Argentine subsidiaries.

Finally, in the documentation of the loans granted to certain companies of the Tim Brasil group, the companies must generally respect certain financial ratios (e.g. capitalization ratios, ratios for servicing debt and debt ratios) as well as the usual other covenants, under pain of a request for the early repayment of the loan.

Finally, as of December 31, 2013, no covenant, negative pledge clause or other clause relating to the above-described debt position, has in any way been breached or violated.

***Revolving Credit Facility***

The following table shows the composition and the draw down of the committed credit lines available at December 31, 2013:

|  | As of December 31, |             |             |             |
|--|--------------------|-------------|-------------|-------------|
|  | 2013               |             | 2012        |             |
|  | Agreed             | Drawn down  | Agreed      | Drawn down  |
|  | (billion of euros) |             |             |             |
| Revolving Credit Facility expiring February 2013 |                    |             | 1.25        |             |
| Revolving Credit Facility expiring August 2014   | 8.00               | 1.50        | 8.00        | 1.50        |
| Revolving Credit Facility expiring December 2013 |                    |             | 0.20        |             |
| <b>Total</b>                                     | <b>8.00</b>        | <b>1.50</b> | <b>9.45</b> | <b>1.50</b> |

On May 24, 2012, Telecom Italia entered into a Forward Start Facility which extended the Revolving Credit Facility of 8 billion euros expiring August 2014 ( RCF 2014 ) by 4 billion euros. The new facility will come into effect as of August 2014 (or at an earlier date should Telecom Italia extinguish its commitments under the current RCF 2014 in advance) and expire in May 2017.

On March 25, 2013, Telecom Italia entered into another Forward Start Facility which extended the same Revolving Credit Facility of 8 billion euros already partially extended in 2012 expiring August 2012 ( RCF 2014 ) by a further 3 billion euros. The new facility will come into effect as of August 2014 (or at an earlier date should Telecom Italia extinguish its commitments under the current RCF 2014 in advance) and expire in March 2018.

Telecom Italia also has a bilateral stand-by credit line expiring August 3, 2016 for 100 million euros from Banca Regionale Europea, drawn down for the full amount.

***Telecom Italia rating at December 31, 2013***

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At December 31, 2013, the three rating agencies Standard & Poor's, Moody's and Fitch Ratings rated Telecom Italia as follows:

|                   | <b>Rating</b> | <b>Outlook</b> |
|-------------------|---------------|----------------|
| STANDARD & POOR'S | BB+           | Negative       |
| MOODY'S           | Ba1           | Negative       |
| FITCH RATINGS     | BBB-          | Negative       |

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**NOTE 17 FINANCIAL RISK MANAGEMENT**

***Financial risk management objectives and policies of the Telecom Italia Group***

The Telecom Italia Group is exposed to the following financial risks in the ordinary course of its business operations:

- market risk: stemming from changes in interest rates and exchange rates in connection with financial assets that have been originated and financial liabilities that have been assumed;
- credit risk: representing the risk of the non-fulfillment of the obligations undertaken by the counterpart with regard to the liquidity investments of the Group;
- liquidity risk: connected with the need to meet short-term financial commitments.

These financial risks are managed by:

- the definition, at a central level, of guidelines for directing operations;
- the activity of an internal committee which monitors the level of exposure to market risks consistently with prefixed general objectives;
- the identification of the most suitable financial instruments, including derivatives, to reach prefixed objectives;
- the monitoring of the results achieved;
- the exclusion of the use of financial instruments for speculative purposes.

The policies for the management and the sensitivity analyses of the above financial risks by the Telecom Italia Group are described below.

***Identification of risks and analyses***

The Telecom Italia Group is exposed to market risks as a result of changes in interest rates and exchange rates in the markets in which it operates or has bond issues, principally Europe, the United States, Great Britain and Latin America.

The financial risk management policies of the Telecom Italia Group are directed towards diversifying market risks, hedging exchange rate risk in full and minimizing interest rate exposure by an appropriate diversification of the portfolio, which is also achieved by using carefully selected derivative financial instruments.

The Group defines an optimum composition for the fixed-rate and variable-rate debt structure and uses derivative financial instruments to achieve that prefixed composition. In consideration of the Group's operating activities, the optimum combination of medium/long-term non-current financial liabilities has been established, on the basis of the nominal amount, in the range 65% - 75% for the fixed-rate component and 25% - 35% for the variable-rate component.

In managing market risk, the Group adopted Guidelines on Financial risk management and control and mainly uses the following financial derivatives:

- Interest Rate Swaps (IRS): used to modify the profile of the original exposure to interest rate risks on loans and bonds, whether fixed or variable;
- Cross Currency and Interest Rate Swaps (CCIRS) and Currency Forwards: used to convert loans and bonds issued in currencies other than euro principally in U.S. dollars and British pounds to the functional currencies of the operating companies.

Derivative financial instruments are designated as fair value hedges for the management of exchange rate risk on instruments denominated in currencies other than euro and for the management of the interest rate risk on fixed-rate loans. Derivative financial instruments are designated as cash flow hedges when the objective is to pre-fix the exchange rate of future transactions and the interest rate.

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All derivative financial instruments are entered into with banking and financial counterparts with at least a BBB-rating from Standard & Poor's or equivalent rating. The exposure to the various market risks can be measured by sensitivity analyses, as set forth in IFRS 7. This analysis illustrates the effects produced by a given and assumed change in the levels of the relevant variables in the various reference markets (exchange rates, interest rates and prices) on finance income and expenses and, at times, directly on equity. The sensitivity analysis was performed based on the suppositions and assumptions indicated below:

- sensitivity analyses were performed by applying reasonably likely changes in the relevant risk variables to the amounts in the consolidated financial statements at December 31, 2013;
- the changes in value of fixed-rate financial instruments, other than derivatives, produced by changes in the reference interest rates, generate an impact on profit only when, in accordance with IAS 39, they are accounted for at their fair value. All fixed-rate instruments, which are accounted for at amortized cost, are not subject to interest rate risk as defined by IFRS 7;
- in the case of fair value hedge relationships, fair value changes of the underlying hedged item and of the derivative instrument, due to changes in the reference interest rates, offset each other almost entirely in the income statement for the year. As a result, these financial instruments are not exposed to interest rate risk;
- the changes in value of designated financial instruments in a cash flow hedge relationship, produced by changes in interest rates, generate an impact on the debt level and on equity; accordingly they are included in this analysis;
- the changes in value, produced by changes in the reference interest rates, of variable-rate financial instruments, other than derivatives, which are not part of a cash flow hedge relationship, generate an impact on the finance income and expenses for the year; accordingly they are included in this analysis.

**Price risk Embedded option of the mandatory convertible bond issued by the subsidiary Telecom Italia Finance S.A.**

The measurement for accounting purposes of the embedded option of the mandatory convertible bond issued by the subsidiary Telecom Italia Finance S.A. for an amount of 1.3 billion euros ( Guaranteed Subordinated Mandatory Convertible Bonds due 2016 convertible into ordinary shares of Telecom Italia S.p.A. ) is dependent on various factors including the performance of the ordinary shares of Telecom Italia S.p.A.

With respect to the value at December 31, 2013, if the ordinary shares of Telecom Italia S.p.A., with other valuation factors remaining equal, increase by 10%, the value of the embedded option would suffer a negative change of 102 million euros, whereas for a decrease of 10%, the change would be positive by 100 million euros.

Details of the sensitivity of the other factors that affect the valuation, and of volatility in particular, are provided in the Note Supplementary disclosure on financial instruments .

**Exchange rate risk Sensitivity analysis**

At December 31, 2013 (and also at December 31, 2012), the exchange risk of the Group s loans denominated in currencies other than the functional currency of the consolidated financial statements was hedged in full. For this reason, a sensitivity analysis has not been performed on the exchange risk.

**Interest rate risk Sensitivity analysis**

The change in interest rates on the variable component of payables and liquidity may lead to higher or lower finance income and expenses, while the changes in the level of the expected interest rate affect the fair value measurement of the Group s derivatives. In particular:

- with regard to derivatives that convert the liabilities contracted by the Group to fixed rates (cash flow hedging), in keeping with international accounting standards that regulate hedge accounting, the fair value (mark-to-market) measurement of such instruments is set aside in a specific unavailable Equity reserve. The combined change of the numerous market variables to which the mark-to-market calculation is subject between the transaction inception date and the measurement date renders any

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assumption about the trend of the variables of little significance. As the contract expiration date approaches, the accounting effects described will gradually be absorbed until they cease to exist;

if at December 31, 2013 the interest rates in the various markets in which the Telecom Italia Group operates had been 100 basis points higher/lower compared to the actual rates, then higher/lower finance expenses, before the net fiscal impact, would have been recognized in the income statement of 47 million euros (18 million euros at December 31, 2012).

**Allocation of the financial structure between fixed rate and variable rate**

As for the allocation of the financial structure between the fixed-rate component and the variable-rate component, for both financial assets and liabilities, reference should be made to the following tables. They show the nominal repayment/investment amount (insofar as that amount expresses the effective interest rate exposure of the Group) and, as far as financial assets are concerned, the intrinsic nature (financial characteristics and duration) of the transactions under consideration rather than just the stated contractual terms alone. Bearing that in mind, a transaction whose characteristics (short or very short time frame and frequent renewal) are such that the interest rate is periodically reset on the basis of market parameters, even though the contract does not call for re-fixing the interest rate (such as in the case of bank deposits, Euro Commercial Paper and receivables on sales of securities), has been considered in the category of variable rate.

**Total financial liabilities (at the nominal repayment amount)**

|  | As of December 31, 2013 |               |               | As of December 31, 2012 |               |               |
|--|-------------------------|---------------|---------------|-------------------------|---------------|---------------|
|  | Fixed rate              | Variable rate | Total         | Fixed rate              | Variable rate | Total         |
|  | (millions of euros)     |               |               |                         |               |               |
| Bonds  | 17,677                  | 7,208         | 24,885        | 20,823                  | 5,500         | 26,323        |
| Loans and other financial liabilities  | 5,160                   | 3,992         | 9,152         | 5,744                   | 3,918         | 9,662         |
| <b>Total non-current financial liabilities (including the current portion of medium/long-term financial liabilities)</b> | <b>22,837</b>           | <b>11,200</b> | <b>34,037</b> | <b>26,567</b>           | <b>9,418</b>  | <b>35,985</b> |
| Total current financial liabilities(*)   | 74                      | 392           | 466           | 71                      | 567           | 638           |
| <b>Total excluding Discontinued Operations</b>   | <b>22,911</b>           | <b>11,592</b> | <b>34,503</b> | <b>26,638</b>           | <b>9,985</b>  | <b>36,623</b> |
| Discontinued Operations  | 26                      |               | 26            |                         |               |               |
| <b>Total</b>   | <b>22,937</b>           | <b>11,592</b> | <b>34,529</b> | <b>26,638</b>           | <b>9,985</b>  | <b>36,623</b> |

(\*) At December 31, 2013, variable-rate current liabilities include 218 million euros of payables to other lenders for installments paid in advance which are conventionally classified in this line item even though they are not

correlated to a definite rate parameter (252 million euros at December 31, 2012).

**Total financial assets (at the nominal investment amount)**

|  | As of December 31, 2013 |                  |                     | As of December 31, 2012 |                  |              |
|--|-------------------------|------------------|---------------------|-------------------------|------------------|--------------|
|  | Fixed<br>rate           | Variable<br>rate | Total               | Fixed<br>rate           | Variable<br>rate | Total        |
|  |                         |                  | (millions of euros) |                         |                  |              |
| Cash and cash equivalents                      |                         | 4,131            | 4,131               |                         | 5,840            | 5,840        |
| Euro Commercial Papers                         |                         |                  |                     |                         | 150              | 150          |
| Securities                                     | 1,002                   | 1,943            | 2,945               | 380                     | 1,902            | 2,282        |
| Other receivables                              | 344                     | 192              | 536                 | 611                     | 298              | 909          |
| <b>Total excluding Discontinued Operations</b> | <b>1,346</b>            | <b>6,266</b>     | <b>7,612</b>        | <b>991</b>              | <b>8,190</b>     | <b>9,181</b> |
| Discontinued Operations                        | 50                      | 602              | 652                 |                         |                  |              |
| <b>Total</b>                                   | <b>1,396</b>            | <b>6,868</b>     | <b>8,264</b>        | <b>991</b>              | <b>8,190</b>     | <b>9,181</b> |

With regard to variable-rate financial instruments, the contracts provide for revisions of the relative parameters to take place within the subsequent 12 months.

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As to the effective interest rate, for the categories where that parameter can be determined, such parameter refers to the original transaction net of the effect of any derivative hedging instruments.

The disclosure, since it is provided by class of financial asset and liability, was determined, for purposes of calculating the weighted average, using the carrying amount adjusted by accruals, prepayments, deferrals and changes in fair value: this is therefore the amortized cost, net of accruals and any changes in fair value as a consequence of hedge accounting.

**Total financial liabilities**

|                                       | As of December 31, 2013                      |                             | As of December 31, 2012                      |                             |
|---------------------------------------|--|-----------------------------|--|-----------------------------|
|                                       | Adjusted carrying amount (millions of euros) | Effective interest rate (%) | Adjusted carrying amount (millions of euros) | Effective interest rate (%) |
| Bonds                                 | 24,673                                       | 5.99                        | 26,175                                       | 5.90                        |
| Loans and other financial liabilities | 8,854  | 3.45                        | 9,692  | 3.68                        |
| <b>Total(*)</b>                       | <b>33,527</b>                                | <b>5.32</b>                 | <b>35,867</b>                                | <b>5.30</b>                 |

(\*) Does not include Liabilities directly associated with Discontinued operations/non-current assets held for sale of a financial nature.

**Total financial assets**

|                           | As of December 31, 2013                      |                             | As of December 31, 2012                      |                             |
|---------------------------|--|-----------------------------|--|-----------------------------|
|                           | Adjusted carrying amount (millions of euros) | Effective interest rate (%) | Adjusted carrying amount (millions of euros) | Effective interest rate (%) |
| Cash and cash equivalents | 4,131  | 0.33                        | 5,840  | 1.31                        |
| Euro Commercial Papers    |  |                             | 150  | 0.27                        |
| Securities                | 2,945  | 6.61                        | 2,282  | 8.20                        |
| Other receivables         | 193  | 5.69                        | 276  | 5.72                        |
| <b>Total(*)</b>           | <b>7,269</b>                                 | <b>3.01</b>                 | <b>8,548</b>                                 | <b>3.27</b>                 |

(\*) Does not include Discontinued operations/Non-current assets held for sale of a financial nature.

As for financial assets, the weighted average effective interest rate is not essentially influenced by the existence of derivatives.

As for market risk management using derivatives, reference should be made to the Note Derivatives .

***Credit risk***

Exposure to credit risk for the Telecom Italia Group consists of possible losses that could arise from the failure of either commercial or financial counterparts to fulfill their assumed obligations. Such exposure mainly stems from general economic and financial factors, the potential occurrence of specific insolvency situations of some borrowers and other more strictly technical-commercial or administrative factors.

The Telecom Italia Group s maximum theoretical exposure to credit risk is represented by the carrying amount of the financial assets and trade receivables recorded in the financial statements.

Risk related to trade receivables is managed using client scoring and analysis systems. For specific categories of trade receivables the Group also makes use of factoring, mainly on a non-recourse basis.



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Provision charges for bad debts are recorded for specific credit positions that have an element of individual risk. On credit positions that do not have such characteristics, provision charges are recorded by customer segment according to the average uncollectibility estimated on the basis of statistics. Further details are provided in the Note Trade and miscellaneous receivables and other current assets .

For the credit risk relating to the asset components which contribute to the determination of Net financial debt , it should be noted that the management of the Group s liquidity is guided by conservative criteria and is principally based on the following:

- money market management: the investment of temporary excess cash resources during the year which are expected to turn around within the subsequent 12-months period;
- bond portfolio management: the investment of a permanent level of liquidity and the investment of that part of liquidity which is expected to turn around for cash requirement purposes after a 12-month period, as well as the improvement in the average yield.

In order to limit the risk of the non-fulfillment of the obligations undertaken by the counterpart, deposits of the European companies are made with leading high-credit-quality banking and financial institutions. Investments by the companies in South America are made with leading local counterparts. Moreover, deposits are made generally for periods of less than three months. With regard to other temporary investments of liquidity, there is a bond portfolio in which the investments have a low level of risk. All investments were carried out in compliance with the Guidelines on Financial risk management and control adopted by the Group in August 2012, which replaced previous policies in force since July 2009.

In order to minimize credit risk, the Group also pursues a diversification policy for its investments of liquidity and allocation of its credit positions among different banking counterparts. Consequently, there are no significant positions with any one single counterpart.

***Liquidity risk***

The Group pursues the objective of achieving an adequate level of financial flexibility which is expressed by maintaining a current treasury margin to cover the refinancing requirements at least for the next 12 months with irrevocable bank lines and liquidity.

Current financial assets at December 31, 2013, together with unused committed bank lines, ensure complete coverage of debt repayment obligations also beyond the next 24 months.

15.5% of gross financial debt at December 31, 2013 (nominal repayment amount) will become due in the next 12 months.

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The following tables report the contractual cash flows, not discounted to present value, relative to gross financial debt at nominal repayment amounts and the interest flows, determined using the terms and the interest and exchange rates in place at December 31, 2013. The portions of principal and interest of the hedged liabilities includes both the disbursements and the receipts of the relative hedging derivatives. Does not include Liabilities directly associated with Discontinued operations/Non-current assets held for sale of a financial nature.

**Financial liabilities Maturities of contractually expected disbursements**

|  |                  | <b>Maturing by December 31, of the year</b> |              |              |              |              |                       |               |  |
|--|------------------|---|--------------|--------------|--------------|--------------|-----------------------|---------------|--|
|  |                  | <b>2014</b>                                 | <b>2015</b>  | <b>2016</b>  | <b>2017</b>  | <b>2018</b>  | <b>After<br/>2018</b> | <b>Total</b>  |  |
|  |                  | <b>(millions of euros)</b>                  |              |              |              |              |                       |               |  |
| Bonds(*)                                     | Principal        | 1,789                                       | 2,025        | 2,250        | 2,900        | 2,975        | 11,646                | 23,585        |  |
|  | Interest         | 1,504                                       | 1,385        | 1,260        | 1,057        | 850          | 6,712                 | 12,768        |  |
| Loans and other financial liabilities        | Principal        | 2,731                                       | 1,195        | 725          | 828          | 748          | 1,649                 | 7,876         |  |
|  | Interest         | 251   | 143          | 192          | 30           | 27           | (51)                  | 592           |  |
| Finance lease liabilities                    | Principal        | 177   | 127          | 129          | 140          | 149          | 554                   | 1,276         |  |
|  | Interest         | 98  | 87           | 79           | 70           | 59           | 263                   | 656           |  |
| <b>Non-current financial liabilities(**)</b> | <b>Principal</b> | <b>4,697</b>                                | <b>3,347</b> | <b>3,104</b> | <b>3,868</b> | <b>3,872</b> | <b>13,849</b>         | <b>32,737</b> |  |
|  | <b>Interest</b>  | <b>1,853</b>                                | <b>1,615</b> | <b>1,531</b> | <b>1,157</b> | <b>936</b>   | <b>6,924</b>          | <b>14,016</b> |  |
| Current financial liabilities                | Principal        | 466   |              |              |              |              |                       | 466           |  |
|  | Interest         | 1   |              |              |              |              |                       | 1             |  |
| <b>Total financial liabilities</b>           | <b>Principal</b> | <b>5,163</b>                                | <b>3,347</b> | <b>3,104</b> | <b>3,868</b> | <b>3,872</b> | <b>13,849</b>         | <b>33,203</b> |  |
|  | <b>Interest</b>  | <b>1,854</b>                                | <b>1,615</b> | <b>1,531</b> | <b>1,157</b> | <b>936</b>   | <b>6,924</b>          | <b>14,017</b> |  |

(\*) For the Mandatory Convertible Bond, whose mandatory conversion into shares will take place in 2016, only the payment of interest was considered and not the cash settlement repayment of the principal.

(\*\*) These include hedging and non-hedging derivatives.

**Derivatives on financial liabilities Contractually expected interest flows**

|  |  | <b>Maturing by December 31, of the year</b> |             |             |             |             |                   |              |
|--|--|---|-------------|-------------|-------------|-------------|-------------------|--------------|
|  |  | <b>2014</b>                                 | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>After 2018</b> | <b>Total</b> |

|   | <b>(millions of euros)</b> |             |             |             |             |              |              |
|---|----------------------------|-------------|-------------|-------------|-------------|--------------|--------------|
| Disbursements                                 | 645                        | 545         | 483         | 469         | 402         | 3,654        | 6,198        |
| Receipts                                      | (658)                      | (615)       | (544)       | (541)       | (436)       | (3,980)      | (6,774)      |
| <b>Hedging derivatives net (receipts)</b>     |                            |             |             |             |             |              |              |
| <b>disbursements</b>                          | <b>(13)</b>                | <b>(70)</b> | <b>(61)</b> | <b>(72)</b> | <b>(34)</b> | <b>(326)</b> | <b>(576)</b> |
| Disbursements                                 | 73                         | 112         | 291         | 68          | 22          | 136          | 702          |
| Receipts                                      | (14)                       | (30)        | (127)       | (27)        | (6)         | (62)         | (266)        |
| <b>Non-hedging derivatives net (receipts)</b> |                            |             |             |             |             |              |              |
| <b>disbursements</b>                          | <b>59</b>                  | <b>82</b>   | <b>164</b>  | <b>41</b>   | <b>16</b>   | <b>74</b>    | <b>436</b>   |
| <b>Total net receipts</b>                     | <b>46</b>                  | <b>12</b>   | <b>103</b>  | <b>(31)</b> | <b>(18)</b> | <b>(252)</b> | <b>(140)</b> |

*Market value of derivatives*

In order to determine the fair value of derivatives, the Telecom Italia Group uses various valuation models.

The mark-to-market calculation is determined by discounting to present value the interest and notional future contractual flows using market interest rates and exchange rates.

The notional amount of IRS does not represent the amount exchanged between the parties and therefore does not constitute a measurement of credit risk exposure which, instead, is limited to the amount of the difference between the interest rates paid/received.

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The market value of CCIRSs, instead, also depends on the differential between the reference exchange rate at the date of signing the contract and the exchange rate at the date of measurement, since CCIRSs imply the exchange of the reference interest and principal, in the respective currencies of denomination.

The options are measured according to the Black & Scholes or Binomial models and involve the use of various measurements factors, such as: time horizon of the life of the option, the risk-free rate of return, the current price, volatility and any cash flows (e.g. dividend) of the underlying instrument, and the exercise price.

**NOTE 18 DERIVATIVES**

Derivative financial instruments are used by the Telecom Italia Group to hedge its exposure to foreign exchange rate risk and the change in commodity prices and the management of interest rate risk and also to diversify the parameters of debt so that costs and volatility can be reduced to within predetermined operational limits.

Derivative financial instruments at December 31, 2013 are principally used to manage debt positions. They include interest rate swaps (IRS) to reduce interest rate exposure on fixed-rate and variable-rate bank loans and bonds, as well as cross currency and interest rate swaps (CCIRS), currency forwards and currency options to convert the loans/receivables secured in different foreign currencies to the functional currencies of the various companies of the Group.

IRS transactions provide for or may entail at specified maturity dates the exchange of flows of interest, calculated on the notional amount, at the agreed fixed or variable rates.

The same also applies to CCIRS transactions which, in addition to the settlement of periodic interest flows, may provide for the exchange of principal, in the respective currencies of denomination, at maturity and possibly spot.

The following table shows the derivative financial instruments of the Telecom Italia Group at December 31, 2013 and at December 31, 2012, by type:

| Type   | Hedged Risk  | Notional amount | Notional amount | Spot (*)                                   | Spot (*)                                   |
|--|--|-----------------|-----------------|--|--|
|  |  | at 12/31/2013   | at 12/31/2012   | Mark-to-Market (Clean Price) at 12/31/2013 | Mark-to-Market (Clean Price) at 12/31/2012 |
| (millions of euros)                            |  |                 |                 |  |  |
| Interest rate swaps                            | Interest rate risk                                 | 5,250           | 2,400           | (16)                                       | (1)  |
| Cross Currency and Interest Rate Swaps         | Interest rate risk and currency exchange rate risk | 2,071           | 3,179           | 2  | 188  |
| <b>Total Fair Value Hedge Derivatives (**)</b> |  | <b>7,321</b>    | <b>5,579</b>    | <b>(14)</b>                                | <b>187</b>                                 |

|   |  |               |               |                |              |
|---|--|---------------|---------------|----------------|--------------|
| Interest rate swaps                                 | Interest rate risk                                 | 2,370         | 3,120         | (92)           | (228)        |
| Cross Currency and Interest Rate Swaps              | Interest rate risk and currency exchange rate risk | 8,628         | 10,402        | (1,154)        | (577)        |
| Commodity Swap and Options                          | Commodity risk (energy)                            | 9             | 27            | 1              | 1            |
| Forward and FX Options                              | Currency exchange rate risk                        | 577           | 32            | 7              | (2)          |
| <b>Total Cash Flow Hedge Derivatives (**)</b>       |  | <b>11,584</b> | <b>13,581</b> | <b>(1,238)</b> | <b>(806)</b> |
| <b>Total Non-Hedge Accounting Derivatives (***)</b> |  | <b>2,816</b>  | <b>627</b>    | <b>136</b>     | <b>45</b>    |
| <b>Total Telecom Italia Group Derivatives</b>       |  | <b>21,721</b> | <b>19,787</b> | <b>(1,116)</b> | <b>(574)</b> |

(\*) Spot Mark-to-market above represents the market measurement of the derivative net of the accrued portion of the flow in progress.

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(\*\*) On the 2009 issue in GBP there are two hedges, in FVH and CFH; accordingly, although it is a single issue, the notional amount of the hedge is included in both the FVH and CFH groupings.

(\*\*\*) In addition, the notional amount of the FX Options is reflected in both the CFH category (the intrinsic value component is a hedge) and the Non Hedge category (the time value is not a hedge).

The category Non-Hedge Accounting Derivatives also includes the embedded option of the mandatory convertible bond issued by the subsidiary Telecom Finance S.A. for 1.3 billion euros. This component, embedded in the financial instrument, has a notional amount equal to the amount of the loan.

The hedge of cash flows by derivatives designated as cash flow hedges was considered highly effective and at December 31, 2013 led to:

- recognition in equity of unrealized charges of 249 million euros;
- reversal from equity to the income statement of net charges from exchange rate adjustments of 204 million euros.

Furthermore, at December 31, 2013, the total loss of the hedging instruments still recognized in equity amounts to 2 million euros as a result of the effect of transactions early terminated over the years. The negative impact reversed to the income statement during 2013 is 3 million euros.

The transactions hedged by cash flow hedges will generate cash flows and will produce economic effects in the income statement in the periods indicated in the following table:

| <b>Currency of denomination</b> | <b>Notional amount in currency of denomination (millions)</b> | <b>Start of period</b> | <b>End of period</b> | <b>Rate applied</b>    | <b>Interest period</b> |
|---------------------------------|---|------------------------|----------------------|------------------------|------------------------|
| Euro                            | 120   | Jan 2014               | Nov 2015             | 3-month Euribor +0.66% | Quarterly              |
| GBP                             | 500   | Jan 2014               | Dec 2015             | 5.625%                 | Annually               |
| GBP                             | 850   | Jan 2014               | June 2019            | 6.375%                 | Annually               |
| GBP                             | 400   | Jan 2014               | May 2023             | 5.875%                 | Annually               |
| USD                             | 186   | Jan 2014               | Oct 2029             | 5.45%                  | Semiannually           |
| USD                             | 1,000   | Jan 2014               | Nov 2033             | 6.375%                 | Semiannually           |
| USD                             | 1,000   | Jan 2014               | July 2036            | 7.20%                  | Semiannually           |
| USD                             | 1,000   | Jan 2014               | June 2018            | 6.999%                 | Semiannually           |
| USD                             | 1,000   | Jan 2014               | June 2038            | 7.721%                 | Semiannually           |
| Euro                            | 400   | Jan 2014               | June 2016            | 3-month Euribor +0.79% | Quarterly              |

|      |       |          |           |                          |              |
|------|-------|----------|-----------|--------------------------|--------------|
| Euro | 1,500 | Jan 2014 | Aug 2014  | 1-month Euribor +0.1575% | Monthly      |
| Euro | 350   | Jan 2014 | Mar 2014  | 6-month EIB +0.29%       | Semiannually |
| GBP  | 750   | Jan 2014 | Dec 2017  | 3.72755%                 | Annually     |
| USD  | 779   | Jan 2014 | June 2014 | 6.175%                   | Semiannually |
| USD  | 1,000 | Jan 2014 | June 2019 | 7.175%                   | Semiannually |
| USD  | 1,000 | Jan 2014 | Sept 2034 | 6%                       | Semiannually |

The method selected to test the effectiveness retrospectively and, whenever the principal terms do not fully coincide, prospectively, for cash flow hedge derivatives, is the *Volatility Risk Reduction (VRR) Test*. This test assesses the ratio between the portfolio risk (where the portfolio means the derivative and the item hedged) and the risk of the hedged item taken separately. In short, the portfolio risk must be significantly less than the risk of the item hedged.

The ineffective portion recognized in the income statement from designated cash flow hedge derivatives during 2013 was negative by 3 million euros (without considering the effects due to the application of CVA/DVA).

## NOTE 19 SUPPLEMENTARY DISCLOSURES ON FINANCIAL INSTRUMENTS

### Measurement at fair value

The majority of non-current financial liabilities of the Telecom Italia Group are composed of bonds, the fair value of which can be easily determined by reference to financial instruments which, in terms of size and diffusion

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among investors, are commonly traded on the relative markets (please refer to the Note Financial Liabilities non-current and current ). However, as concerns other types of financing, the following assumptions have been made in order to determine fair value:

- for variable-rate loans: the nominal repayment amount has been assumed;
- for fixed-rate loans: fair value has been assumed as the present value of future cash flows using market interest rates at December 31, 2013.

Lastly, for the majority of financial assets, their carrying amount constitutes a reasonable approximation of their fair value since these are short-term investments that are readily convertible into cash.

The measurement at fair value of the financial instruments of the Group is classified according to the three levels set out in IFRS 7. In particular, the fair value hierarchy introduces three levels of input:

- Level 1: quoted prices in active market;
- Level 2: prices calculated using observable market inputs;
- Level 3: prices calculated using inputs that are not based on observable market data.

The following tables set out, for assets and liabilities at December 31, 2013 and 2012 and in accordance with the categories established by IAS 39, the supplementary disclosure on financial instruments required by IFRS 7 and the schedules of gains and losses. It does not include Discontinued operations/Non-current assets held for sale and Liabilities directly associated with Discontinued operations/Non-current assets held for sale.

