ANNUAL REPORT 2014

This document has been translated into English for the convenience of the readers.
In the event of discrepancy, the Italian language version prevails.

Contents

LETTER TO THE SHAREHOLDERS

Dear Shareholders,
The telecommunications sector in 2014 continued to suffer under the difficult macroeconomic context and market situation. The 0.4% contraction in Italy's GDP was an improvement on the two previous years (-2.8% in 2012 and -1.7% in 2013) but still shows how Italy is struggling to put the after-effects of the financial crisis behind it. Figures for the final quarter of the year were stable on Q3, paving the way for an expected return to GDP growth in 2015.

Meanwhile, **Telecom Italia's share prices increased significantly** from January 1 to December 31, 2014: ordinary shares rose +22.3% and saving shares were up +26%, resulting in an increase in market capitalization of 2.9 billion euros. The company's Corporate Reputation Index - which combines perceptions of issues such as image, innovation, reliability and ethics - also improved progressively, reaching an 11-year high in the final quarter of the year.

Through our commitment to developing infrastructure in Italy, which saw us invest nearly 3 billion euros during the year, **by the end of December 2014 we had brought new ultra broadband fixed and mobile services to 29% (fixed) and about 80% (mobile) of the Italian population.** In line with technological and market shifts, this year also witnessed the continuation of the well-established trend of our customers' habits moving toward increasing use of 'data' services, which are partially replacing traditional communication services (voice and SMS).

In an environment of persistent price pressure and rapidly increasing demand for data services, Telecom Italia has embarked on a course of action revolving around **rapid and widespread infrastructural development.** This supported the potential growth in demand for data services and, as a result, shifted the competitive dynamic onto key factors that provide a structural advantage (in particular: quality, speed and comprehensive coverage of our networks).

The achieved goals

NEW REVENUE MODEL

- *Return to rational prices and reduction of churn in mobile market*
- *Offering focused on connectivity (Fiber and LTE)*
- *Offering focused on convergence (Fixed, Mobile and Media)*
- *Increased revenues from ICT and Cloud*

INVESTMENT MIX

- *Increased proportion of investments in innovation*
- *Increased LTE coverage*
- *Increased NGAN coverage*

EFFICIENCY

- *Stable EBITDA and generation of FCF*

FINANCIAL CONTROL

- *Convertible bonds issued*
- *Sustainable dividend policy*
- *Sale of Telecom Argentina*
- *Sale of TIM Bra Towers*

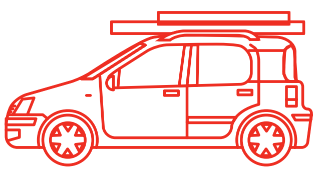
GOVERNANCE, PEOPLE AND STAKEHOLDERS

- *We are Italy's biggest public company*
- *Greater focus on Stakeholders*

These new networks will pave the way for the hyper-connected digital life - a new way to work, socialize and access services and multimedia content, available wherever we are through whatever tool we are using to connect. This is truly a new paradigm that allows us to live in the future, starting right now, and which is the fruit of a range of tools and technologies that are increasingly becoming a part of our daily lives, whether we are aware of it or not: smartphones, tablets, new fiber optic networks, 4G mobile networks, multimedia content accessed through the Internet, and cloud computing.

Telecom Italia will continue to develop infrastructures that allow information, data and services to 'move' from the physical place they are held (the data center), right to the palm of our hand, our desk, television screen or car dashboard. When we think of tomorrow's Telecom, we need to think of something different, something broader.

Network Infrastructure in Italy



COPPER NETWORK
115.2
Millions of Km

NETWORK OPTICAL FIBER
8.3
Millions of Km

NETWORK WORKERS
24,000
People

The goal is to integrate and develop networks and IT platforms (cloud computing, big data) in a way that ties in seamlessly with the services they will be used to deliver. That means we want to move beyond a pure and simple ‘connection’, transforming it into **smart connectivity, unrivaled for digital services and premium content** that will be offered to customers - individuals and businesses alike. More than ‘just’ a telecommunications operator (a transporter of bits of information...), from now on Telecom Italia shall increasingly be a **‘Smart Connectivity & Service Provider’.**

This transformation means we will have to enter a space that is already inhabited by other Over The Top providers (OTT), who offer services delivered using the Internet, but are not telecoms operators themselves.

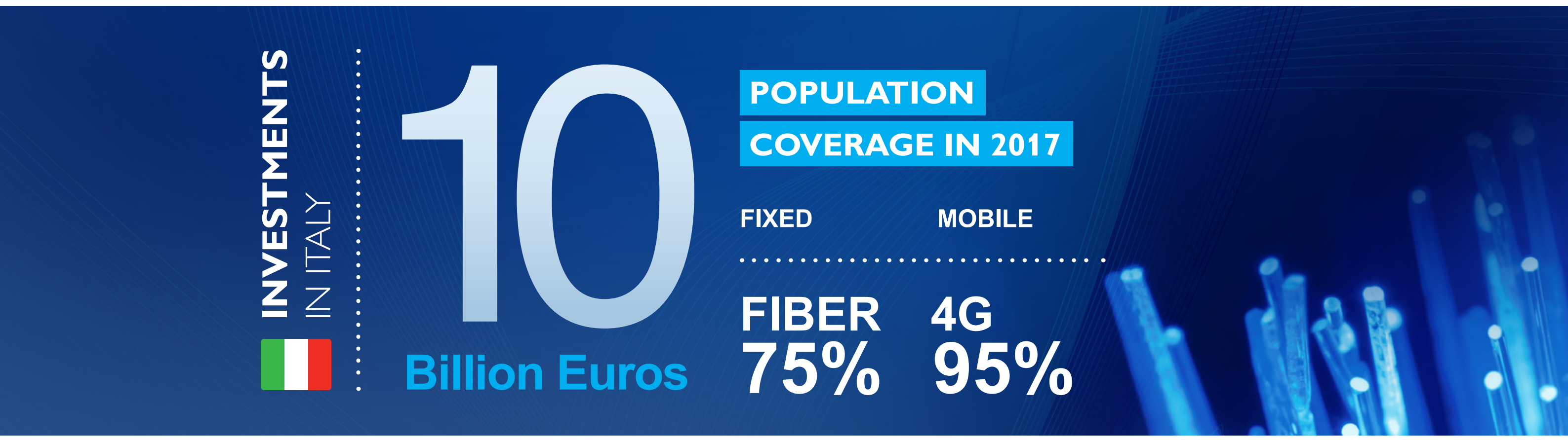
In some segments, the services offered by OTT providers are already so well established and widespread that the best way to **create value for our customers** will be to develop partnerships, allowing to benefit from the speed and flexibility with which leading web companies deliver their services.

Industrial Plan 2015-2017

The Industrial Plan, as presented above, lays the foundations for the implementation of a strategic vision. Specifically, the emphasis on the development of ultra broadband services is an essential and integrated part of the shift toward the ‘smart connectivity’ consumption model. Indeed, the transition to smart connectivity requires our networks to reach even higher standards of performance. However, to be economically sustainable, these investments must be able to count on adequate revenues flows, made possible by the development of new services and by a framework of stable, pro-investment and pro-competitive regulation.

This is why we will step up our level of our commitment. **Over the next three years we are going to invest around 10 billion euros in Italy alone of which half will go towards innovative platforms.**

This is certainly an ambitious goal, but these investments will see coverage of new ultra broadband networks reach 75% of the Italian population in the fixed segment and 95% in the mobile segment, making a significant contribution to **achieving the infrastructure targets set out in the Digital Agenda for Europe.**



Our investments in innovative platforms will not concentrate solely on networks, but also on IT sector capabilities, including spending on latest-generation data centers that (together with the development of Big Data platforms) represent the final piece in the infrastructure puzzle, to support the evolution of our business model.

In Brazil, our planned investments for the three years 2015-2017 will rise to over 14 billion reais (over 4 billion euros), extending 4G coverage to over 15,000 sites and 3G coverage to over 14,000 sites by 2017. Brazil is the fourth largest telecoms market in the world, and we are the second-biggest local mobile operator there with more than 75 million customers.
In light of socio-demographic and consumer trends, the improvement in ultra broadband networks and continuous market innovation, we have no doubt that our ‘Pure Mobile’ strategy is future proof.