**Key for IAS 39 categories**

|   | <b>Acronym</b>  |
|---|-----------------|
| Loans and Receivables                         | LaR             |
| Financial assets Held-to-Maturity             | HtM             |
| Financial assets Available-for-Sale           | AfS             |
| Financial Assets/Liabilities Held for Trading | FAHfT and FLHfT |
| Financial Liabilities at Amortized Cost       | FLAC            |
| Hedging Derivatives                           | HD              |
| Not applicable                                | n.a.            |





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|  | IAS 39 categories | Note | Carrying amounts in financial statements at 12/31/2013 | Amounts recognized in the financial statements according to IAS 39 |           | Fair value taken to income statement | Fair value recognized in the income statement | Amounts recognized in financial statements according to IAS 17 |
|--|-------------------|------|--|--|-----------|--------------------------------------|---|--|
|  |                   |      |  | Amortized cost   | Cost      |                                      |   |  |
| <b>Assets</b>  |                   |      |  |  |           |                                      |   |  |
| <b>Non-current financial assets</b>                                      |                   |      |  |  |           |                                      |   |  |
| Other investments  | AfS               | 8    | 42   | 25   | 17        |                                      |   |  |
| Securities, financial receivables and other non-current financial assets |                   |      |  |  |           |                                      |   |  |
| <i>of which loans and receivables</i>                                    | LaR               | 9    | 37   | 37   |           |                                      |   |  |
| <i>of which securities</i>   | AfS               | 9    | 6  |  | 6         |                                      |   |  |
| <i>of which hedging derivatives</i>                                      | HD                | 9    | 1,018  |  | 823       | 195                                  |   |  |
| <i>of which non-hedging derivatives</i>                                  | FAHFT             | 9    | 137  |  |           | 137                                  |   |  |
| <i>of which financial receivables for lease contracts</i>                | n.a.              | 9    | 58   |  |           |                                      |   | 58   |
| Miscellaneous receivables and other non-current assets(*)                |                   |      |  |  |           |                                      |   |  |
| <i>of which loans and receivables</i>                                    | LaR               | 10   | 248  | 243  | 5         |                                      |   |  |
|  |                   | (A)  | <b>1,546</b>   | <b>280</b>   | <b>30</b> | <b>846</b>                           | <b>332</b>                                    | <b>58</b>  |
| <b>Current financial assets</b>  |                   |      |  |  |           |                                      |   |  |
| Trade and miscellaneous receivables and other current assets(*)          |                   |      |  |  |           |                                      |   |  |
| <i>of which loans and receivables</i>                                    | LaR               | 13   | 4,145  | 4,145  |           |                                      |   |  |
| Securities   |                   |      |  |  |           |                                      |   |  |
| <i>of which available-for-sale</i>                                       | AfS               | 9    | 1,348  |  | 1,348     |                                      |   |  |
| Financial receivables and other current financial assets                 |                   |      |  |  |           |                                      |   |  |
| <i>of which loans and receivables</i>                                    | LaR               | 9    | 23   | 23   |           |                                      |   |  |
| <i>of which hedging derivatives</i>                                      | HD                | 9    | 173  |  | 119       | 54                                   |   |  |
| <i>of which non-hedging derivatives</i>                                  | FAHFT             | 9    | 7  |  |           | 7                                    |   |  |
|  | n.a.              | 9    | 80   |  |           |                                      |   | 80   |

*of which receivables for lease contracts*

|                           |     |       |        |        |       |       |     |
|---------------------------|-----|-------|--------|--------|-------|-------|-----|
| Cash and cash equivalents | LaR | 9     | 5,744  | 5,744  |       |       |     |
|                           |     | (B)   | 11,520 | 9,912  | 1,467 | 61    | 80  |
| <b>Total</b>              |     | (A+B) | 13,066 | 10,192 | 30    | 2,313 | 393 |

### Liabilities

Non-current financial liabilities

*of which liabilities at amortized cost(\*\*)*

|   |         |     |        |        |       |    |       |
|---|---------|-----|--------|--------|-------|----|-------|
|   | FLAC/HD | 16  | 27,958 | 27,958 |       |    |       |
| <i>of which hedging derivatives</i>       | HD      | 16  | 2,026  |        | 1,943 | 83 |       |
| <i>of which non-hedging derivatives</i>   | FLHfT   | 16  |        |        |       |    |       |
| <i>of which finance lease liabilities</i> | n.a.    | 16  | 1,100  |        |       |    | 1,100 |
|   |         | (C) | 31,084 | 27,958 | 1,943 | 83 | 1,100 |

### Current financial liabilities

*of which liabilities at amortized cost(\*\*)*

|   |         |    |       |       |     |    |     |
|---|---------|----|-------|-------|-----|----|-----|
|   | FLAC/HD | 16 | 5,703 | 5,703 |     |    |     |
| <i>of which hedging derivatives</i>       | HD      | 16 | 207   |       | 151 | 56 |     |
| <i>of which non-hedging derivatives</i>   | FLHfT   | 16 | 16    |       |     | 16 |     |
| <i>of which finance lease liabilities</i> | n.a.    | 16 | 193   |       |     |    | 193 |

Trade and miscellaneous payables and other current liabilities(\*)

*of which liabilities at amortized cost*

|              |      |       |        |        |       |     |       |
|--------------|------|-------|--------|--------|-------|-----|-------|
|              | FLAC | 23    | 5,720  | 5,720  |       |     |       |
|              |      | (D)   | 11,839 | 11,423 | 151   | 72  | 193   |
| <b>Total</b> |      | (C+D) | 42,923 | 39,381 | 2,094 | 155 | 1,293 |

(\*) Part of assets or liabilities falling under application of IFRS 7.

(\*\*) They also include those at adjusted amortized cost that qualify for hedge accounting.

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|   |                   | Amounts recognized in the<br>financial<br>statements according to IAS 39 |                   |           |                                     |  | Amounts<br>recognized in<br>financial<br>statements<br>according<br>to IAS 17 |  | Fair Value at<br>12/31/2013 |
|---|-------------------|--|-------------------|-----------|-------------------------------------|--|---|--|-----------------------------|
|   |                   | Carrying<br>amounts<br>in<br>financial<br>statements at<br>12/31/2013    | Amortized<br>cost | Cost      | Fair value<br>taken<br>to<br>equity | Fair<br>value<br>recognized in<br>the<br>income<br>statement |   |  |                             |
|   | IAS 39 categories |  |                   |           |                                     |  |   |  |                             |
| <b>Assets</b>   |                   |  |                   |           |                                     |  |   |  |                             |
| Loans and receivables   | LaR               | 10,197   | 10,192            | 5         |                                     |  |   |  | 10,197                      |
| Available-for-sale<br>financial assets  | AfS               | 1,396  |                   | 25        | 1,371                               |  |   |  | 1,396                       |
| Financial assets at fair<br>value through profit or loss<br>held for trading      | FAHfT             | 144  |                   |           |                                     | 144  |   |  | 144                         |
| <i>Of which non-hedging<br/>derivatives</i>                                       | <i>FAHfT</i>      | <i>144</i>   |                   |           |                                     | <i>144</i>   |   |  | <i>144</i>                  |
| Hedging derivatives   | HD                | 1,191  |                   |           | 942                                 | 249  |   |  | 1,191                       |
| Assets measured according<br>to IAS 17  | n.a.              | 138  |                   |           |                                     |  | 138   |  | 138                         |
| <b>Total</b>  |                   | <b>13,066</b>  | <b>10,192</b>     | <b>30</b> | <b>2,313</b>                        | <b>393</b>   | <b>138</b>  |  | <b>13,066</b>               |
| <b>Liabilities</b>  |                   |  |                   |           |                                     |  |   |  |                             |
| Financial liabilities at<br>amortized cost(*)                                     | FLAC/HD           | 39,381   | 39,381            |           |                                     |  |   |  | 40,011                      |
| Financial liabilities at fair<br>value through profit or loss<br>held for trading | FLHfT             | 16   |                   |           |                                     | 16   |   |  | 16                          |
| <i>Of which non-hedging<br/>derivatives</i>                                       | <i>FLHfT</i>      | <i>16</i>  |                   |           |                                     | <i>16</i>  |   |  | <i>16</i>                   |
| Hedging derivatives   | HD                | 2,233  |                   |           | 2,094                               | 139  |   |  | 2,233                       |
| Liabilities measured<br>according to IAS 17                                       | n.a.              | 1,293  |                   |           |                                     |  | 1,293   |  | 1,611                       |
| <b>Total</b>  |                   | <b>42,923</b>  | <b>39,381</b>     |           | <b>2,094</b>                        | <b>155</b>   | <b>1,293</b>  |  | <b>43,871</b>               |

(\* ) They also include those at adjusted amortized cost that qualify for hedge accounting.

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**Table of Contents****Consolidated Financial Statements****Notes To Consolidated Financial Statements****Fair value hierarchy level for each class of financial asset/liability at December 31, 2013**

|   | IAS 39<br>categories | Note | Carrying<br>amounts<br>in<br>financial<br>statements at<br>12/31/2013<br>(millions of euros) | Hierarchy levels |              |            |
|---|----------------------|------|--|------------------|--------------|------------|
|   |                      |      |  | Level 1(*)       | Level 2(*)   | Level 3(*) |
| <b>Assets</b>   |                      |      |  |                  |              |            |
| <b>Non-current financial assets</b>   |                      |      |  |                  |              |            |
| Other investments   | AfS                  | 8    | 42   | 3                | 14           |            |
| Securities, financial receivables and other<br>non-current financial assets |                      |      |  |                  |              |            |
| <i>of which securities</i>  | AfS                  | 9    | 6  | 6                |              |            |
| <i>of which hedging derivatives</i>   | HD                   | 9    | 1,018  |                  | 1,018        |            |
| <i>of which non-hedging derivatives</i>                                     | FAHfT                | 9    | 137  |                  | 74           | 63         |
|   | (A)                  |      | <b>1,203</b>   | <b>9</b>         | <b>1,106</b> | <b>63</b>  |
| <b>Current financial assets</b>   |                      |      |  |                  |              |            |
| Securities  |                      |      |  |                  |              |            |
| <i>of which available-for-sale</i>  | AfS                  | 9    | 1,348  | 1,348            |              |            |
| Financial receivables and other current<br>financial assets                 |                      |      |  |                  |              |            |
| <i>of which hedging derivatives</i>   | HD                   | 9    | 173  |                  | 173          |            |
| <i>of which non-hedging derivatives</i>                                     | FAHfT                | 9    | 7  |                  | 7            |            |
|   | (B)                  |      | <b>1,528</b>   | <b>1,348</b>     | <b>180</b>   |            |
| <b>Total</b>  | (A+B)                |      | <b>2,731</b>   | <b>1,357</b>     | <b>1,286</b> | <b>63</b>  |
| <b>Liabilities</b>  |                      |      |  |                  |              |            |
| <b>Non-current liabilities</b>  |                      |      |  |                  |              |            |
| <i>of which hedging derivatives</i>   | HD                   | 16   | 2,026  |                  | 2,026        |            |
| <i>of which non-hedging derivatives</i>                                     | FLHfT                | 16   |  |                  |              |            |
|   | (C)                  |      | <b>2,026</b>   |                  | <b>2,026</b> |            |
| <b>Current liabilities</b>  |                      |      |  |                  |              |            |
| <i>of which hedging derivatives</i>   | HD                   | 16   | 207  |                  | 207          |            |
| <i>of which non-hedging derivatives</i>                                     | FLHfT                | 16   | 16   |                  | 16           |            |

|              |              |              |              |
|--------------|--------------|--------------|--------------|
|              | <b>(D)</b>   | <b>223</b>   | <b>223</b>   |
| <b>Total</b> | <b>(C+D)</b> | <b>2,249</b> | <b>2,249</b> |

(\*) Level 1: quoted prices in active markets.

Level 2: prices calculated using observable market inputs.

Level 3: prices calculated using inputs that are not based on observable market data.

#### **Fair value measurements with unobservable inputs**

The accounting of Guaranteed Subordinated Mandatory Convertible Bonds due 2016, convertible into ordinary shares of Telecom Italia S.p.A. , issued by the subsidiary Telecom Italia Finance S.A. for a total of 1.3 billion euros, entailed the separate recognition of the option embedded in the financial instruments, separate from the debt liability itself.

The carrying amount of the embedded option was measured as the net amount of i) the long put option, with an exercise price of 0.6801 euros at the maximum conversion rate; and ii) the short call option, with an exercise price of 0.8331 euros at the minimum conversion rate. The call and put options were measured at fair value using the Black & Scholes model for pricing stock options. The model uses the following inputs:

- the risk-free interest rate for comparable maturities;

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- the reference price for Telecom Italia S.p.A. ordinary shares;
- the exercise price;
- the dividend expected to be paid on Telecom Italia S.p.A. ordinary shares over the life of the option;
- the volatility of Telecom Italia S.p.A. ordinary shares;
- the duration of the option.

Specifically, volatility should be considered an unobservable input due to the lack of market data (stock exchange listing of the bond option) for a time horizon equal to the duration of the option. The figure is, therefore, an assumption based on the volatility implied by the price of the financial instrument, as negotiated at the issuance stage, and market volatility for the nearest time horizon.

The following table shows the impact on the income statement of the valuation.

|   | <b>12/31/2013</b><br><b>(millions of euros)</b> |
|---|---|
| <b>Asset value at December 31, 2012</b>   |   |
| Transfers to/from Level 3   |   |
| Valuation at the issue date of the financial instrument   | 187   |
| Gains (losses) recognized in the Separate Consolidated Income Statement                             | (124)   |
| Gains (losses) recognized in other components of the Consolidated Statement of Comprehensive Income |   |
| <b>Asset value at December 31, 2013</b>   | <b>63</b>                                       |

The loss from the fair value adjustment at December 31, 2013 has been recognized under finance expenses.

The price of an option is sensitive to its volatility, in that the higher the volatility, the higher the price of the option. Reported below is a sensitivity analysis of the net carrying amount of the embedded option in relation to a series of changes expressed in percentage point terms of volatility.

|  |         |        |        |        |        |         |
|--|---------|--------|--------|--------|--------|---------|
| Change in volatility of Telecom Italia S.p.A. ordinary shares            | -10p.p. | -8p.p. | -5p.p. | +5p.p. | +8p.p. | +10p.p. |
| Change in net carrying amount of the embedded option (millions of euros) | (10)    | (8)    | (5)    | +5     | +7     | +9      |



|   |    |    |    |    |    |    |
|---|----|----|----|----|----|----|
| Net carrying amount of the embedded option<br>(millions of euros) | 53 | 55 | 58 | 68 | 70 | 72 |
|---|----|----|----|----|----|----|

In 2013 no changes were made to the measurement technique.

Further details on the effects of the change in the price of the ordinary shares on the value of the embedded option, as well as the measurement of derivative instruments, are provided in the Note Financial risk management .

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|  | IAS 39<br>categories | Note | Carrying<br>amounts<br>in<br>financial<br>statements at<br>12/31/2012 | Amounts recognized in financial<br>statements according to IAS 39 |           |                                     | Amounts<br>Fair value<br>recognized in<br>financial<br>statements<br>according to<br>IAS 17 |   |
|--|----------------------|------|---|---|-----------|-------------------------------------|---|---|
|  |                      |      |   | Amortized<br>cost   | Cost      | Fair value<br>taken<br>to<br>equity | recognized<br>in the<br>income<br>statement   | recognized<br>in the<br>income<br>statement |
| <b>Assets</b>  |                      |      |   |   |           |                                     |   |   |
| <b>Non-current financial assets</b>  |                      |      |   |   |           |                                     |   |   |
| Other investments  | AfS                  | 8    | 39  |   | 26        | 13                                  |   |   |
| Securities, financial receivables<br>and other non-current financial<br>assets |                      |      |   |   |           |                                     |   |   |
| <i>of which loans and receivables</i>  | LaR                  | 9    | 40  | 40  |           |                                     |   |   |
| <i>of which securities</i>   | AfS                  | 9    | 22  |   |           | 22                                  |   |   |
| <i>of which hedging derivatives</i>  | HD                   | 9    | 2,291   |   |           | 1,819                               | 472   |   |
| <i>of which non-hedging<br/>derivatives</i>                                    | FAHfT                | 9    | 33  |   |           |                                     | 33  |   |
| <i>of which receivables for lease<br/>contracts</i>                            | n.a.                 | 9    | 110   |   |           |                                     |   | 110   |
| Miscellaneous receivables and<br>other non-current assets(*)                   |                      |      |   |   |           |                                     |   |   |
| <i>of which loans and receivables</i>  | LaR                  | 10   | 337   | 330   | 7         |                                     |   |   |
|  |                      | (A)  | <b>2,872</b>  | <b>370</b>  | <b>33</b> | <b>1,854</b>                        | <b>505</b>  | <b>110</b>                                  |
| <b>Current financial assets</b>  |                      |      |   |   |           |                                     |   |   |
| Trade and miscellaneous<br>receivables and other current<br>assets(*)          |                      |      |   |   |           |                                     |   |   |
| <i>of which loans and receivables</i>  | LaR                  | 13   | 5,687   | 5,687   |           |                                     |   |   |
| Securities   |                      |      |   |   |           |                                     |   |   |
| <i>of which available-for-sale</i>   | AfS                  | 9    | 754   |   |           | 754                                 |   |   |
| Financial receivables and other<br>current financial assets                    |                      |      |   |   |           |                                     |   |   |
| <i>of which loans and receivables</i>  | LaR                  | 9    | 116   | 116   |           |                                     |   |   |
| <i>of which hedging derivatives</i>  | HD                   | 9    | 246   |   |           | 185                                 | 61  |   |
|  | FAHfT                | 9    | 39  |   |           |                                     | 39  |   |

|   |         |              |               |               |              |              |              |
|---|---------|--------------|---------------|---------------|--------------|--------------|--------------|
| <i>of which non-hedging derivatives</i>                           |         |              |               |               |              |              |              |
| <i>of which receivables for lease contracts</i>                   |         |              |               |               |              |              |              |
|   | n.a.    | 9            | 101           |               |              |              | 101          |
| Cash and cash equivalents   | LaR     | 9            | 7,436         | 7,436         |              |              |              |
|   |         | <b>(B)</b>   | <b>14,379</b> | <b>13,239</b> | <b>939</b>   | <b>100</b>   | <b>101</b>   |
| <b>Total</b>  |         | <b>(A+B)</b> | <b>17,251</b> | <b>13,609</b> | <b>33</b>    | <b>2,793</b> | <b>605</b>   |
| <b>Liabilities</b>  |         |              |               |               |              |              |              |
| Non-current financial liabilities                                 |         |              |               |               |              |              |              |
| <i>of which liabilities at amortized cost(**)</i>                 |         |              |               |               |              |              |              |
|   | FLAC/HD | 16           | 30,361        | 30,361        |              |              |              |
| <i>of which hedging derivatives</i>                               | HD      | 16           | 2,558         |               | 2,386        | 172          |              |
| <i>of which non-hedging derivatives</i>                           | FLHfT   | 16           | 13            |               |              | 13           |              |
| <i>of which finance lease liabilities</i>                         | n.a.    | 16           | 1,159         |               |              |              | 1,159        |
|   |         | <b>(C)</b>   | <b>34,091</b> | <b>30,361</b> | <b>2,386</b> | <b>185</b>   | <b>1,159</b> |
| <b>Current financial liabilities</b>                              |         |              |               |               |              |              |              |
| <i>of which liabilities at amortized cost(**)</i>                 |         |              |               |               |              |              |              |
|   | FLAC/HD | 16           | 5,564         | 5,564         |              |              |              |
| <i>of which hedging derivatives</i>                               | HD      | 16           | 350           |               | 327          | 23           |              |
| <i>of which non-hedging derivatives</i>                           | FLHfT   | 16           | 17            |               |              | 17           |              |
| <i>of which finance lease liabilities</i>                         | n.a.    | 16           | 219           |               |              |              | 219          |
| Trade and miscellaneous payables and other current liabilities(*) |         |              |               |               |              |              |              |
| <i>of which liabilities at amortized cost</i>                     | FLAC    | 23           | 7,268         | 7,268         |              |              |              |
|   |         | <b>(D)</b>   | <b>13,418</b> | <b>12,832</b> | <b>327</b>   | <b>40</b>    | <b>219</b>   |
| <b>Total</b>  |         | <b>(C+D)</b> | <b>47,509</b> | <b>43,193</b> | <b>2,713</b> | <b>225</b>   | <b>1,378</b> |

(\*) Part of assets or liabilities falling under application of IFRS 7.

(\*\*) They also include those at adjusted amortized cost that qualify for hedge accounting.

**Table of Contents****Consolidated Financial Statements****Notes To Consolidated Financial Statements****Comparison between carrying amount and fair value for each class of financial asset/liability at December 31, 2012**

|   |              | Carrying<br>amounts<br>in<br>financial<br>statements at<br>IAS 39<br>categories | Amounts recognized in the<br>financial<br>statements according to IAS 39 |                   |              |   | Fair value<br>recognized in<br>financial<br>statements<br>according<br>to IAS 17 | Fair Value at<br>12/31/2012 |
|---|--------------|---|--|-------------------|--------------|---|--|-----------------------------|
|   |              |   | 12/31/2012   | Amortized<br>cost | Cost         | Fair value<br>recognized<br>taken<br>to<br>equity |  |                             |
| <b>Assets</b>   |              |   |  |                   |              |   |  |                             |
| Loans and receivables   | LaR          | 13,616  | 13,609   | 7                 |              |   |  | 13,616                      |
| Available-for-sale financial<br>assets  | AfS          | 815   |  | 26                | 789          |   |  | 815                         |
| Financial assets at fair<br>value through profit or loss<br>held for trading      | FAHfT        | 72  |  |                   |              | 72  |  | 72                          |
| <i>Of which non-hedging<br/>derivatives</i>                                       | <i>FAHfT</i> | 72  |  |                   |              | 72  |  | 72                          |
| Hedging derivatives   | HD           | 2,537   |  |                   | 2,004        | 533   |  | 2,537                       |
| Assets measured according<br>to IAS 17  | n.a.         | 211   |  |                   |              |   | 211  | 211                         |
| <b>Total</b>  |              | <b>17,251</b>   | <b>13,609</b>  | <b>33</b>         | <b>2,793</b> | <b>605</b>  | <b>211</b>   | <b>17,251</b>               |
| <b>Liabilities</b>  |              |   |  |                   |              |   |  |                             |
| Financial liabilities at<br>amortized cost(*)                                     | FLAC/HD      | 43,193  | 43,193   |                   |              |   |  | 44,741                      |
| Financial liabilities at fair<br>value through profit or loss<br>held for trading | FLHfT        | 30  |  |                   |              | 30  |  | 30                          |
| <i>Of which non-hedging<br/>derivatives</i>                                       | <i>FLHfT</i> | 30  |  |                   |              | 30  |  | 30                          |
| Hedging derivatives   | HD           | 2,908   |  |                   | 2,713        | 195   |  | 2,908                       |
| Liabilities measured<br>according to IAS 17                                       | n.a.         | 1,378   |  |                   |              |   | 1,378  | 1,793                       |
| <b>Total</b>  |              | <b>47,509</b>   | <b>43,193</b>  |                   | <b>2,713</b> | <b>225</b>  | <b>1,378</b>   | <b>49,472</b>               |

(\* ) They also include those at adjusted amortized cost that qualify for hedge accounting.

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**Table of Contents****Consolidated Financial Statements****Notes To Consolidated Financial Statements****Fair value hierarchy level for each class of financial asset/liability at December 31, 2012**

|   | IAS 39<br>categories | Note | Carrying<br>amounts<br>in<br>financial<br>statements<br>at<br>12/31/2012<br>(millions of euros) | Hierarchy levels |              |            |
|---|----------------------|------|---|------------------|--------------|------------|
|   |                      |      |   | Level 1(*)       | Level 2(*)   | Level 3(*) |
| <b>Assets</b>   |                      |      |   |                  |              |            |
| <b>Non-current financial assets</b>   |                      |      |   |                  |              |            |
| Other investments   | AfS                  | 8    | 39  | 3                | 10           |            |
| Securities, financial receivables and other<br>non-current financial assets |                      |      |   |                  |              |            |
| <i>of which securities</i>  | AfS                  | 9    | 22  | 22               |              |            |
| <i>of which hedging derivatives</i>   | HD                   | 9    | 2,291   |                  | 2,291        |            |
| <i>of which non-hedging derivatives</i>                                     | FAHfT                | 9    | 33  |                  | 33           |            |
|   | (A)                  |      | <b>2,385</b>  | <b>25</b>        | <b>2,334</b> |            |
| <b>Current financial assets</b>   |                      |      |   |                  |              |            |
| Securities  |                      |      |   |                  |              |            |
| <i>of which available-for-sale</i>  | AfS                  | 9    | 754   | 754              |              |            |
| Financial receivables and other current<br>financial assets                 |                      |      |   |                  |              |            |
| <i>of which hedging derivatives</i>   | HD                   | 9    | 246   |                  | 246          |            |
| <i>of which non-hedging derivatives</i>                                     | FAHfT                | 9    | 39  |                  | 39           |            |
|   | (B)                  |      | <b>1,039</b>  | <b>754</b>       | <b>285</b>   |            |
| <b>Total</b>  | (A+B)                |      | <b>3,424</b>  | <b>779</b>       | <b>2,619</b> |            |
| <b>Liabilities</b>  |                      |      |   |                  |              |            |
| Non-current financial liabilities   |                      |      |   |                  |              |            |
| <i>of which hedging derivatives</i>   | HD                   | 16   | 2,558   |                  | 2,558        |            |
| <i>of which non-hedging derivatives</i>                                     | FLHfT                | 16   | 13  |                  | 13           |            |
|   | (C)                  |      | <b>2,571</b>  |                  | <b>2,571</b> |            |
| Current financial liabilities   |                      |      |   |                  |              |            |
| <i>of which hedging derivatives</i>   | HD                   | 16   | 350   |                  | 350          |            |

|   |              |    |              |              |
|---|--------------|----|--------------|--------------|
| <i>of which non-hedging derivatives</i> | FLHfT        | 16 | 17           | 17           |
|   | <b>(D)</b>   |    | <b>367</b>   | <b>367</b>   |
| <b>Total</b>                            | <b>(C+D)</b> |    | <b>2,938</b> | <b>2,938</b> |

(\*) Level 1: quoted prices in active markets.

Level 2: prices calculated using observable market inputs.

Level 3: prices calculated using inputs that are not based on observable market data.

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|   | <b>IAS 39<br/>categories</b> | <b>Net gains/(losses),<br/>2013(1)<br/>(millions of euros)</b> | <b>Of which<br/>interest</b> |
|---|------------------------------|--|------------------------------|
| Loans and receivables   | LaR                          | (334)  | 97                           |
| Available-for-sale financial assets   | AfS                          | 27   |                              |
| Financial assets and liabilities at fair value through profit and loss held for trading | FAHfT/FLHfT                  | (59)   |                              |
| Financial liabilities at amortized cost   | FLAC                         | (1,844)  | (1,731)                      |
| <b>Total</b>  |                              | <b>(2,210)</b>   | <b>(1,634)</b>               |

(1) Of which 3 million euros relates to fees and expenses not included in the effective interest rate calculation on financial assets/liabilities other than those at fair value through profit or loss held-for-trading.

**Gains and losses by IAS 39 category Year 2012**

|   | <b>IAS 39<br/>categories</b> | <b>Net gains/(losses),<br/>2012 (1)<br/>(millions of euros)</b> | <b>Of which<br/>interest</b> |
|---|------------------------------|---|------------------------------|
| Loans and receivables   | LaR                          | (469)   | 146                          |
| Available-for-sale financial assets   | AfS                          | 26  |                              |
| Financial assets and liabilities at fair value through profit and loss held for trading | FAHfT/FLHfT                  | 6   |                              |
| Financial liabilities at amortized cost   | FLAC                         | (1,823)   | (1,782)                      |
| <b>Total</b>  |                              | <b>(2,260)</b>  | <b>(1,636)</b>               |

(1) Of which, 2 million euros relates to fees and expenses not included in the effective interest rate calculation on financial assets/liabilities other than those at fair value through profit or loss held-for-trading.

**NOTE 20 EMPLOYEE BENEFITS**

Employee benefits decreased by 1 million euros compared to December 31, 2012 and are composed of the following:

**Decrease**



|   |              | As of<br>December 31,<br>2011 | Increases/<br>Present<br>value |              | Exchange<br>differences<br>and<br>other<br>changes | As of<br>December 31,<br>2012 |
|---|--------------|-------------------------------|--------------------------------|--------------|--|-------------------------------|
|   |              | (millions of euros)           |                                |              |  |                               |
| <b>Provision for employee<br/>severance indemnities</b> | <b>(A)</b>   | <b>829</b>                    | <b>99</b>                      | <b>(92)</b>  | <b>(1)</b>   | <b>835</b>                    |
| Provision for pension plans                             |              | 21                            | 2                              | (1)          | 1  | 23                            |
| Provision for termination benefit<br>incentives         |              | 189                           | 18                             | (147)        | (2)  | 58                            |
| <b>Total other provisions for<br/>employee benefits</b> | <b>(B)</b>   | <b>210</b>                    | <b>20</b>                      | <b>(148)</b> | <b>(1)</b>   | <b>81</b>                     |
| <b>Total</b>  | <b>(A+B)</b> | <b>1,039</b>                  | <b>119</b>                     | <b>(240)</b> | <b>(2)</b>   | <b>916</b>                    |
| <i>Of which:</i>  |              |                               |                                |              |  |                               |
| <i>Non-current portion</i>                              |              | 850                           |                                |              |  | 872                           |
| <i>Current portion*</i>                                 |              | 189                           |                                |              |  | 44                            |

(\* ) The current portion refers only to Other provisions for employee benefits.

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|   |              | As<br>of<br>December 31,<br>2012 | Discontinued<br>operations | Increases/<br>Present<br>value<br>(millions of euros) | Decrease    | Exchange<br>differences<br>and<br>other<br>changes | As of<br>December 31,<br>2013 |
|---|--------------|----------------------------------|----------------------------|---|-------------|--|-------------------------------|
| <b>Provision for employee<br/>severance indemnities</b> | <b>(A)</b>   | <b>835</b>                       |                            | <b>66</b>   | <b>(30)</b> | <b>(8)</b>   | <b>863</b>                    |
| Provision for pension<br>plans                          |              | 23                               |                            | 2   | (2)         | (1)  | 22                            |
| Provision for termination<br>benefit incentives         |              | 58                               | (8)                        | 10  | (30)        |  | 30                            |
| <b>Total other provisions<br/>for employee benefits</b> | <b>(B)</b>   | <b>81</b>                        | <b>(8)</b>                 | <b>12</b>   | <b>(32)</b> | <b>(1)</b>   | <b>52</b>                     |
| <b>Total</b>  | <b>(A+B)</b> | <b>916</b>                       | <b>(8)</b>                 | <b>78</b>   | <b>(62)</b> | <b>(9)</b>   | <b>915</b>                    |
| <i>Of which:</i>  |              |                                  |                            |   |             |  |                               |
| <i>Non-current portion</i>                              |              | 872                              |                            |   |             |  | 889                           |
| <i>Current portion*</i>                                 |              | 44                               |                            |   |             |  | 26                            |

(\* The current portion refers only to Other provisions for employee benefits.

Provision for employee severance indemnities only refers to Italian companies and increased overall by 28 million euros. The reduction of 30 million euros under decreases refers to indemnities paid to employees who terminated employment or for advances. Other changes refer entirely to the change in the scope of consolidation, following the sale of the companies La7 S.r.l. and MTV Italia S.r.l. The increase of 66 million euros in the column Increases/Present value includes the following:

|   | Year ended December 31,<br>2013 2012 2011<br>(millions of euros) |            |             |
|---|--|------------|-------------|
| Current service cost (*)                  |  |            |             |
| Finance expenses                          | 37   | 43         | 42          |
| Net actuarial losses (gains) for the year | 29   | 56         | (117)       |
| <b>Total</b>                              | <b>66</b>  | <b>99</b>  | <b>(75)</b> |
| <b>Effective return on plan assets</b>    | <b>n/a</b>   | <b>n/a</b> | <b>n/a</b>  |

(\* Following the social security reform in 2007, the portions intended for the INPS Treasury Fund or for the supplementary pension funds have been recorded under Employee benefits expenses , in Social security expenses , and not as Employee severance indemnities expenses . The latter account will continue to be used only for the severance indemnity expenses of companies with less than 50 employees, equal to 0.4 million euros in 2013 (basically unchanged compared to 2012 ) and curtailments, amounting to 0.1 million euros.

The net actuarial losses recognized at December 31, 2013, totaling 29 million euros (56 million euros in 2012), are essentially the result of the change in the discount rate applied.

According to national law, the amount to which each employee is entitled depends on the period of service and must be paid when the employee leaves the company. The amount of severance indemnity due upon termination of employment is calculated on the basis of the period of employment and the taxable compensation of each employee. This liability is adjusted annually based on the official cost-of-living index and legally-prescribed interest earned. The liability is not associated with any vesting condition or period or any funding obligation; hence, there are no assets servicing the provision.

Under the regulations introduced by Italian Legislative Decree 252/2005 and Law 296/2006 (the State Budget Law 2007), for companies with at least 50 employees, the severance indemnities accruing from 2007 are assigned, as elected by the employees, to either the INPS Treasury Fund or to supplementary pension funds and take the form of a defined contribution plan .

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However, for all companies, the revaluations of the amounts in the provision for employee severance indemnities existing at the election date, and also the amounts accrued and not assigned to supplementary pension plans for companies with less than 50 employees, are retained in the provision for employee severance indemnities. In accordance with IAS 19 (2011), the provision has been recognized as a defined benefit plan .

Under IAS 19 (2011), employee severance indemnities have been calculated using the Projected Unit Credit Method , the actuarial technique applied prior to the introduction of amendments to the standard. The method is applied as follows:

- the future possible benefits which could be paid to each employee registered in the program in the event of retirement, death, disability, resignation etc. have been projected on the basis of a series of financial assumptions (cost-of-living increases, interest rate, increase in compensation etc.). The estimate of future benefits includes any increases for additional service seniority as well as the estimated increase in the compensation level at the measurement date only for employees of companies with less than 50 employees during the year 2006;
- the average present value of future benefits has been calculated, at the measurement date, on the basis of the annual interest rate adopted and the probability that each benefit has to be effectively paid;
- the liability of each company concerned has been calculated as the average present value of future benefits that will be generated by the existing provision at the measurement date, without considering any future accruals (for companies with at least 50 employees during the year 2006) or by identifying the amount of the average present value of future benefits which refer to the past service already accrued by the employee in the company at the measurement date (for the others), i.e. adopting the service pro rate .

The following assumptions have been made in 2013 and in 2012:

| <b>Financial assumptions</b>                        | <b>Executives</b> | <b>Non executives</b> |
|---|-------------------|-----------------------|
| Inflation rate                                      | 2.00% per annum   | 2.00% per annum       |
| Discount rate (1)                                   | 4.11% per annum   | 4.11% per annum       |
| Employee severance indemnities annual increase rate | 3.00% per annum   | 3.00% per annum       |
| Increase in compensation                            |                   |                       |
| equal to or less than 40 years of age               | 1.0% per annum    | 1.0% per annum        |
| over 40 but equal to or less than 55 years of age   | 0.5% per annum    | 0.5% per annum        |
| over 55 years of age                                | 0.0% per annum    | 0.0% per annum        |

(1) In 2012, the discount rate was 4.5% per annum both for executives and non executives

| <b>Demographic assumptions</b>   | <b>Executives</b>  | <b>Non executives</b>   |
|--|--|---|
| Probability of death   | RG 48 mortality tables published by Ragioneria Generale dello Stato  | RG 48 mortality tables published by Ragioneria Generale dello Stato |
| Probability of disability  | INPS tables divided by age and sex   | INPS tables divided by age and sex                                  |
| Probability of resignation (in relation to the company):   |  |   |
| up to 40 years of age  | From 3.0% to 5.0% per annum  | From 1.5% to 4.0% per annum   |
| over 40 up to 50 years of age  | From 1.5% to 4.0% per annum  | From 0.5% to 2.5% per annum   |
| over 50 years of age   | none   | none  |
| Probability of retirement:   | Reaching the minimum requisites established by the<br>Obligatory General Insurance updated on the basis of<br>Law 214 of December 22, 2011 |   |
| Probability of receiving at the beginning of the year an advance from the provision for severance indemnities accrued equal to 70% | 3.0% per annum   | 3.0% per annum  |

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The adoption of the above assumptions resulted in a liability for employee severance indemnities at December 31, 2013 of 863 million euros (835 million euros at the end of 2012).