INVESTMENTS
IN BRAZIL

>4
Billion Euros

DEVELOPMENT OF NETWORK STRUCTURES

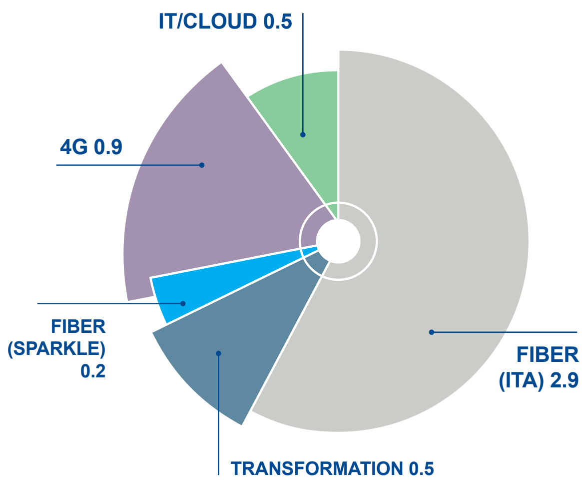
>15,000 4G SITES
>14,000 3G SITES

The development of next generation networks must go hand-in-hand with an equal focus on **new digital services,** in order to stimulate the growth and take-up of these services, tying the process in seamlessly with the evolution of cloud networks and infrastructures. We are looking to establish a presence across the entire chain of new digital services and to do so, we will have to set up new forms of collaboration with ICT market leaders, universities **(Joint Open Labs)** and start-ups **(Working Capital program).**

TIM
#WCAP
ACCELERATOR

of which
INNOVATIVE
INVESTMENTS

5
Billion Euros



Digital Services

1

CONSUMER
DIGITAL SERVICES

- **E-enterteinment**
- **Smart Home**
- **Trusted Digital Life** (TIM Wallet)

2

DIGITAL LIFE SERVICES
FOR BUSINESS

- **Cloud Services**
- **Cloud Store for SMEs**
- **Vertical Digital Services:** *Car Telematics, Digital Adv, etc.*

3

DIGITAL SERVICES
FOR GOVERNMENT

- **eHealth**
- **Digital Idendity**
- **Digital Education**
- **Smart City**

Alongside the simultaneous focus on infrastructure and services, the third and final element of the strategy is to overhaul our operations and rationalize our cost structure in order to align them more closely with the new panorama. In doing so, we hope to achieve two goals: to ensure the sustainability of our business model and to release resources to boost investments in the infrastructure and services on which the future of our Group depends.

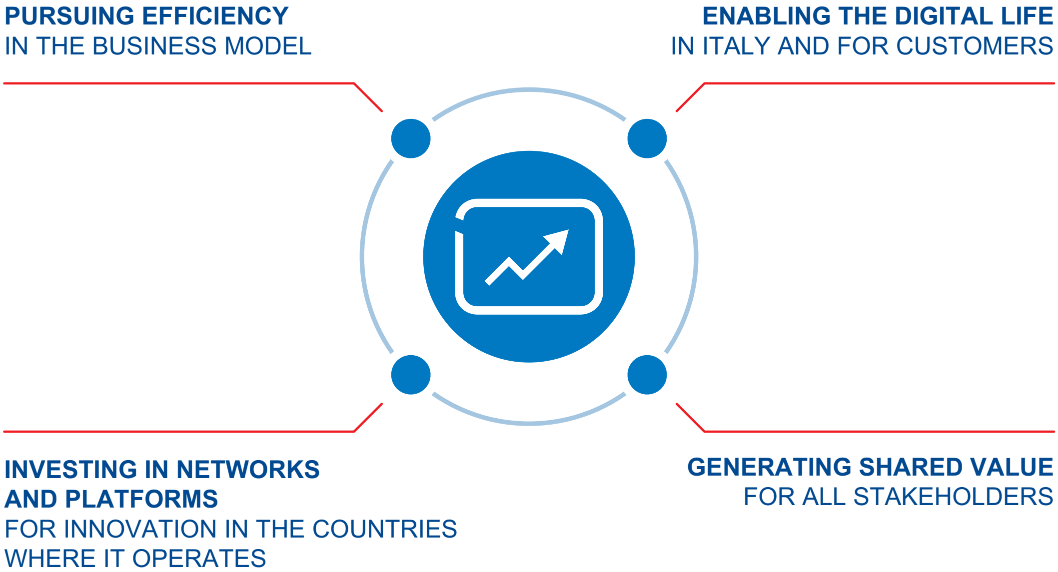
To support and reinforce our positioning as an enabler of customers' digital life, we started to unify our trademarks under the TIM brand. This transition will allow to facilitate convergence and multi-channel activities, intercept the rising demand for digital services, simplify customer experience and optimize investments in communication. The Telecom Italia logo will continue as our Corporate Brand, to represent our legal identity, employer brand and technological capital.

The sweeping nature of these changes implies a genuine shift in perspective.

INDEED, OVER THE NEXT
FOUR YEARS
THE TELECOM ITALIA GROUP
EXPECTS
TO HIRE
ABOUT
4,000
PEOPLE

If we are to succeed, we will be relying on the development of 'human capital', to be executed both through continuous internal professional development courses and also by utilizing external resources.

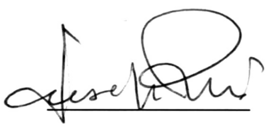
Telecom Italia Group strategic objectives



The path that lies ahead will test the Telecom Italia Group stamina to the very limit. It will involve radical changes that are very difficult to achieve at companies of this size and complexity. But we are ready to embrace these challenges to guarantee the future of the Company. The technological context and market scenario requires so, and we must be resolute and determined as we look to the future. Today, Telecom Italia sets its sight on realizing its full potential, on becoming the kind of business to which its resources allow to aspire. The Group feels a responsibility to become the leading light, not only of digitalization, but also of the spread of digital culture in the countries where it operates, with the ultimate goal of sharing economic and social value.

As we embark on this process, we are sure that we can count on shareholders, customers, and everyone who works at Telecom Italia to believe in us and help us, with passion, dedication and professionalism - all of which will be essential as pursuing our goals.

Giuseppe Recchi



Marco Patuano

THE TELECOM ITALIA GROUP

THE BUSINESS UNITS

DOMESTIC

The **Domestic Business Unit** operates as the consolidated market leader in the sphere of voice and data services on fixed and mobile networks for final retail customers and other wholesale operators.

In the international field, the Business Unit develops fiber optic networks for wholesale customers (in Europe, in the Mediterranean and in South America).

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

CORE DOMESTIC

- Consumer
- Business
- National Wholesale
- Other (Support Structures)

INTERNATIONAL WHOLESALE

Telecom Italia Sparkle group

- Telecom Italia Sparkle S.p.A.
- Lan Med Nautilus group

OLIVETTI

Olivetti group

- Olivetti S.p.A.

BRAZIL

The **Brazil Business Unit (Tim Brasil group)** provides services in the area of UMTS, GSM and LTE technologies. Moreover, with the acquisitions and subsequent integrations into the group of Intelig Telecomunicações, Tim Fiber RJ and Tim Fiber SP, the services portfolio has been extended by offering fiber optic data transmission using full IP technology such as DWDM and MPLS and by offering residential broadband services.

Tim Brasil Serviços e Participações S.A.

- Tim Participações S.A.
  - Intelig Telecomunicações Ltda
  - Tim Celular S.A.

MEDIA

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

Telecom Italia Media S.p.A.

- Persidera S.p.A. (formerly Telecom Italia Media Broadcasting S.r.l. and incorporating company of Rete A S.p.A.)

BOARD OF DIRECTORS

Chairman	Giuseppe Recchi
Chief Executive Officer	Marco Patuano
Directors	Tarak Ben Ammar Davide Benello (independent) Lucia Calvosa (independent) Flavio Cattaneo (independent) Laura Cioli (independent) Francesca Cornelli (independent) Jean Paul Fitoussi Giorgina Gallo (independent) Denise Kingsmill (independent) Luca Marzotto (independent) Giorgio Valerio (independent)
Secretary to the Board	Antonino Cusimano

BOARD OF STATUTORY AUDITORS

Chairman	Enrico Maria Bignami
Acting Auditors	Roberto Capone Gianluca Ponzellini Salvatore Spiniello Ferdinando Superti Furga
Alternate Auditors	Ugo Rock Vittorio Mariani Franco Patti Fabrizio Riccardo Di Giusto

01

REPORT ON OPERATIONS

TELECOM ITALIA GROUP

Key operating and financial data 2014

REVENUES
21,573 Millions of Euros

EBITDA
8,786 Millions of Euros

EBITDA MARGIN
40.7%

CAPITAL EXPENDITURES
4,984 Millions of Euros

ADJUSTED NET FINANCIAL DEBT
26,651 Millions of Euros

HEADCOUNT
66,025

ITALY
52,882

OUTSIDE ITALY
13,143

KEY OPERATING AND FINANCIAL DATA - TELECOM ITALIA GROUP

Consolidated Operating and Financial Data(*)

(millions of euros)		2014	2013	2012	2011	2010
Revenues		21,573	23,407	25,759	26,772	26,781
EBITDA	(1)	8,786	9,540	10,525	11,138	11,208
EBIT before goodwill impairment loss	(1)	4,530	4,905	5,830	6,174	5,794
Goodwill impairment loss		–	(2,187)	(4,121)	(7,364)	(46)
EBIT	(1)	4,530	2,718	1,709	(1,190)	5,748
Profit (loss) before tax from continuing operations		2,347	532	(293)	(3,253)	3,765
Profit (loss) from continuing operations		1,419	(579)	(1,379)	(4,676)	3,250
Profit (loss) from Discontinued operations/Non-current assets held for sale		541	341	102	310	322
Profit (loss) for the year		1,960	(238)	(1,277)	(4,366)	3,572
Profit (loss) for the year attributable to owners of the Parent		1,350	(674)	(1,627)	(4,811)	3,118
Capital expenditures		4,984	4,400	4,639	5,556	4,398

Consolidated Financial Position Data(*)