Reported below is a sensitivity analysis for each significant actuarial assumption adopted to calculate the liability as at year end, showing how the liability would have been affected by changes in the relevant actuarial assumptions that were reasonably possible at that date, stated in absolute terms.

The weighted average duration of the obligation is 12.5 years.

| <b>Changes in assumptions</b> | <b>Amounts<br/>(millions of euros)</b> |
|-------------------------------|--|
| <b>Turnover rate:</b>         |  |
| +0.25 p.p.                    | 2                                      |
| -0.25 p.p.                    | (2)                                    |
| <b>Annual inflation rate:</b> |  |
| +0.25 p.p.                    | 18                                     |
| -0.25 p.p.                    | (18)                                   |
| <b>Annual discount rate:</b>  |  |
| +0.25 p.p.                    | (24)                                   |
| -0.25 p.p.                    | 24                                     |

Provision for pension plans principally refer to pension plans operating in foreign companies of the Group.

Provision for termination benefit incentives decreased in total by 28 million euros. The increase of 10 million euros in connection with expenses for mobility under Law 223/91, recognized during the year following trade union agreements made by the Parent on March 27, 2013 (covering the Parent itself, Telecom Italia Sparkle and T.I. Information Technology) and by the company Advanced Caring Center on December 5, 2013, was entirely offset by a decrease of 30 million euros, following the drawing of provisions posted in previous years for mobility expenses under Law 223/91 by the Parent and the company Olivetti I-Jet, and the review of those provisions and the ex-Olivetti long-term mobility fund.

**NOTE 21 PROVISIONS**

Provisions decreased by 197 million euros compared to December 31, 2012 and are composed of the following:

| <b>As of<br/>December 31,<br/>2012</b> | <b>Discontinued<br/>operations</b> | <b>Increase</b> | <b>Used<br/>through<br/>income<br/>statement</b> | <b>Used<br/>directly</b> | <b>Exchange<br/>differences<br/>and<br/>other<br/>changes</b> | <b>As of<br/>December 31,<br/>2013</b> |
|--|------------------------------------|-----------------|--|--------------------------|---|--|
|--|------------------------------------|-----------------|--|--------------------------|---|--|

(millions of euros)

|   |              |              |            |             |              |             |              |
|---|--------------|--------------|------------|-------------|--------------|-------------|--------------|
| Provision for taxation and tax risks  | 142          | (31)         | 16         | (2)         | (13)         | (2)         | 110          |
| Provision for restoration costs   | 463          | (12)         | 4          |             | (4)          | (9)         | 442          |
| Provision for legal disputes  | 367          | (109)        | 110        | (1)         | (118)        | (40)        | 209          |
| Provision for commercial risks  | 130          |              | 8          | (1)         | (3)          |             | 134          |
| Provision for risks and charges on investments and corporate-related transactions | 88           |              | 27         |             | (15)         | 5           | 105          |
| Other provisions  | 131          |              | 4          | (8)         | (2)          | (1)         | 124          |
| <b>Total</b>  | <b>1,321</b> | <b>(152)</b> | <b>169</b> | <b>(12)</b> | <b>(155)</b> | <b>(47)</b> | <b>1,124</b> |

*Of which:*

|                            |     |  |  |  |  |  |     |
|----------------------------|-----|--|--|--|--|--|-----|
| <i>Non-current portion</i> | 863 |  |  |  |  |  | 699 |
| <i>Current portion</i>     | 458 |  |  |  |  |  | 425 |

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Provision for taxation and tax risks is basically unchanged compared to 2012. The figure at December 31, 2013 refers to companies in the Domestic Business Unit (52 million euros) and companies in the Brazil Business Unit (54 million euros).

Provision for restoration costs refers to the provision for the estimated cost of dismantling tangible assets in particular: batteries, wooden poles and equipment and for the restoration of the sites used for mobile telephony by companies belonging to the Domestic Business Unit (349 million euros) and to the Brazil Business Unit (93 million euros).

Provision for legal disputes includes the provision for litigation with employees, social security entities and third parties.

The figure at December 31, 2013 includes 144 million euros for the Domestic Business Unit and 62 million euros for the Brazil Business Unit.

Provision for commercial risks, showing no substantial change compared to the end of 2012, includes funds allocated primarily by Telecom Italia S.p.A., Olivetti S.p.A. and Telecom Italia Digital Solutions S.p.A., to cover existing risks.

Provision for risks and charges on investments and corporate-related transactions shows a net increase of 17 million euros, essentially in connection with the sale of equity investments in previous years.

Other provisions are substantially unchanged from December 31, 2012 and comprise the provision made in prior years for the Telecom Italia Sparkle case in the amount of 86 million euros, the provision for risks relating to the liberalization of frequencies, and the provisions made for regulatory proceedings.

**NOTE 22 MISCELLANEOUS PAYABLES AND OTHER NON CURRENT LIABILITIES**

Miscellaneous payables and other non-current liabilities decreased by 274 million euros compared to December 31, 2012 and are composed of the following:

|                                      | <b>As of December 31,</b>  |              |
|--------------------------------------|----------------------------|--------------|
|                                      | <b>2013</b>                | <b>2012</b>  |
|                                      | <b>(millions of euros)</b> |              |
| Payables to social security agencies | 28                         | 36           |
| Capital grants                       | 23                         | 29           |
| Deferred income                      | 647                        | 771          |
| Income tax payables (*)              | 55                         | 59           |
| Other                                | 26                         | 158          |
| <b>Total</b>                         | <b>779</b>                 | <b>1,053</b> |

(\*) Analyzed in the Note *Income taxes* .



**Payables to social security agencies** refer to the residual amount payable to INPS for estimated employee benefit obligations owed under Law 58/1992. Details are as follows:

|   | <b>As of December 31,</b>  |             |
|---|----------------------------|-------------|
|   | <b>2013</b>                | <b>2012</b> |
|   | <b>(millions of euros)</b> |             |
| <b>Non-current payables:</b>                                |                            |             |
| Due from 2 to 5 years after the end of the reporting period | 15                         | 20          |
| Due beyond 5 years after the end of the reporting period    | 13                         | 16          |
|   | <b>28</b>                  | <b>36</b>   |
| <b>Current payables</b>                                     | <b>9</b>                   | <b>12</b>   |
| <b>Total</b>  | <b>37</b>                  | <b>48</b>   |

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Deferred income includes 324 million euros (394 million euros at December 31, 2012) for the deferral of revenues from the activation of Telecom Italia S.p.A. telephone services and 281 million euros (268 million euros at December 31, 2012) for the deferral of revenues from the sale of transmission capacity, referring to future years.

**NOTE 23 TRADE AND MISCELLANEOUS PAYABLES AND OTHER CURRENT LIABILITIES**

Trade and miscellaneous payables and other current liabilities decreased by 1,893 million euros compared to December 31, 2012 and are composed of the following:

|  |            | As of December 31, |                     |              |              |
|--|------------|--------------------|---------------------|--------------|--------------|
|  |            | 2013               | Of which            |              | 2012         |
|  |            |                    | IAS 39              | IAS 39       |              |
|  |            |                    | Financial           | Financial    |              |
|  |            |                    | Instruments         | Instruments  |              |
|  |            |                    | (millions of euros) |              |              |
| <b>Payables on construction work</b>   | <b>(A)</b> | <b>30</b>          |                     |              | <b>35</b>    |
| <b>Trade payables:</b>   |            |                    |                     |              |              |
| Payables to suppliers  |            | 4,526              | 4,526               | 5,481        | 5,481        |
| Payables to other telecommunication operators  |            | 444                | 444                 | 638          | 638          |
|  | <b>(B)</b> | <b>4,970</b>       | <b>4,970</b>        | <b>6,119</b> | <b>6,119</b> |
| <b>Tax payables</b>  | <b>(C)</b> | <b>480</b>         |                     |              | <b>641</b>   |
| <b>Miscellaneous payables and other current liabilities:</b>   |            |                    |                     |              |              |
| Payables for employee compensation   |            | 321                | 321                 | 625          | 625          |
| Payables to social security agencies   |            | 167                |                     | 212          |              |
| Trade and miscellaneous deferred income  |            | 799                |                     | 853          |              |
| Advances received  |            | 25                 |                     | 20           |              |
| Customer-related items   |            | 912                | 232                 | 1,003        | 274          |
| Payables for TLC operating fee   |            | 23                 |                     | 35           |              |
| Dividends approved, but not yet paid to shareholders   |            | 55                 | 55                  | 60           | 60           |
| Other current liabilities  |            | 416                | 142                 | 437          | 190          |
| Employee benefits (except for Employee severance indemnities) for the current portion expected to be settled within 1 year |            | 26                 |                     | 44           |              |
| Provisions for risks and charges for the current portion expected to be settled within 1 year                              |            | 425                |                     | 458          |              |

|              |                  |              |              |               |              |
|--------------|------------------|--------------|--------------|---------------|--------------|
|              | (D)              | 3,169        | 750          | 3,747         | 1,149        |
| <b>Total</b> | <b>(A+B+C+D)</b> | <b>8,649</b> | <b>5,720</b> | <b>10,542</b> | <b>7,268</b> |

Further details on Financial Instruments are provided in the Note Supplementary disclosure on financial instruments .

Trade payables (due within 12 months), amounting to 4,970 million euros (6,119 million euros at December 31, 2012), mainly refer to Telecom Italia S.p.A. (2,731 million euros) and to companies belonging to the Brazil Business Unit (1,635 million euros). The decrease of 1,149 million euros compared to December 31, 2012 was driven by lower acquisitions of goods and services and lower capital expenditures, as well as by the effects of the classification of Sofora Telecom Argentina group as Discontinued operations/Non-current assets held for sale (591 million euros).

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Tax payables refer in particular to the VAT payable of Telecom Italia S.p.A. (149 million euros), the government concession tax of Telecom Italia S.p.A. (45 million euros), the withholding tax payables to the tax authorities of Telecom Italia S.p.A. as withholding agent (63 million euros), and other tax payables of the Brazil Business Unit (190 million euros).

**NOTE 24 CONTINGENT LIABILITIES, OTHER INFORMATION, COMMITMENTS AND GUARANTEES**

A description is provided below of the most significant judicial, arbitration and tax disputes in which Telecom Italia Group companies are involved as of December 31, 2013 as well as those that came to an end during the financial year.

The Telecom Italia Group has posted liabilities totaling 312 million euros for those disputes described below where the risk of losing the case has been considered probable.

**a) Significant disputes and pending legal actions*****Telecom Italia Sparkle Relations with I-Globe, Planetarium, Acumen, Accrue Telemedia and Diadem: investigation by the Public Prosecutor's Office of Rome***

In its judgement dated October 17, 2013, the Court of Rome found the three managers of Telecom Italia Sparkle involved in the proceedings not guilty of the crimes of cross-border criminal conspiracy and tax evasion and of false declaration by the use of invoices or other documents for phantom transactions. A further 18 defendants were found guilty and sentenced to prison terms of 20 months to 15 years.

While the procedural documents and the reasons for the judgement have not been fully disclosed or rendered, as applicable, we expect the acquittals of the persons accused of committing the alleged offences to rule out criminal liability being attributed to Telecom Italia Sparkle under Legislative Decree 231/2001. However, Telecom Italia Sparkle is still formally under investigation relating to the administrative offence pursuant to Legislative Decree 231/2001, with the predicate offence of cross-border criminal conspiracy, with which its managers are charged. However, even in the event of a conviction, the Company does not expect to suffer further material monetary consequences in excess of the amounts already set aside and/or seized, given that should any administrative fines and/or disqualifying penalties be imposed a conviction would require confiscation of the proceeds of the offence which, according to the charge as it is currently worded, would amount to approximately 72 million euros, an amount already covered by the surety guarantee and provided for in the consolidated financial statements for 2009.

As soon as the reasons for the not-guilty verdicts are available, Telecom Italia will assess the status of the sum of 10 million euros currently under seizure for guarantees related to the proceedings.

With respect to tax risk, VAT liability was satisfied in July 2010, by payment of 418 million euros. A possible claim of liability for direct taxation related to the applicability in the case in question of the rules for non-deductibility of the crime-related costs and/or costs for phantom transactions remain pending. Based on the uncertainty about the interpretation of these rules officially expressed by the tax authorities, and in the parliamentary debate on the advisability of changing the regulations (developed in decree law 16/2012, converted in law 44/2012), which did not seem in line with constitutional principles (since the Constitutional Court limited itself to an interlocutory judgement), the Company considered the related risk to be only a possibility, and did not make any provision in its 2010 and 2011 accounts.

However, in December 2012 the Italian Revenue Agency (*Agenzia delle Entrate*) (Lazio Regional Office) issued three formal notifications of fines for the years 2005, 2006 and 2007, based on the assumption that the telephone traffic in the Carousel fraud did not exist. Carousel fraud relates to the practice of importing goods and services from a country where they are not subject to VAT, selling them with VAT added and subsequently deliberately not paying the VAT to the government. The amount of these fines 25% of the crime related costs considered not deductible by the Revenue Agency total 280 million euros, which may be reduced to one third of that amount if a settlement is agreed.

The Company decided not to settle and filed defensive arguments with the Lazio Regional Office.

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On February 13, 2014, the Italian Revenue Agency (Lazio Regional Office) served three fines notices for violations of rules regarding income tax for the years 2005, 2006 and 2007.

Following detailed investigations and assessments with its advisors, the Company decided not to accept the penalty notices by settling the penalties imposed and lodged an appeal with the Commissione Tributaria Provinciale (Provincial Tax Commission).

In light of the investigations carried out, and considering the favourable outcome of the associated criminal proceedings, the risk of additional taxes becoming payable is believed to be only possible, so no provisions have been made in the 2013 financial statements.

***International tax and regulatory disputes***

On March 22, 2011, Tim Celular received a notice of a tax assessment issued by the Brazilian Federal Tax Authorities in the total amount, at the date of the claim, of 1,265 million reais (approximately 550 million euros), including fines and interest, upon completion of a tax audit covering the financial years 2006, 2007, 2008 and 2009 for the companies Tim Nordeste Telecomunicações S.A. and Tim Nordeste S.A. (previously called Maxitel), companies which have been merged into Tim Celular over time for the purpose of simplifying the corporate structure in Brazil.

The tax assessment notice refers to a number of matters, the most significant of which are:

- the disallowance of the tax effects of the merger of Tim Nordeste Telecomunicações S.A. and Maxitel S.A.;
- the disallowance of the deduction of the amortization of goodwill relating to the acquisition of Tele Nordeste Celular Participações S.A. ( TNC ).

The adjustments included in the assessment notice have been challenged by Tim Celular, before the administrative court, with the filing of an initial defence on April 20, 2011. On April 20, 2012, Tim Celular received notification of the decision of the administrative court of first instance which confirmed the findings set out in the assessment notice; Tim Celular filed an appeal against this decision on May 21, 2012, which appeal is pending.

The Management of Tim Celular and Tim Participações, as supported by legal opinions, believes it is unlikely that the company could suffer any negative consequences in relation to these matters.

With regard to Tim Participações Brazilian subsidiaries, other tax disputes are ongoing including claims for significant amounts but with a risk of loss considered not probable (for the aforementioned companies), on the basis of legal opinions issued to the companies.

The most relevant cases relate to the tax deductibility of the goodwill amortization, indirect taxation and contributions to the local regulatory authority (ANATEL). Of the main disputes concerning indirect taxation, several claims regard lowering the tax base due to discounts granted to customers; the regulatory authority however alleges that the company did not pay sufficient contributions to the FUST/FUNTTEL funds.

Finally, in December 2013, Tim Celular received a notice of tax assessment from the Brazilian Federal District Finance Secretariat for 582 million reais (approximately 180 million euros) at the date of formal notice, including penalties and interest, on account of alleged non-payments of indirect taxes for the years 2008 to 2012. The assessment was served following a decision by the Supreme Federal Court declaring that a state tax incentive was unconstitutional. The Company promptly filed an initial defence statement, in administrative proceedings, in January 2014. Also, on the basis of legal opinions, Tim Celular does not consider an unfavourable outcome to be likely.

***Investigation by the Public Prosecutor s Office of Monza***

Criminal proceedings are currently pending before the Public Prosecutor s Office of Monza as part of the preliminary investigation of a number of subjects, including allegations against employees of the Company, with respect to the supply under lease and/or sale of assets transactions which would constitute various offences committed against Telecom Italia, among others.

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On December 16, 2011 Telecom Italia, the injured party in the aforesaid criminal proceedings, filed a complaint against persons unknown with the Public Prosecutor's Office of Monza.

The preliminary investigation judge dropped separate proceedings initiated, amongst others, against three employees/former employees of the Company. However, among other persons, a former employee of the Company is apparently still being investigated as part of the main criminal proceedings.

As previously disclosed in our Financial Statements as of and for the year ended December 31, 2012, at the end of 2012, the Monza Guardia di Finanza served a notice of assessment on Telecom Italia with findings relating to direct taxation and VAT for the years 2007, 2008 and 2009. In particular, the findings related to the existence of phantom transactions between Telecom Italia and a supplier as well as between Telecom Italia and a leasing company, resulting in associated costs being partially non-deductible for income tax purposes and the respective transactions being inadmissible for VAT purposes. The Company reached an agreement with the Revenue Agency (Agenzia delle Entrate) of Milan pursuant to which it accepted the findings under dispute; the total amount paid in the first half of 2013 was 3.4 million euros.

Taking account of the potential risks linked to other transactions still under investigation, together with the matters that have been agreed, the remaining provision for associated liabilities remains at 7.9 million euros.

***Administrative offence charge pursuant to Legislative Decree 231/2001 for the so-called Telecom Italia Security Affair***

In December 2008 Telecom Italia received a notice of commencement of proceedings for administrative offenses under articles 21 and 25, subsections 2 and 4, of legislative decree no. 231/2001. Following the investigation, by the Public Prosecutor of Milan, former Company employees and consultants were charged with a series of crimes, including among others the offense, under legislative decree 231/2001, of bribing public officials to obtain information from confidential archives. In May 2010, the Judge concluded that the 400,000 euros fine that the Company had agreed to pay was adequate: after this judgment, Telecom Italia was no longer a defendant in the criminal trial. At the same time, the Judge approved the motion for settlement of the proceedings (plea bargaining) presented by many other defendants, including ex-employees of the Group.

In the preliminary hearing before Section One of the Milan Court of Assizes, Telecom Italia acted in the dual role of civil party and civilly liable party. On the one hand Telecom Italia was admitted as civil party permitted to establish claims against all the defendants for all charges, and on the other hand Telecom Italia was also cited as the party with civil liability pursuant to article 2049 of the Italian Civil Code for the actions of the defendants in relation to 32 civil parties. Telecom Italia Latam and Telecom Italia Audit & Compliance Services (now incorporated into Telecom Italia) also participated in the hearing as civil parties, having filed appearances since the Preliminary Hearing and brought charges against the defendants for hacking.

After lengthy evidential hearings which lasted more than a year 22 civil parties filed claims for compensation, against Telecom Italia as civilly liable party, for over 60 million euros (over 42 million euros of which requested by a single civil party). The Company itself, as civil party, also through its claims against the defendants, requested that they be found liable for all the damages suffered as a result of the facts of the case.



On February 13, 2013, the Milan Court of Assizes issued its judgement, sentencing certain of the defendants to terms of imprisonment ranging between 7 years and 6 months and one year. The Court also recognised that some of the civil parties had suffered non-monetary damages as a consequence of the alleged activities, and sentenced the defendants, jointly and severally with civilly liable party Telecom Italia, to compensate said civil parties in the amount of 270,000 euros (of which 170,000 euros were paid jointly and severally by Pirelli). At the same time the Court also ordered certain of the defendants to pay compensation for monetary and non-monetary damages incurred by the Company, granting it a provisional award of 10 million euros. The Court also recognised the existence of non-monetary damages to the companies Telecom Italia Latam and Telecom Italia Audit & Compliance Services, ordering the defendants to pay compensation for damages on an equitable basis of 20,000 euros for each company.

In November 2013, the reasons for the first instance judgement were published (which the Company decided not to challenge) and Telecom Italia is receiving notifications of the first appeals.

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At the conclusion of case A428, on May 10, 2013, the Italian antitrust authority AGCM imposed two administrative sanctions of 88,182,000 euros and 15,612,000 euros on Telecom Italia for abuse of its dominant position. The AGCM concluded that the Company (i) hindered or delayed activation of access services requested by OLOs through unjustified and spurious refusals; and (ii) offered its access services to final customers at economic and technical conditions that allegedly could not be matched by competitors purchasing wholesale access services from Telecom Italia itself, only in those geographic areas of Italy where disaggregated access services to the local network are available, and hence where other operators can compete more effectively with the Company.

Telecom Italia appealed this decision to the Regional Administrative Court (TAR) for Lazio, applying for payment of the fine to be suspended. In particular, it alleged infringement of its procedural rights to defend itself in the proceedings, claimed that the organisational structures challenged by AGCM and allegedly accounting for the abuse vis-à-vis the OLOs in connection with the provisioning processes had been the subject of specific rulings made by the AGCom, the circumstance that the comparative examination of the internal/external provisioning processes had shown better results for the OLOs than for the Telecom Italia retail department (hence the lack of any form of inequality of treatment and/or opportunistic behaviour by Telecom Italia), and (regarding alleged abuse (ii) described above) the fact that the conduct was structurally unsuitable to reduce the margins of the OLOs.

In December 2013, the TAR upheld the application for payment of the fine to be suspended, scheduling a hearing for the discussion of the merits for February 2014, subsequently postponed to March 2014. The Telecom Italia Group has recorded liabilities covering the total amount of the two administrative sanctions imposed by the AGCM.

In many proceedings described in the paragraphs below, in addition to the amount that has been accrued, it is not possible to determine whether any loss is probable or to estimate the amount of any loss. Numerous legal and factual issues may need to be resolved, including through potentially lengthy discovery and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a liability can be reasonably estimated for any claim. The Telecom Italia Group cannot predict if, how, or when such claims will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage of their development or where claimants seek substantial or indeterminate damages.

Therefore as permitted by par. 91 of IAS 37 we have not disclosed an estimate of the financial effect, and the other information required by IAS 37 par. 86 (b) because it was not practicable to do so.

In each of the material legal proceedings, investigations and reviews described below, unless specifically noted otherwise, it is not possible to reliably estimate with any certainty the liability, if any, or the effect these proceedings, investigations and reviews, and any related developments, may have on the Telecom Italia Group. Moreover, in the case in which the disclosure of information with respect to a particular dispute or proceeding could seriously prejudice the position of Telecom Italia or its subsidiaries, only the general nature of the dispute is described.

***Antitrust Case I757***

On September 12, 2012, the AGCM started an investigation against Telecom Italia, Wind and Vodafone to ascertain the existence of an agreement restrictive of competition aimed at excluding from the market the operator BIP Mobile S.r.l.

BIP Mobile S.r.l., which intended to present itself as the first low cost virtual operator, did not have its own sales network, since it accessed the market using a multibrand distribution channel. According to the complaint it submitted to the AGCM, the Company had been faced with cancellations by retailers that distribute mobile telephony products of various operators, allegedly induced by pressures that were supposedly the fruit of a concerted strategy between Telecom Italia, Vodafone and Wind .

In December 2013, the AGCM decided to extend the investigation to examine the conduct of Telecom Italia and Wind with regard to potential violations of article 101 of the Treaty on the Functioning of the European Union

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(TFEU) arising from certain supplementary vertical agreements entered into by each of them with some multibrand dealers; those agreements provide extra incentives to the dealer while granting to the telecom operator the right to terminate them if the dealer markets the products or services of operators other than those already marketed at the time the agreement is signed.

The time limit for completion of the investigation was postponed until October 30, 2014.

***Antitrust Case I761***

With a ruling issued on July 10, 2013, the AGCM extended the investigation started in March 2013 into some enterprises active in the fixed network maintenance sector to Telecom Italia. The investigation is aimed at establishing if an agreement violating article 101 TFEU is in place. The proceedings were initiated after Wind filed two complaints in which it reported to the AGCM that, based on an invitation to bid for the assignment of network corrective maintenance services, it had encountered substantial uniformity of prices offered by the aforementioned enterprises and a significant difference from the offers submitted subsequently by other and different companies.

The AGCM alleges that Telecom Italia carried out a role of coordinating the other parts of the procedure, both during the formulation of the offers requested by Wind and in relation to the positions represented to AGCom.

Telecom Italia challenged the order opening the investigation before the Regional Administrative Court (TAR) for Lazio, arguing that the AGCM does not have competence in this matter.

The proceedings are currently scheduled to be concluded on July 31, 2014 and, given the current stage of the procedure, it is not currently possible to predict its outcome.

***Dispute relative to Adjustments on licence fees for the years 1994-1998***

With regard to the judgements sought in previous years by Telecom Italia and Tim concerning the Ministry of Communications' request for payment of the balance of the amounts paid in concession charges for the years 1994-1998, the Regional Administrative Court (TAR) for Lazio rejected the Company's appeal against the request for adjustment of the licence fee for 1994 in the amount of approximately 11 million euros, 9 million euros of which related to revenues not received due to bad debts.

Telecom Italia lodged an appeal with the Council of State (*Consiglio di Stato*).

***FASTWEB***

The arbitration initiated by Fastweb in January 2011 in which Fastweb requested compensation for alleged damages totalling 146 million euros incurred following alleged non-compliance with the provisions of the contract for the supply of the LLU service is ongoing. In particular, Fastweb contends that, in the period from July 2008 to June 2010, Telecom Italia had refused, unlawfully, to execute approximately 30,000 requests to migrate customers to the Fastweb network. Telecom Italia has filed a counterclaim with the arbitral tribunal.

In April 2014, Fastweb and Telecom Italia reached a technical-procedural agreement providing for an abandonment of the arbitration proceedings, but not of their respective claims. These claims are the subject of the lawsuit pending

before the Court of Milan, which is described below.

In December 2013, Fastweb filed a writ of summons with the Court of Milan with a claim for damages arising from alleged improper conduct by Telecom Italia in issuing an excessive number of refusals to supply wholesale access ( KO ) services during 2009-2012 and in making economic offers to business customers, in areas open to LLU services, that could not be replicated by competitors because of the alleged squeeze on discount margins ( margin squeezing practices). Based on the principles set forth in decision A428 of the AGCM, Fastweb quantified this claim to be in the order of 1,744 million euros. The first hearing is scheduled for May 2014.

The Company will challenge the claims made by Fastweb.

***VODAFONE***

In August 2013, Vodafone, as incorporating company of operator Teletu, submitted to the Milan Court a substantial claim for damages for presumed abusive and anticompetitive behaviour (founded principally on AGCM

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decision A428) which Telecom Italia allegedly implemented in the period 2008–2013. The monetary claim was quantified by Vodafone as an estimated sum of between 876 million euros and 1,029 million euros.

In particular, Vodafone alleged technical boycotting practices, including the alleged refusal on the part of Telecom Italia to activate lines requested for Teletu customers (in the period from 2008 to June 2013), together with the adoption of allegedly abusive price policies for wholesale network access services (in the period from 2008 to June 2013). In addition, Vodafone alleged application of discounts to business customers greater than those envisaged (margin squeezing practices) and the carrying out of presumed illegal and anticompetitive winback practices (in the period from the second half of 2012 to June 2013).

Telecom Italia is challenging the claims made by Vodafone and has made a counterclaim.

***WIND***

Without prejudice to the proceedings started with a writ issued in January 2012 for compensation of alleged damages (quantified as 90 million euros) deriving from alleged unfair competition caused by the refusal to activate service requests in the period July 2009–October 2010, based on the antitrust decision A428, Wind commenced proceedings against the Company in June 2013 claiming compensation for damages (quantified as over 247 million euros, approximately 37 million euros of which related to reputational damage) arising from the refusal by Telecom Italia to activate the lines of 80,159 potential customers in the period July 2011–October 2012.

Telecom Italia is challenging the claims made by Wind and making a counterclaim.

***Federazione Anti Pirateria Audiovisiva (FAPAV) (The Italian Federation against the unlawful duplication of audiovisual material)***

In September 2013, an agreement was reached between Telecom Italia, antipiracy group Federazione Anti Pirateria Audiovisiva (FAPAV) and Siae (which intervened in favour of FAPAV) that settled the suit brought by FAPAV in the specialised intellectual and industrial property section of the Rome Court seeking compensation of 320 million euros resulting from Telecom Italia's alleged failure to prevent the unlawful downloading of films by customers of the Company accessing certain websites. The agreement provided for both parties to renounce their claims against each other for damages and legal expenses, with no additional costs.

***EUTELIA and VOICEPLUS***

In June 2009, Eutelia and Voiceplus filed a complaint alleging Telecom Italia's abuse of its dominant position in the premium services market (involving the offering to the public of services provided through so-called Non Geographic Numbers) be investigated. Plaintiffs sought damages of approximately 730 million euros for losses suffered.

The case follows the issuance of an injunction by the Milan Court of Appeal which prohibited certain behaviours by Telecom Italia ordering it to cease the alleged abuses in the Company's business relations with Eutelia and Voiceplus, relating to the Non Geographic Numbers for which Telecom Italia, in accordance with regulatory requirements managed the revenues from the end customers on behalf of such OLOs.

After the ruling pursuant to which the Milan Court of Appeal accepted Telecom Italia's objections, declaring that it was not competent in this matter and referring the case to the Civil Court, Eutelia in extraordinary administration and Voiceplus in liquidation resubmitted the matter to the Milan Trial Court. Telecom Italia challenged the claims of the other parties.

***TELEUNIT***

In October 2009 Teleunit filed a complaint before the Court of Appeal of Milan alleging Telecom Italia's abuse of dominant position in the premium service market (involving the offering to the public of services through so called Non Geographical Numbers and Telecom Italia's regulatory obligation to collect payments, on behalf of these OLOs, from end users). Plaintiff sought damages of approximately 362 million euros for the losses incurred. Telecom Italia has filed a formal reply to dispute plaintiff's claims.

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In a judgement issued in January 2014, the Milan Court of Appeal declared its lack of jurisdiction in favour of the Milan Trial Court. The terms for resumption of the proceedings by Teleunit are pending.

***Irregular sale of handsets to companies in San Marino Investigation by the Public Prosecutor's Office of Forlì***

Despite the initial dismissal of the case by the Public Prosecutor's Office of Bologna in 2011, in June 2012 the Company was served a search warrant issued by the Public Prosecutor's Office of Forlì, as part of a proceeding in which one employee, subsequently suspended, and three former employees of the Company were the subject.

In September 2013, a notice of completion of the preliminary investigations was filed. The proceedings relate to a conspiracy for the purpose of committing the offences of false declaration through the use of invoices or other documents for phantom transactions and issuing of invoices or other documents for phantom transactions, and the respective target offences, as well as (only in respect of the Company's employees) hindering the operation of public supervisory authorities, *for having prevented CONSOB from learning promptly of the involvement of Telecom Italia S.p.A. in the San Marino System for achieving the sales targets imposed by senior management, failing to inform the communication authorities at CONSOB of the economic, equity-related, financial and reputation risks to which its involvement might have led, with potential harm to investors and consequential alteration of market transparency*.

This matter was the subject of an audit and an internal investigation as part of the Greenfield Project at the time. In this regard, as a result of the findings of these investigative activities, the Company independently took steps to regularise certain invoices issued to the San Marino companies and for which certain tax obligations had not been fully discharged.

***POSTE***

There are some pending actions brought by Ing. C. Olivetti & C. S.p.A. (now Telecom Italia) against Poste, the Italian postal service, concerning non-payment of services rendered under a series of contracts to supply IT goods and services. The judgements issued in the lower courts were partially favourable to the ex-Olivetti, and have been appealed against by Poste in individual rehearings.

In this respect, while a judgement of the Rome Appeal Court confirmed one of the outstanding payables to Telecom Italia, another judgement by the same Court declared void one of the disputed contracts. After this judgement, Poste issued a writ for the return of approximately 58 million euros, opposed by Telecom Italia given that the judgement of the Supreme Court for amendment of the above judgement is still pending.

After the judgement of the Supreme Court that rejected and remanded the decision of the Appeal Court on which the order was based, the Rome Court declared that the matter at issue in the enforcement proceedings was discontinued, since the claim made by Poste had been rejected. The judgement was resubmitted to another section of the Rome Appeal Court.

***Gruppo Eritel Telecom S.p.A.***

In a judgement filed at the end of January 2014, the Court of Rome accepted the defence arguments submitted by Telecom Italia, amongst others, and entirely rejected the claims made by the receivers of the bankrupt company Elinet S.p.A. against its former directors, statutory auditors and auditing firm, and against Telecom Italia, in respect of which



charges were brought regarding alleged management and coordination of the Elitel group (an alternative operator in which the Company has never had a shareholding) allegedly carried out in particular by using the commercial credit management lever.

The receivers of Elitel s.r.l. and of Elitel Telecom S.p.A. (at the time the parent company of the Elitel group) were also party to these proceedings and claimed a total of 282 million euros.

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In April 2005, the company Carothers Ltd., acting as successor of Delan Cellular Services S.A. (Delan), was awarded by the Judge of First Instance of Athens, Greece, damages for an amount of approximately 85 million euros against Wind Hellas (the new corporate name of TIM Hellas, the Greek subsidiary sold by the Telecom Italia Group in 2005); the decision was appealed by Wind Hellas and is currently pending before the Court of Appeals of Athens. Wind Hellas in turn sued Telecom Italia International before an ICC Arbitral Tribunal on the basis of the indemnification obligations contained in the stock purchase agreement for the sale of the subsidiary.

Wind Hellas sought a declaration of its right to be held harmless for any possible negative outcome deriving from the ongoing appeal proceedings. In August 2012, Telecom Italia International filed the response to the request for arbitration and counterclaim, requesting among others compensation for damages as a result of breach of the arbitral clause contained in the Stock Purchase Agreement executed in 2005 in connection with the notice of joinder to Telecom Italia International as guarantor before the Greek Courts. In March 2013, Wind Hellas filed the Statement of Claim. The trial hearing set for the last week of February 2014 has been postponed with the agreement of the parties to a later date to be decided by the Arbitral Tribunal.

Moreover Wind Hellas asked Telecom Italia International to assume the defence of another ordinary legal dispute in Greece, this too allegedly part of the obligations deriving from the contract of sale.

***Brazil Docas/JVCO arbitration***

In March 2013, the Brazilian companies Docas Investimentos S.A. (Docas) and JVCO Participações Ltda. (JVCO) started arbitration proceedings against Tim Brasil Serviços e Participações S.A. (Tim Brasil), Tim Participações S.A. (Tim Participações) and Intelig Telecomunicações Ltda. (Intelig) requesting the restitution of the Tim Participações shares held by the Tim group as guarantee for the indemnity obligations undertaken by the Docas group upon acquisition of Intelig (a Docas group company) by the merger by incorporation of its controlling company into Tim Participações ( Alienação Fiduciária ), as well as compensation for damages for alleged breach of the merger agreement and alleged offences by Tim Participações in determining the exchange ratio between Tim Participações shares and Intelig shares. After a board of arbitrators had been constituted in May 2013, Tim Brasil, Tim Participações and Intelig filed their response, including a counterclaim against the Docas group for compensation for damages.

In August 2013, the Tribunal issued the procedure order and in September the terms of reference document was signed. In October 2013, the Arbitral Tribunal upheld a prior injunction issued by the Tribunal of São Paulo, preventing Tim Brasil from executing a guarantee on the aforementioned Tim Participações shares held by the Tim group in Alienação Fiduciária . In the same decision, the Arbitral Tribunal also ordered that, to preserve the status quo until the pending dispute has been resolved, the shares shall remain in the custody of the Banco Bradesco, while the corresponding voting rights shall remain frozen and the payments of future dividends shall be made into an escrow account set up by the parties at a financial institution of acknowledged international reputation. The escrow account ordered by the Arbitration Tribunal has not been released yet and is the subject of discussion between the parties.

In December 2013, the Statement of Claim was filed by JVCO and Docas. According to the allegations of the counterparties, JVCO was allegedly deceived in accepting the exchange ratio for the Intelig merger. In March 2014, Tim Brasil and Tim Participações filed the Statement of Counterclaim, exploiting the counterclaims brought against JVCO and Docas.

On December 30, 2013, Docas/JVCO were served with a notice, in accordance with article 9.1.1 of the Alienação Fiduciária contract (according to which, on the fourth anniversary of the Closing i.e. December 30, 2014 Tim will return to JVCO all the shares held as guarantee and which were not charged against actual or potential liabilities), confirming that no shares would be returned to Docas/JVCO as the value of the shares to be pledged as a guarantee is lower than that arising from actual or potential liabilities (as a consequence of labor and tax claims).

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In September 2013, Telecom Italia was served notice of judicial proceedings brought by JVCO Participações Ltda. (JVCO) before the Rio de Janeiro Court against Telecom Italia, Telecom Italia International and Tim Brasil Serviços e Participações S.A., requesting a declaration that the control of Tim Participações S.A. (Tim Participações) by Telecom Italia and Telecom Italia International is declared abusive, and compensation of the damages caused by the exercise of such allegedly abusive of control, in an amount to be determined during the proceedings. Notice of these proceedings had previously been served to Telecom Italia International and Tim Brasil Serviços e Participações.

In February 2014, Telecom Italia, Telecom Italia International and Tim Brasil Serviços e Participações timely filed their defences.

***Brazil Opportunity Arbitration***

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

In August 2013, the Opportunity group filed a Statement of Claim, defining in detail its claims against Telecom Italia and Telecom Italia International and, in particular, specifying the facts on which they rely and indicating the sources of proof, also in relation to quantification of the damages. On March 26, 2014, Telecom Italia and Telecom Italia International filed their Statement of Defense and Counterclaim, in which they rejected the allegations and challenged the reliefs sought by Opportunity; the defendants also brought a counterclaim for damages for a contractual breach by Opportunity. The trial hearing is scheduled to be held in November 2014.

***Others Telecom Argentina***

On June 3, 2013, four trade union organisations issued proceedings against Telecom Argentina to obtain the issuance of profit sharing bonds reserved for the employees, as provided in a specific Argentine Law, challenging the constitutionality of the subsequent Decree no. 395/92 which exempted Telecom Argentina from issuing such bonds.

The company filed its defence briefs, challenging the claims made by the opposing party with the labour court. On October 30, 2013, the judge rejected the claims made by Telecom Argentina, postponing the decision to the outcome of the court appearance by the parties. The company appealed the decision and the appeal is still pending.

Based on the assessments made by its external counsel, while not being able to guarantee the favourable outcome of its defence arguments, the management of Telecom Argentina believes the opposing party's claim to be unfounded.

**b) Other information*****Mobile telephony criminal proceedings***

In March 2012, Telecom Italia was served notice of the conclusion of preliminary proceedings in which the Company was being investigated by the Public Prosecutor of Milan pursuant to Legislative Decree n. 231/2001, for the offences of handling stolen goods and counterfeiting, according to the allegations, by fourteen employees of the so-called ethnic channel , with the participation of a number of dealers, for the purpose of earning undeserved commissions from Telecom Italia.

The Company, as the injured party damaged by such conduct, had brought two legal actions in 2008 and 2009 and had proceeded to suspend the employees involved in the criminal proceedings (suspension later followed by dismissal). It has also filed an initial statement of defence, together with a technical report by its own expert,

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requesting that the proceedings against it be suspended, and that charges of aggravated fraud against the Company be brought against the other defendants. In December 2012, the Public Prosecutor's Office filed a request for 89 defendants and the Company itself to be committed for trial.

During the preliminary hearing, the Company was admitted as civil party to the trial and, in November 2013, the conclusions as to the Company's involvement as a civil party was filed, reaffirming that Telecom Italia was not a participant in the offences claimed.

On March 18, 2014, at the outcome of the preliminary hearing, the judge indicted of all defendants (including Telecom Italia), with the generic motivation that facts deserve further discussion. The first hearing has been scheduled for May 29, 2014.

\* \* \*

With regard to the criminal proceedings for the offence of preventing the public supervisory authorities from performing their functions against a former Executive Director (Mr Riccardo Ruggiero) and two former managers related, in the charge, to the communication to AGCom of a customer base deemed to have been altered both by false extensions of 5,130,000 SIM cards topped up with 0.01 euros, and by activating 1,042,447 SIM cards deemed irregular and not topped up in the twelve months after activation, in November 2013, the judge in the preliminary hearing at the Court of Rome dismissed the case following the transfer of the case from the Court of Milan to the Court of Rome due to lack of jurisdiction.

The Attorney General lodged an appeal against the judgement with the Supreme Court. The hearing has been scheduled for May 6, 2014.

***TELETU***

There is a pending litigation for compensation started by Telecom Italia with a summons dated February 2012 against the operator Teletu (now incorporated into Vodafone) for unlawful refusals regarding reactivation with Telecom Italia of the competitor's customers. The claim was quantified as approximately 93 million euros.

***CONSOB audit***

In November 2013, officials from the National Commission for Companies and the Stock Exchange (CONSOB) conducted an audit at the registered offices of Telecom Italia pursuant to article 115, subsection 1, letter c) of Legislative Decree 58/1998 (Consolidated Finance Law - CFL), in order to obtain documents and information concerning the bond issue of Telecom Italia Finance ( *Guaranteed Subordinated Mandatory Convertible Bonds due 2016 convertible into ordinary shares of Telecom Italia S.p.A.* ), the procedures for the sale of holdings held by the Telecom Italia Group in the Sofora Telecom Argentina Group and the Company's procedures regarding the confidentiality of sensitive information and keeping of the register of people who have access thereto.

According to public sources, CONSOB informed the Public Prosecutor's Office of Rome of the audit and on December 20, 2013 the latter issued a press release stating that: With regard to corporate and financial events involving the companies Telecom Italia and Telco, the Public Prosecutor's Office points out that there are no subjects under investigation for the offence of obstructing Supervision nor for any other kind of offence. The Public

Prosecutor's Office also stated that since last October the office of the public prosecutor has been following the developments in the Telecom affair, requesting and engaging in exchanges of information with CONSOB between the judicial and supervisory authorities, particularly in cases where potential offences might have been committed .

***Other Liabilities Connected With Sales Of Assets And Investments***

Under the contracts for the sale of assets and companies, the Telecom Italia Group has guaranteed compensation generally commensurate to a percentage of purchase price to buyers for liabilities deriving mainly from legal, tax, social security and labor-related issues.

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In connection with these contingent liabilities, totaling about 1,100 million euros, only for those cases in which an outflow of resources is considered probable, an amount of 102 million euros has been accrued in the provision for risks.

Moreover, the Telecom Italia Group is committed to provide further compensation for certain specific contractual provisions under agreements for the sale of assets and companies, for which the contingent liabilities cannot at present be determined.

**c) Commitments and guarantees**

Guarantees, net of back-to-back guarantees received, amounted to 10 million euros.

Guarantees were provided by banks and other financial institutions on behalf of Telecom Italia to Group companies, amounting to 5,057 million euros, to guarantee financing received (2,076 million euros) and performance under outstanding contracts (2,981 million euros).

Among the guarantees provided by banks and other financial institutions on behalf of Telecom Italia are two guarantees in favor of the Ministry of Economic Development for the auction to assign the rights of use for the 800, 1800 and 2600 MHz frequencies. The guarantees amount, respectively, to 456 million euros (for the request to pay back the total amount owed over a period of 5 years) and 38 million euros (for the commitment undertaken by the Company to build equipment networks according to eco-sustainability characteristics). In particular, the Company has made a commitment to achieve energy savings in the new LTE technologies of approximately 10% on infrastructure and 20% on transmission devices over a period of 5 years (compared to energy consumed by current technology).

Details of the main guarantees received for EIB financing at December 31, 2013 are as follows:

| <b>Issuer</b>                          | <b>Amount (1)<br/>(millions of euros)</b> |
|--|---|
| BBVA - Banco Bilbao Vizcaya Argentaria | 372                                       |
| Intesa SanPaolo                        | 366                                       |
| Bank of Tokyo Mitsubishi UFJ           | 254                                       |
| Banco Santander                        | 139                                       |
| Sumitomo                               | 109                                       |
| SACE                                   | 210                                       |
| Natixis                                | 92  |
| Barclays Bank                          | 75  |
| Citibank                               | 28  |

(1) Relative to loans issued by EIB for Tim Rete Mobile, Telecom Italia Breitband Infrastruktur Deutschland, Telecom Italia Media Digital Network, Telecom Italia Banda Larga, Telecom Italia Ricerca & Sviluppo, Telecom Italia Digital Divide Projects.



There are also surety bonds on the telecommunication services in Brazil for 730 million euros.

**d) Assets pledged to guarantee financial liabilities**

The contracts for low-rate loans granted by the Brazilian development bank BNDES (Banco Nacional de Desenvolvimento Econômico e Social) to Tim Celular for a total equivalent amount of 762 million euros are covered by specific covenants. In the event of non-compliance with the covenant obligations, BNDES will have a right to the receipts which transit on the bank accounts of the company.

**NOTE 25 REVENUES**

Revenues amounted to 23,407 million euros, 25,759 million euros in 2012 and 26,772 million euros in 2011, showing a decrease of 2,352 million euros in 2013 compared to 2012 and a decrease of 1,013 million euros in 2012 compared to 2011.

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Details are as follows:

|                                    | <b>Year ended December 31,</b> |               |               |
|------------------------------------|--------------------------------|---------------|---------------|
|                                    | <b>2013</b>                    | <b>2012</b>   | <b>2011</b>   |
|                                    | (millions of euros)            |               |               |
| Equipment sales                    | 2,101                          | 1,942         | 1,912         |
| Services                           | 21,323                         | 23,803        | 24,846        |
| Revenues on construction contracts | (17)                           | 14            | 14            |
| <b>Total</b>                       | <b>23,407</b>                  | <b>25,759</b> | <b>26,772</b> |

Revenues from telecommunications services are presented gross of amounts due to other TLC operators, of 2,520 million euros (3,245 million euros in 2012, a decrease of 22.3%), included in the costs of services.

For a breakdown of revenues by operating segment/geographical area, reference should be made to the Note Segment Reporting .

**NOTE 26 OTHER INCOME**

Other income amounted to 324 million euros in 2013, 285 million euros in 2012 and 294 million euros in 2011, showing an increase of 39 million euros in 2013 compared to 2012 and a decrease of 9 million euros in 2012 compared to 2011.

Details are as follows:

|  | <b>Year ended December 31,</b> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <b>2013</b>                    | <b>2012</b> | <b>2011</b> |
|  | (millions of euros)            |             |             |
| Late payment fees charged for telephone services                       | 63                             | 69          | 71          |
| Recovery of employee benefit expenses, purchases and services rendered | 28                             | 35          | 36          |
| Capital and operating grants   | 27                             | 18          | 24          |
| Damage compensation, penalties and sundry recoveries                   | 64                             | 40          | 32          |
| Other income   | 142                            | 123         | 131         |
| <b>Total</b>   | <b>324</b>                     | <b>285</b>  | <b>294</b>  |

**NOTE 27 ACQUISITION OF GOODS AND SERVICES**

Acquisition of goods and services amounted to 10,377 million euros in 2013, 11,289 million euros in 2012, and 11,495 million euros in 2011, showing a decrease of 912 million euros in 2013 compared to 2012 and of 206 million euros in 2012 compared to 2011.

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Details are as follows:

|   |                | <b>Year ended December 31,</b> |               |               |
|---|----------------|--------------------------------|---------------|---------------|
|   |                | <b>2013</b>                    | <b>2012</b>   | <b>2011</b>   |
|   |                | <b>(millions of euros)</b>     |               |               |
| <b>Acquisition of raw materials and merchandise</b>   | <b>(A)</b>     | <b>2,358</b>                   | <b>2,203</b>  | <b>2,185</b>  |
| <b>Costs of services:</b>   |                |                                |               |               |
| Revenues due to other TLC operators   |                | 2,520                          | 3,245         | 3,489         |
| Interconnection costs   |                | 30                             | 27            | 29            |
| Commissions, sales commissions and other selling expenses                                       |                | 1,089                          | 1,174         | 1,321         |
| Advertising and promotion expenses  |                | 476                            | 523           | 559           |
| Professional and consulting services  |                | 390                            | 410           | 398           |
| Utilities   |                | 492                            | 480           | 421           |
| Maintenance   |                | 364                            | 367           | 318           |
| Outsourcing costs for other services  |                | 497                            | 589           | 572           |
| Mailing and delivery expenses for telephone bills, directories and other materials to customers |                | 92                             | 98            | 92            |
| Other service expenses  |                | 715                            | 790           | 753           |
|   | <b>(B)</b>     | <b>6,665</b>                   | <b>7,703</b>  | <b>7,952</b>  |
| <b>Lease and rental costs:</b>  |                |                                |               |               |
| Rent and leases   |                | 755                            | 649           | 632           |
| TLC circuit lease rents and rents for use of satellite systems                                  |                | 399                            | 525           | 513           |
| Other lease and rental costs  |                | 200                            | 209           | 213           |
|   | <b>(C)</b>     | <b>1,354</b>                   | <b>1,383</b>  | <b>1,358</b>  |
| <b>Total</b>  | <b>(A+B+C)</b> | <b>10,377</b>                  | <b>11,289</b> | <b>11,495</b> |

**NOTE 28 EMPLOYEE BENEFITS EXPENSES**

Employee benefits expenses amounted to 3,087 million euros in 2013, 3,333 million euros in 2012 and 3,514 million euros in 2011, showing a decrease of 246 million euros in 2013 compared to 2012 and of 181 million euros in 2012 compared to 2011.

Details are as follows:

**Year ended December 31,**  
**2013 2012 2011**

|  | (millions of euros) |              |              |
|--|---------------------|--------------|--------------|
| <b>Employee benefits expenses</b>  |                     |              |              |
| Wages and salaries   | 2,183               | 2,386        | 2,463        |
| Social security expenses   | 788                 | 847          | 898          |
| Other employee benefits  | 66                  | 55           | 88           |
|  | <b>(A)</b>          | <b>3,037</b> | <b>3,288</b> |
| <b>Costs and provisions for temp work</b>  | <b>(B)</b>          | <b>2</b>     | <b>4</b>     |
| <b>Miscellaneous expenses for personnel and other labor-related services rendered:</b> |                     |              |              |
| Remuneration of personnel other than employees   | 3                   | 10           | 8            |
| Charges for termination benefit incentives   | 27                  | 26           | 37           |
| Corporate restructuring expenses   | 19                  | 10           | 12           |
| Other  | (1)                 | (5)          | 3            |
|  | <b>(C)</b>          | <b>48</b>    | <b>41</b>    |
| <b>Total</b>   | <b>(A+B+C)</b>      | <b>3,087</b> | <b>3,333</b> |
|  |                     | <b>3,514</b> |              |

The decrease in 2013 compared to 2012, is attributable solely to employee benefits expenses in Italy, primarily due to the reduction in ordinary employee expenses and costs of 257 million euros, as a consequence of the

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decrease in the average salaried workforce by 3,092 employees compared to 2012 (of which an average of -851 employees, due to the solidarity contracts applied by Telecom Italia S.p.A., TI Information Technology and Olivetti S.p.A. provided for in the agreements with trade unions to promote the processes of sustainable conversion and retraining of redundant personnel), as well as the exit from the scope of consolidation of the companies Matrix, La7, MTV Italia and MTV Pubblicità (with a reduction of 714 people on average).

This decrease was offset by higher restructuring expenses for a total of 11 million euros. In 2013 these expenses totaled 19 million euros (8 million euros in 2012) related to the framework agreement signed by the Telecom Italia S.p.A. with trade unions on March 27, 2013 and the agreement signed by the company Advanced Caring Center with trade unions on December 5, 2013. Specifically, they consisted of 15 million euros pertaining to the Parent, 2 million euros to TI Information Technology, 1 million euros to Telecom Italia Sparkle and 1 million euros to the company Advanced Caring Center.

Employee benefits expenses in our foreign businesses were unchanged compared to 2012; the effect of the growth in the average workforce, which rose by 575 employees, and local salary variations were offset by a negative exchange difference of around 43 million euros, essentially due to the Brazil Business Unit. In 2012, expenses of 2 million euros had been recognized for the restructuring relating to Olivetti Engineering S.A.

The decrease in 2012 compared to 2011 is mainly due to:

- the reduction of 203 million euros in the Italian component of employee benefits expenses, mainly due to the reduction in ordinary employee benefits expenses, resulting from the decrease in the average salaried workforce of 1,214 compared to 2011, and from restructuring expenses that were 2 million euros lower (10 million euros in 2012; 12 million euros in 2011). In 2012, these expenses derive from the balance between the provision charge of 17 million euros for Olivetti I-Jet (resulting from the agreements signed with the trade unions of the company put into liquidation in June 2012) and its subsidiary Olivetti Engineering and the use of a total of 7 million euros from the remaining provision for mobility under Law 223/91 by Telecom Italia S.p.A. (6 million euros), and by TI Sparkle and TI Information Technology (1 million euros). In 2011 the provision for mobility under Law 223/91, relating to the agreements signed in 2010 with the trade unions of the Parent Telecom Italia S.p.A. and of TI Information Technology, amounted to 12 million euros;
- the increase of 22 million euros in the foreign component of employee benefits expenses, mainly due to the increase of 835 in the average salaried workforce, relating to the Brazil Business Unit. In particular, in 2012 expenses of 2 million euros had been recognized for the restructuring relating to Olivetti Engineering S.A.

The average salaried workforce, including those with temp work contracts, was 59,527 in 2013 (62,758 in 2012 and 63,137 in 2011). A breakdown by category is as follows:

| <b>Year ended December 31,</b>      |             |             |
|-------------------------------------|-------------|-------------|
| <b>2013</b>                         | <b>2012</b> | <b>2011</b> |
| <b>(Full time equivalent units)</b> |             |             |

|  |               |               |               |
|--|---------------|---------------|---------------|
| Executives   | 914           | 963           | 1,007         |
| Middle management                                    | 4,317         | 4,650         | 4,720         |
| White collars  | 54,225        | 56,991        | 57,230        |
| Blue collars   | 51            | 95            | 104           |
| <b>Employees on payroll</b>                          | <b>59,507</b> | <b>62,699</b> | <b>63,061</b> |
| <b>Employees with temp work contracts</b>            | <b>20</b>     | <b>59</b>     | <b>76</b>     |
| <b>Total average headcount of salaried workforce</b> | <b>59,527</b> | <b>62,758</b> | <b>63,137</b> |

Headcount in service at December 31, 2013, including those with temp work contracts, is 65,623 (66,381 at December 31, 2012) with a net decrease of 758 units.

#### **NOTE 29 OTHER OPERATING EXPENSES**

Other operating expenses amounted to 1,318 million euros in 2013, 1,474 million euros in 2012 and 1,528 million euros in 2011, a decrease of 156 million euros in 2013 compared to 2012 and of 54 million euros in 2012 compared to 2011.

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Details are as follows:

|  | <b>Year ended December 31,</b> |              |              |
|--|--------------------------------|--------------|--------------|
|  | <b>2013</b>                    | <b>2012</b>  | <b>2011</b>  |
|  | <b>(millions of euros)</b>     |              |              |
| Impairments and expenses in connection with credit management                      | 380                            | 501          | 504          |
| Provision charges  | 100                            | 197          | 111          |
| TLC operating fees and charges   | 482                            | 548          | 614          |
| Indirect duties and taxes  | 128                            | 119          | 125          |
| Penalties, settlement compensation and administrative fines                        | 72                             | 29           | 41           |
| Association dues and fees, donations, scholarships and traineeships                | 22                             | 25           | 23           |
| Sundry expenses  | 134                            | 55           | 110          |
| <b>Total</b>   | <b>1,318</b>                   | <b>1,474</b> | <b>1,528</b> |
| <i>of which, included in the supplementary disclosure on financial instruments</i> | <i>380</i>                     | <i>501</i>   | <i>504</i>   |

Further details on Financial Instruments are provided in the Note [Supplementary disclosure on financial instruments](#).

In 2013, the decrease was mainly attributable to the Brazil Business Unit (-87 million euros, including a negative exchange rate effect in 90 million euros) and the Domestic Business Unit (-37 million euros, including 84 million euros relating to the estimate of the charges connected with the fine imposed by the Italian Competition Authority [AGCM](#) which has been challenged by Telecom Italia, relating to the A428 proceedings). In detail:

- write-downs and expenses in connection with credit management (380 million euros; 501 million euros in 2012) mainly consisting of 286 million euros for the Domestic Business Unit (370 million euros in 2012) and 84 million euros for the Brazil Business Unit (100 million euros in 2012);
- provision charges (100 million euros; 197 million euros in 2012) mainly consisting of 81 million euros for the Brazil Business Unit (91 million euros in 2012) and 13 million euros for the Domestic Business Unit (92 million euros in 2012);
- telecommunications operating fees and charges (482 million euros; 548 million euros in 2012) mainly consisting of 424 million euros for the Brazil Business Unit (487 million euros in 2012) and 57 million euros for the Domestic Business Unit (59 million euros in 2012);
- sundry expenses, amounting to 134 million euros (55 million euros in 2012) mainly related to the Domestic Business Unit and included 84 million euros relating to the estimate of the charges for the aforementioned



fine imposed by the Italian Competition Authority (AGCM), on conclusion of the A428 proceedings; Telecom Italia has lodged an appeal against the fine before the Administrative Court (TAR) of Lazio. In 2012, the decreases for the Domestic Business Unit (-70 million euros) and the Brazil Business Unit (-28 million euros, including a negative exchange rate effect of 54 million euros) are partially offset by the increases for the other Business Units. In particular the main items are detailed as follows:

- writedowns and expenses in connection with credit management (501 million euros; 504 million euros in 2011) consist of 370 million euros (389 million euros in 2011) relating to the Domestic Business Unit and 100 million euros (unchanged compared to 2011) relating to the Brazil Business Unit;
- provision charges (197 million euros; 111 million euros in 2011) consist of 91 million euros (60 million euros in 2011) relating to the Brazil Business Unit and 92 million euros (50 million euros in 2011) relating to the Domestic Business Unit;
- telecommunication operating fees and charges (548 million euros; 614 million euros in 2011) consist of 487 million euros (554 million euros in 2011) relating to the Brazil Business Unit and 59 million euros (58 million euros in 2011) relating to the Domestic Business Unit.

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Internally generated assets amounted to 543 million euros in 2013, 581 million euros in 2012 and 569 million euros in 2011, showing a decrease of 38 million euros in 2013 compared to 2012 and an increase of 12 million euros in 2012 compared to 2011.

Details are as follows:

|   | <b>Year ended December 31,</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2013</b>                    | <b>2012</b> | <b>2011</b> |
|   | <b>(millions of euros)</b>     |             |             |
| Intangible assets with a finite useful life | 307                            | 295         | 288         |
| Tangible assets owned                       | 236                            | 286         | 281         |
| <b>Total</b>                                | <b>543</b>                     | <b>581</b>  | <b>569</b>  |

Internally generated assets mainly include labor costs of dedicated technical staff for software development and work in connection with the executive design, construction and testing of network installations.

**NOTE 31 DEPRECIATION AND AMORTIZATION**

Depreciation and amortization amounted to 4,553 million euros in 2013, 4,689 million euros in 2012 and 4,974 million euros in 2011, showing a decrease of 136 million euros in 2013 compared to 2012 and of 285 million euros in 2012 compared to 2011.

Details are as follows:

|   | <b>Year ended December 31,</b> |              |              |
|---|--------------------------------|--------------|--------------|
|   | <b>2013</b>                    | <b>2012</b>  | <b>2011</b>  |
|   | <b>(millions of euros)</b>     |              |              |
| <b>Amortization of intangible assets with a finite useful life:</b> |                                |              |              |
| Industrial patents and intellectual property rights                 | 1,392                          | 1,382        | 1,425        |
| Concessions, licenses, trademarks and similar rights                | 369                            | 317          | 306          |
| Other intangible assets with a finite useful life                   | 251                            | 201          | 215          |
|   | <b>(A)</b>                     | <b>2,012</b> | <b>1,900</b> |
|   |                                | <b>1,946</b> |              |
| <b>Depreciation of tangible assets owned:</b>                       |                                |              |              |
| Buildings (civil and industrial)                                    | 44                             | 47           | 49           |
| Plant and equipment   | 2,166                          | 2,382        | 2,585        |
| Manufacturing and distribution equipment                            | 14                             | 13           | 14           |

|   |                |              |              |              |
|---|----------------|--------------|--------------|--------------|
| Other   |                | 194          | 229          | 265          |
|   | <b>(B)</b>     | <b>2,418</b> | <b>2,671</b> | <b>2,913</b> |
| <b>Depreciation of tangible assets held under finance leases:</b> |                |              |              |              |
| Buildings (civil and industrial)                                  |                | 117          | 113          | 110          |
| Plant and equipment   |                |              |              |              |
| Other   |                | 6            | 5            | 5            |
|   | <b>(C)</b>     | <b>123</b>   | <b>118</b>   | <b>115</b>   |
| <b>Total</b>  | <b>(A+B+C)</b> | <b>4,553</b> | <b>4,689</b> | <b>4,974</b> |

In 2013, the decrease in depreciation and amortization was mainly due to:

- the Brazil Business Unit (-74 million euros, already including a negative exchange difference of 128 million euros);
- the Domestic Business Unit (-19 million euros) as a result of the decrease in depreciation of tangible assets, which was partly offset by the increase in amortization of intangible assets, primarily due to the entry into force from January 1, 2013 of the user rights on the LTE frequencies (+67 million euros);

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- the exit from the scope of consolidation of the companies Matrix S.p.A. (Other Operations), La7 S.r.l., and MTV Italia S.r.l. (with its wholly-owned subsidiary 100% MTV Pubblicità S.r.l.) (Media), generating an impact of approximately -44 million euros.

In 2012, the decrease in depreciation and amortization charges mainly relates to the Domestic Business Unit (-305 million euros), principally due to lower amounts of depreciable or amortizable assets.

Further details are provided in the Notes Other intangible assets and Tangible assets (owned and under finance leases). For a breakdown of depreciation and amortization by operating segment/geographical area, reference should be made to the Note Segment Reporting.

**NOTE 32 GAINS (LOSSES) ON DISPOSALS OF NON CURRENT ASSETS**

Gains (losses) on disposals of non current assets amounted to a loss of 82 million euros in 2013, a gain of 52 million euros in 2012 and a gain of 4 million euros in 2011.

Details are as follows:

|   | <b>Year ended<br/>December 31,</b> |             |             |
|---|------------------------------------|-------------|-------------|
|   | <b>2013</b>                        | <b>2012</b> | <b>2011</b> |
|   | <b>(millions of euros)</b>         |             |             |
| <b>Gains on disposals of non-current assets:</b>                    |                                    |             |             |
| Gains on the retirement/disposal of intangible and tangible assets  | 26                                 | 24          | 4           |
| Gains on the disposal of investments in subsidiaries                | 4                                  | 49          | 35          |
|   | <b>(A)</b>                         | <b>30</b>   | <b>73</b>   |
| <b>Losses on disposals of non-current assets:</b>                   |                                    |             |             |
| Losses on the retirement/disposal of intangible and tangible assets | 11                                 | 21          | 35          |
| Losses on the disposals of investments in subsidiaries              | 101                                |             |             |
|   | <b>(B)</b>                         | <b>112</b>  | <b>21</b>   |
| <b>Total</b>  | <b>(A-B)</b>                       | <b>(82)</b> | <b>52</b>   |
|   |                                    |             | <b>4</b>    |

In 2013, net losses on disposals of non-current assets amounted to 82 million euros and consisted of the net balance of the following impacts:

- the realized loss of 100 million euros (including incidental costs) from the sale of La7 S.r.l. to the Cairo Communication group on April 30, 2013, after authorization for the sale was received, as required by law. The overall impact of the sale, comprising the performance of La7 S.r.l. up until the transaction date, was

approximately -125 million euros for 2013, inclusive of non-controlling interests. This amount included the post closing price adjustment of 4.8 million euros, paid to Telecom Italia Media by the Cairo Communication group on October 25, 2013;

- the realized gain of 3 million euros, net of incidental costs, for the sale to Viacom International Media Networks (VIMN) of the entire controlling interest (51%) held in MTV Italia S.r.l., which took place on September 12, 2013;
- the net capital gains on the sale of other non-current assets totaling 15 million euros, mainly relating to the sale of a property by the Brazilian company Telecom Italia Latam Participações and Gestão Administrativa Ltda for an amount of 48 million Brazilian reais (around 17 million euros).

In 2012, net gains on disposals of non-current assets amounted to 52 million euros. In addition to the gain of 49 million euros, net of incidental expenses, realized on October 31, 2012 following the sale of the investment in Matrix, there were also net gains on tangible and intangible fixed assets mainly relating to the Domestic Business Unit.

In 2011, net gains on disposals of non-current assets amounted to 4 million euros and included the gain of 35 million euros, net of related incidental expenses, realized on the sale of Loquendo at the end of September 2011, and the net losses on the disposal of tangible assets, mainly of the Parent, for the replacement and subsequent disposal of dedicated mobile telephony plant.

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Impairment losses on non-current assets, amounted to 2,187 million euros in 2013, 4,179 million euros in 2012, and 7,358 million euros in 2011.