(millions of euros)		12/31/2014	12/31/2013	12/31/2012	12/31/2011	12/31/2010
Total Assets		71,551	70,220	77,596	83,939	89,072
Total Equity		21,699	20,186	23,012	26,694	32,555
- attributable to owners of the Parent		18,145	17,061	19,378	22,790	28,819
- attributable to non-controlling interests		3,554	3,125	3,634	3,904	3,736
Total Liabilities		49,852	50,034	54,584	57,245	56,517
Total Equity and Liabilities		71,551	70,220	77,596	83,939	89,072
Share capital		10,634	10,604	10,604	10,604	10,600
Net financial debt carrying amount	(1)	28,021	27,942	29,053	30,819	32,087
Adjusted net financial debt	(1)	26,651	26,807	28,274	30,414	31,468
Adjusted net invested capital	(2)	48,350	46,993	51,286	57,108	64,023
Debt Ratio (Adjusted net financial debt/Adjusted net invested capital)		55.1%	57.0%	55.1%	53.3%	49.2%

Consolidated Profit Ratios(*)

		2014	2013	2012	2011	2010
EBITDA/Revenues	(1)	40.7%	40.8%	40.9%	41.6%	41.9%
EBIT/Revenues (ROS)	(1)	21.0%	11.6%	6.6%	n.s.	21.5%
Adjusted Net Financial Debt/EBITDA	(1)	3.0	2.8	2.7	2.7	2.8

(1) Details are provided under "Alternative Performance Measures".
(2) Adjusted net invested capital = Total equity + Adjusted net financial debt.
(*) Following the signature of the agreements, in November 2013, for the disposal of the controlling interest held in the Sofora - Telecom Argentina group, the latter was classified under Discontinued operations - Assets held for sale.

Headcount, number in the Group at year-end (1)

(number)	12/31/2014	12/31/2013	12/31/2012	12/31/2011	12/31/2010
Headcount (excluding headcount relating to Discontinued operations/Non-current assets held for sale)	66,025	65,623	66,381	67,804	68,550
Headcount relating to Discontinued operations/Non-current assets held for sale	16,420	16,575	16,803	16,350	15,650

Headcount, average number in the Group(1)

(equivalent number)	2014	2013	2012	2011	2010
Headcount (excluding headcount relating to Discontinued operations/Non-current assets held for sale)	59,285	59,527	62,758	63,137	66,439
Headcount relating to Discontinued operations/Non-current assets held for sale	15,652	15,815	15,806	15,232	3,711

Financial performance measures

Telecom Italia S.p.A.

(euros)		2014	2013	2012
Share prices (December average)				
- Ordinary		0.91	0.69	0.70
- Savings		0.71	0.55	0.62
Dividends per share	(2)			
- Ordinary		-	–	0.020
- Savings		0.0275	0.0275	0.031
Pay Out Ratio	(2) (*)	27%	13%	24%
Market capitalization (in million euros)		16,568	12,520	13,098
Market to Book Value	(**)	1.00	0.76	0.74
Dividend Yield (based on December average)	(2) (***)			
- Ordinary		0.00%	-	2.86%
- Savings		0.00%	5.03%	5.03%

Telecom Italia Group

(euros)	2014	2013	2012
Basic earnings per share – ordinary shares	0.07	(0.03)	(0.08)
Basic earnings per share – savings shares	0.08	(0.03)	(0.08)

(1) Includes employees with temp work contracts.
(2) For the year 2014, the ratio was calculated on the basis of the proposed resolutions submitted to the shareholders' meeting held on May 20, 2015. For all periods, the reference index was assumed to be the Parent's Normalized Earnings, calculated by excluding Non-recurring items (as detailed in the Note "Significant non-recurring events and transactions" in the separate financial statements of Telecom Italia S.p.A. at December 31, 2014).
(*) Dividends paid in the following year/Profit for the year.
(**) Capitalization/Equity of Telecom Italia S.p.A.
(***) Dividends per share/Share prices.

HIGHLIGHTS 2014

2014 was affected by recessionary pressures in the domestic market, where the signs of recovery are still very weak, as well as the slowdown in the Latin American economies.
In this adverse economic environment, the Market continued to see an erosion of traditional services, with a loss of value only partly offset by increased penetration and growth in innovative services. Competition, however, showed signs of cooling during 2014, particularly in the domestic mobile segment, easing pressure on prices and slowing the decline in average revenues per user. To defend its customer base, Telecom Italia also continued to adopt a distinctive position in the market, through the use of innovative convergent fixed-mobile deals, supported by new technology (Fiber and LTE) and enhanced by new services and digital content. In this scenario, revenues, despite still being affected by certain factors and regulatory aspects, started to stabilize with a steady recovery in performance compared to the previous year.
In Brazil, economic growth was modest and the average exchange rate depreciated by over 8% compared to 2013. In an environment of greater competition pressure, the mobile customers market experienced a slowdown compared to the previous year, although this did not affect the growth of the Brazilian investee.
You are reminded that, with effect from 2013, the Sofora – Telecom Argentina group has been classified under Discontinued Operations.

More specifically, for the year 2014:

- Consolidated revenues amounted to 21.6 billion euros, down 7.8% on 2013 (-5.4% in organic terms), while EBITDA fell to 8.8 billion euros, down 7.9% (-6.8% in organic terms).
  The organic EBITDA margin stood at 40.7%, 0.6 percentage points lower than in 2013.
- Revenue performance for the Domestic Business Unit in the fourth quarter 2014 was -5.0% compared to the same period of 2013 (-3.9% net of the negative impact of the retroactive revision of prices for wholesale access services for the period 2010-2012), continuing the significant recovery over the previous quarters (-5.0% third quarter, -8.2% second quarter, -8.3% first quarter) and the full year 2013 (-9.5%).
- Operating profit (EBIT) amounted to 4.5 billion euros. In 2013, following the goodwill impairment loss for Core Domestic of 2.2 billion euros, EBIT came to 2.7 billion euros. Excluding the impact of the goodwill impairment loss, EBIT for 2013 would have been a positive 4.9 billion euros.
- Profit for the year attributable to Owners of the Parent totaled approximately 1.4 billion euros, versus a loss of 0.7 billion euros in 2013, due to the already mentioned goodwill impairment loss. Without this impairment loss, the profit for the year 2014 would have been in line with the previous year.
- Adjusted net financial debt at December 31, 2014 came to 26,651 million euros, down 156 million euros compared to December 31, 2013.

Financial Highlights

(millions of euros)		2014	2013	% Change Reported	% Change Organic
Revenues		**21,573**	**23,407**	(7.8)	(5.4)
EBITDA	(1)	**8,786**	**9,540**	(7.9)	(6.8)
EBITDA Margin		*40.7%*	*40.8%*	*(0.1)pp*	
Organic EBITDA Margin		*40.7%*	*41.3%*	*(0.6)pp*	
EBIT before goodwill impairment loss		**4,530**	**4,905**	(7.6)	(7.1)
Goodwill impairment loss		–	*(2,187)*		
EBIT	(1)	**4,530**	**2,718**	66.7	68.6
EBIT Margin		*21.0%*	*11.6%*	*9.4 pp*	
Organic EBIT Margin		*21.0%*	*11.8%*	*9.2 pp*	
Profit (loss) from Discontinued operations/Non-current assets held for sale		**541**	**341**	58.7	
Profit (loss) for the year attributable to owners of the Parent		**1,350**	**(674)**	-	
Capital expenditures (CAPEX)		**4,984**	**4,400**	13.3	
		12/31/2014	**12/31/2013**	**Change Amount**	
Adjusted net financial debt	(1)	**26,651**	**26,807**	(156)	

(1) Details are provided under "Alternative Performance Measures". Starting from 2014, the organic change in revenues, EBITDA and EBIT has been calculated excluding only the effects of the change in the scope of consolidation and exchange differences. Accordingly, in contrast to the past, "non-organic" income/expenses are no longer considered.

CONSOLIDATED OPERATING PERFORMANCE

Revenues

Revenues amounted to 21,573 million euros in 2014, down 7.8% from 23,407 million euros in 2013. The decrease of 1,834 million euros was mainly attributable to the Domestic Business Unit (-1,085 million euros) and the Brazil Business Unit (-701 million euros). The latter was particularly affected by weak exchange rates, which resulted in a depreciation of the Brazilian real against the euro of over 8% compared to 2013 (in terms of average rates).
In terms of organic change, consolidated revenues fell by 5.4% (-1,230 million euros), and were calculated as follows:

(millions of euros)	2014	2013	Change	
			amount	%
HISTORICAL REVENUES	**21,573**	**23,407**	**(1,834)**	**(7.8)**
Foreign currency financial statements translation effect		(565)	565	
Changes in the scope of consolidation		(39)	39	
COMPARABLE REVENUES	**21,573**	**22,803**	**(1,230)**	**(5.4)**

Exchange rate fluctuations(1) mainly related to the Brazil Business Unit (-566 million euros), while the change in the scope of consolidation(2) was the result of the sales of La7 S.r.l. and the MTV group, both in the Media Business Unit, which took place in April and September 2013 respectively. These were offset by the entry into the scope of consolidation of Rete A, which is also part of the Media Business Unit, over which control was acquired on June 30, 2014 and which was subsequently merged by absorption into its controlling company Persidera S.p.A..