Details are as follows:

|  | Year ended December 31, |                |                |
|--|-------------------------|----------------|----------------|
|  | 2013                    | 2012           | 2011           |
|  | (millions of euros)     |                |                |
| <b>Reversals of impairment losses on non-current assets:</b> |                         |                |                |
| on intangible assets   |                         |                | 9              |
| on tangible assets   |                         |                | 1              |
|  | <b>(A)</b>              |                | <b>10</b>      |
| <b>Impairment losses on non-current assets:</b>              |                         |                |                |
| on intangible assets   | 2,187                   | 4,163          | 7,364          |
| on tangible assets   |                         | 16             | 4              |
|  | <b>(B)</b>              | <b>2,187</b>   | <b>4,179</b>   |
| <b>Total</b>   | <b>(A-B)</b>            | <b>(2,187)</b> | <b>(7,358)</b> |

In 2013, impairment losses on non-current assets amounted to 2,187 million euros and were related to the impairment loss on the goodwill allocated to Core Domestic Cash Generating Unit, within the Domestic Business Unit.

In particular, in the first half of 2013, the Group tested Goodwill for impairment. The results of this testing led to an impairment loss of 2,187 million euros on the goodwill allocated to the Core Domestic Cash Generating Unit. This valuation, in compliance with the Group's specific procedures, considered the deterioration of the macroeconomic situation, both in general terms, with reference to the outlook for the Italian economy, and in specific terms, in relation to management's expectations of the forecasted impact, on the entire year 2013 and coming years, of the recent AGCom decisions on wholesale copper network access rates, as well as the commercial performance of the Domestic Business Unit in the first half of 2013. The valuation also considered analyst forecasts of the expected performance of the Business Unit, as well as the performance of financial indicators and interest rates.

The impairment test was repeated for the financial statements at December 31, 2013 on the basis of the updated Industrial Plan. The tests did not reveal any further impairment losses over and above the 2,187 million euros recognized in the first half of 2013.

In 2012, impairment losses on non-current assets amounted to 4,179 million euros. They mainly include:

- 4,016 million euros for the impairment loss on goodwill allocated to the Core Domestic Cash-Generating Unit (CGU) in the Domestic Business Unit (7,307 million euros in 2011);
- 157 million euros (57 million euros in 2011) for the overall impairment loss on the assets and goodwill allocated to the Media Business Unit, established following the impairment test process and also taking account of the prospective sale of the investee LA7 Srl. Specifically, the amount of impairment loss relating solely to the goodwill assigned to the Media Business Unit was 105 million euros, while the remainder relates to assets.

**NOTE 34 OTHER INCOME (EXPENSES) FROM INVESTMENTS**

Other income (expenses) from investments was an expense of 3 million euros in 2013, an income of 2 million euros in 2012 and an income of 16 million euros in 2011.

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Details are as follows:

|  | <b>Year ended December 31,</b> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <b>2013</b>                    | <b>2012</b> | <b>2011</b> |
|  | <b>(millions of euros)</b>     |             |             |
| Dividends from Other investments   | 2                              | 1           | 1           |
| Net gains on disposals of Other investments  |                                | 3           | 18          |
| Loss and impairment losses on Other investments                                    | (5)                            | (2)         | (3)         |
| <b>Total</b>   | <b>(3)</b>                     | <b>2</b>    | <b>16</b>   |
| <i>of which, included in the supplementary disclosure on financial instruments</i> | <i>(3)</i>                     | <i>1</i>    | <i>(2)</i>  |

In particular, in 2011, other income (expenses) from investments was an income balance of 16 million euros and includes 17 million euros of gain, net of transactions costs, on the sale of the entire 27% investment in the Cuban operator EtecSA. That amount was in addition to the benefit from the impairment reversal of 30 million euros, recorded in 2010 as part of the valuation using the equity method.

**NOTE 35 FINANCE INCOME AND FINANCE EXPENSES*****Finance income***

Finance income amounted to 2,003 million euros in 2013, 1,983 million euros in 2012 and 2,400 million euros in 2011, showing an increase of 20 million euros in 2013 compared to 2012 and a decrease of 417 million euros in 2012 compared to 2011.

Details are as follows:

|   | <b>Year ended December 31,</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2013</b>                    | <b>2012</b> | <b>2011</b> |
|   | <b>(millions of euros)</b>     |             |             |
| <b>Interest income and other finance income:</b>                              |                                |             |             |
| Income from financial receivables recorded in non-current assets              |                                |             | 1           |
| Income from securities other than investments, recorded in non-current assets |                                |             |             |
| Income from securities other than investments, recorded in current assets     | 34                             | 32          | 56          |
| <b>Income other than the above:</b>   |                                |             |             |
| Interest income   | 152                            | 165         | 170         |
| Exchange gains  | 492                            | 336         | 498         |
| Income from fair value hedge derivatives                                      | 152                            | 214         | 328         |



|   |         |       |       |       |
|---|---------|-------|-------|-------|
| Reversal of the Reserve for hedging instruments to the income statement (interest rate component) | 643     | 741   | 626   |       |
| Income from non-hedging derivatives   | 23      | 18    | 24    |       |
| Miscellaneous finance income  | 96      | 89    | 44    |       |
|   | (A)     | 1,592 | 1,595 | 1,747 |
| <b>Positive fair value adjustments to:</b>  |         |       |       |       |
| Fair value hedge derivatives  | 40      | 79    | 415   |       |
| Underlying financial assets and liabilities of fair value hedges derivatives                      | 254     | 132   | 34    |       |
| Non hedging derivatives   | 117     | 177   | 204   |       |
|   | (B)     | 411   | 388   | 653   |
| <b>Reversal of impairment loss on financial assets other than investments</b>                     | (C)     |       |       |       |
| <b>Total</b>  | (A+B+C) | 2,003 | 1,983 | 2,400 |
| <i>of which, included in the supplementary disclosure on financial instruments</i>                |         | 432   | 428   | 443   |

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Finance expenses amounted to 4,186 million euros in 2013, 3,981 million euros in 2012 and 4,440 million euros in 2011, showing an increase of 205 million euros in 2013 compared to 2012 and a decrease of 459 million euros in 2012 compared to 2011.

Details are as follows:

|   | <b>Year ended December 31,</b> |              |              |
|---|--------------------------------|--------------|--------------|
|   | <b>2013</b>                    | <b>2012</b>  | <b>2011</b>  |
|   | <b>(millions of euros)</b>     |              |              |
| <b>Interest expenses and other finance expenses:</b>  |                                |              |              |
| Interest expenses and other costs relating to bonds   | 1,443                          | 1,514        | 1,534        |
| Interest expenses to banks  | 217                            | 236          | 225          |
| Interest expenses to others   | 216                            | 257          | 223          |
|   | <b>1,876</b>                   | <b>2,007</b> | <b>1,982</b> |
| Commissions   | 131                            | 87           | 55           |
| Exchange losses   | 535                            | 389          | 541          |
| Charges from fair value hedge derivatives   | 50                             | 106          | 214          |
| Reversal of the Reserve for hedging instruments to the income statement (interest rate component) | 753                            | 836          | 753          |
| Charges from non-hedging derivatives  | 55                             | 52           | 62           |
| Miscellaneous finance expenses  | 327                            | 200          | 209          |
|   | <b>(A)</b>                     | <b>3,727</b> | <b>3,677</b> |
|   |                                | <b>3,816</b> |              |
| <b>Negative fair value adjustments to:</b>  |                                |              |              |
| Fair value hedge derivatives  | 234                            | 132          | 121          |
| Underlying financial assets and liabilities of fair value hedges derivatives                      | 35                             | 26           | 384          |
| Non hedging derivatives   | 190                            | 146          | 119          |
|   | <b>(B)</b>                     | <b>459</b>   | <b>304</b>   |
|   |                                | <b>624</b>   |              |
| <b>Impairment losses on financial assets other than investments</b>                               | <b>(C)</b>                     |              |              |
| <b>Total</b>  | <b>(A+B+C)</b>                 | <b>4,186</b> | <b>3,981</b> |
| <i>of which, included in the supplementary disclosure on financial instruments</i>                |                                | <b>4,440</b> |              |
|   |                                | 2,259        | 2,188        |
|   |                                | 2,160        |              |



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For a better understanding of the net effects relating to derivative financial instruments, the following table is presented:

|  | <b>Year ended December 31,</b> |              |             |
|--|--------------------------------|--------------|-------------|
|  | <b>2013</b>                    | <b>2012</b>  | <b>2011</b> |
|  | <b>(millions of euros)</b>     |              |             |
| <b>NET EXCHANGE GAINS AND LOSSES</b>   |                                |              |             |
| Exchange gains   | 492                            | 336          | 498         |
| Exchange losses  | (535)                          | (389)        | (541)       |
|  | <b>(43)</b>                    | <b>(53)</b>  | <b>(43)</b> |
| <b>NET RESULT FROM DERIVATIVES</b>   |                                |              |             |
| Income from fair value hedge derivatives   | 152                            | 214          | 328         |
| Charges from fair value hedge derivatives  | (50)                           | (106)        | (214)       |
| <b>Net result from fair value hedge derivatives</b>  | <b>(A)</b>                     | <b>102</b>   | <b>108</b>  |
| Positive effect of the Reversal of the Reserve for hedging instruments to the income statement for the interest rate component   | 643                            | 741          | 626         |
| Negative effect of the Reversal of the Reserve for hedging instruments to the income statement for the interest rate component   | (753)                          | (836)        | (753)       |
| <b>Net effect of the Reversal of the Reserve for hedging instruments to the income statement for the interest rate component</b> | <b>(B)</b>                     | <b>(110)</b> | <b>(95)</b> |
| Income from non-hedging derivatives  | 23                             | 18           | 24          |
| Charges from non-hedging derivatives   | (55)                           | (52)         | (62)        |
| <b>Net result from non-hedging derivatives</b>   | <b>(C)</b>                     | <b>(32)</b>  | <b>(34)</b> |
| <b>Net result from derivatives</b>   | <b>(A+B+C)</b>                 | <b>(40)</b>  | <b>(51)</b> |
| <b>NET FAIR VALUE ADJUSTMENT TO FAIR VALUE HEDGE DERIVATIVES AND UNDERLYING</b>  |                                |              |             |
| Positive fair value adjustment to fair value hedge derivatives   | 40                             | 79           | 415         |
| Negative fair value adjustment to underlying financial assets and liabilities of fair value hedge derivatives                    | (35)                           | (26)         | (384)       |
| <b>Net fair value adjustments</b>  | <b>(D)</b>                     | <b>5</b>     | <b>31</b>   |
| Positive fair value adjustments to underlying financial assets and liabilities of fair value hedge derivatives                   | 254                            | 132          | 34          |
| Negative fair value adjustments to fair value hedge derivatives  | (234)                          | (132)        | (121)       |

|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| <b>Net fair value adjustments</b>  | <b>(E)</b>   | <b>20</b>    |              | <b>(87)</b>  |
| <b>Net fair value adjustment to fair value hedge derivatives and underlyings</b> | <b>(D+E)</b> | <b>25</b>    | <b>53</b>    | <b>(56)</b>  |
| <b>NET FAIR VALUE ADJUSTMENTS TO NON-HEDGING DERIVATIVES</b>                     |              |              |              |              |
| <b>Positive fair value adjustments to non-hedging derivatives</b>                | <b>(F)</b>   | <b>117</b>   | <b>177</b>   | <b>204</b>   |
| <b>Negative fair value adjustments to non-hedging derivatives</b>                | <b>(G)</b>   | <b>(190)</b> | <b>(146)</b> | <b>(119)</b> |
| <b>Net fair value adjustments to non-hedging derivatives</b>                     | <b>(F+G)</b> | <b>(73)</b>  | <b>31</b>    | <b>85</b>    |

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The profits (loss) for the years ended December 31, 2013, 2012 and 2011 are summarized as follows:

|   | Year ended December 31, |                |                |
|---|-------------------------|----------------|----------------|
|   | 2013                    | 2012           | 2011           |
|   | (millions of euros)     |                |                |
| <b>Profit (loss) for the year</b>   | <b>(238)</b>            | <b>(1,277)</b> | <b>(4,366)</b> |
| Attributable to:  |                         |                |                |
| <b>Owners of the Parent</b>   |                         |                |                |
| Profit (loss) from continuing operations                                    | (721)                   | (1,519)        | (4,864)        |
| Profit (loss) from Discontinued operations/Non-current assets held for sale | 47                      | (108)          | 53             |
| <b>Profit (loss) for the year attributable to owners of the Parent</b>      | <b>(674)</b>            | <b>(1,627)</b> | <b>(4,811)</b> |
| <b>Non-controlling interests</b>  |                         |                |                |
| Profit (loss) from continuing operations                                    | <b>142</b>              | <b>140</b>     | <b>188</b>     |
| Profit (loss) from Discontinued operations/Non-current assets held for sale | 294                     | 210            | 257            |
| <b>Profit (loss) for the year attributable to Non-Controlling interests</b> | <b>436</b>              | <b>350</b>     | <b>445</b>     |

**NOTE 37 EARNINGS PER SHARE**

For purposes of the calculation of diluted earnings per share, account was only taken of the potential ordinary shares relating to the equity compensation plans of the employees for which at December 31, 2013 the market and non-market performance conditions were satisfied.

|  | Year ended December 31, |                |                |
|--|-------------------------|----------------|----------------|
|  | 2013                    | 2012           | 2011           |
| <b>Basic and Diluted Earnings Per Share</b>                          |                         |                |                |
| Profit (loss) for the year attributable to owners of the Parent (*)  | (547)                   | (1,627)        | (4,811)        |
| Less: additional dividends for the Savings Shares ( 0.011 per share) |                         |                |                |
|  | (millions of euros)     | <b>(547)</b>   | <b>(1,627)</b> |
|  |                         | <b>(4,811)</b> |                |
| Average number of Ordinary and Savings Shares                        | (millions)              | 19,598         | 19,304         |
|  |                         | 19,290         |                |

|  |                     |              |                |                |
|--|---------------------|--------------|----------------|----------------|
| Basic and diluted earnings per share Ordinary Shares                   |                     | (0.03)       | (0.08)         | (0.25)         |
| Plus: additional dividends per savings Share ( 0.011 per share)        |                     |              |                |                |
| Basic and diluted earnings per share Savings Shares                    | (Euro)              | (0.03)       | (0.08)         | (0.25)         |
| <b>Basic and Diluted Earnings Per Share From continuing Operations</b> |                     |              |                |                |
| Profit (loss) from continuing operations                               |                     | (888)        | (1,729)        | (5,121)        |
| Less: additional dividends for the Savings Shares ( 0.011 per share)   |                     |              |                |                |
|  | (millions of euros) | <b>(888)</b> | <b>(1,729)</b> | <b>(5,121)</b> |

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|---|---------------------|---|-----------------------|-----------------------|
|   |                     | <b>Year ended December 31,</b>                    |                       |                       |
|   |                     | <b>2013</b>                                       | <b>2012</b>           | <b>2011</b>           |
| Average number of Ordinary and Savings Shares   | (millions)          | 19,598  | 19,304                | 19,290                |
| Basic and diluted earnings per share from continuing operations Ordinary Shares                                     |                     | (0.05)  | (0.09)                | (0.27)                |
| Plus: additional dividends per savings Share ( 0.011 per share)   |                     |   |                       |                       |
| Basic and diluted earnings per share from continuing operations Savings Shares                                      | (Euro)              | (0.05)  | (0.09)                | (0.27)                |
| <b>Basic and Diluted Earnings Per Share From Discontinued operations/Non current assets held for sale</b>           |                     |   |                       |                       |
| Profit (loss) from Discontinued operations/Non-current assets held for sale   | (millions of euros) | 341   | 102                   | 310                   |
| Average number of Ordinary and Savings Shares   | (millions)          | 19,598  | 19,304                | 19,290                |
| Basic and diluted earnings per share from Discontinued operations/ Non-current assets held for sale Ordinary Shares | (Euro)              | 0.02  | 0.01                  | 0.02                  |
| Basic and diluted earnings per share from Discontinued operations/ Non-current assets held for sale Savings Shares  | (Euro)              | 0.02  | 0.01                  | 0.02                  |
|   |                     | <b>Year ended December 31,</b>                    |                       |                       |
|   |                     | <b>2013</b>                                       | <b>2012</b>           | <b>2011</b>           |
| Average number of Ordinary Shares(*)  |                     | 13,571,392,501                                    | 13,277,621,082        | 13,264,375,078        |
| Average number of Savings Shares  |                     | 6,026,120,661                                     | 6,026,120,661         | 6,026,120,661         |
| <b>Total</b>  |                     | <b>19,597,513,162</b>                             | <b>19,303,741,743</b> | <b>19,290,495,739</b> |



(\*) The number takes into account the potential ordinary shares relating only to the equity compensation plans of employees for whom the market and non-market performance conditions have been satisfied and for 2013, a theoretical number of shares that could be issued upon conversion of the mandatory convertible bond (without considering any deferral interest portion) using the year end share price. Also the Profit (loss) for the year attributable to owners of the Parent has been adjusted to reflect the estimated impact, after tax, resulting from conversion of the mandatory convertible bond (+127 million euros).

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The table below reports future potential changes in share capital connected with the Guaranteed Subordinated Mandatory Convertible Bonds due 2016, convertible into ordinary shares of Telecom Italia S.p.A. issued in November 2013 by Telecom Italia Finance S.A., with the authorizations to increase the share capital existing at December 31, 2013 and the options and rights granted under equity compensation plans still outstanding at December 31, 2013.

|   | Number of<br>maximum shares<br>issuable | Share capital<br>(thousands of<br>euros) (*) | Paid-in capital<br>(thousands<br>of<br>euros) | Subscription<br>price per<br>shares (euro) |
|---|---|--|---|--|
| <b>Additional capital increases not yet approved (ordinary shares)</b>            |   |  |   |  |
| Resolution by the shareholders meeting held on April 8, 2009                      | 1,600,000,000                           | 880,000                                      | n.a.  | n.a.                                       |
| Long Term incentive Plan 2010-2015 (bonus capital increase)                       | 201,243                                 | 111  |   |  |
| Long Term incentive Plan 2011 (capital increase in cash for Selected Management)  | n.a.                                    | 4,438  | n.a.  | n.a.                                       |
| Long Term incentive Plan 2011 (bonus capital increase for Selected Management)    | n.a.                                    | 4,438  |   |  |
| Long Term incentive Plan 2011 (bonus capital increase for Top Management)         | n.a.                                    | 2,559  |   |  |
| Long Term incentive Plan 2012 (capital increase in cash for Selected Management)  | n.a.                                    | 4,620  | n.a.  | n.a.                                       |
| Long Term incentive Plan 2012 (bonus capital increase for Selected Management)    | n.a.                                    | 4,620  |   |  |
| Long Term incentive Plan 2012 (bonus capital increase for Top Management)         | n.a.                                    | 2,995  |   |  |
| Resolution by the shareholders meeting held on April 17, 2013                     | 72,000,000                              | 39,600                                       | n.a.  | n.a.                                       |
| <b>Total additional capital increases not yet approved (ordinary shares)</b>      |   | <b>943,381</b>                               |   |  |
| 2013 Guaranteed Subordinated Mandatory Convertible Bonds (ordinary shares)        |   |  |   |  |
| Principal   | n.a.                                    | 1,300,000                                    | n.a.  | n.a.                                       |
| Interest portion  | n.a.                                    | 238,875                                      | n.a.  | n.a.                                       |
| <b>2013 Guaranteed Subordinated Mandatory Convertible Bonds (ordinary shares)</b> |   | <b>1,538,875</b>                             |   |  |

**Total**

**2,482,256**

(\* ) Amounts stated for capital increases connected with incentive plans and the Guaranteed Subordinated Mandatory Convertible Bonds due 2016, convertible into ordinary shares of Telecom Italia S.p.A. are the total estimated value inclusive of any premiums.

Further details are provided in the Note Financial liabilities (Non-current and current) and Note Equity compensation plans .

## **NOTE 38 SEGMENT REPORTING**

### **a) Reporting by operating segment**

Following the inclusion of Sofora Telecom Argentina group under Discontinued operations/Non-current assets held for sale, amounts for the Argentina Business Unit are no longer stated. To ensure uniformity, the disclosure for the segment for the periods under comparison has been duly restated.

Segment reporting is based on the following operating segments:

- Domestic
- Brazil
- Media
- Olivetti
- Other Operations

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|            |                     |              | Brazil       |              | Media      |            | Olivetti   |            |            | Other operations |           | Adjustments and eliminations |              |              |              |
|------------|---------------------|--------------|--------------|--------------|------------|------------|------------|------------|------------|------------------|-----------|------------------------------|--------------|--------------|--------------|
|            | 2011                | 2013         | 2012         | 2011         | 2013       | 2012       | 2011       | 2013       | 2012       | 2011             | 2013      | 2012                         | 2013         |              |              |
|            | (millions of euros) |              |              |              |            |            |            |            |            |                  |           |                              |              |              |              |
| 816        | 18,908              | 6,937        | 7,454        | 7,321        | 123        | 218        | 220        | 219        | 230        | 259              | 41        | 64                           |              |              |              |
| 68         | 83                  | 8            | 23           | 22           | 1          | 4          | 18         | 46         | 50         | 84               | 21        | 55                           | (102)        | (166)        |              |
| <b>884</b> | <b>18,991</b>       | <b>6,945</b> | <b>7,477</b> | <b>7,343</b> | <b>124</b> | <b>222</b> | <b>238</b> | <b>265</b> | <b>280</b> | <b>343</b>       | <b>62</b> | <b>119</b>                   | <b>(102)</b> | <b>(166)</b> |              |
| 254        | 248                 | 21           | 14           | 25           | 4          | 5          | 26         | 41         | 18         | 18               | 1         | 5                            | 2            | (2)          | (11)         |
| <b>138</b> | <b>19,239</b>       | <b>6,966</b> | <b>7,491</b> | <b>7,368</b> | <b>128</b> | <b>227</b> | <b>264</b> | <b>306</b> | <b>298</b> | <b>361</b>       | <b>1</b>  | <b>67</b>                    | <b>121</b>   | <b>(104)</b> | <b>(177)</b> |
| 409)       | (6,754)             | (4,263)      | (4,508)      | (4,399)      | (95)       | (197)      | (167)      | (254)      | (274)      | (329)            | (9)       | (56)                         | (88)         | 93           | 155          |
| 834)       | (3,031)             | (349)        | (344)        | (321)        | (26)       | (67)       | (61)       | (39)       | (66)       | (69)             | (2)       | (22)                         | (34)         | 1            |              |
| 699)       | (769)               | (632)        | (719)        | (747)        | (11)       | (8)        | (9)        | (8)        | (22)       | (10)             | (5)       | (26)                         | (16)         |              |              |
| 462)       | (439)               | (165)        | (191)        | (160)        | (8)        | (5)        | (4)        | (8)        | (20)       | (8)              |           | (21)                         | (8)          |              | 1            |
| (9)        | 10                  | 10           | (2)          | 19           | 2          |            |            | (9)        | 7          | 11               |           |                              |              | (1)          |              |
| 489        | 478                 | 80           | 78           | 70           |            |            |            |            |            |                  |           |                              |              | 14           | 14           |
| 583)       | (3,888)             | (954)        | (1,028)      | (1,005)      | (33)       | (63)       | (58)       | (5)        | (5)        | (7)              |           | (14)                         | (21)         | 3            | 4            |
| 3          | 19                  |              | (2)          | (1)          | (97)       | 2          |            | 1          |            |                  | 16        | 49                           | 1            |              |              |
| 018)       | (7,300)             |              |              |              |            | (157)      | (57)       |            | (3)        |                  |           | (1)                          | (1)          |              |              |

|            |                |            |            |            |              |              |             |            |             |             |          |            |             |          |            |
|------------|----------------|------------|------------|------------|--------------|--------------|-------------|------------|-------------|-------------|----------|------------|-------------|----------|------------|
| <b>078</b> | <b>(1,996)</b> | <b>858</b> | <b>966</b> | <b>984</b> | <b>(132)</b> | <b>(263)</b> | <b>(88)</b> | <b>(8)</b> | <b>(65)</b> | <b>(43)</b> | <b>1</b> | <b>(3)</b> | <b>(38)</b> | <b>6</b> | <b>(4)</b> |
| (6)        | (2)            |            |            |            |              |              |             |            |             |             |          |            | (37)        |          |            |

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| Domestic<br>2012    | 2011          | 2013         | Brazil       |              | Media      |            |            | Olivetti   |            |            | Other<br>operations |            | Adjustments and<br>eliminations |              |              |
|---------------------|---------------|--------------|--------------|--------------|------------|------------|------------|------------|------------|------------|---------------------|------------|---------------------------------|--------------|--------------|
|                     |               |              | 2012         | 2011         | 2013       | 2012       | 2011       | 2013       | 2012       | 2011       | 2013                | 2012       | 2011                            | 2013         | 2012         |
| (millions of euros) |               |              |              |              |            |            |            |            |            |            |                     |            |                                 |              |              |
| 782                 | 910           | 1,122        | 934          | 745          |            |            |            | 218        | 226        | 258        |                     |            |                                 |              |              |
|                     |               | 1            |              |              |            |            |            | 36         | 44         | 51         |                     |            | (37)                            | (44)         | (51)         |
| <b>782</b>          | <b>910</b>    | <b>1,123</b> | <b>934</b>   | <b>745</b>   |            |            |            | <b>254</b> | <b>270</b> | <b>309</b> |                     |            | <b>(37)</b>                     | <b>(44)</b>  | <b>(51)</b>  |
| 17,020              | 17,985        | 5,815        | 6,520        | 6,576        | 123        | 218        | 220        | 1          | 4          | 1          | 41                  | 64         |                                 |              |              |
| 68                  | 83            | 7            | 23           | 22           | 1          | 4          | 18         | 10         | 6          | 33         | 21                  | 55         | (65)                            | (122)        | (211)        |
| <b>17,088</b>       | <b>18,068</b> | <b>5,822</b> | <b>6,543</b> | <b>6,598</b> | <b>124</b> | <b>222</b> | <b>238</b> | <b>11</b>  | <b>10</b>  | <b>34</b>  | <b>62</b>           | <b>119</b> | <b>(65)</b>                     | <b>(122)</b> | <b>(211)</b> |
| 14                  | 13            |              |              |              |            |            |            |            |            |            |                     |            |                                 |              |              |
| <b>14</b>           | <b>13</b>     |              |              |              |            |            |            |            |            |            |                     |            |                                 |              |              |
| 17,816              | 18,908        | 6,937        | 7,454        | 7,321        | 123        | 218        | 220        | 219        | 230        | 259        | 41                  | 64         |                                 |              |              |
| 68                  | 83            | 8            | 23           | 22           | 1          | 4          | 18         | 46         | 50         | 84         | 21                  | 55         | (102)                           | (166)        | (262)        |
| <b>17,884</b>       | <b>18,991</b> | <b>6,945</b> | <b>7,477</b> | <b>7,343</b> | <b>124</b> | <b>222</b> | <b>238</b> | <b>265</b> | <b>280</b> | <b>343</b> | <b>62</b>           | <b>119</b> | <b>(102)</b>                    | <b>(166)</b> | <b>(262)</b> |

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|            | Domestic            |              |              | Brazil       |              |              | Media     |           |           | Olivetti |          |          | Other operations |           | Adjustments and eliminations |      | Consolidated |              |
|------------|---------------------|--------------|--------------|--------------|--------------|--------------|-----------|-----------|-----------|----------|----------|----------|------------------|-----------|------------------------------|------|--------------|--------------|
|            | 2013                | 2012         | 2011         | 2013         | 2012         | 2011         | 2013      | 2012      | 2011      | 2013     | 2012     | 2011     | 2013             | 2012      | 2011                         | 2013 | 2012         | 2011         |
|            | (millions of euros) |              |              |              |              |              |           |           |           |          |          |          |                  |           |                              |      |              |              |
| Intangible | 1,296               | 1,216        | 2,364        | 583          | 592          | 521          | 13        | 36        | 30        | 3        | 1        | 2        | 6                | 14        |                              |      | 1,895        | 1,895        |
| Intangible | 1,731               | 1,856        | 1,820        | 766          | 908          | 769          | 7         | 21        | 31        | 1        | 2        | 3        | 1                | 2         |                              |      | 2,505        | 2,505        |
|            | <b>3,027</b>        | <b>3,072</b> | <b>4,184</b> | <b>1,349</b> | <b>1,500</b> | <b>1,290</b> | <b>20</b> | <b>57</b> | <b>61</b> | <b>4</b> | <b>3</b> | <b>5</b> | <b>7</b>         | <b>16</b> |                              |      | <b>4,400</b> | <b>4,400</b> |

**HEADCOUNT BY OPERATING SEGMENT**

|              | Domestic                |                         | Brazil                  |                         | Media                   |                         | Olivetti                |                         | Other operations        |                         | Consolidated Total      |                         |
|--------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|              | As of December 31, 2013 | As of December 31, 2012 | As of December 31, 2013 | As of December 31, 2012 | As of December 31, 2013 | As of December 31, 2012 | As of December 31, 2013 | As of December 31, 2012 | As of December 31, 2013 | As of December 31, 2012 | As of December 31, 2013 | As of December 31, 2012 |
|              | (number of employees)   |                         |                         |                         |                         |                         |                         |                         |                         |                         |                         |                         |
| Headcount(*) | 52,695                  | 53,224                  | 12,140                  | 11,622                  | 84                      | 735                     | 682                     | 778                     | 22                      | 22                      | 65,623                  | 66,381                  |

(\*) The number of personnel at year-end does not include the headcount relating to Discontinued operations/Non-current assets held for sale.



**Table of Contents****Consolidated Financial Statements****Notes To Consolidated Financial Statements****ASSETS AND LIABILITIES BY OPERATING SEGMENT**

|   | Domestic            |                   | Brazil            |                   | Media             |                   | Olivetti          |                   | Other operations  |                   | Adjustments and eliminations |                   | Consolidated Total |                   |
|---|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|------------------------------|-------------------|--------------------|-------------------|
|   | As of               | As of             | As of             | As of             | As of             | As of             | As of             | As of             | As of             | As of             | As of                        | As of             | As of              | As of             |
|   | December 31, 2013   | December 31, 2012 | December 31, 2013 | December 31, 2012 | December 31, 2013 | December 31, 2012 | December 31, 2013 | December 31, 2012 | December 31, 2013 | December 31, 2012 | December 31, 2013            | December 31, 2012 | December 31, 2013  | December 31, 2012 |
|   | (millions of euros) |                   |                   |                   |                   |                   |                   |                   |                   |                   |                              |                   |                    |                   |
| Non-current operating assets  | 44,868              | 47,487            | 5,971             | 6,653             | 207               | 241               | 21                | 22                | 7                 | 9                 | (36)                         | (36)              | 51,038             | 54,376            |
| Current operating assets  | 3,900               | 4,545             | 1,681             | 2,026             | 17                | 128               | 203               | 222               | 12                | 63                | (59)                         | (73)              | 5,754              | 6,911             |
| <b>Total operating assets</b>   | <b>48,768</b>       | <b>52,032</b>     | <b>7,652</b>      | <b>8,679</b>      | <b>224</b>        | <b>369</b>        | <b>224</b>        | <b>244</b>        | <b>19</b>         | <b>72</b>         | <b>(95)</b>                  | <b>(109)</b>      | <b>56,792</b>      | <b>61,287</b>     |
| Investments accounted for using the equity method   | 64                  | 64                |                   |                   |                   |                   |                   |                   |                   |                   |                              | 1                 | 1                  | 65                |
| Discontinued operations   |                     |                   |                   |                   |                   |                   |                   |                   |                   |                   |                              |                   |                    |                   |
| Non-current assets held for sale  |                     |                   |                   |                   |                   |                   |                   |                   |                   |                   |                              |                   |                    | 3,528             |
| Unallocated assets  |                     |                   |                   |                   |                   |                   |                   |                   |                   |                   |                              |                   |                    | 9,835             |
| <b>Total assets</b>   |                     |                   |                   |                   |                   |                   |                   |                   |                   |                   |                              |                   |                    | <b>70,220</b>     |
|   |                     |                   |                   |                   |                   |                   |                   |                   |                   |                   |                              |                   |                    | <b>77,596</b>     |
| <b>Total operating liabilities</b>  | <b>8,397</b>        | <b>9,238</b>      | <b>2,423</b>      | <b>2,693</b>      | <b>36</b>         | <b>166</b>        | <b>169</b>        | <b>217</b>        | <b>23</b>         | <b>35</b>         | <b>(82)</b>                  | <b>(108)</b>      | <b>10,966</b>      | <b>12,241</b>     |
| Liabilities directly associated with discontinued operations/Non-current assets held for sale |                     |                   |                   |                   |                   |                   |                   |                   |                   |                   |                              |                   |                    | 1,561             |
| Unallocated liabilities   |                     |                   |                   |                   |                   |                   |                   |                   |                   |                   |                              |                   |                    | 37,507            |
| Equity  |                     |                   |                   |                   |                   |                   |                   |                   |                   |                   |                              |                   |                    | 20,186            |
| <b>Total Equity and liabilities</b>   |                     |                   |                   |                   |                   |                   |                   |                   |                   |                   |                              |                   |                    | <b>70,220</b>     |
|   |                     |                   |                   |                   |                   |                   |                   |                   |                   |                   |                              |                   |                    | <b>77,596</b>     |



**Table of Contents****Consolidated Financial Statements****Notes To Consolidated Financial Statements****b) Reporting by geographical area**

|                     |              | Revenues                            |               |               |                                    |               |               | Non-current operating assets        |               |
|---------------------|--------------|-------------------------------------|---------------|---------------|------------------------------------|---------------|---------------|-------------------------------------|---------------|
|                     |              | Breakdown by location of operations |               |               | Breakdown by location of customers |               |               | Breakdown by location of operations |               |
|                     |              | 2013                                | 2012          | 2011          | 2013                               | 2012          | 2011          | 2013                                | 2012          |
| (millions of euros) |              |                                     |               |               |                                    |               |               |                                     |               |
| Italy               | (A)          | 16,152                              | 17,968        | 19,140        | 15,162                             | 16,774        | 19,140        | 44,670                              | 47,328        |
| Outside Italy       | (B)          | 7,255                               | 7,791         | 7,632         | 8,245                              | 8,985         | 7,632         | 6,368                               | 7,048         |
| <b>Total</b>        | <b>(A+B)</b> | <b>23,407</b>                       | <b>25,759</b> | <b>26,772</b> | <b>23,407</b>                      | <b>25,759</b> | <b>26,772</b> | <b>51,038</b>                       | <b>54,376</b> |

**c) Information about major customers**

None of the Telecom Italia Group's customers exceeds 10% of consolidated revenues.

**NOTE 39 RELATED PARTY TRANSACTIONS**

The following tables show the figures relating to related party transactions and the impact of those amounts on the separate consolidated income statement, consolidated statement of financial position and consolidated statement of cash flows.

Related party transactions, when not dictated by specific laws, were usually conducted at arm's length. The transactions were subject to an internal procedure (available for consultation on the Company's website at the following address: [www.telecomitalia.com](http://www.telecomitalia.com), section Governance channel governance system) which establishes procedures and time scales for verification and monitoring.

On November 13, 2013, the Telecom Italia Group accepted the offer for the purchase of the entire controlling interest held in the Sofora Telecom Argentina group; as a result, the investment was classified as Discontinued Operations (Discontinued operations/Non-current assets held for sale).

The effects on the individual line items of the separate consolidated income statements for the years 2013, 2012 and 2011 are as follows:

**Separate consolidated income statement line items 2013**

| Total (Associates and controlled joint companies and associates) | Related parties       |                       |                       | Pension funds | Key managers | Total Transactions of Discontinued parties | Total related parties | % on line item |
|--|-----------------------|-----------------------|-----------------------|---------------|--------------|--|-----------------------|----------------|
|  | Other related parties | Other related parties | Other related parties |               |              |  |                       |                |

|   | ventures and joint ventures |    |     |     | (*) |    | Operations net of Disc.Op.(b) |       |     | (b/a) |
|---|-----------------------------|----|-----|-----|-----|----|-------------------------------|-------|-----|-------|
|   | (millions of euros)         |    |     |     |     |    |                               |       |     |       |
| Revenues  | 23,407                      | 9  | 2   | 904 |     |    | 915                           | (209) | 706 | 3.0   |
| Other income  | 324                         |    |     | 24  |     |    | 24                            |       | 24  | 7.4   |
| Acquisition of goods and services   | 10,377                      | 8  | 29  | 606 |     |    | 643                           | (133) | 510 | 4.9   |
| Employee benefits expenses  | 3,087                       |    |     | 13  | 81  | 22 | 116                           | (9)   | 107 | 3.5   |
| Other operating expenses  | 1,318                       |    |     | 1   |     |    | 1                             |       | 1   | 0.1   |
| Finance income  | 2,003                       |    |     | 63  |     |    | 63                            |       | 63  | 3.1   |
| Finance expenses  | 4,186                       | 18 |     | 82  |     |    | 100                           |       | 100 | 2.4   |
| Profit (loss) from Discontinued operations/Non-current assets held for sale | 341                         |    | (9) | 76  |     |    | 67                            |       |     |       |

(\*) Other related parties both through directors, statutory auditors and key managers and as participants in shareholders agreements pursuant to Article 122 of the Consolidated Law on Finance.

**Table of Contents****Consolidated Financial Statements****Notes To Consolidated Financial Statements****Separated consolidated income statement line items 2012**

|   | Companies controlled by           |                               |                           |               |              | Related parties       |   |                     | Total related parties | % on line item (b/a) |
|---|-----------------------------------|-------------------------------|---------------------------|---------------|--------------|-----------------------|---|---------------------|-----------------------|----------------------|
|   | Associates and joint ventures (a) | Associates and joint ventures | Other related parties (*) | Pension funds | Key managers | Total related parties | Transactions of Discontinued Operations | net of Disc.Op. (b) |                       |                      |
|   | (millions of euros)               |                               |                           |               |              |                       |   |                     |                       |                      |
| Revenues  | 25,759                            | 36                            | 2                         | 987           |              | 1,025                 | (195)                                   | 830                 | 3.2                   |                      |
| Other income  | 285                               |                               |                           | 3             |              | 3                     |   | 3                   | 1.1                   |                      |
| Acquisition of goods and services   | 11,289                            | 12                            | 33                        | 700           |              | 745                   | (149)                                   | 596                 | 5.3                   |                      |
| Employee benefits expenses  | 3,333                             |                               |                           | 4             | 82           | 18                    | 104                                     | 104                 | 3.1                   |                      |
| Finance income  | 1,983                             |                               |                           | 45            |              | 45                    |   | 45                  | 2.3                   |                      |
| Finance expenses  | 3,981                             | 19                            |                           | 64            |              | 83                    |   | 83                  | 2.1                   |                      |
| Profit (loss) from Discontinued operations/Non-current assets held for sale | 102                               |                               | (13)                      | 59            |              | 46                    |   |                     |                       |                      |

(\* ) Other related parties both through directors, statutory auditors and key managers and as participants in shareholders' agreements pursuant to Article 122 of the Consolidated Law on Finance.

**Separate consolidated income statement line items 2011**

|              | Companies controlled by           |                               |                           |               |              | Related parties       |   |                     | Total related parties | % on line item (b/a) |
|--------------|-----------------------------------|-------------------------------|---------------------------|---------------|--------------|-----------------------|---|---------------------|-----------------------|----------------------|
|              | Associates and joint ventures (a) | Associates and joint ventures | Other related parties (*) | Pension funds | Key managers | Total related parties | Transactions of Discontinued Operations | net of Disc.Op. (b) |                       |                      |
|              | (millions of euros)               |                               |                           |               |              |                       |   |                     |                       |                      |
| Revenues     | 26,772                            | 91                            | 2                         | 1,007         |              | 1,100                 | (180)                                   | 920                 | 3.4                   |                      |
| Other income | 294                               |                               | 1                         | 1             |              | 2                     |   | 2                   | 0.7                   |                      |

|   |        |    |    |     |    |     |       |     |     |
|---|--------|----|----|-----|----|-----|-------|-----|-----|
| Acquisition of goods and services   | 11,495 | 16 | 42 | 671 |    | 729 | (136) | 593 | 5.2 |
| Employee benefits expenses  | 3,514  |    |    | 4   | 91 | 18  | 113   | 113 | 3.2 |
| Finance income  | 2,400  |    |    | 127 |    |     | 127   | 127 | 5.3 |
| Finance expenses  | 4,440  | 31 |    | 62  |    | 93  |       | 93  | 2.1 |
| Profit (loss) from Discontinued operations/Non-current assets held for sale | 310    |    |    |     |    |     |       |     |     |

(\*) Other related parties both through directors, statutory auditors and key managers and as participants in shareholders agreements pursuant to Article 122 of the Consolidated Law on Finance.

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The effects on the individual line items of the consolidated statements of financial position at December 31, 2013 and at December 31, 2012 are as follows:

**Consolidated statement of financial position line items at December 31, 2013**

|   | Companies controlled by           |                               |                           | Related parties               |   |                                      | Total related parties net of Disc.Op. (b) | % on line item (b/a) |     |
|---|-----------------------------------|-------------------------------|---------------------------|-------------------------------|---|--------------------------------------|---|----------------------|-----|
|   | Associates and joint ventures (a) | Associates and joint ventures | Other related parties (*) | Pension funds related parties | Transactions of Discontinued Operations | Total of parties net of Disc.Op. (b) |   |                      |     |
| Non-current financial assets  | (1,256)                           | (6)                           | (116)                     | (122)                         | (122)                                   | (122)                                | 9.7                                       |                      |     |
| Securities other than investments (current assets)  | (1,348)                           |                               | (39)                      | (39)                          | (39)                                    | (39)                                 | 2.9                                       |                      |     |
| Financial receivables and other current financial assets  | (283)                             |                               | (11)                      | (11)                          | (11)                                    | (11)                                 | 3.9                                       |                      |     |
| Cash and cash equivalents   | (5,744)                           |                               | (48)                      | (48)                          | (48)                                    | (48)                                 | 0.8                                       |                      |     |
| Current financial assets  | (7,375)                           |                               | (98)                      | (98)                          | (98)                                    | (98)                                 | 1.3                                       |                      |     |
| Discontinued operations/Non-current assets held for sale of a financial nature                                    | (657)                             |                               |                           |                               |   |                                      |   |                      |     |
| Non-current financial liabilities   | 31,084                            | 56                            | 150                       | 206                           | 206                                     | 206                                  | 0.7                                       |                      |     |
| Current financial liabilities   | 6,119                             | 70                            | 316                       | 386                           | 386                                     | 386                                  | 6.3                                       |                      |     |
| Liabilities directly associated with Discontinued operations/Non-current assets held for sale of financial nature | 27                                |                               |                           |                               |   |                                      |   |                      |     |
| Trade and miscellaneous receivables and other current assets  | 5,389                             | 4                             | 2                         | 238                           | 244                                     | (27)                                 | 217                                       | 4.0                  |     |
| Discontinued operations/Non-current assets held for sale of a non-financial nature                                | 2,871                             |                               | 27                        | 27                            |   |                                      |   |                      |     |
| Miscellaneous payables and other non-current liabilities  | 779                               |                               | 2                         | 2                             | 2                                       | 2                                    | 0.3                                       |                      |     |
| Trade and miscellaneous payables and other current liabilities  | 8,649                             | 8                             | 53                        | 214                           | 24                                      | 299                                  | (48)                                      | 251                  | 2.9 |
| Liabilities directly associated with discontinued operations/non-current assets held                              | 1,534                             |                               | 20                        | 28                            | 48                                      |                                      |   |                      |     |

for sale of a non-financial nature

(\* Other related parties both through directors, statutory auditors and key managers and as participants in shareholders agreements pursuant to Article 122 of the Consolidated Law on Finance.

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**Table of Contents****Consolidated Financial Statements****Notes To Consolidated Financial Statements****Consolidated statement of financial position line items at December 31, 2012**

|  | Companies controlled by           |                               |                           |                                     | Related parties                         |       | Total related parties net of Disc.Op (b) | % on line item (b/a) |
|--|-----------------------------------|-------------------------------|---------------------------|-------------------------------------|---|-------|--|----------------------|
|  | Associates and joint ventures (a) | associates and joint ventures | Other related parties (*) | Total Pension funds related parties | Transactions of Discontinued Operations |       |  |                      |
| Non-current financial assets                                   | (2,496)                           |                               | (265)                     | (265)                               |   | (265) | 10.6                                     |                      |
| Securities other than investments (current assets)             | (754)                             |                               |                           |                                     |   |       |  |                      |
| Financial receivables and other current financial assets       | (502)                             | (2)                           | (10)                      | (12)                                |   | (12)  | 2.4                                      |                      |
| Cash and cash equivalents                                      | (7,436)                           |                               | (279)                     | (279)                               |   | (279) | 3.8                                      |                      |
| Current financial assets                                       | (8,692)                           | (2)                           | (289)                     | (291)                               |   | (291) | 3.3                                      |                      |
| Non-current financial liabilities                              | 34,091                            | 109                           | 367                       | 476                                 |   | 476   | 1.4                                      |                      |
| Current financial liabilities                                  | 6,150                             | 103                           | 75                        | 178                                 |   | 178   | 2.9                                      |                      |
| Trade and miscellaneous receivables and other current assets   | 7,006                             | 11                            | 5                         | 219                                 | 235                                     | 235   | 3.4                                      |                      |
| Miscellaneous payables and other non-current liabilities       | 1,053                             |                               | 2                         | 2                                   |   | 2     | 0.2                                      |                      |
| Trade and miscellaneous payables and other current liabilities | 10,542                            | 10                            | 39                        | 253                                 | 25                                      | 327   | 3.1                                      |                      |

(\*) Other related parties both through directors, statutory auditors and key managers and as participants in shareholders' agreements pursuant to Article 122 of the Consolidated Law on Finance.

The **effects on the individual line items of the consolidated statements of cash flows** for the years 2013, 2012 and 2011 are as follows:

**Consolidated statement of cash flows line items 2013**

|  | Companies controlled by           |                               |                           |               | Related parties       |   | Total related parties net of Disc.Op. (b) | % on line item (b/a) |
|--|-----------------------------------|-------------------------------|---------------------------|---------------|-----------------------|---|---|----------------------|
|  | Associates and joint ventures (a) | associates and joint ventures | Other related parties (*) | Pension funds | Total related parties | Transactions of Discontinued Operations |   |                      |
| Purchase of intangible and tangible assets on an accrual basis | 4,400                             | 2                             | 145                       | 17            | 164                   |   | 164                                       | 3.7                  |
| Dividends paid   | 537                               |                               |                           | 62            | 62                    |   | 62  | 11.5                 |

(\*) Other related parties both through directors, statutory auditors and key managers and as participants in shareholders agreements pursuant to Article 122 of the Consolidated Law on Finance.

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|  | Companies controlled by           |                               |                           | Related parties     |                 | Total related parties net of Disc.Op. (b) | % on line item (b/a) |
|--|-----------------------------------|-------------------------------|---------------------------|---------------------|-----------------|---|----------------------|
|  | Associates and joint ventures (a) | associates and joint ventures | Other related parties (*) | Total Pension funds | related parties |   |                      |
| Purchase of intangible and tangible assets on an accrual basis | 4,639                             | 2                             | 124                       | 1                   | 127             | 127                                       | 2.7                  |
| Dividends paid   | 964                               |                               |                           | 139                 | 139             | 139                                       | 14.4                 |

(millions of euros)

(\*) Other related parties both through directors, statutory auditors and key managers and as participants in shareholders agreements pursuant to Article 122 of the Consolidated Law on Finance.

**Consolidated statement of cash flows line items 2011**

|  | Companies controlled by           |                               |                           | Related parties     |                 | Total related parties net of Disc.Op. (b) | % on line item (b/a) |
|--|-----------------------------------|-------------------------------|---------------------------|---------------------|-----------------|---|----------------------|
|  | Associates and joint ventures (a) | associates and joint ventures | Other related parties (*) | Total Pension funds | related parties |   |                      |
| Purchase of intangible and tangible assets on an accrual basis | 5,556                             | 3                             | 162                       | 1                   | 166             | 166                                       | 3.0                  |
| Dividends paid   | 1,253                             |                               |                           | 191                 | 1               | 192                                       | 15.3                 |

(millions of euros)

(\*) Other related parties both through directors, statutory auditors and key managers and as participants in shareholders agreements pursuant to Article 122 of the Consolidated Law on Finance.



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The most significant amounts are summarized as follows:

**Separate consolidated income statement line items**

|  | 2013                | 2012      | 2011      | Type of contract  |
|--|---------------------|-----------|-----------|---|
|  | (millions of euros) |           |           |   |
| <b>Revenues</b>                                |                     |           |           |   |
| NordCom S.p.A.                                 | 2                   | 3         | 2         | Fixed and mobile Voice services, data network connections, outsourcing, I.C.T. products and services  |
| Teleleasing S.p.A. (in liquidation)            | 5                   | 31        | 87        | Sale of equipment   |
| TM News S.p.A.                                 | 1                   | 1         | 1         | Fixed and mobile telephony services, property leases and administrative outsourcing   |
| Other minor companies                          | 1                   | 1         | 1         |   |
| <b>Total revenues</b>                          | <b>9</b>            | <b>36</b> | <b>91</b> |   |
| <b>Acquisition of goods and services</b>       |                     |           |           |   |
| EtecSA   |                     |           | 5         | International telecommunications services and roaming   |
| Movenda S.p.A.                                 | 2                   | 3         | 1         | Supply of SIM cards and related adapters, software development and advanced maintenance   |
| NordCom S.p.A.                                 | 2                   | 3         | 2         | Supply and development of IT solutions, supply of rented equipment and IT services, and provision of customized services as part of Telecom Italia offerings to end customers |
| Teleleasing S.p.A. (in liquidation)            | 2                   | 2         | 4         | Purchase of goods assigned under leasing arrangements with Telecom Italia customers   |
| TM News S.p.A.                                 | 2                   | 4         | 4         | Supply of information content for the TimSpot service, services and photos for intranet, supply of journalistic information (news, APICOM News data flow)                     |
| <b>Total acquisition of goods and services</b> | <b>8</b>            | <b>12</b> | <b>16</b> |   |
| <b>Finance expenses</b>                        |                     |           |           |   |
| Aree Urbane S.r.l. (in liquidation)            | 6                   |           |           | Write-down of financial receivable and provision for guarantees given   |
| Teleleasing S.p.A. (in liquidation)            | 12                  | 19        | 23        |   |

Interest expenses for finance leases of  
equipment and finance leases

|                               |           |           |           |
|-------------------------------|-----------|-----------|-----------|
| Other minor companies         |           |           | 8         |
| <b>Total finance expenses</b> | <b>18</b> | <b>19</b> | <b>31</b> |

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**Table of Contents****Consolidated Financial Statements****Notes To Consolidated Financial Statements****Consolidated statement of financial position line items**

|   | As<br>of<br>December 31,<br>2013<br>(millions of euros) | As of<br>December 31,<br>2012 | Type of contract  |
|---|---|-------------------------------|---|
| <b>Financial receivables and other current financial assets</b>           |   | <b>2</b>                      | Shareholder loan to Aree Urbane S.r.l. (in liquidation)   |
| <b>Non-current financial liabilities</b>                                  | <b>56</b>   | <b>109</b>                    | Finance leases of equipment and finance leases with Teleleasing S.p.A. (in liquidation)   |
| <b>Current financial liabilities</b>                                      | <b>70</b>   | <b>103</b>                    | Finance leases of equipment and finance leases with Teleleasing S.p.A. (in liquidation)   |
| <b>Trade and miscellaneous receivables and other current assets</b>       |   |                               |   |
| NordCom S.p.A.  |   | 1                             | Fixed and mobile voice services, data network connections, outsourcing, I.C.T. products and services  |
| Teleleasing S.p.A. (in liquidation)                                       | 2   | 8                             | Sale of equipment   |
| TM News S.p.A.  | 1   | 1                             | Property leases and telecommunications services   |
| Other minor companies   | 1   | 1                             |   |
| <b>Total trade and miscellaneous receivables and other current assets</b> | <b>4</b>  | <b>11</b>                     |   |
| <b>Trade and miscellaneous payables and other current liabilities</b>     |   |                               |   |
| Movenda S.p.A.  | 2   | 3                             | Supply of SIM cards and related adapter, software development and advanced maintenance  |
| Nord.Com S.p.A.   | 1   | 2                             | Purchase and development of IT solutions, supply of rented equipment and IT services, and provision of customized services as part of Telecom Italia offerings to end customers |
| Teleleasing S.p.A. (in liquidation)                                       | 3   | 2                             |   |

|   |          |           |   |
|---|----------|-----------|---|
|   |          |           | Purchase of goods assigned under leasing arrangements with Telecom Italia customers   |
| TM News S.p.A.  | 1        | 2         | Supply of information content for the TimSpot service, services and photos for intranet, supply of journalistic information (news, APICOM News data flow) |
| Other minor companies   | 1        | 1         |   |
| <b>Total trade and miscellaneous payables and other current liabilities</b> | <b>8</b> | <b>10</b> |   |

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| Consolidated statement of cash flows line items                | 2013                | 2012 | 2011 | Type of contract            |
|--|---------------------|------|------|-----------------------------|
|  | (millions of euros) |      |      |                             |
| Purchase of intangible and tangible assets on an accrual basis | 2                   | 2    | 3    | IT services Movenda S.p.A.. |

**TRANSACTIONS WITH COMPANIES CONTROLLED BY ASSOCIATES AND JOINT VENTURES**

The most significant amounts are summarized as follows:

| Separate consolidated income statement line items | 2013                | 2012 | 2011 | Type of contract  |
|---|---------------------|------|------|---|
|   | (millions of euros) |      |      |   |
| Revenues  | 2                   | 2    | 2    | Provision of equipment rental, fixed and mobile telephone and outsourced communication services to the Italtel group  |
| Other income                                      |                     |      | 1    | Commercial transaction with the Italtel group   |
| Acquisition of goods and services                 | 29                  | 33   | 42   | Supply and maintenance of switching equipment, software development and platforms upgrading, and customized products and services, as part of Telecom Italia offerings to the Italtel group customers |

| Consolidated statement of financial position line items      | As of December 31, 2013 | As of December 31, 2012 | Type of contract  |
|--|-------------------------|-------------------------|---|
|  | (millions of euros)     |                         |   |
| Non-current financial assets                                 | 6                       |                         | Interest bearing loan with the Italtel group  |
| Trade and miscellaneous receivables and other current assets | 2                       | 5                       | Supply of products and services, sale of products and convertible loan to the Italtel |

group. The convertible loan in place at December 31, 2012, and relating to Italtel S.p.A., was converted in the first half of 2013 into equity instruments of the company

**Total trade and miscellaneous payables and other current liabilities**

|           |           |   |
|-----------|-----------|---|
| <b>53</b> | <b>39</b> | Supply relationships linked to Capex and Opex for the Italtel group |
|-----------|-----------|---|

| Consolidated statement of cash flows line items                       | 2013                | 2012       | 2011       | Type of contract                              |
|---|---------------------|------------|------------|---|
|   | (millions of euros) |            |            |   |
| <b>Purchase of intangible and tangible assets on an accrual basis</b> | <b>145</b>          | <b>124</b> | <b>162</b> | Purchases of TLC equipment from Italtel group |

**TRANSACTIONS WITH OTHER RELATED PARTIES** (both through directors, statutory auditors and key managers and as participants in shareholders agreements pursuant to Article 122 of the Consolidated Law on Finance)

The Procedure for carrying out transactions with related parties pursuant to the Regulation containing the provisions on related party transactions adopted by Consob under Resolution 17221 of March 12, 2010, as amended provides that the procedure should be applied also to parties who, regardless of whether they qualify as related parties according to the accounting principles, participate in significant shareholders agreements

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according to art. 122 of the Consolidated Law on Finance, which govern the candidacy to the position of director of Telecom Italia, where the slate presented is the majority slate pursuant to art. 9 of the bylaws of the Company.

On December 13, 2013 the Board Director Cèsar Alierta Izuel, through whom Telecom Italia was a related party of the companies of the China Unicom group, tendered his resignation. As a result the aforementioned companies are no longer considered related parties.

The most significant amounts are summarized as follows:

**Separate consolidated income statement line items**

|                       | 2013                | 2012       | 2011         | Type of contract  |
|-----------------------|---------------------|------------|--------------|---|
|                       | (millions of euros) |            |              |   |
| <b>Revenues</b>       |                     |            |              |   |
| ATM group             |                     |            | 2            | Supply of customized services and business data network   |
| Generali group        | 84                  | 70         | 74           | Supply of telephone and data transmission services, peripheral data networks, connections, storage and telecommunications equipment and services for foreign holdings |
| Intesa Sanpaolo group | 68                  | 66         | 79           | Telephone services, MPLS data and international network, ICT services and Microsoft licenses, Internet connectivity and high-speed connections                        |
| Mediobanca group      | 7                   | 5          | 7            | Telephone and MPLS data network services and marketing of data and VoIP devices and sale of equipment for fixed and mobile networks                                   |
| Telefonica group      | 745                 | 844        | 845          | Interconnection services, roaming, broadband access fees, supply of IRU transmission capacity and software  |
| Other minor companies |                     | 2          |              |   |
| <b>Total revenues</b> | <b>904</b>          | <b>987</b> | <b>1,007</b> |   |
| <b>Other income</b>   |                     |            |              |   |
| Generali group        | 23                  | 3          | 1            | Damage compensation   |
| Other                 | 1                   |            |              |   |

|  |            |            |            |  |
|--|------------|------------|------------|--|
|  |            |            |            | Other income from the Intesa SanPaolo group and Telefónica.  |
| <b>Total other income</b>                      | <b>24</b>  | <b>3</b>   | <b>1</b>   |  |
| <b>Acquisition of goods and services</b>       |            |            |            |  |
| A1 International Investment group              |            | 1          |            | TV content rights  |
| China Unicom group                             |            | 2          |            | International telecommunication and roaming services   |
| Generali group                                 | 37         | 36         | 30         | Insurance premiums and property leases   |
| Intesa Sanpaolo group                          | 11         | 18         | 17         | Factoring fees, fees for telephone card top-ups/activation and commissions for payment of telephone bills by direct debit and collections via credit cards |
| Mediobanca group                               | 2          | 1          | 1          | Credit recovery activities and professional services   |
| Telefonica group                               | 556        | 642        | 622        | Interconnection and roaming services, site sharing, co-billing agreements, broadband linesharing and unbundling  |
| Other minor companies                          |            |            | 1          |  |
| <b>Total acquisition of goods and services</b> | <b>606</b> | <b>700</b> | <b>671</b> |  |
| <b>Employee benefits expenses</b>              | <b>13</b>  | <b>4</b>   | <b>4</b>   | Non-obligatory employee insurance taken out with the Generali group  |
| <b>Other operating expenses</b>                | <b>1</b>   |            |            | Expenses for penalties and contractual breaches towards the Intesa Sanpaolo group  |
| <b>Finance income</b>                          |            |            |            |  |
| Intesa Sanpaolo group                          | 50         | 33         | 112        | Bank accounts, deposits and hedging derivatives  |
| Mediobanca group                               | 13         | 12         | 15         | Bank accounts, deposits and hedging derivatives  |
| <b>Total finance income</b>                    | <b>63</b>  | <b>45</b>  | <b>127</b> |  |
| <b>Finance expenses</b>                        |            |            |            |  |
| Intesa Sanpaolo group                          | 69         | 51         | 55         | Term Loan Facility, Revolving Credit Facility, hedging derivatives, loans and bank accounts  |
| Mediobanca group                               | 13         | 13         | 7          | Term Loan Facility, Revolving Credit Facility and hedging derivatives  |

|                               |           |           |           |
|-------------------------------|-----------|-----------|-----------|
| <b>Total finance expenses</b> | <b>82</b> | <b>64</b> | <b>62</b> |
|-------------------------------|-----------|-----------|-----------|

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| Consolidated Financial Statements                                     | Notes To Consolidated Financial Statements              |                               |   |
|---|---|-------------------------------|---|
| Consolidated statement of financial position<br>line items            | As<br>of<br>December 31,<br>2013<br>(millions of euros) | As of<br>December 31,<br>2012 | Type of contract  |
| <b>Non-current financial assets</b>                                   |   |                               |   |
| IntesaSanpaolo group  | 101   | 241                           | Hedging derivatives   |
| Mediobancagroup   | 15  | 24                            | Hedging derivatives   |
| <b>Total non-current financial assets</b>                             | <b>116</b>  | <b>265</b>                    |   |
| <b>Securities other than investments (current assets)</b>             |   |                               |   |
| Generaligroup   | 4   |                               | Bonds   |
| IntesaSanpaolo group  | 12  |                               | Bonds   |
| Mediobancagroup   | 14  |                               | Bonds   |
| Telefonicagroup   | 9   |                               | Bonds   |
| <b>Total securities other than investments (current assets)</b>       | <b>39</b>   |                               |   |
| <b>Financial receivables and other current financial assets</b>       |   |                               |   |
| IntesaSanpaolo group  | 10  | 9                             | Hedging derivatives   |
| Mediobancagroup   | 1   | 1                             | Hedging derivatives   |
| <b>Total financial receivables and other current financial assets</b> | <b>11</b>   | <b>10</b>                     |   |
| <b>Cash and cash equivalents</b>                                      | <b>48</b>   | <b>279</b>                    | Bank accounts and deposits with Intesa Sanpaolo group               |
| <b>Non-current financial liabilities</b>                              |   |                               |   |
| IntesaSanpaolo group  | 136   | 280                           | Revolving Credit Facility, hedging derivatives and loans            |
| Mediobancagroup   | 14  | 87                            | Revolving Credit Facility and hedging derivatives                   |
| <b>Total non-current financial liabilities</b>                        | <b>150</b>  | <b>367</b>                    |   |
| <b>Current financial liabilities</b>                                  |   |                               |   |
| IntesaSanpaolo group  | 253   | 73                            | Current accounts, hedging derivatives and payables to other lenders |
| Mediobancagroup   | 63  | 2                             | Hedging derivatives   |

|   |            |            |  |
|---|------------|------------|--|
| <b>Total current financial liabilities</b>                                | <b>316</b> | <b>75</b>  |  |
| <b>Trade and miscellaneous receivables and other current assets</b>       |            |            |  |
| Generaligroup   | 24         | 16         | Supply of telephone and data transmission services, peripheral data networks, connections, storage, applications services and supply of telecommunications equipment and services for foreign holdings |
| IntesaSanpaolo group  | 112        | 104        | Factoring services, supply of telephone, MPLS and international data network services, ICT services, Microsoft licenses, Internet connectivity and high-speed connections                              |
| Mediobancagroup   | 2          |            | Telephone and MPLS data network services and marketing of data and VoIP devices and sales of equipment for fixed and mobile networks   |
| Telefonicagroup   | 100        | 96         | Interconnection services, roaming, broadband access fees, supply of IRU transmission capacity and software   |
| Otherminor companies  |            | 3          |  |
| <b>Total trade and miscellaneous receivables and other current assets</b> | <b>238</b> | <b>219</b> |  |

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| <b>Consolidated Financial Statements</b>                                    | <b>Notes To Consolidated Financial Statements</b> |                                |  |   |
|---|---|--------------------------------|--|---|
| <b>Consolidated statement of financial position line items</b>              | <b>As of December 31, 2013</b>                    | <b>As of December 31, 2012</b> | <b>Type of contract</b>  |   |
|   | <b>(millions of euros)</b>                        |                                |  |   |
| <b>Miscellaneous payables and other non-current liabilities</b>             | <b>2</b>  | <b>2</b>                       | Deferred income relating to the supply of IRU transmission capacity to the Telefónica Group  |   |
| <b>Trade and miscellaneous payables and other current liabilities</b>       |   |                                |  |   |
| A1 International Investment group   |   | 1                              | Purchase of TV content rights  |   |
| Generaligroup   | 5   |                                | Deferred income relating to outsourcing of data networks and centralized and peripheral telephony systems  |   |
| IntesaSanpaolo group  | 135   | 177                            | Factoring fees, fees for telephone card top-ups/activation and commissions for payment of telephone bills by direct debit and collections via credit cards |   |
| Mediobancagroup   | 1   | 1                              | Credit recovery activities and professional services   |   |
| Telefonicagroup   | 73  | 73                             | Interconnection and roaming services, site sharing, co-billing agreements, broadband line sharing and unbundling   |   |
| Other minor companies   |   | 1                              |  |   |
| <b>Total trade and miscellaneous payables and other current liabilities</b> | <b>214</b>  | <b>253</b>                     |  |   |
| <b>Consolidated statement of cash flows line items</b>                      | <b>2013</b>                                       | <b>2012</b>                    | <b>2011</b>  | <b>Type of contract</b>                                       |
|   | <b>(millions of euros)</b>                        |                                |  |   |
| <b>Purchase of intangible and tangible assets on an accrual basis</b>       |   |                                |  |   |
| A1 International Investment group   |   | 1                              | 1  | Capitalization of costs associated with unbundling in Germany |
| Telefonica group  | 17  |                                |  | Acquisition of transmission capacity                          |



|   |           |            |            |
|---|-----------|------------|------------|
| <b>Total purchase of intangible and tangible assets on an accrual basis</b> | <b>17</b> | <b>1</b>   | <b>1</b>   |
| <b>Dividends paid</b>   |           |            |            |
| Telco   | 60        | 129        | 174        |
| Other minor companies   | 2         | 10         | 17         |
| <b>Total dividends paid</b>   | <b>62</b> | <b>139</b> | <b>191</b> |

**TRANSACTIONS WITH PENSION FUNDS**

The most significant amounts are summarized as follows:

| <b>Separate consolidated income statements line items</b> | <b>2013</b>                | <b>2012</b> | <b>2011</b> | <b>Type of contract</b>               |
|---|----------------------------|-------------|-------------|---------------------------------------|
|   | <b>(millions of euros)</b> |             |             |                                       |
| <b>Employee benefits expenses</b>                         |                            |             |             | <b>Contributions to pension funds</b> |
| Fontedir  | 11                         | 12          | 12          |                                       |
| Telemaco  | 67                         | 65          | 73          |                                       |
| Other pension funds                                       | 3                          | 5           | 6           |                                       |
| <b>Total employee benefits expenses</b>                   | <b>81</b>                  | <b>82</b>   | <b>91</b>   |                                       |

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| Consolidated statement of financial position<br>line items                      | As<br>of<br>December 31,<br>2013 | As of<br>December 31,<br>2012 | Type of contract                               |
|---|----------------------------------|-------------------------------|--|
|   | (millions of euros)              |                               |  |
| <b>Trade and miscellaneous payables and other<br/>current liabilities</b>       |                                  |                               | Payables for contributions to pension<br>funds |
| Fontedir  | 4                                | 4                             |  |
| Telemaco  | 20                               | 21                            |  |
| Other pension funds   |                                  |                               |  |
| <b>Total trade and miscellaneous payables and<br/>other current liabilities</b> | <b>24</b>                        | <b>25</b>                     |  |

| Consolidated statement of cash flows line<br>items | 2013                | 2012 | 2011     | Type of contract |
|--|---------------------|------|----------|------------------|
|  | (millions of euros) |      |          |                  |
| <b>Dividends paid</b>                              |                     |      | <b>1</b> |                  |

\* \* \*

**REMUNERATION TO KEY MANAGERS**

In 2013, the total remuneration recorded on the accrual basis by Telecom Italia S.p.A. or by companies controlled by the Group in respect of key managers amounted to 22.4 million euros (18 million euros in 2012), broken down as follows:

|   | 2013                | 2012        |
|---|---------------------|-------------|
|   | (millions of euros) |             |
| Short-term remuneration                   | 11.6 (1)            | 14.0 (4)    |
| Long-term remuneration                    | (0.1) (2)           | 1.9 (5)     |
| Employment termination benefit incentives | 10.8                | 1.0 (6)     |
| Share-based payments (*)                  | 0.1 (3)             | 1.1 (7)     |
|   | <b>22.4</b>         | <b>18.0</b> |

(\*) These refer to the fair value of the rights, accrued to December 31, under the share-based incentive plans of Telecom Italia S.p.A. and its subsidiaries (LTI 2011/2012).