The breakdown of revenues by operating segment is as follows:

(millions of euros)	2014		2013		Change		
		% of total		% of total	amount	%	% organic
Domestic (*)	15,303	70.9	16,388	70.0	(1,085)	(6.6)	(6.6)
Core Domestic	*14,205*	*65.8*	*15,269*	*65.2*	*(1,064)*	*(7.0)*	*(7.0)*
International Wholesale	*1,244*	*5.8*	*1,263*	*5.4*	*(19)*	*(1.5)*	*(1.5)*
Olivetti	*227*	*1.1*	*265*	*1.1*	*(38)*	*(14.3)*	*(14.7)*
Brazil	6,244	28.9	6,945	29.7	(701)	(10.1)	(2.1)
Media and Other Operations (*)	71	0.3	124	0.5	(53)		
Adjustments and eliminations	*(45)*	*(0.1)*	*(50)*	*(0.2)*	*5*		
Consolidated Total	**21,573**	**100.0**	**23,407**	**100.0**	**(1,834)**	**(7.8)**	**(5.4)**

(*) Starting from 2014, the Domestic Business Unit also includes the Olivetti group, in addition to Core Domestic and International Wholesale. The comparative period has been adjusted accordingly.

The **Domestic Business Unit** (divided into Core Domestic, International Wholesale and Olivetti) recorded a decline in revenues for 2014 of 1,085 million euros (-6.6%), compared to 2013, but with a significant recovery in the second half of the year (fourth quarter 2014: -5.0%, third quarter: -5.0%, second quarter: -8.2%, first quarter: -8.3%), despite the continuing adverse macroeconomic environment and the negative impact of the retroactive revision by the Regulatory Authority of the copper network wholesale access prices for the period 2010-2012. Net of that impact, which resulted in the recognition in the final quarter of 45 million euros in lower revenues from previous years, the performance for the fourth

(1) The average exchange rate used for the translation into euro of the Brazilian real (expressed in terms of units of local currency per 1 euro) was 3.12280 in 2014 and 2.86830 in 2013. The effect of the change in exchange rates is calculated by applying the foreign currency translation rates used for the current period to the period under comparison.

(2) The change in the scope of consolidation has been calculated by excluding the contribution of the companies that have exited from the comparison figure and adding in the estimated contribution of any companies entering the scope of consolidation.

quarter would have been -3.9%. This improvement in performance was mainly due to a cooling of competition pressure – which resulted in the progressive stabilization of the customer base and ARPU on traditional services – accompanied by a defense of market share, mainly on Mobile, and an acceleration in the growth of broadband and ultrabroadband services.
In detail:

- Revenues from services for the year 2014 amounted to 14,334 million euros, down 7.1% compared to 2013. In particular, revenues from services in the Mobile business came to 4,608 million euros, a decrease of 529 million euros compared to 2013 (-10.3%). Revenues from Fixed-line services amounted to 10,672 million euros and were down 819 million euros compared to 2013 (-7.1%);
- Revenues from services in the fourth quarter of 2014 amounted to 3,619 million euros, down 4.4% compared to the same period of the previous year (-3.2% net of the above-mentioned retroactive revision of 2010-2012 wholesale access prices decided by AGCom), but with a recovery against the three previous quarters (-6.2% in the third quarter, -8.9% in the second quarter, and -8.8% in the first quarter);
- Product sales, including change in work in progress, recorded revenues of 969 million euros for the full year 2014, up on 2013 (+8 million euros), in both the Fixed-line and Mobile business.

For the **Brazil Business Unit**, organic revenues in 2014 were down 2.1% on the previous year. Revenues from services fell by 2.3% compared to 2013, mainly due to lower revenues from incoming traffic as a result of the reduction in the mobile termination rate. Handset revenues also declined (-1.5% compared to 2013), mainly due to a reduction in sales volumes.
The total number of lines for the Brazil Business Unit at December 31, 2014 was 75.7 million, up 3.1% compared with December 31, 2013.

A more detailed analysis of revenue performance by individual Business Unit is provided in the section "Financial and Operating Highlights - The Business Units of the Telecom Italia Group".

EBITDA

EBITDA totaled 8,786 million euros (9,540 million euros in 2013), a decrease of 754 million euros compared to 2013; the EBITDA margin was 40.7% (40.8% in 2013).
Organic EBITDA was down 643 million euros (-6.8%) compared to 2013; the organic EBITDA margin was down 0.6 percentage points, from 41.3% in 2013 to 40.7% in 2014.
Organic EBITDA is calculated as follows:

(millions of euros)	2014	2013	Change	
			amount	%
HISTORICAL EBITDA	**8,786**	**9,540**	**(754)**	**(7.9)**
Foreign currency financial statements translation effect		(147)	147	
Changes in the scope of consolidation		36	(36)	
COMPARABLE EBITDA	**8,786**	**9,429**	**(643)**	**(6.8)**

Exchange rate fluctuations mainly related to the Brazil Business Unit, while the change in the scope of consolidation was the result of the sales of La7 S.r.l. and the MTV group, as well as the acquisition of Rete A.

Details of EBITDA and EBITDA Margins by operating segment are provided below:

(millions of euros)	2014		2013		Change		
		% of total		% of total	amount	%	% organic
Domestic (*)	6,998	79.6	7,741	81.1	(743)	(9.6)	(9.6)
EBITDA Margin	*45.7*		*47.2*			*(1.5)pp*	*(1.5)pp*
Brazil	1,774	20.2	1,812	19.0	(38)	(2.1)	6.6
EBITDA Margin	*28.4*		*26.1*			*2.3 pp*	*2.3 pp*
Media and Other Operations (*)	13	0.2	(17)	(0.1)	30		
Adjustments and eliminations	*1*	–	*4*	–	*(3)*		
Consolidated Total	**8,786**	**100.0**	**9,540**	**100.0**	**(754)**	**(7.9)**	**(6.8)**
EBITDA Margin	*40.7*		*40.8*			*(0.1)pp*	*(0.6)pp*

(*) Starting from 2014, the Domestic Business Unit also includes the Olivetti group, in addition to Core Domestic and International Wholesale. The comparative period has been adjusted accordingly.

EBITDA was particularly impacted by the change in the line items analyzed below:

- **Acquisition of goods and services (9,430 million euros; 10,377 million euros in 2013).**
  The reduction of 947 million euros was mainly due to the Brazil Business Unit, for an amount of -670 million euros (including a negative exchange rate effect of 347 million euros), which also reflects the reduction in prices for interconnection services, with a decline in revenues due to other TLC operators. The Domestic Business Unit, on the other hand, reported a reduction of 223 million euros. The decrease in acquisition of goods and services also offset the higher costs, resulting from Telecom Italia's new market strategy, aimed at gradually ceasing to subsidize handsets in "bundle deals". The new commercial strategy had an impact of 63 million euros of costs recognized in the income statement for 2014. In 2013 the capitalized costs for subsidizing handsets (amortized over the term of the contract with the customer, from 24 to 30 months) amounted to 188 million euros.
  Further details are provided in the Note "Other intangible assets" of the Consolidated Financial Statements at December 31, 2014 of the Telecom Italia Group.

- **Employee benefits expenses (3,119 million euros; 3,087 million euros in 2013).**
  These increased by 32 million euros. The change was influenced by:

- a 2 million euros decrease in employee benefits expenses in Italy, due to lower expenses for mobility pursuant to Law 223/91, totaling 11 million euros, almost entirely offset by an increase in ordinary employee expenses and costs of 9 million euros.
  In detail, the increase in ordinary employee expenses and costs was due to the net effect of the following factors:
  - the increase in the contractual minimums established in the TLC National Collective Labor Agreement signed on February 1, 2013;
  - the recognition of the notional costs relating to the Broad-Based Share Ownership Plan and the Stock Option Plan;
  - the reduction in the average workforce by 820 employees compared to 2013, of which an average of 530 was a result of the application of the "Solidarity Contracts" by the Parent, T.I. Information Technology, and by Olivetti S.p.A. (in 2013, the Parent and T.I. Information Technology applied the solidarity contracts from the second quarter of 2013);
  - the exit from the scope of consolidation of the companies La7 and MTV, with a reduction of 202 in the average headcount.

  With regard to the expenses for mobility pursuant to Law 223/91, a total of 8 million euros was recognized in 2014, of which 5 million euros for the agreement signed by the Parent with trade unions on December 1, 2014 (under the framework agreement of March 27, 2013) and 3 million euros for the Olivetti S.p.A. mobility agreement signed with trade unions on March 1, 2014. In 2013, expenses of 19 million euros were recognized for the agreements with trade unions signed by the Parent Telecom Italia S.p.A. and the company Advanced Caring Center.
- the increase of 34 million euros for the component outside Italy of employee benefits expenses. The effects of the growth in the average workforce, which rose to an average of 780 employees, and local salary variations, were partially offset by a negative exchange difference of around 28 million euros, essentially related to the Brazil Business Unit. In 2014, restructuring expenses of 4 million euros were also recognized in relation to a number of foreign companies of the Olivetti group.

- **Other income (401 million euros; 324 million euros in 2013).**
  This item increased by 77 million euros compared to 2013.
  The increase mainly related to the full release of the remaining risk provisions, for an amount of 84 million euros, already allocated in the 2009 consolidated financial statements, with respect to the Telecom Italia Sparkle affair; the interest element (a further 2 million euros) had been released to finance income. More details are provided in the Note "Contingent liabilities, other information" of the Consolidated Financial Statements at December 31, 2014 of the Telecom Italia Group.

- **Other operating expenses (1,175 million euros; 1,318 million euros in 2013).**
  These fell by 143 million euros compared to 2013.
  The decrease mainly related to the Domestic Business Unit (-101 million euros) and the Brazil Business Unit (-34 million euros, including a negative exchange rate effect of 51 million euros).
  They included:
  - write-downs and expenses in connection with credit management (375 million euros; 380 million euros in 2013) consisting of 295 million euros for the Domestic Business Unit (290 million euros in 2013) and 80 million euros for the Brazil Business Unit (84 million euros in 2013);
  - provision charges (84 million euros; 100 million euros in 2013) mainly consisting of 74 million euros for the Brazil Business Unit (81 million euros in 2013) and 6 million euros for the Domestic Business Unit (17 million euros in 2013);
  - TLC operating fees and charges (449 million euros; 482 million euros in 2013) consisting of 399 million euros for the Brazil Business Unit (424 million euros in 2013) and 49 million euros for the Domestic Business Unit (57 million euros in 2013);
  - sundry expenses of 63 million euros; in 2013 they amounted to 134 million euros and mainly related to the Domestic Business Unit for the estimate of the costs, of 84 million euros, for the fine imposed by the Italian Antitrust Authority (AGCM) at the end of the A428 proceedings.

Depreciation and amortization
Details are as follows:

(millions of euros)	2014	2013	Change
Amortization of intangible assets with a finite useful life	1,854	2,012	(158)
Depreciation of property, plant and equipment – owned and leased	2,430	2,541	(111)
Total	**4,284**	**4,553**	**(269)**

The reduction in depreciation and amortization of 269 million euros was mainly attributable to the Domestic Business Unit (-278 million euros), essentially due to a decrease in depreciable and amortizable items.

Gains (losses) on disposals of non-current assets
In 2014, this item amounted to 29 million euros. A gain of approximately 38 million euros, on the sale by Telecom Italia S.p.A. of a property located in Milan, for a price of 75 million euros, was offset by net losses of 11 million euros, mainly relating to the disposal of tangible assets by the Domestic Business Unit.
In 2013, this item showed a loss of 82 million euros, mainly relating to the realized loss, including transaction costs, of 100 million euros from the sale of La7 S.r.l. to the Cairo Communication group on April 30, 2013. This charge was offset by net capital gains on non-current assets totaling 18 million euros, mainly relating to the sale of a property (around 17 million euros), and the sale of the entire controlling interest (51%) held in MTV Italia S.r.l. (3 million euros).

Net impairment losses on non-current assets
These amounted to 1 million euros in 2014.
In preparing the 2014 Annual Report, the Group performed the goodwill impairment test. The results of that testing, carried out in accordance with the specific procedure adopted by the Group, confirmed the amount of the goodwill allocated to the Group's individual Cash Generating Units.
In 2013, this item amounted to 2,187 million euros and it is related to the impairment loss on goodwill allocated to the Core Domestic Cash-Generating Unit (CGU) in the Domestic Business Unit.
Further details are provided in the Note "Goodwill" in the consolidated financial statements at December 31, 2014 of the Telecom Italia Group.

EBIT

EBIT amounted to 4,530 million euros in 2014. In 2013, EBIT came to 2,718 million euros and included the impact of the above-mentioned impairment loss of 2,187 million euros on the goodwill allocated to the Core Domestic CGU.
The organic change in EBIT was 1,843 million euros. Net of the above-mentioned goodwill impairment loss the organic change compared to 2013 would have been negative by 344 million euros.

Organic EBIT was calculated as follows:

(millions of euros)	2014	2013	Change	
			amount	%
HISTORICAL EBIT	**4,530**	**2,718**	**1,812**	**66.7**
Foreign currency financial statements translation effect		(70)	70	
Changes in the scope of consolidation		39	(39)	
COMPARABLE EBIT	**4,530**	**2,687**	**1,843**	**68.6**

Exchange rate fluctuations related entirely to the Brazil Business Unit, while the change in the scope of consolidation was the result of the above-mentioned sales of La7 S.r.l. and the MTV group, as well as the acquisition of Rete A.

Other income (expenses) from investments, net

This amounted to a positive 16 million euros, essentially referring to the remeasurement at fair value of the 41.07% interest already held in Trentino NGN S.r.l., performed pursuant to IFRS 3, following the acquisition of control of the company by Telecom Italia S.p.A. on February 28, 2014 at a price of 17 million euros.

Finance income (expenses), net

Finance income (expenses) shows net expenses of 2,194 million euros (net expenses of 2,183 million euros in 2013), an increase of 11 million euros.
This increase was linked to the net effect resulting from the change in certain non-monetary items – of a valuation and accounting nature, linked in particular to derivatives – which was offset by the reduction in finance expenses related to the debt position.
In particular, the following is noted:

- an increase in the balance of finance expenses linked to the changes in the valuations of several hedging derivatives, attributable to market fluctuations linked to currency translation. These are unrealized valuation and accounting changes which do not result in any actual monetary settlement. In 2013, a benefit was also recognized, of around 25 million euros, following the first-time adoption of the new IFRS 13 "Fair Value Measurement", whereas for 2014 there was a negative impact of 72 million euros;
- the issuance at the end of 2013, by Telecom Italia Finance S.A., of the mandatory convertible bond 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.") resulted in the accounting recognition of the option embedded in the financial instrument separately from the related liability. In 2014, the measurement of the option at fair value through profit or loss resulted in a negative impact on adjustments to non-hedging derivatives of 174 million euros (in 2013 the impact was -124 million euros).

Income tax expense

This item amounted to 928 million euros, down 183 million euros on 2013 (1,111 million euros), largely due to the smaller taxable base of the Parent Telecom Italia. The Brazil Business Unit recorded a decrease in tax expense of 16 million euros compared to 2013. This was due to the exchange rate effect of approximately 18 million euros. Net of that effect, income tax expense would have been substantially in line with the previous year, consistent with the trend in the taxable base expressed in local currency.

Profit (loss) from Discontinued operations/Non-current assets held for sale

For 2014, the item Profit from Non-current assets held for sale amounted to 541 million euros (341 million euros in 2013) and related to:

- the positive contribution to the consolidation from the Sofora - Telecom Argentina group of 544 million euros (378 million euros in 2013);
- the costs related to disposals carried out in previous years and other items totaling 3 million euros (37 million euros in 2013, of which 18 million euros relating to deferred taxes and sundry expenses connected to the sale of the Sofora group and 19 million euros relating to disposals made in previous years).

More details are provided in the section "Discontinued operations/Non-current assets held for sale" of this Report on Operations and in the Note "Discontinued operations/Non-current assets held for sale" in the Consolidated Financial Statements at December 31, 2014 of the Telecom Italia Group.

Profit (loss) for the year

Profit (loss) for the year can be broken down as follows:

(millions of euros)	2014	2013
Profit (loss) for the year	**1,960**	**(238)**
Attributable to:		
Owners of the Parent:		
Profit (loss) from continuing operations	1,252	(721)
Profit (loss) from Discontinued operations/Non-current assets held for sale	98	47
Profit (loss) for the year attributable to owners of the Parent	**1,350**	**(674)**
Non-controlling interests:		
Profit (loss) from continuing operations	167	142
Profit (loss) from Discontinued operations/Non-current assets held for sale	443	294
Profit (loss) for the year attributable to non-controlling interests	**610**	**436**

BUSINESS UNIT

Key economic and operating data 2014

DOMESTIC

REVENUES
15,303 Millions of Euros

EBITDA
6,998 Millions of Euros

EBITDA MARGIN
45.7 %

FIXED

PHISICAL ACCESSES
END OF PERIOD
19,704 Thousands

BROADBAND ACCESSES
END OF PERIOD
8,750 Thousands

NETWORK INFRASTRUCTURE IN ITALY

ACCESS AND CARRIER NETWORK
IN OPTICAL FIBER
8.3 Millions of Km

MOBILE

NUMBER OF LINES
30,350 Thousands

MOBILE BROWSING VOLUMES
133.9 PByte

AVERAGE MONTHLY
REVENUES PER LINE - ARPU
12.1 Euros

BRAZIL

NUMBER OF LINES
75,721 Thousands

REVENUES
6,244 Millions of Euros

EBITDA
1,774 Millions of Euros

EBITDA MARGIN
28.4 %

FINANCIAL AND OPERATING HIGHLIGHTS – THE BUSINESS UNITS OF THE TELECOM ITALIA GROUP

Starting from 2014, the Domestic Business Unit now also includes the Olivetti group, in addition to Core Domestic and International Wholesale. This change in presentation reflects the commercial and business placement of the Olivetti group and the process of integrating the products and services offered by the Olivetti group as complements to those offered by Telecom Italia in the domestic market. Accordingly, the figures for the previous year have been restated on a consistent basis.