(1) of which 1.8 million euros recorded by the Latin American subsidiaries.

(2) of which 0.16 million euros recorded by the Latin American subsidiaries.

(3) of which 0.16 million euros recorded by the Latin American subsidiaries.

(4) of which 1.4 million euros recorded by the Latin American subsidiaries.

(5) of which 0.6 million euros recorded by the Latin American subsidiaries.

(6) of which -0.5 million euros recorded by the Latin American subsidiaries.

(7) of which 0.3 million euros recorded by the Latin American subsidiaries.

Short-term remuneration is paid during the period it pertains to, and, at the latest, within the six months following the end of that period. Long-term remuneration is paid when the related right becomes vested.

In 2013, the contributions paid in to defined contribution plans (Assida and Fontedir) by Telecom Italia S.p.A. or by subsidiaries of the Group, on behalf of key managers, amounted to 803,000 euros (580,000 euros in 2012).

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In 2013, Key managers, i.e. those who have the power and responsibility, directly or indirectly, for the planning, direction and control of the operations of the Telecom Italia Group, including directors, were the following:

**Directors:**

Franco Bernabè

Executive Chairman and Chief Executive Officer of Telecom Italia S.p.A. (1)

Marco Patuano

Domestic Managing Director Chief Operating Officer of Telecom Italia S.p.A. (2)

**Managers:**

Andrea Mangoni

South America General Manager (3)

Rodrigo Modesto de Abreu

Diretor Presidente TIM Partecipacoes (4)

Simone Battiferri

Head of Business

Franco Bertone

Dirección General Ejecutiva (CEO) Telecom Argentina (5)

Franco Brescia

Head of Public & Regulatory Affairs

Antonino Cusimano

Head of Corporate Legal Affairs

Stefano De Angelis

Direcion General Ejecutiva (CEO) Telecom Argentina (6)

Mario Di Loreto

Head of People Value (7)

Antonio Migliardi

Head of Human Resources and Organization (8)

Giuseppe Roberto Opilio

Head of Technology

Piergiorgio Peluso

Head of Administration Finance and Control

Luca Rossetto

Head of Consumer

Alessandro Talotta

Head of National Wholesale Services

Paolo Vantellini

Business Support Officer

(1) to October 3, 2013.

(2) from October 3, 2013.

(3) to April 30, 2013.

(4) from March 4, 2013.

(5) to February 26, 2013.

(6) from February 27, 2013.

(7) from September 1, 2013.

(8) to August 31, 2013.

#### **NOTE 40 EQUITY COMPENSATION PLANS**

The equity compensation plans in force at December 31, 2013 are used by Telecom Italia for retention purposes and as a long-term incentive for the managers and employees of the Group.

A summary is provided below of the plans in place at December 31, 2013; for further details on the plans already in place at December 31, 2012, please refer to the consolidated financial statements of the Telecom Italia Group at that date.

#### **Description of stock option plans**

- **Top 2008 Stock Option Plan of Telecom Italia S.p.A.**

This plan refers to options granted on April 15, 2008 to the then chairman and chief executive officer, originally for 11,400,000 options, exercisable at the end of the vesting period, expiring after three years from the grant date, at a price of 1.95 euros per option. The exercise period is from April 15, 2011 to April 15, 2014. Each option gives the right to one Telecom Italia S.p.A. ordinary share.

75% of the options granted (equal to 8,550,000 options) is not subject to performance targets and is still valid, while the remaining 25% (equal to 2,850,000 options) was forfeited in 2010 because the performance targets were not reached. During 2013, no options were exercised, and the situation remained unchanged compared to December 31, 2012 and December 31, 2011.

Unexercised options by April 15, 2014 will expire.

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2011 Plan**

A long-term incentive plan for managers in key positions in the company and its subsidiaries was approved by the shareholders' meeting of Tim Participações S.A. on August 5, 2011. Exercise of the options is subject to achieving two performance objectives simultaneously: the increase in value of the company's ordinary shares and the performance of the prices of the company's shares against a reference index, defined by the directors of Tim Participações S.A. and composed principally of the share price of other companies in the telecommunications, information technology and media sectors.

The period of validity of the options is 6 years and the company does not have the legal obligation to repurchase or settle the options in cash or in any other form.

In relation to the options assigned in 2011, a third of these options could be exercised at the end of July 2012, another third after the first half of 2013 and the remaining third after the first half of 2014. Performance targets refer to the three years 2011-2013, measured in July of each year.

On the grant date of August 5, 2011, the exercise value of the options granted was calculated using the average weighted price of the shares of Tim Participações S.A.. This average considers the traded volume and the trading price of the shares of the company during the period of 30 days before July 20, 2011 (the date when the board of directors approved the plan).

On August 5, 2011, the grantees of the options were granted the right to purchase a total of 2,833,596 shares.

At December 31, 2013, a total of 1,024,589 options could be considered as vested. Up to that date none of the plan beneficiaries had exercised the options to purchase during the period established.

**2012 Plan**

On September 5, 2012, the shareholders' meeting of Tim Participações S.A. approved the second granting of stock options for managers in key positions in the company and its subsidiaries. In keeping with the structure of the plan initiated in 2011, the exercise of the options is subordinated to the simultaneous achievement of two performance targets:

absolute performance: increase in the value of Tim Participações shares;

relative performance: performance of Tim Participações shares against a benchmark index composed of TLC and Media Technology companies listed on the Bovespa and in the Bovespa index.

The period of validity of the options is 6 years and the company does not have the legal obligation to repurchase or settle the options in cash or in any other form.

In relation to the options assigned in 2012, a third of these options could be exercised at the end of September 2013, another third will be exercisable from September 2014 and the remaining third after September 2015. Performance targets refer to the three years 2012-2014, measured in August of each year.

On the grant date of September 5, 2012, the exercise value of the options granted was calculated using the average weighted price of the shares of Tim Participações S.A.. This average considers the traded volume and the trading price of the shares of the company during the period July 1 to August 31, 2012.

On September 5, 2012, the grantees of the options were granted the right to purchase a total of 2,661,752 shares.

At December 31, 2013 a total of 525,029 options could be considered as vested. Up to that date none of the plan beneficiaries had exercised the options to purchase during the period established.

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On July 21, 2013, the shareholders' meeting of Tim Participações S.A. approved the third granting of stock options for managers in key positions in the company and its subsidiaries. In continuation of the structure of the plans launched in 2011 and 2012, the exercise of the options is subject to the simultaneous achievement of the objectives of increase in the value of Tim Participações shares and their performance against a benchmark index composed of TLC and Media Technology companies listed on the Bovespa and the Bovespa index.

The period of validity of the options is 6 years and the company does not have the legal obligation to repurchase or settle the options in cash or in any other form.

In relation to the options assigned in 2013, a third of these options will be exercisable at the end of July 2014, another third from July 2015 and the remaining third after July 2016. Performance targets refer to the three years 2013-2015, measured in July of each year.

On the grant date of July 30, 2013, the exercise value of the options granted was calculated using the average weighted price of the shares of Tim Participações S.A.. This average considers the traded volume and the trading price of the shares of the company during the period of 30 days prior to July 20, 2013.

On July 30, 2013, the grantees of the options were granted the right to purchase a total of 3,072,418 shares. As of December 31, 2013, there were no options that could have already been exercised.

**Description of other Telecom Italia S.p.A. equity compensation plans**

Equity compensation plans which call for payment in equity instruments are recorded at fair value which represents the cost of such instruments at the grant date and is recorded in the separate income statements under Employee benefits expenses over the period between the grant date and the vesting period with a contra-entry to the equity reserve Other equity instruments. For the portion of the plans that provide for the payment of compensation in cash, the amount is recognized in liabilities as a contra-entry to Employee benefits expenses; at the end of each year this liability is measured at fair value.

Equity compensation plans which call for payment in equity instruments did not have significant impacts either on the income statements or the statements of financial position or of cash flows at December 31, 2013.

**· Long Term Incentive Plan 2010-2015 (LTI 2010-2015 Plan)**

The Plan awards a cash bonus based on three-year performance measured against pre-set targets to a selected number of Group management. The incentive period ended on December 31, 2012 and, consequently, on March 7, 2013 the board of directors verified the vesting of the right to the bonus for the 117 beneficiaries of the Plan. The total amount vested was 691,853 euros, with the option to invest 50% of the bonus awarded in the subscription for Telecom Italia ordinary shares at a market price set at 0.60 euro. At the end of the rights issue a total of 204,151 shares were issued with an equal maximum number of matching shares, to be granted as bonus shares in 2015, if the beneficiary retains ownership of said shares during the two year period and maintains the employment relationship with Group companies.



At December 31, 2013 the maximum number of matching shares issuable was 201,243 shares.

· **Long Term Incentive Plan 2011 (LTI Plan 2011)**

On March 6, 2014 the Board of Directors of Telecom Italia S.p.A. determined that the levels for the incentive targets had not been reached. As a result, the rights relating to the LTI Plan 2011 were forfeited in full.

A description of this Plan and its situation at December 31, 2013 is provided below.

The plan, approved by the shareholders meeting on April 12, 2011, covered Executive Management, Top Management and Selected Management.

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The plan called for granting:

to Selected Management, a cash bonus, with the option of investing 50% of the bonus in Telecom Italia ordinary shares at market price and the grant of bonus matching shares when specific conditions are met two years after subscription;

to Top Management, a 50% bonus in cash and 50% for rights to a bonus grant of Telecom Italia ordinary shares after two years;

to Executive Management, a bonus in cash and an equivalent number of Telecom Italia ordinary shares determined when the person is included in the Executive Management group of the Plan.

On July 7, 2011, the board of directors approved the start of the Plan, which, in addition to the Executive Chairman and the Chief Executive Officer, covered 17 Top Managers and 128 Managers. The estimated maximum incentive for the three categories of incentive beneficiaries at the start of the Plan was equal to:

for Selected Management a total bonus of 9,789,300 euros; the maximum value of the investment at market price, and the relative increase in capital in cash, including paid-in capital, was equal to an equivalent amount of 4,894,650 euros; for Top Management a total bonus of 6,512,400 euros, of which the equivalent maximum amount of the bonus grant, and the relative increase in capital was 3,256,200 euros;

for Executive Management a total bonus of 5,400,000 euros and a corresponding maximum number of 5,795,234 shares, represented by treasury shares;

at December 31, 2013, in addition to the Chief Executive Officer, the Plan covered 14 Top Managers and 121 Managers.

· **Long Term Incentive Plan 2012 (LTI Plan 2012)**

The shareholders' meeting held on May 15, 2012 approved the LTI Plan 2012-2014. The Plan covers Top Management and Selected Management and excludes Executive Management.

The objective of the plan is to reinforce the connection between management's compensation and, on one hand, company performance defined in the industrial plan 2012-2014, measured by the cumulative Free Cash Flow (so-called absolute performance: 35% weighted), and on the other hand, the growth of value relative to a group of peers (measured by the Total Shareholder Return (so-called relative performance: 65% weighted)).

The plan calls for granting:

to Selected Management, a cash bonus, with the option of investing 50% of the bonus in Telecom Italia ordinary shares at market price and the grant of bonus Matching Shares when specific conditions are met two years after subscription;

to Top Management, a 50% bonus in cash and 50% for rights to a bonus grant of Telecom Italia ordinary shares after two years.

On June 28, 2012, the board of directors approved the start of the Plan. At the start of the Plan, it covered 19 Top Managers and 127 Managers. The estimated maximum incentive for the two categories of incentive beneficiaries was equal to:

for Selected Management a total bonus of 9,581,850 euros; the maximum value of the investment at market price, and the relative increase in capital in cash, including paid-in capital, was equal to an equivalent amount of 4,790,925 euros. The maximum number of shares which may be assigned free of charge is the same as the number of shares subscribed;

for Top Management a total bonus of 7,161,000 euros, of which the equivalent maximum amount of the bonus grant, and the relative increase in capital was 3,580,500 euros.

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At December 31, 2013 the Plan covered 17 Top Managers and 124 Managers. At the same date, the estimated maximum incentive for the two categories of incentive beneficiaries was equal to:

for Selected Management a total maximum bonus of 9,240,000 euros; the maximum value of the investment at market price, and the relative increase in capital in cash, corresponded to an amount of 4,620,000 euros; this same amount is the maximum value of the bonus grant of shares and the relative bonus increase in capital;

for Top Management, a total maximum bonus of 5,990,700 euros, of which the maximum equivalent amount of the bonus grant, and the relative bonus increase in capital is 2,995,350 euros.

**Calculation of fair value measurement of the granted options and rights**

The fair value of the options relating to the Top 2008 Plan was calculated using the Monte Carlo method according to the calculation parameters reported in the following table.

For the LTI Plans (2010-2015, 2011 and 2012), the following was measured:

- the debt component, determined as follows:

the 65% linked to reaching Total Shareholder Return (TSR) targets was calculated as the average of the levels of expected bonus weighted by the probability of the relative TSR scenarios occurring; such probability is measured using the Monte Carlo method;

the 35% linked to reaching Free Cash Flow (FCF) targets was calculated as the bonus level according to the best estimate of expected FCF by making reference to the data of the Telecom Italia three-year plan;

- the equity component, determined as the theoretical value of the right to the bonus share calculated as the fair value of a 24-month call option on the Telecom Italia ordinary share, starting in three years.

**Parameters used to determine fair value Telecom Italia S.p.A.**

| <b>Plans/Parameters</b> | <b>Exercise price (euro)</b> | <b>Current price/ Spot (euro) (1)</b> | <b>Volatility (2)</b> | <b>Period</b> | <b>Expected dividends (euro) (3)</b> | <b>Risk-free interest rate (4)</b> |
|-------------------------|------------------------------|---------------------------------------|-----------------------|---------------|--------------------------------------|------------------------------------|
|-------------------------|------------------------------|---------------------------------------|-----------------------|---------------|--------------------------------------|------------------------------------|

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|   |      |  |   |         |                                       |                    |
|---|------|--|---|---------|---------------------------------------|--------------------|
| TOP 2008 Plan   | 1.95 | Market value Telecom Italia and other TLC companies at 4/15/2008 | Telecom Italia (33.02%) and other TLC companies | 3 years | 0.08                                  | 3.7485% at 6 years |
| LTI Plan 2010-2015 equity component                                     |      | 0.9219   | 33.4281%  | 5 years | 0.055 first year<br>0.060 second year | 1.89% at 5 years   |
| LTI Plan 2011 equity component Executive Management                     |      | 0.8044   | n.a.  | 3 years | 0.05                                  | 2.095% at 3 years  |
| LTI Plan 2011 equity component (Top Management and Selected Management) |      | 0.7298   | n.a.  | 5 years | 0.07                                  | 2.591% at 5 years  |
| LTI Plan 2012 equity component (Top Management and Selected Management) |      | 0.7745   | n.a.  | 5 years | 0.043                                 | 1.25% at 5 years   |

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- (1) In relation to the performance targets set in the Plan, consideration was given to the market prices of Telecom Italia shares and, if necessary, of other shares of the leading companies in the telecommunications sector at the grant date.
- (2) In relation to the performance targets set in the Plan, consideration was given to the volatility values of the Telecom Italia share and, if necessary, of the shares of the leading companies in the telecommunications sector.
- (3) For the TOP 2008 Plans, dividends were assumed to be constant over the life of the options on the basis of the latest dividends paid. For the LTI 2010 2015, LTI 2011 and LTI 2012 Plans the dividends were estimated on the basis of Bloomberg data.
- (4) The risk-free interest rate is considered the rate of government securities of the Federal Republic of Germany (the market benchmark for transactions in euro) with expirations commensurate with the life of the option. Solely for the LTI 2012 plan, the rate is a zero coupon at 5 years (the curve is assumed to be the best indicator of the risk-free rate).

**Parameters used to determine fair value Tim Participações**

| <b>Plan/parameter</b> | <b>Exercise price<br/>(reais)</b> | <b>Current<br/>price/spot (reais)</b> | <b>Volatility</b> | <b>Period</b> | <b>Expected<br/>dividends<br/>(reais)</b> | <b>Risk-free<br/>interest rate</b> |
|-----------------------|-----------------------------------|---------------------------------------|-------------------|---------------|---|------------------------------------|
| 2011 Plan             | 8.84                              | 8.31                                  | 51.73%            | 6 years       |   | 11.94% year                        |
| 2012 Plan             | 8.96                              | 8.96                                  | 50.46%            | 6 years       |   | 8.89% year                         |
| 2013 Plan             | 8.13                              | 8.13                                  | 48.45%            | 6 years       |   | 10.39% year                        |

**Effects on the income statement and statement of financial position**

Equity compensation plans which call for payment in equity instruments are recorded at fair value which represents the cost of such instruments at the grant date and is recorded in the separate income statements under Employee benefits expenses over the period between the grant date and the vesting period with a contra-entry to the equity reserve Other equity instruments . The part of the plans which calls for the payment of compensation in cash is recorded in liabilities as the contra-entry of Employee benefits expenses ; at the end of each year this liability is measured at fair value.

Equity compensation plans which call for payment in equity instruments do not have significant impacts either on the income statements or the statements of financial position or of cash flows at December 31, 2013.



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| (Local Currency against<br>1 euro) | Year-end exchange rates<br>(statements of financial position) |             |             | Average exchange rates for the year<br>(income statements and<br>statements of cash flows) |             |             |
|------------------------------------|---|-------------|-------------|--|-------------|-------------|
|                                    | 12/31/2013  | 12/31/2012  | 12/31/2011  | Year 2013  | Year 2012   | Year 2011   |
| <b>Europe</b>                      |   |             |             |  |             |             |
| BGN Bulgarian Lev                  | 1.95580   | 1.95580     | 1.95580     | 1.95580  | 1.95580     | 1.95580     |
| CZK Czech Koruna                   | 27.42700  | 25.15100    | 25.78700    | 25.98584   | 25.14441    | 24.59461    |
| HUF Hungarian Forint               | 297.04000   | 292.30000   | 314.58000   | 296.94046  | 289.29839   | 279.47926   |
| CHF Swiss Franc                    | 1.22760   | 1.20720     | 1.21560     | 1.23083  | 1.20525     | 1.23256     |
| TRY Turkish Lira                   | 2.96050   | 2.35510     | 2.44320     | 2.53316  | 2.31432     | 2.33825     |
| GBP Pound Sterling                 | 0.83370   | 0.81610     | 0.83530     | 0.84907  | 0.81103     | 0.86775     |
| RON Romanian Leu                   | 4.47100   | 4.44450     | 4.32330     | 4.41917  | 4.45814     | 4.23931     |
| <b>North America</b>               |   |             |             |  |             |             |
| USD U.S. Dollar                    | 1.37910   | 1.31940     | 1.29390     | 1.32792  | 1.28538     | 1.39162     |
| <b>Latin America</b>               |   |             |             |  |             |             |
| VEF Venezuelan Bolivar             | 8.67744   | 5.66636     | 3.35994     | 7.99942  | 5.21554     | 3.61338     |
| BOB Bolivian                       | 9.52958   | 9.18302     | 8.96385     | 9.21071  | 8.96600     | 9.74040     |
| PEN Peruvian Nuevo Sol             | 3.85865   | 3.36777     | 3.48747     | 3.59026  | 3.39104     | 3.83245     |
| ARS Argentinean Peso               | 8.98914   | 6.48641     | 5.56769     | 7.27875  | 5.84408     | 5.74419     |
| CLP Chilean Peso                   | 724.76900   | 631.72900   | 671.99700   | 658.22602  | 625.01857   | 672.51441   |
| COP Colombian Peso                 | 2,664.42000   | 2,331.23000 | 2,510.57000 | 2,482.57593  | 2,310.07238 | 2,569.51702 |
| MXN Mexican Peso                   | 18.07310  | 17.18450    | 18.05120    | 16.95900   | 16.90575    | 17.29084    |
| BRL Brazilian Real                 | 3.23068   | 2.69619     | 2.42710     | 2.86830  | 2.50953     | 2.32669     |
| PYG Paraguayan Guarani             | 6,323.17000   | 5,573.15000 | 5,794.08000 | 5,712.77427  | 5,676.67356 | 5,817.48337 |
| UYU Uruguayan Peso                 | 29.54580  | 25.59770    | 25.92850    | 27.21395   | 26.02323    | 26.93149    |
| <b>Other countries</b>             |   |             |             |  |             |             |
| ILS Israeli Shekel                 | 4.78800   | 4.92580     | 4.94530     | 4.79372  | 4.95266     | 4.97723     |

(\*) Source: data processed by the European Central Bank, Reuters and major Central Banks

**b) Research and development**

Expenditures for research and development activities are represented by external costs, labor costs of dedicated staff and depreciation and amortization. Details are as follows:



|  | 2013                | 2012       | 2011       |
|--|---------------------|------------|------------|
|  | (millions of euros) |            |            |
| Research and development costs expensed during the year                | 41                  | 40         | 68         |
| Development costs capitalized  | 936                 | 562        | 543        |
| <b>Total research and development costs (expensed and capitalized)</b> | <b>977</b>          | <b>602</b> | <b>611</b> |

The sharp increase for 2013 was primarily linked to the diffusion and development work conducted on the next generation networks, such as LTE and NGAN.

Moreover, in the separate consolidated income statement for the year 2013, amortization charges are recorded for development costs, capitalized during the period and in prior years, for an amount of 764 million euros.

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The Group has entered into agreements for line lease and hosting which cannot be canceled. At December 31, 2013 the amount of lease installments receivable is as follows:

|                   | <b>At December 31,<br/>2013</b> | <b>At December 31,<br/>2012</b> |
|-------------------|---------------------------------|---------------------------------|
|                   | (millions of euros)             |                                 |
| Within 1 year     | 71                              | 104                             |
| From 2 to 5 years | 152                             | 159                             |
| Beyond 5 years    | 11                              | 14                              |
| <b>Total</b>      | <b>234</b>                      | <b>277</b>                      |

**Expense related**

The Group has entered into agreements for lease of properties, vehicle rental and hosting which cannot be canceled. At December 31, 2013 the amount of lease installments receivable is as follows:

|                   | <b>At December 31,<br/>2013</b> | <b>At December 31,<br/>2012</b> |
|-------------------|---------------------------------|---------------------------------|
|                   | (millions of euros)             |                                 |
| Within 1 year     | 239                             | 247                             |
| From 2 to 5 years | 432                             | 481                             |
| Beyond 5 years    | 98                              | 137                             |
| <b>Total</b>      | <b>769</b>                      | <b>865</b>                      |

**NOTE 42 EVENTS SUBSEQUENT TO DECEMBER 31, 2013****Bond Issue**

On January 23, 2014 Telecom Italia issued a bond for the amount of 1,000 million euros, with an annual coupon rate of 4.5% and maturity on January 25, 2021. The bond issued at a price of 99.447% has a yield of 4.594%.

**Early repayment of Hybrid Bond for 750 million euros**

On January 29, 2014 Telecom Italia announced its decision to repay in advance all the subordinated hybrid bonds in circulation called 750,000,000 Capital Securities due 2073 (the **Capital Securities**), issued on March 13, 2013, as per

the statement released. Telecom Italia has in fact decided to exercise the option of early repayment linked to a change in method by a rating agency which leads to a reduction of the equity content initially assigned to the instrument, pursuant to Condition 6.5 (Early Redemption following a Rating Methodology Event) of the regulations on Capital Securities.

The bonds were repaid on March 3, 2014 (the Early Repayment Date ) and the relative early repayment price was 101% of the nominal value plus the interest due up until the early repayment date (excluded).

#### **Exit of the Autonomous Province of Trento from the Trentino NGN project**

In February 2014, the Autonomous Province of Trento officially announced its exit from the capital of Trentino NGN, the public-private company formed in 2011 to create a fiber optic network in the territory of Trentino, in which Telecom Italia held a shareholding of 41.07%.

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

The Autonomous Province of Trento's exit from the capital was announced to the European Commission and, therefore, the reasons that determined the start of proceedings no longer exist.

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

**Telecom Italia S.p.A. Buyback of Own Bonds**

On March 7, 2014 Telecom Italia S.p.A. made a buyback offer on four of its bond issues, maturing between May 2014 and March 2016, for a total nominal amount of 500 million euros, which could be amended at Telecom Italia's discretion.

On March 14, 2014 Telecom Italia S.p.A. announced the successful results of the offer and decided to increase the buyback amount to 599 million euros; the repurchased bonds have been cancelled on the settlement date (March 18, 2014).

Details of the repurchased notes as follows:

| <b>Repurchased Notes</b>  | <b>Nominal amount outstanding before the buyback offer (euro)</b> | <b>Nominal Amount repurchased (euro)</b> | <b>Purchase Price</b> | <b>Nominal Amount outstanding after the buyback settlement date</b> |
|---|---|--|-----------------------|---|
| Telecom Italia S.p.A.   |   |  |                       |   |
| 750 million euros, due May 2014, coupon 4.75%                         | 556,800,000   | 56,150,000                               | 100.700%              | 500,650,000   |
| Telecom Italia S.p.A. 750 million euros, due June 2015, coupon 4.625% | 750,000,000   | 172,299,000                              | 104.370%              | 577,701,000   |
| Telecom Italia S.p.A.   |   |  |                       |   |
| 1 billion euros, due January 2016, coupon 5.125%                      | 1,000,000,000   | 228,450,000                              | 106.587%              | 771,550,000   |
| Telecom Italia S.p.A.   |   |  |                       |   |
| 850 million euros, due March 2016, coupon 8.25%                       | 850,000,000   | 142,020,000                              | 112.913%              | 707,980,000   |

The buyback offer has been made as part of the Company's statement of financial position management and is aimed at pro-actively managing its forthcoming debt maturities.

**Renegotiation of certain clauses with the European Investment Bank**

Following the downgrade of Telecom Italia by Moody's and Standard & Poor's to sub-investment grade and discussions with the European Investment Bank ( **EIB** ) in this regard, we entered into an agreement with the EIB on March 25, 2014, providing for: (i) with respect to the loans maturing in 2018 and 2019 in a total amount of 600 million euros, a reduction of the cost of financing owed to the EIB, against the background of our commitment to furnish to the EIB additional collateral in the form of guarantees issued by banks and other institutions approved by the EIB and the costs associated with our providing such guarantees; (ii) with respect to outstanding loans of 200 million euros guaranteed by SACE, unchanged terms and conditions; and (iii) with respect to all other outstanding loans in a total amount of 1,700 million euros, an increase in respective costs of financing. In addition, the agreement relating to the unsecured 300 million euros loan maturing in 2017 was amended to include a clause pursuant to which, if (i) two or more rating agencies should downgrade the rating of Telecom Italia below BB+/Ba1 and (ii) the remaining term of the loan exceeds one year, the Company is required to provide additional guarantees in favor of the EIB.

We estimate the financial impacts resulting from the above-mentioned agreement with the EIB to result in a total average annual increase of financial expenses of approximately 7.5 million euros.

Following the signing of the agreement and our providing of the additional guarantees as agreed, the outstanding loans with the EIB amounting to a total of 2,500 million euros will be split in 500 million euros of unsecured loans and 2,000 million euros of guaranteed loans.

**Table of Contents****Consolidated Financial Statements****Notes To Consolidated Financial Statements****Sale of a building in Milan**

On March 31, 2014 Telecom Italia sold the building owned in via Negri 1, Milan, to Fondo Inarcassa RE for 75 million euros. Together with the deed of sale, Telecom Italia signed a long term rental contract. The building will remain the Milan headquarters of the Company.

**Agreements signed by Telecom Italia Media and Gruppo Editoriale L'Espresso to combine the respective network operator businesses for the digital terrestrial television**

On April 9, 2014, Telecom Italia Media and Gruppo Editoriale L'Espresso ( **Gruppo Espresso** ) entered into an agreement providing for a combination of their respective digital terrestrial television ( **DTTV** ) network operator businesses managed by Telecom Italia Media Broadcasting S.r.l. ( **TIMB** ) and Rete A S.p.A. ( **Rete A** ). Such transaction between TIMB and Rete A, who currently hold broadcasting licenses comprising three and two digital multiplexes, respectively, will give rise to a leading network operator in Italy featuring a nationwide high-coverage infrastructure of five digital multiplexes, featuring latest-generation technology. The combined entity will be a leading supplier of non-integrated national and foreign television broadcasters operating on the Italian market. The agreement is also expected to lead to significant synergies.

The business combination will be carried out through Gruppo Espresso's contribution of 100% of the Rete A shares to TIMB. Upon completion of the transaction, Telecom Italia Media and Gruppo Espresso will hold 70% and 30% of shares in TIMB, respectively, which in turn will wholly own Rete A. Pursuant to a shareholders agreement by and among Telecom Italia Media and Gruppo Espresso, Telecom Italia Media will be entitled to appoint the majority of directors of TIMB and the Chief Executive Officer, and Gruppo Espresso will be entitled to appoint TIMB's Chairman. The transaction is expected to be finalized by June 2014, subject to the requisite AGCom authorization having been obtained.

**NOTE 43 LIST OF COMPANIES OF THE TELECOM ITALIA GROUP**

The list is divided by type of investment, consolidation method and operating segment.

The following is indicated for each company: name, head office, country and share capital in the original currency, in addition to the percentage holding of share capital, the percentage of voting rights in the ordinary shareholders meeting if different than the percentage holding of share capital, and which companies hold the investment.

**Telecom Italia Group**

| Name                  | Head Office | Currency | Share Capital  | % ownership | % of voting rights | Held by |
|-----------------------|-------------|----------|----------------|-------------|--------------------|---------|
| <b>PARENT COMPANY</b> |             |          |                |             |                    |         |
|                       | MILAN       | EUR      | 10,693,740,302 |             |                    |         |

TELECOM ITALIA  
S.p.A.

(ITALY)

**Subsidiaries consolidated line-by-line**

**DOMESTIC  
BUSINESS UNIT**

|   |         |     |           |          |                                   |
|---|---------|-----|-----------|----------|-----------------------------------|
| 4G RETAIL S.r.l.  | TURIN   | EUR | 2,402,241 | 100.0000 | TLC COMMERCIAL SERVICES<br>S.r.l. |
| (marketing of<br>products and<br>services in the field<br>of fixed and mobile<br>telecommunications<br>and all types of<br>analog and digital<br>devices) | (ITALY) |     |           |          |                                   |
| ADVANCED<br>CARING CENTER<br>S.r.l.   | ROME    | EUR | 2,540,100 | 100.0000 | TELECONTACT CENTER<br>S.p.A.      |
| (telemarketing s<br>activities and<br>development, market<br>research and<br>surveys)   | (ITALY) |     |           |          |                                   |

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|---|---------------------|----------|--|-------------|--------------------|--------------------------------|
| Name  | Head Office         | Currency | Share Capital                              | % ownership | % of voting rights | Held by                        |
| FLAGSHIP STORE BOLOGNA 1 S.r.l.<br>(marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices) | BOLOGNA<br>(ITALY)  | EUR      | 20,000                                     | 100.0000    |                    | TLC COMMERCIAL SERVICES S.r.l. |
| FLAGSHIP STORE BOLZANO 1 S.r.l.<br>(marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices) | BOLZANO<br>(ITALY)  | EUR      | 20,000                                     | 100.0000    |                    | TLC COMMERCIAL SERVICES S.r.l. |
| FLAGSHIP STORE CATANIA 1 S.r.l.<br>(marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices) | CATANIA<br>(ITALY)  | EUR      | 20,000                                     | 100.0000    |                    | TLC COMMERCIAL SERVICES S.r.l. |
| FLAGSHIP STORE FIRENZE 1 S.r.l.<br>(marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices) | FLORENCE<br>(ITALY) | EUR      | 20,000                                     | 100.0000    |                    | TLC COMMERCIAL SERVICES S.r.l. |
| FLAGSHIP STORE MILANO 1 S.r.l.<br>(marketing of products and services in the field of fixed and mobile telecommunications and all                                       | MILAN<br>(ITALY)    | EUR      | 50,000                                     | 100.0000    |                    | TLC COMMERCIAL SERVICES S.r.l. |



types of analog and digital devices)

|   |  |            |               |                 |                                       |
|---|--|------------|---------------|-----------------|---------------------------------------|
| <p>FLAGSHIP STORE MILANO 2 S.r.l.<br/>                 (marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices)</p> | <p>MILAN<br/>                 (ITALY)</p>  | <p>EUR</p> | <p>50,000</p> | <p>100.0000</p> | <p>TLC COMMERCIAL SERVICES S.r.l.</p> |
| <p>FLAGSHIP STORE MODENA 1 S.r.l.<br/>                 (marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices)</p> | <p>MODENA<br/>                 (ITALY)</p> | <p>EUR</p> | <p>20,000</p> | <p>100.0000</p> | <p>TLC COMMERCIAL SERVICES S.r.l.</p> |

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|---|----------------------------|----------|--|-------------|--------------------|--------------------------------|
| Name  | Head Office                | Currency | Share Capital                              | % ownership | % of voting rights | Held by                        |
| FLAGSHIP STORE ROMA 1 S.r.l.<br>(marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices)    | ROME<br>(ITALY)            | EUR      | 50,000                                     | 100.0000    |                    | TLC COMMERCIAL SERVICES S.r.l. |
| FLAGSHIP STORE ROMA 2 S.r.l.<br>(marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices)    | ROME<br>(ITALY)            | EUR      | 50,000                                     | 100.0000    |                    | TLC COMMERCIAL SERVICES S.r.l. |
| FLAGSHIP STORE SANREMO 1 S.r.l.<br>(marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices) | SANREMO<br>(IMPERIA-ITALY) | EUR      | 20,000                                     | 100.0000    |                    | TLC COMMERCIAL SERVICES S.r.l. |
| FLAGSHIP STORE TARANTO 1 S.r.l.<br>(marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices) | TARANTO<br>(ITALY)         | EUR      | 20,000                                     | 100.0000    |                    | TLC COMMERCIAL SERVICES S.r.l. |
| FLAGSHIP STORE TORINO 1 S.r.l.  | TURIN                      | EUR      | 20,000                                     | 100.0000    |                    | TLC COMMERCIAL SERVICES S.r.l. |

|   |                         |     |           |          |  |                                |
|---|-------------------------|-----|-----------|----------|--|--------------------------------|
| (marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices)                                    | (ITALY)                 |     |           |          |  |                                |
| FLAGSHIP STORE VERONA 1 S.r.l.<br>(marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices)  | VERONA<br>(ITALY)       | EUR | 20,000    | 100.0000 |  | TLC COMMERCIAL SERVICES S.r.l. |
| FLAGSHIP STORE VICENZA 1 S.r.l.<br>(marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices) | VICENZA<br>(ITALY)      | EUR | 20,000    | 100.0000 |  | TLC COMMERCIAL SERVICES S.r.l. |
| H.R. SERVICES S.r.l.<br>(personnel training and services)   | L AQUILA<br>(ITALY)     | EUR | 500,000   | 100.0000 |  | TELECOM ITALIA S.p.A.          |
| I.T. TELECOM S.r.l.<br>(other service activities connected with NCA information technology)   | POMEZIA<br>(ROME ITALY) | EUR | 7,000,000 | 100.0000 |  | TELECOM ITALIA S.p.A.          |

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|--|---------------------------------|----------|--|-------------|--------------------|---|
| Name   | Head Office                     | Currency | Share Capital                              | % ownership | % of voting rights | Held by   |
| LAN MED NAUTILUS Ltd<br>(telecommunications services, installation and maintenance of submarine cable systems, managed bandwidth services) | DUBLIN<br><br>(IRELAND)         | USD      | 1,000,000                                  | 100.0000    |                    | TELECOM ITALIA SPARKLE S.p.A.   |
| LATIN AMERICAN NAUTILUS ARGENTINA S.A.<br>(managed bandwidth services)   | BUENOS AIRES<br><br>(ARGENTINA) | ARS      | 9,998,000                                  | 95.0000     | 5.0000             | LAN MED NAUTILUS Ltd<br><br>TELECOM ITALIA SPARKLE S.p.A.                                 |
| LATIN AMERICAN NAUTILUS BOLIVIA SRL<br>(managed bandwidth services)  | LA PAZ<br><br>(BOLIVIA)         | BOB      | 1,747,600                                  | 99.9999     | 0.0001             | TELECOM ITALIA SPARKLE S.p.A.<br><br>LATIN AMERICAN NAUTILUS USA Inc.                     |
| LATIN AMERICAN NAUTILUS BRASIL Ltda<br>(managed bandwidth services)  | RIO DE JANEIRO<br><br>(BRAZIL)  | BRL      | 6,850,598                                  | 99.9999     | 0.0001             | LATIN AMERICAN NAUTILUS BRASIL PARTICIPACOES Ltda<br><br>LATIN AMERICAN NAUTILUS USA Inc. |
| LATIN AMERICAN NAUTILUS BRASIL PARTICIPACOES Ltda<br>(investment holding company)  | RIO DE JANEIRO<br><br>(BRAZIL)  | BRL      | 8,844,866                                  | 99.9999     | 0.0001             | LAN MED NAUTILUS Ltd<br><br>TELECOM ITALIA SPARKLE S.p.A.                                 |
| LATIN AMERICAN NAUTILUS CHILE S.A.<br>(managed bandwidth services)   | SANTIAGO<br><br>(CHILE)         | CLP      | 5,852,430,960                              | 100.0000    |                    | LAN MED NAUTILUS Ltd  |

|   |                                |     |             |                       |   |
|---|--------------------------------|-----|-------------|-----------------------|---|
| LATIN AMERICAN NAUTILUS COLOMBIA Ltda<br>(managed bandwidth services)   | BOGOTA<br><br>(COLOMBIA)       | COP | 240,225,000 | 99.9999<br><br>0.0001 | LAN MED NAUTILUS Ltd<br><br>LATIN AMERICAN NAUTILUS USA Inc |
| LATIN AMERICAN NAUTILUS PANAMA S.A.<br>(managed bandwidth services)     | PANAMA                         | USD | 10,000      | 100.0000              | LAN MED NAUTILUS Ltd  |
| LATIN AMERICAN NAUTILUS PERU S.A.<br>(managed bandwidth services)       | LIMA<br><br>(PERU)             | PEN | 16,109,788  | 100.0000              | LAN MED NAUTILUS Ltd  |
| LATIN AMERICAN NAUTILUS PUERTO RICO LLC<br>(managed bandwidth services) | SAN JUAN<br><br>(PUERTO RICO)  | USD | 50,000      | 100.0000              | LAN MED NAUTILUS Ltd  |
| LATIN AMERICAN NAUTILUS St. Croix LLC<br>(managed bandwidth services)   | VIRGIN ISLANDS<br><br>(USA)    | USD | 10,000      | 100.0000              | LAN MED NAUTILUS Ltd  |
| LATIN AMERICAN NAUTILUS USA Inc.<br>(managed bandwidth services)        | FLORIDA<br><br>(USA)           | USD | 10,000      | 100.0000              | LAN MED NAUTILUS Ltd  |
| LATIN AMERICAN NAUTILUS VENEZUELA C.A.<br>(managed bandwidth services)  | CARACAS<br><br>(VENEZUELA)     | VEF | 981,457     | 100.0000              | LAN MED NAUTILUS Ltd  |
| MED-1 (NETHERLANDS) B.V.<br>(investment holding company)                | AMSTERDAM<br><br>(NETHERLANDS) | EUR | 18,200      | 100.0000              | MED-1 SUBMARINE CABLES Ltd                                  |
| MED-1 ITALY S.r.l.  | ROME                           | EUR | 548,477     | 100.0000              | MED-1 (NETHERLANDS) B.V.                                    |

(construction and management of submarine cable in Italian territorial waters)

(ITALY)

MED-1 SUBMARINE CABLES Ltd  
(construction and management of the submarine cable Lev1)

RAMAT GAN  
(ISRAEL)

ILS

55,886,866

99.9123

TELECOM ITALIA SPARKLE S.p.A.

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|---|---------------------------------|----------|--|-------------|--------------------|-----------------------|
| Name  | Head Office                     | Currency | Share Capital                              | % ownership | % of voting rights | Held by               |
| MEDITERRANEAN NAUTILUS BULGARIA EOOD<br>(telecommunications services)   | SOFIA<br><br>(BULGARIA)         | BGN      | 100,000                                    | 100.0000    |                    | LAN MED NAUTILUS Ltd  |
| MEDITERRANEAN NAUTILUS GREECE S.A.<br>(telecommunications services)   | ATHENS<br><br>(GREECE)          | EUR      | 111,600                                    | 100.0000    |                    | LAN MED NAUTILUS Ltd  |
| MEDITERRANEAN NAUTILUS ISRAEL Ltd<br>(international wholesale telecommunications services)                      | RAMAT GAN<br><br>(ISRAEL)       | ILS      | 1,000                                      | 100.0000    |                    | LAN MED NAUTILUS Ltd  |
| MEDITERRANEAN NAUTILUS ITALY S.p.A.<br>(installation and management of submarine cable systems)                 | ROME<br><br>(ITALY)             | EUR      | 3,100,000                                  | 100.0000    |                    | LAN MED NAUTILUS Ltd. |
| MEDITERRANEAN NAUTILUS TELEKOMÜNİKASYON HİZMETLERİ TİCARET ANONİM ŞİRKETİ<br>(telecommunications services)      | TAKSİM<br><br>(ISTANBUL-TURKEY) | TRY      | 5,639,065                                  | 100.0000    |                    | LAN MED NAUTILUS Ltd  |
| OLIVETTI MULTISERVICES S.p.A.<br>(real estate management)   | MILAN<br><br>(ITALY)            | EUR      | 20,337,161                                 | 100.0000    |                    | TELECOM ITALIA S.p.A. |
| TELECOM ITALIA DIGITAL SOLUTIONS S.p.A. (former PATH.NET S.p.A.)<br>(networking systems and telecommunications) | ROME<br><br>(ITALY)             | EUR      | 7,224,000                                  | 100.0000    |                    | TELECOM ITALIA S.p.A. |

|   |  |     |            |                       |  |
|---|--|-----|------------|-----------------------|--|
| TELECOM ITALIA<br>INFORMATION<br>TECHNOLOGY S.r.l.<br>(planning, design, installation<br>running of computer<br>services) | ROME<br><br>(ITALY)                                      | EUR | 3,400,000  | 100.0000              | TELECOM<br>ITALIA S.p.A.   |
| TELECOM ITALIA<br>NETHERLANDS B.V.<br><br>(telecommunications<br>services)  | AMSTERDAM<br><br>(NETHERLANDS)                           | EUR | 18,200     | 100.0000              | TELECOM<br>ITALIA<br>SPARKLE<br>S.p.A.                             |
| TELECOM ITALIA SAN<br>MARINO S.p.A.<br><br>(telecommunications services<br>in San Marino)                                 | ROVERETA-<br>FALCIANO<br><br>(REPUBLIC OF SAN<br>MARINO) | EUR | 1,808,000  | 99.9999<br><br>0.0001 | TELECOM<br>ITALIA<br>SPARKLE<br>S.p.A.<br>TELECOM<br>ITALIA S.p.A. |
| TELECOM ITALIA SPAIN<br>SL UNIPERSONAL<br><br>(telecommunications<br>services)  | MADRID<br><br>(SPAIN)                                    | EUR | 2,003,096  | 100.0000              | TELECOM<br>ITALIA<br>SPARKLE<br>S.p.A.                             |
| TELECOM ITALIA<br>SPARKLE CZECH S.R.O.<br><br>(telecommunications<br>services)  | PRAGUE<br><br>(CZECH REPUBLIC)                           | CZK | 6,720,000  | 100.0000              | TELECOM<br>ITALIA<br>SPARKLE<br>S.p.A.                             |
| TELECOM ITALIA<br>SPARKLE EST S.R.L.<br><br>(telecommunications<br>services)  | BUCHAREST<br><br>(RUMANIA)                               | RON | 3,021,560  | 100.0000              | TELECOM<br>ITALIA<br>SPARKLE<br>S.p.A.                             |
| TELECOM ITALIA<br>SPARKLE HUNGARY<br>K.F.T.<br><br>(telecommunications<br>services)                                       | BUDAPEST<br><br>(HUNGARY)                                | HUF | 2,870,000  | 100.0000              | TELECOM<br>ITALIA<br>SPARKLE<br>S.p.A.                             |
|   | NEW YORK   | USD | 15,550,000 | 100.0000              |  |



TELECOM ITALIA  
SPARKLE OF NORTH  
AMERICA. INC.

(telecommunications and  
promotional services)

(USA)

TELECOM  
ITALIA  
SPARKLE  
S.p.A.

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|---|--|----------|--|-------------|--------------------|--|
| Name  | Head Office                                      | Currency | Share Capital                              | % ownership | % of voting rights | Held by  |
| TELECOM ITALIA SPARKLE S.p.A.<br><br>(public and private telecommunication services management) | ROME<br><br>(ITALY)                              | EUR      | 200,000,000                                | 100.0000    |                    | TELECOM ITALIA S.p.A.  |
| TELECOM ITALIA SPARKLE SINGAPORE PTE. LTD<br><br>(telecommunications services)                  | SINGAPORE  | USD      | 5,121,120                                  | 99.9999     | 0.0001             | TELECOM ITALIA SPARKLE S.p.A.<br>TELECOM ITALIA SPARKLE OF NORTH AMERICA. INC. |
| TELECOM ITALIA SPARKLE SLOVAKIA S.R.O.<br><br>(telecommunications services)                     | BRATISLAVA<br><br>(SLOVAKIA)                     | EUR      | 300,000                                    | 100.0000    |                    | TELECOM ITALIA SPARKLE S.p.A.  |
| TELECONTACT CENTER S.p.A.<br><br>(telemarketing services)                                       | NAPLES<br><br>(ITALY)                            | EUR      | 3,000,000                                  | 100.0000    |                    | TELECOM ITALIA S.p.A.  |
| TELEFONIA MOBILE SAMMARINESE S.p.A.<br><br>(mobile telephone services)                          | B.GO<br>MAGGIORE<br><br>(REPUBLIC OF SAN MARINO) | EUR      | 78,000                                     | 51.0000     |                    | TELECOM ITALIA SAN MARINO S.p.A.   |
| TELENERGIA S.r.l.<br><br>(import, export, purchase, sale and exchange of electrical energy)     | ROME<br><br>(ITALY)                              | EUR      | 50,000                                     | 100.0000    |                    | TELECOM ITALIA S.p.A.  |

|  |               |     |            |          |  |
|--|---------------|-----|------------|----------|--|
| TELSY ELETTRONICA E<br>TELECOMUNICAZIONI S.p.A.  | TURIN         | EUR | 390,000    | 100.0000 | TELECOM<br>ITALIA<br>S.p.A.            |
| (manufacturing and sale of electronic equipment and systems for encrypted telecommunications)  | (ITALY)       |     |            |          |  |
| TI BELGIUM S.P.R.L. B.V.B.A  | BRUSSELS      | EUR | 3,000,000  | 100.0000 | TELECOM<br>ITALIA<br>SPARKLE<br>S.p.A. |
| (telecommunications services)  | (BELGIUM)     |     |            |          |  |
| TI GERMANY GmbH  | FRANKFURT     | EUR | 25,000     | 100.0000 | TELECOM<br>ITALIA<br>SPARKLE<br>S.p.A. |
| (telecommunications services)  | (GERMANY)     |     |            |          |  |
| TI SWITZERLAND GmbH  | ZURICH        | CHF | 2,000,000  | 100.0000 | TELECOM<br>ITALIA<br>SPARKLE<br>S.p.A. |
| (telecommunications services)  | (SWITZERLAND) |     |            |          |  |
| TI TELECOM ITALIA (AUSTRIA)<br>TELEKOMMUNIKATIONDIESTE<br>GMBH   | VIENNA        | EUR | 2,735,000  | 100.0000 | TELECOM<br>ITALIA<br>SPARKLE<br>S.p.A. |
| (telecommunications services)  | (AUSTRIA)     |     |            |          |  |
| TIS France S.A.S.  | PARIS         | EUR | 18,295,000 | 100.0000 | TELECOM<br>ITALIA<br>SPARKLE<br>S.p.A. |
| (installation and management of telecommunication services for fixed network and related activities)   | (FRANCE)      |     |            |          |  |
| TLC COMMERCIAL SERVICES<br>S.r.l.  | ROME          | EUR | 500,000    | 100.0000 | TELECOM<br>ITALIA<br>S.p.A.            |
| (acquisition and management of investments holdings involved on the marketing of products and services in the field of telecommunications and ICT) | (ITALY)       |     |            |          |  |



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| <b>Name</b>  | <b>Head Office</b>         | <b>Currency</b> | <b>Share Capital</b> | <b>% ownership</b> | <b>% of voting rights</b> | <b>Held by</b>   |
|--|----------------------------|-----------------|----------------------|--------------------|---------------------------|--|
| TMI TELEMEDIA INTERNATIONAL Ltd<br>(value-added and networking services)                             | LONDON<br>(UK)             | EUR             | 3,983,254            | 100.0000           |                           | TELECOM ITALIA SPARKLE S.p.A.                                      |
| TMI TELEMEDIA INTERNATIONAL DO BRASIL LTDA<br>(telecommunications services and promotional services) | SAO PAULO<br>(BRAZIL)      | BRL             | 8,909,639            | 100.0000           |                           | TMI TELEMEDIA INTERNATIONAL Ltd                                    |
| <b>BRAZIL BUSINESS UNIT</b>  |                            |                 |                      |                    |                           |  |
| INTELIG TELECOMUNICAÇÕES LTDA<br>(telecommunications services)                                       | RIO DE JANEIRO<br>(BRAZIL) | BRL             | 4,041,956,045        | 99.9999            | 0.0001                    | TIM PARTICIPAÇÕES S.A.<br>TIM CELULAR S.A.                         |
| TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A.<br>(investment holding company)                             | RIO DE JANEIRO<br>(BRAZIL) | BRL             | 7,169,029,859        | 100.0000           |                           | TELECOM ITALIA INTERNATIONAL N.V.                                  |
| TIM CELULAR S.A.<br>(telecommunications services)  | SAO PAULO<br>(BRAZIL)      | BRL             | 9,434,215,720        | 100.0000           |                           | TIM PARTICIPAÇÕES S.A.   |
| TIM PARTICIPAÇÕES S.A.<br>(investment holding company)   | RIO DE JANEIRO<br>(BRAZIL) | BRL             | 9,886,886,593        | 66.6756            | 66.6975<br>0.0329         | TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A.<br>TIM PARTICIPAÇÕES S.A. |

**MEDIA BUSINESS UNIT**

|  |                     |     |             |          |                   |  |
|--|---------------------|-----|-------------|----------|-------------------|--|
| BEIGUA S.r.l.<br><br>(purchase, sale, management and maintenance of installation for the repair and distribution of radio and TV broadcasting)   | ROME<br><br>(ITALY) | EUR | 51,480      | 51.0004  |                   | TELECOM ITALIA MEDIA BROADCASTING S.r.l.             |
| TELECOM ITALIA MEDIA BROADCASTING S.r.l.<br>(purchase, sale, management and maintenance of installations for the repair and distribution of radio and TV broadcasting)   | ROME<br><br>(ITALY) | EUR | 15,000,000  | 100.0000 |                   | TELECOM ITALIA MEDIA S.p.A.                          |
| TELECOM ITALIA MEDIA S.p.A.<br>(development and sale of products in the publishing industry, gathering and sale of advertising, management of all activities concerning the treatment and handling of information) | ROME<br><br>(ITALY) | EUR | 212,188,324 | 75.1731  | 75.4553<br>2.2471 | TELECOM ITALIA S.p.A.<br>TELECOM ITALIA FINANCE S.A. |

**OLIVETTI BUSINESS UNIT**

|  |                        |     |            |          |  |  |
|--|------------------------|-----|------------|----------|--|--|
| ADVALSO S.p.A.<br>(design, manufacturing and servicing of telecommunication services and products) | IVREA<br>(TURIN ITALY) | EUR | 500,000    | 100.0000 |  | OLIVETTI S.p.A.                        |
| OLIVETTI DEUTSCHLAND GmbH<br>(sale of office equipment)  | NURNBERG<br>(GERMANY)  | EUR | 25,600,000 | 100.0000 |  | OLIVETTI S.p.A.                        |
| OLIVETTI ENGINEERING S.A. (in liquidation)   | YVERDON LES BAINS      | CHF | 100,000    | 100.0000 |  | OLIVETTI I-JET S.p.A. (in liquidation) |

(product research and  
development based on  
ink-jet technology)

(SWITZERLAND)

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| Consolidated Financial Statements   |                        |          | Notes To Consolidated Financial Statements |             |                    |                       |
|---|------------------------|----------|--|-------------|--------------------|-----------------------|
| Name  | Head Office            | Currency | Share Capital                              | % ownership | % of voting rights | Held by               |
| OLIVETTI ESPANA S.A.<br>(sale and maintenance of office equipment, consulting and telematic network management)       | BARCELONA<br>(SPAIN)   | EUR      | 1,229,309                                  | 99.9912     |                    | OLIVETTI S.p.A.       |
| OLIVETTI FRANCE S.A.S.<br>(sale of office equipment)  | PUTEAUX<br>(FRANCE)    | EUR      | 2,200,000                                  | 100.0000    |                    | OLIVETTI S.p.A.       |
| OLIVETTI I-JET S.p.A.<br>(in liquidation)<br>(manufacture and sale of products and accessories for office equipment)  | ARNAD<br>(AOSTA ITALY) | EUR      | 16,500,000                                 | 100.0000    |                    | OLIVETTI S.p.A.       |
| OLIVETTI S.p.A.<br>(manufacture and sale of products and accessories for office equipment)                            | IVREA<br>(TURIN ITALY) | EUR      | 13,200,000                                 | 100.0000    |                    | TELECOM ITALIA S.p.A. |
| OLIVETTI UK Ltd.<br>(sale of office equipment)  | MILTON KEYNES<br>(UK)  | GBP      | 6,295,712                                  | 100.0000    |                    | OLIVETTI S.p.A.       |
| TIESSE S.c.p.A.<br>(installation and assistance for electronic, computer, telematic and telecommunications equipment) | IVREA<br>(TURIN-ITALY) | EUR      | 103,292                                    | 61.0000     |                    | OLIVETTI S.p.A.       |
| <b>OTHER OPERATIONS</b>   |                        |          |  |             |                    |                       |
| EMSA Servizi S.p.A.<br>(in liquidation)   | ROME                   | EUR      | 5,000,000                                  | 100.0000    |                    | TELECOM ITALIA S.p.A. |



|   |                                |     |               |          |  |                                   |
|---|--------------------------------|-----|---------------|----------|--|-----------------------------------|
| (real estate services management)   | (ITALY)                        |     |               |          |  |                                   |
| OFI CONSULTING S.r.l.<br>(administrative consulting)  | IVREA<br>(TURIN ITALY)         | EUR | 95,000        | 100.0000 |  | TELECOM ITALIA S.p.A.             |
| OLIVETTI GESTIONI IVREA S.r.l.<br>(real estate services)  | IVREA<br>(TURIN ITALY)         | EUR | 100,000       | 100.0000 |  | TELECOM ITALIA S.p.A.             |
| PURPLE TULIP B.V.<br><br>(investment holding company)   | AMSTERDAM<br><br>(NETHERLANDS) | EUR | 18,000        | 100.0000 |  | TELECOM ITALIA INTERNATIONAL N.V. |
| TELECOM ITALIA CAPITAL S.A.<br>(finance company)  | LUXEMBOURG<br>(LUXEMBOURG)     | EUR | 2,336,000     | 100.0000 |  | TELECOM ITALIA S.p.A.             |
| TELECOM ITALIA DEUTSCHLAND HOLDING GmbH<br>(investment holding company)                                 | FRANKFURT<br>(GERMANY)         | EUR | 25,000        | 100.0000 |  | TELECOM ITALIA S.p.A.             |
| TELECOM ITALIA FINANCE IRELAND LTD<br>(finance company)   | DUBLIN<br>(IRELAND)            | EUR | 1,360,000,000 | 100.0000 |  | TELECOM ITALIA FINANCE S.A.       |
| TELECOM ITALIA FINANCE S.A.<br>(finance company)  | LUXEMBOURG<br>(LUXEMBOURG)     | EUR | 542,090,241   | 100.0000 |  | TELECOM ITALIA S.p.A.             |
| TELECOM ITALIA INTERNATIONAL N.V.<br>(investment holding company)                                       | AMSTERDAM<br>(NETHERLANDS)     | EUR | 2,399,483,000 | 100.0000 |  | TELECOM ITALIA S.p.A.             |
| TELECOM ITALIA LATAM PARTICIPACOES E GESTAO ADMINISTRATIVA LTDA<br>(telecommunications and promotional) | SAO PAULO<br>(BRAZIL)          | BRL | 118,925,804   | 100.0000 |  | TELECOM ITALIA S.p.A.             |

services)

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| Consolidated Financial Statements                                  |                                 |          | Notes To Consolidated Financial Statements |             |                    |  |
|--|---------------------------------|----------|--|-------------|--------------------|--|
| Name   | Head Office                     | Currency | Share Capital                              | % ownership | % of voting rights | Held by  |
| AUDIT COMPLIANCE ATAM S.A. (in liquidation)<br>(internal auditing) | RIO DE JANEIRO<br><br>(BRAZIL)  | BRL      | 1,500,000                                  | 69.9996     |                    | TELECOM ITALIA S.p.A.                                      |
|  |                                 |          |  | 30.0004     |                    | TIM BRASIL SERVICOS PARTICIPACOES S.A.                     |
| ERRA ARGENTEA S.A.<br>(investments holding company)                | BUENOS AIRES<br><br>(ARGENTINA) | ARS      | 666,701,096                                | 86.8875     |                    | TELECOM ITALIA INTERNATIONAL N.V.<br>TELECOM ITALIA S.p.A. |
|  |                                 |          |  | 13.1125     |                    |  |
| <b>Subsidiaries consolidated held for sale</b>                     |                                 |          |  |             |                    |  |
| ICRO SISTEMAS S.A.<br>(telecommunications services)                | BUENOS AIRES<br><br>(ARGENTINA) | ARS      | 760,000                                    | 99.9900     |                    | TELECOM ARGENTINA S.A.<br>NORTEL INVERSORA S.A.            |
|  |                                 |          |  | 0.0100      |                    |  |
| NORTEL INVERSORA S.A.<br>(investment holding company)              | BUENOS AIRES<br><br>(ARGENTINA) | ARS      | 68,008,550                                 | 78.3784     | 100.0000           | SOFORA TELECOMUNICACIONES S.A.                             |
|  |                                 |          |  |             |                    |  |
| UCLEO S.A.<br>(mobile telephone services)                          | ASUNCION<br><br>(PARAGUAY)      | PYG      | 146,400,000,000                            | 67.5000     |                    | TELECOM PERSONAL S.A.                                      |
|  |                                 |          |  |             |                    |  |
| SOFORA TELECOMUNICACIONES S.A.<br>(investment holding company)     | BUENOS AIRES<br><br>(ARGENTINA) | ARS      | 439,702,000                                | 35,5000     |                    | TELECOM ITALIA INTERNATIONAL N.V.<br>TELECOM ITALIA S.p.A. |
|  |                                 |          |  | 32,5000     |                    |  |
| SPRINGVILLE S.A.<br>(mobile telephony services)                    | MONTEVIDEO<br><br>(URUGUAY)     | UYU      | 2,100,000                                  | 100.0000    |                    | TELECOM PERSONAL S.A.                                      |
|  |                                 |          |  |             |                    |  |
| TELECOM ARGENTINA S.A.   | BUENOS AIRES<br><br>(ARGENTINA) | ARS      | 984,380,978                                | 54,7417     | 55.6014            | NORTEL INVERSORA S.A.                                      |
|  |                                 |          |  | 1.5463      |                    |  |

|   |                          |     |             |          |         |        |   |
|---|--------------------------|-----|-------------|----------|---------|--------|---|
| telecommunications services)  |                          |     |             |          |         |        | TELECOM ARGENTINA S.A.                              |
| TELECOM ARGENTINA SA INC. telecommunications services)  | DELAWARE (USA)           | USD | 219,973     | 100.0000 |         |        | TELECOM ARGENTINA S.A.                              |
| TELECOM PERSONAL S.A. mobile telephony services)  | BUENOS AIRES (ARGENTINA) | ARS | 310,514,481 | 99.9923  |         | 0.0077 | TELECOM ARGENTINA S.A.<br>NORTEL INVERSORA S.A.     |
| <b>associated and joint ventures accounted for using the equity method</b>  |                          |     |             |          |         |        |   |
| FREE URBANE S.r.l. (in liquidation) real estate management)   | MILAN (ITALY)            | EUR | 100,000     | 31.6500  |         | 0.9700 | TELECOM ITALIA S.p.A.<br>TELECOM ITALIA MEDI S.p.A. |
| SSCOM INSURANCE BROKERS S.r.l. insurance brokers)   | MILAN (ITALY)            | EUR | 100,000     | 20.0000  |         |        | TELECOM ITALIA S.p.A.                               |
| ALTEA S.r.l. (bankrupt) manufacture and sale of office equipment and information and telecommunications services)   | IVREA (TURIN ITALY)      | EUR | 100,000     | 49.0000  |         |        | OLIVETTI S.p.A.                                     |
| ONSORZIO E O (in liquidation) professional training)  | ROME (ITALY)             | EUR | 13,113      | 50.0000  |         |        | TELECOM ITALIA S.p.A.                               |
| ONSORZIO INITALIA research, study, design, product development and IT solutions devoted to initiatives characterized by a great economic or by an innovative or complex nature) | ROME (ITALY)             | EUR | 200,000     | 25.0000  |         |        | OLIVETTI S.p.A.                                     |
| LI.SER S.r.l. real estate management)   | MILAN (ITALY)            | EUR | 21,165      | 40.0000  |         |        | TELECOM ITALIA S.p.A.                               |
| ALTEL GROUP S.p.A.  | SETTIMO MILANESE (MILAN) | EUR | 825,695     | 34.6845  | 19.3733 |        | TELECOM ITALIA FINANCE S.A.                         |

Investment holding  
company) (ITALY)

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| Consolidated Financial Statements   |                       |          | Notes To Consolidated Financial Statements |             |                    |  |
|---|-----------------------|----------|--|-------------|--------------------|--|
| Name  | Head Office           | Currency | Share Capital                              | % ownership | % of voting rights | Held by  |
| MOVENDA S.p.A.<br><br>(technological platforms for the development of mobile Internet services)   | ROME<br><br>(ITALY)   | EUR      | 133,333                                    | 24.9998     |                    | TELECOM ITALIA FINANCE SA                            |
| NORDCOM S.p.A.<br><br>(application service provider)  | MILAN<br><br>(ITALY)  | EUR      | 5,000,000                                  | 42.0000     |                    | TELECOM ITALIA S.p.A.                                |
| TELELEASING LEASING DI TELECOMUNICAZIONI E GENERALE S.p.A. (in liquidation)<br>(financial leasing of real estate and other assets)  | MILAN<br><br>(ITALY)  | EUR      | 9,500,000                                  | 20.0000     |                    | TELECOM ITALIA S.p.A.                                |
| TIGLIO I S.r.l.<br><br>(real estate management)   | MILAN<br><br>(ITALY)  | EUR      | 5,255,704                                  | 45.6991     | 2.1027             | TELECOM ITALIA S.p.A.<br>TELECOM ITALIA MEDIA S.p.A. |
| TIGLIO II S.r.l.<br><br>(real estate management)  | MILAN<br><br>(ITALY)  | EUR      | 10,000                                     | 49.4700     |                    | TELECOM ITALIA S.p.A.                                |
| TM NEWS S.p.A.<br><br>(multimedia journalistic information)   | ROME<br><br>(ITALY)   | EUR      | 1,120,000                                  | 40.0000     |                    | TELECOM ITALIA MEDIA S.p.A.                          |
| TRENTINO NGN S.r.l.<br><br>(design, construction, building and supply of fiber optic access network to operators and investments, real estate, commercial and financial operations) | TRENTO<br><br>(ITALY) | EUR      | 96,043,000                                 | 41.0733     |                    | TELECOM ITALIA S.p.A.                                |

**Other significant investments**

|   |                   |     |            |         |                                   |
|---|-------------------|-----|------------|---------|-----------------------------------|
| CEFRIEL S.r.l.<br>(training)                                    | MILAN<br>(ITALY)  | EUR | 100,350    | 11.6000 | TELECOM<br>ITALIA S.p.A.          |
| DAHLIA TV S.p.A. (in<br>liquidation)<br>(pay-per-view services) | ROME<br>(ITALY)   | EUR | 11,318,833 | 10.0800 | TELECOM<br>ITALIA MEDIA<br>S.p.A. |
| FIN.PRIV. S.r.l.<br>(finance company)                           | MILAN<br>(ITALY)  | EUR | 20,000     | 14.2900 | TELECOM<br>ITALIA S.p.A.          |
| ITALBIZ.COM Inc.<br>(Internet services)                         | DELAWARE<br>(USA) | USD | 4,720      | 19.5000 | TELECOM<br>ITALIA MEDIA<br>S.p.A. |
| MIX S.r.l.<br>(internet service provider)                       | MILAN<br>(ITALY)  | EUR | 99,000     | 10.8500 | TELECOM<br>ITALIA S.p.A.          |

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