DOMESTIC

(millions of euros)	2014	2013	Change		
			amount	%	% organic
Revenues	15,303	16,388	(1,085)	(6.6)	(6.6)
EBITDA	6,998	7,741	(743)	(9.6)	(9.6)
EBITDA Margin	*45.7*	*47.2*		*(1.5)pp*	*(1.5)pp*
EBIT	3,738	1,985	1,753	88.3	88.3
EBIT Margin	*24.4*	*12.1*		*12.3 pp*	*12.3 pp*
Headcount at year end (number)	53,076	53,377	(301)	(0.6)	

Fixed

	12/31/2014	12/31/2013	12/31/2012
Physical accesses at the end of the period (thousands)[1]	19,704	20,378	21,153
of which Retail physical accesses at the end of the period (thousands)	*12,480*	*13,210*	*13,978*
Broadband accesses at period-end (thousands)[2]	8,750	8,740	8,967
of which Retail broadband accesses at the end of the period (thousands)	*6,921*	*6,915*	*7,020*
Network infrastructure in Italy:			
copper access network (millions of km – pair, distribution and connection)	115.2	114.9	114.5
access and carrier network in optical fiber (millions of km - fiber)	8.3	6.7	5.7
Total traffic:			
Minutes of traffic on fixed-line network (billions)	84.2	91.2	101.8
Domestic traffic	68.9	75.8	85.9
International traffic	15.3	15.4	15.9
DownStream and UpStream traffic volumes (PBytes)	3,161	2,533	2,202

(1) Does not include full-infrastructured OLOs and Fixed Wireless Access (FWA).

(2) Does not include LLU and NAKED, satellite and full-infrastructured OLOs and Fixed Wireless Access (FWA).

Mobile [1]

	12/31/2014	12/31/2013	12/31/2012
Lines at period-end (thousands)	30,350	31,221	32,159
Change in lines (%)	(2.8)	(2.9)	(0.2)
Churn rate (%) [2]	24.2	30.4	26.6
Total average outgoing traffic per month (millions of minutes)	3,703	3,581	3,664
Total average outgoing and incoming traffic per month (millions of minutes)	5,480	5,084	4,921
Mobile browsing volumes (PBytes) [3]	133.9	98.1	93.1
Average monthly revenues per line (in euros) [4]	12.1	13.1	15.5

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

(2) The data refer 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.

(3) National traffic excluding roaming.

(4) 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.

The financial and operating highlights of the Domestic Business Unit are reported according to three Cash Generating units (CGU):

- **Core Domestic:** includes all telecommunications activities pertaining to the Italian market. Revenues are broken down in the following tables according to the net contribution of each market segment to the CGU's results, excluding intrasegment transactions. 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, as well as public telephony;
  - **Business:** expanded from the beginning of 2013 to include Top customers, the segment consists of voice, data, and Internet services and products, as well as ICT solutions managed and developed for small and medium-size enterprises (SMEs), Small Offices/Home Offices (SOHOs), Top customers, the Public Sector, Large Accounts, and Enterprises in the Fixed and Mobile telecommunications markets;
  - **National Wholesale:** consists of the management and development of the portfolio of regulated and unregulated wholesale services for Fixed and Mobile telecommunications operators in the domestic market;
  - **Other (Support Structures):** includes:
    - **Operations**: covering technological innovation and processes of development, engineering, building and operation of network infrastructures, real estate properties and plant engineering, delivery processes, and assurance for customer services; development of the information technology strategy, guidelines and plan; customer care, operating credit, loyalty and retention activities, sales within its remit, and administrative management of customers;
    - **Staff & Other**: services carried out by Staff functions and other support activities performed by minor companies of the Group, also offered to the market and other Business Units.
- **International Wholesale**: includes the activities of the Telecom Italia Sparkle group, which operates in the market for international voice, data and Internet services for fixed and mobile telecommunications operators, ISPs/ASPs (Wholesale market) and multinational companies through its own networks in the European, Mediterranean and South American markets;
- **Olivetti:** operates in the sector of office products and information technology services. It is a solution provider for the automation of business processes and activities for SMEs, large corporations and vertical markets. Its market is focused primarily in Europe, Asia and South America.

Main financial data

The tables below show the main results of the Domestic Business Unit by customer/business segment in 2014 compared to 2013.

Core Domestic

(millions of euros)	2014	2013	Change	
			amount	%
Revenues	14,205	15,269	(1,064)	(7.0)
Consumer	*7,349*	*7,970*	*(621)*	*(7.8)*
Business	*4,824*	*5,211*	*(387)*	*(7.4)*
National Wholesale	*1,793*	*1,897*	*(104)*	*(5.5)*
Other	*239*	*191*	*48*	*25.1*
EBITDA	6,761	7,552	(791)	(10.5)
EBITDA Margin	*47.6*	*49.5*		*(1.9)pp*
EBIT	3,593	1,888	1,705	90.3
EBIT Margin	*25.3*	*12.4*		*12.9pp*
Headcount at year end (number)	51,849	51,954	(105)	(0.2)

International Wholesale

(millions of euros)	2014	2013	Change	
			amount	%
Revenues	1,244	1,263	(19)	(1.5)
of which third party	*981*	*955*	*26*	*2.7*
EBITDA	271	203	68	33.5
EBITDA Margin	*21.8*	*16.1*		*5.7 pp*
EBIT	172	102	70	68.6
EBIT Margin	*13.8*	*8.1*		*5.7 pp*
Headcount at year end (number) [1]	641	741	(100)	(13.5)

(1) Includes employees with temp work contracts: 4 at December 31, 2014, and 4 at December 31, 2013.

Olivetti

(millions of euros)	2014	2013	Change		
			amount	%	% organic
Revenues	227	265	(38)	(14.3)	(14.7)
EBITDA	(29)	(4)	(25)		
EBITDA Margin	*(12.8)*	*(1.5)*		*(11.3)pp*	*(11.3)pp*
EBIT	(34)	(8)	(26)		
EBITDA Margin	*(15.0)*	*(3.0)*		*(12.0)pp*	*(12.0)pp*
Headcount at year end (number) [1]	586	682	(96)	(14.1)	

(1) Includes employees with temp work contracts: 4 at December 31, 2014, not present at December 31, 2013.

Revenues

In an economic scenario that continues to show structural weakness, the change in 2014 compared to 2013 was a decrease of 6.6% (-1,085 million euros), with a decrease of 5.0% in the fourth quarter compared to the same period of 2013 (-3.9% net of the negative impact of the retroactive revision by

the Authority of prices for wholesale access services for the period 2010-2012, which resulted in the recognition in the final quarter of 45 million euros in lower revenues from previous years), representing an improvement on the previous quarters of 2014 (-5.0% third quarter, -8.2% second quarter, -8.3% first quarter) and on the entire year 2013 (-9.5%).
This trend in revenues was primarily due to the progressive stabilization in market share – mainly Mobile – and growth in Fixed-line Broadband, ICT and Mobile Internet revenues.
In detail:

Core Domestic Revenues

- **Consumer:** revenues for the Consumer segment in 2014 amounted to 7,349 million euros, down 621 million euros compared to 2013 (-7.8%). This performance, although still negative, continues the recovery seen in the second half of 2014. Compared to the same periods of 2013, the following performance was recorded in 2014: in the fourth quarter -5.1%; in the third quarter -5.2%; in the second quarter -9.2%; and in the first quarter -11.7%. In particular, revenues from Mobile services fell by -398 million euros (-11.1%) compared to 2013 and -7.2% in the fourth quarter 2014 (against -6.6% in the third quarter, -13.7% in the second quarter and -16.9% in the first quarter). This reflected the positive impact from the structural improvement in competition performance, the gradual stabilization of the customer base and ARPU, and the steady growth in mobile Internet. Revenues from Fixed-line services also showed signs of recovery compared to the decline seen in the first part of the year, with a reduction of -238 million euros (-5.9%) compared to the year 2013, and -3.4% in the fourth quarter 2014 (-6.1% in the third quarter, -7.9% in the second quarter and -6.2% in the first quarter), owing to stable market share and the positive performance of Broadband ARPU, supported by the increased proportion of customers with flat contracts and service upgrades (Fiber);
- **Business:** in 2014 revenues for the Business segment amounted to 4,824 million euros, down 387 million euros from 2013 (-7.4%), but an improvement on the previous periods, particularly for revenues from services (4,436 million euros, -425 million euros compared to 2013, or -8.7%; -6.6% in the fourth quarter of 2014, -7.9% in the third quarter, -10.6% in the second quarter and -9.8% in the first quarter). In the Mobile business (-159 million euros in 2014 compared to 2013; -11.7%), despite the effective defensive actions and growth of the customer base – which increased by 3.7% – traditional voice and messaging services continued to decline (-183 million euros in 2014 compared to 2013), due to the repositioning of customers towards deals with lower overall ARPU. The Fixed-line segment (-271 million euros in 2014 compared to 2013; -7.6%) continued to feel the effects of the economic recession and the contraction in prices on traditional voice and data services, although there were signs of recovery in the second half thanks in part to the steady growth in ICT revenues (+3.5% over 2013, of which +22.0% for Cloud Services);
- **National Wholesale:** revenues for the Wholesale segment in 2014 amounted to 1,793 million euros, decreasing 104 million euros compared to 2013 (-5.5%). The decline was mainly attributable to the reduction in fixed-line and mobile termination rates, the already mentioned retroactive revision of wholesale access prices by the Regulatory Authority for the period 2010-2012, the beginning of the migration to IP infrastructure solutions, and the drop in prices for national roaming.

International Wholesale Revenues

International Wholesale revenues for 2014 amounted to 1,244 million euros, down 19 million euros compared to 2013 (-1.5%). Revenues were down both for Voice services (-6 million euros, -0.6%) and for IP/Data services (-8 million euros, -3.1%), as a result of growth in competition with a reduction in prices. The Multinational Companies business segment also showed a slight decrease (-2 million euros, -3.1%), whereas revenues for Mobile services were up slightly (+3 million euros, +12.2%).

Olivetti Revenues

Revenues for the Olivetti group in 2014 amounted to 227 million euros, down 38 million euros compared to 2013 (-14.3%).
The reduction in revenues reflected the slowdown in sales outside Italy (-20 million euros), specifically attributable to price competition for bank printers in the Chinese market, and the adverse economic situation in the Italian market (-18 million euros).

EBITDA

EBITDA of the Domestic Business Unit in 2014 was 6,998 million euros, down 743 million euros compared to 2013 (-9.6%, of which -2.2 percentage points resulting from the adoption of Telecom Italia's new market strategy relating to costs for subsidies to customers for the purchase of handsets), with an EBITDA margin of 45.7%, representing a slight deterioration compared to 2013 (-1.5 percentage points, of which -1.1 percentage points related to the market strategy on costs for subsidies). The decline was mainly due to the decrease in revenues from services (-1,093 million euros compared to 2013), only partially recovered through efficiency measures achieved through selective control and containment of operating expenses.

With regard to the change in the main costs, the following is noted:

(millions of euros)	2014	2013	Change
Acquisition of goods and services	5,831	6,054	(223)
Employee benefits expenses	2,730	2,711	19
Other operating expenses	570	670	(100)

- **Acquisition of goods and services** decreased by 223 million euros (-3.7%) compared with 2013, mainly attributable to efficiency measures on overheads – which resulted in an overall reduction in general and administrative expenses, with specific regard to professional and consulting services – and to commercial cost containment, due to the cooling of competitive pressure (specifically in the Mobile business) and the resulting easing of the effort on marketing levers (lower distribution and advertising costs);
- **Employee benefits expenses** increased by 19 million euros compared with 2013, mainly due to the increase in ordinary employee expenses of 26 million euros, partially offset by the reduction in restructuring expenses of 7 million euros. In particular:
  - ordinary employee expenses and costs increased as a result of higher expenses due to the increase in the contractual minimums established in the TLC National Collective Labor Agreement signed on February 1, 2013, as well as the recognition of the notional costs relating to the launch of the Broad-Based Share Ownership Plan and the Stock Option Plan (23 million euros), which were offset by lower expenses deriving from the reduction in the average workforce by 836 employees compared to 2013 (of which an average of 530 employees as a result of the application of the "Solidarity Contracts" by the Parent, Telecom Italia Information Technology and Olivetti S.p.A.; which the Parent and TI Information Technology have applied since the second quarter 2013);
  - a total of 12 million euros was recognized for restructuring expenses: 5 million euros for the mobility agreement pursuant to Law 223/91 signed by the Parent with trade unions on December 1, 2014 as an addition to the agreement of April 5, 2013; 3 million euros for the mobility pursuant to Law 223/91 that Olivetti S.p.A. signed with trade unions on March 1, 2014; and 4 million euros for the restructuring expenses relating to some foreign companies of the Olivetti group. In 2013, expenses of 19 million euros were recognized for the agreements with

trade unions signed by the Parent Telecom Italia S.p.A. and the company Advanced Caring Center;

- **Other operating expenses**, totaling 570 million euros, fell by 100 million euros compared to the previous year. In 2013, the item sundry expenses included an amount of 84 million euros recognized as the estimate of the costs related to the fine imposed by the Italian Antitrust Authority (AGCM) at the end of the A428 proceedings.
  Details of other operating expenses are shown in the table below:

(millions of euros)	2014	2013	Change
Write-downs and expenses in connection with credit management	295	290	5
Provision charges	6	17	(11)
TLC operating fees and charges	49	57	(8)
Indirect duties and taxes	99	104	(5)
Sundry expenses	121	202	(81)
Total	**570**	**670**	**(100)**

Other income amounted to 382 million euros in 2014 (299 million euros in 2013), an increase of 83 million euros, mainly attributable to the entire release of the remaining risk provisions already allocated in the 2009 consolidated financial statements for the Telecom Italia Sparkle affair.

EBIT

EBIT for 2014 was 3,738 million euros (1,985 million euros in 2013), with an EBIT margin of 24.4% (12.1% in 2013). This performance was due to – in addition to the absence of the goodwill impairment loss for the Core Domestic Cash Generating Unit of 2,187 million euros, recognized in 2013 – by the decrease in EBITDA described above, partially offset by the reduction in depreciation and amortization of 278 million euros and by the already mentioned gains of approximately 38 million euros on the sale by Telecom Italia S.p.A. of a property located in Milan, for a price of 75 million euros.
Excluding the above-mentioned goodwill impairment loss from the EBIT for 2013, the change would have been a decrease of 434 million euros (-10.4%).

BRAZIL

	(millions of euros)		(millions of Brazilian reais)			
	2014	2013	2014	2013	Change	
					amount	%
	(a)	(b)	(c)	(d)	(c-d)	(c-d)/d
Revenues	6,244	6,945	19,498	19,921	(423)	(2.1)
EBITDA	1,774	1,812	5,541	5,198	343	6.6
EBITDA Margin	*28.4*	*26.1*	*28.4*	*26.1*	-	2.3 pp
EBIT	795	858	2,483	2,460	23	0.9
EBIT Margin	*12.7*	*12.3*	*12.7*	*12.3*	-	*0.4 pp*
Headcount at year end (number)			12,841	12,140	701	5.8

	2014	2013
Number of lines at the end of the period (thousands) (*)	75,721	73,431
MOU (minutes/month) (**)	135.8	147.7
ARPU (reais)	17.7	18.6

(*) Includes corporate lines; The figure for the comparative period has been restated accordingly.
(**) Net of visitors.

Revenues

Revenues for 2014, amounting to 19,498 million reais, were down by 2.1% compared to 2013 (-423 million reais). Service revenues totaled 16,325 million reais, a decrease of 376 million reais compared to 16,701 million reais for 2013 (-2.3%) mainly due lower revenues from incoming traffic as a result of the reduction of the mobile termination rate. Revenues from product sales fell from 3,220 million reais in 2013 to 3,173 million reais in 2014 (-1.5%); this decrease was attributable to a reduction in sales volumes, which was only partially offset by an increase in prices.
Mobile Average Revenue Per User (ARPU) amounted to 17.7 reais for 2014 compared with 18.6 reais for 2013 (-4.8%). The ARPU, as well as revenues from services, was affected by a further reduction, with effect from February 2014, in the mobile termination rate.
The total number of lines at December 31, 2014 amounted to 75,721 thousand, 3.1% higher than on December 31, 2013, representing a market share of approximately 27% in terms of lines.

EBITDA

EBITDA in 2014 amounted to 5,541 million reais, an improvement of 343 million reais on 2013 (+6.6%). The increase in EBITDA was essentially driven by lower costs for the acquisition of goods and services, mainly attributable to lower revenues due to other TLC operators, despite higher employee benefits expenses and a slight increase in other operating expenses. The EBITDA margin stood at 28.4%, 2.3 percentage points higher than in 2013.

With regard to the change in the main costs, the following is noted:

	(millions of euros)		(millions of Brazilian reais)		
	2014	2013	2014	2013	Change
	(a)	(b)	(c)	(d)	(c-d)
Acquisition of goods and services	3,593	4,263	11,222	12,228	(1,006)
Employee benefits expenses	379	349	1,183	1,000	183
Other operating expenses	598	632	1,865	1,812	53
Change in inventories	11	(10)	33	(28)	61

- **acquisition of goods and services** totaled 11,222 million reais (12,228 million reais in 2013). The 8.2% decrease compared to the previous year (-1,006 million reais) can be broken down as follows:
  - -1,209 million reais for revenues due to other TLC operators;
  - -72 million reais for purchases relating primarily to product cost;
  - +30 million reais for rent and lease costs;
  - +245 million reais for external service costs.
- **Employee benefits expenses**, amounting to 1,183 million reais, were up 183 million reais compared to 2013 (+18.3%). The average workforce grew from 10,657 employees in 2013 to 11,451 employees in 2014. The ratio of employee benefits expenses to total revenues rose to 6.1%, up 1 percentage point on 2013;
- **other operating expenses** amounted to 1,865 million reais, an increase of 2.9% on 2013. The expenses were broken down as follows:

(millions of Brazilian reais)	2014	2013	Change
Write-downs and expenses in connection with credit management	249	240	9
Provision charges	232	234	(2)
TLC operating fees and charges	1,247	1,217	30
Indirect duties and taxes	51	57	(6)
Sundry expenses	86	64	22
Total	**1,865**	**1,812**	**53**

EBIT

EBIT amounted to 2,483 million reais, up 23 million reais on 2013. This increase was due to higher EBITDA, partially offset by higher depreciation and amortization charges of 313 million reais (3,049 million reais in 2014, compared to 2,736 million reais in 2013).

Agreement for the sale of telecommunications towers

On November 21, 2014, TIM and American Tower do Brasil entered into an agreement for the sale of a maximum of 6,481 telecommunications towers, for a total price of approximately 3 billion reais, and a Master Lease Agreement ("MLA") for portions of those towers, with an overall term of 20 years.
The sale will be divided into two contracts: the first relating to 5,232 towers and the second relating to the remaining 1,249 towers, on which other operators hold pre-emptive rights. The agreement, which shall be executed in the first half of 2015 in consecutive tranches, is subordinate to conditions including authorization from the Brazilian Antitrust Authority (CADE).

MEDIA

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

On June 30, 2014, Telecom Italia Media (TI Media) and Gruppo Editoriale L'Espresso (Espresso group) completed the combination of the digital terrestrial network operator businesses controlled by Persidera S.p.A. (new name of Telecom Italia Media Broadcasting S.r.l.) and Rete A S.p.A. (Rete A), respectively.
The merger was carried out through Gruppo Editoriale L'Espresso's transfer of 100% of Rete A shares to Persidera, as a subscription to a capital increase reserved to it. Following the transfer, TI Media and Gruppo Editoriale L'Espresso hold 70% and 30%, respectively, of the shares in Persidera, which in turn controlled Rete A's entire share capital.
The merger between TIMB and Rete A has created a combined entity that is the largest independent network operator in Italy, with five digital multiplexes and nationwide high-coverage infrastructure, based on next generation technologies.
The merger of Rete A by absorption into Persidera was completed on December 1, 2014.
The group resulting from the transaction is the primary supplier for the leading non-integrated national and foreign television content providers operating on the Italian market.
Also in view of the uncertainty surrounding regulatory changes concerning the use of frequencies, TI Media has retained a purchase option on user licenses (therefore excluding infrastructure and customers) for one of the five frequencies that are owned by the combined entity.
The Telecom Italia Media Board of Directors, at the meeting of January 15, 2015, acknowledged the developments in the Persidera valuation process and decided that the results of the process obtained to date were not in line with expectations, and therefore, the sale of the investment held is not foreseeable at this stage.

The table below shows the results of the Media Business Unit including, from June 30, 2014, the figures for Rete A consolidated on a line-by-line basis.
In 2013, La7 S.r.l. and the MTV group were respectively sold in April and September, and consequently exited the scope of consolidation.

(millions of euros)	2014	2013	Change		
			amount	%	% organic
Revenues	71	124	(53)	(42.7)	(13.4)
EBITDA	25	(2)	27		(26.5)
EBITDA Margin	*35.2*	*(1.6)*			
EBIT(1)	6	(132)	138		
EBIT Margin	*8.5*				
Headcount at year end (number) (2)	89	84	5	6.0	

(1) EBIT of the Media Business Unit for 2013 was driven down by 100 million euros deriving from the loss realized on the sale of La7 S.r.l. on April 30, 2013 and driven up by 3 million euros from the gain realized on the sale of MTV Italia S.r.l. on September 12, 2013.
(2) Includes employees with temp work contracts (1 employee at December 31, 2014, zero at December 31, 2013), as well as personnel of Rete A, a company acquired at the end of June 2014 (12 employees).

At December 31, 2014, the three Digital Multiplexes of Persidera S.p.A. (pre-merger) had reached a population coverage of 95.6% of the Italian population.
In contrast, the coverage of the two Digital Multiplexes of the former Rete A was 93.4% and 93.7%.

To improve the comparability of the information, the figures for 2014 are shown below, compared against the figures for 2013, which have been restated to exclude the results for the full year 2013 of the two companies sold (La7 S.r.l. and MTV group).

(millions of euros)	2014	2013	Change	
			amount	%
Revenues	71	72	(1)	(1.4)
EBITDA	25	30	(5)	(16.7)
EBITDA Margin	*35.2*	*41.7*		
EBIT	6	2	4	
EBIT Margin	*8.5*	*2.8*		
Headcount at year end (number) (1)	89	84	5	6.0

(1) Includes employees with temp work contracts (1 employee at December 31, 2014, zero at December 31, 2013), as well as personnel of Rete A (12 employees).

Revenues

Revenues amounted to 71 million euros in 2014, a decrease of 1 million euro compared to 72 million euros in 2013. The entry of Rete A into the scope of consolidation resulted in higher revenues of 9 million euros. Net of those revenues, the reduction in sales would have been 10 million euros and was connected to the expiry, at the end of 2013, of the contract with RTI (Mediaset Extra and Italia 2) and the termination, also at the end of 2013, of the contract with the channel QVC.

EBITDA

EBITDA was a positive 25 million euros in 2014, down 5 million euros compared to 2013 (30 million euros). Net of the results of Rete A, the EBITDA of the Media Business Unit would have decreased by 7 million euros and was affected, in addition to the negative performance of Telecom Italia Media S.p.A., by the decline in the margin of the Network Operator (amounting to 32 million euros in 2014; 36 million euros in 2013).

EBIT

EBIT was a positive 6 million euros (positive 2 million euros in 2013). This performance reflected the change in EBITDA, described above, as well as the reduction in amortization and depreciation of 9 million euros, mainly attributable to the redefinition, during the annual review, of the useful lives of the Network Operator frequencies – extended from December 31, 2028 to December 31, 2032, as a result of the final allocation of the licenses for pursuit of television broadcasting activities – and the transceivers, in line with their technological evolution. These revisions of the useful lives led to the recognition of a total of around 11 million euros less amortization and depreciation.

DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE

The results of the Sofora - Telecom Argentina group, which has been classified under "Discontinued operations/Non-current assets held for sale" following the agreement for the sale to Fintech entered into on November 13, 2013 and subsequently amended on October 24, 2014, are shown below. Specifically, following those agreements:

- the first closing took place on October 29, 2014 and, as a result, 17% of the capital of Sofora was sold. A consideration was received for this closing – also including other related assets – totaling 215.7 million USD (around 170 million euros); this resulted in the economic interest in Telecom Argentina group being reduced from 19.30% to 14.47%;
- the sale of the controlling interest of 51% in the capital of Sofora is due to take place within the following two and a half years, subject to approval by the Argentinian regulatory authority;
- the guarantees of performance by Fintech are secured by a pledge of securities worth 600.6 million USD.

Further details on the new arrangements are provided in the Note "Discontinued operations/Non-current assets held for sale" of the Consolidated Financial Statements of the Telecom Italia Group at December 31, 2014.

The average exchange rate used for the translation into euro of the Argentine peso (expressed in terms of units of local currency per 1 euro) was 10.76605 in 2014 and 7.27875 in 2013 and reflected the sharp depreciation of the currency during 2014.

Income statement impacts of the Sofora - Telecom Argentina group:

	(millions of euros)		(millions of Argentine pesos)			
	2014	**2013**	**2014**	**2013**	**Change**	
					amount	%
	(a)	(b)	(c)	(d)	(c-d)	(c-d)/d
Income statement impacts of the Sofora - Telecom Argentina group:						
Revenues	3,097	3,749	33,341	27,286	6,055	22.2
EBITDA	**806**	**1,036**	**8,673**	**7,543**	**1,130**	**15.0**
EBITDA Margin	*26.0*	*27.6*	*26.0*	*27.6*		*(1.6)pp*
EBIT before impairments	**806**	**542**	**8,683**	**3,946**	**4,737**	**-**
Net impairment losses on non-current assets	*(2)*	*(24)*	*(26)*	*(172)*	*146*	*(84.9)*
EBIT	**804**	**518**	**8,657**	**3,774**	**4,883**	**-**
EBIT Margin	*26.0*	*13.8*	*26.0*	*13.8*		*12.2 pp*
Finance income/(expenses), net	30	73	326	527	(201)	(38.1)
Profit (loss) before tax from Discontinued operations/Non-current assets held for sale	**834**	**591**	**8,983**	**4,301**	**4,682**	**-**
Income tax expense	(290)	(213)	(3,131)	(1,549)	(1,582)	-
Profit (loss) after tax from Discontinued operations/Non-current assets held for sale	**544**	**378**	**5,852**	**2,752**	**3,100**	**-**

	12/31/2014	12/31/2013	Change	
			amount	%
Fixed-line				
Lines at period-end (thousands)	4,093	4,124	(31)	(0.8)
ARBU (Average Revenue Billed per User) (Argentine pesos)	57.4	52.5	4.9	9.3
Mobile				
Lines at period-end (thousands)	22,066	22,508	(442)	(2.0)
Telecom Personal mobile lines (thousands)	19,585	20,088	(503)	(2.5)
% postpaid lines (1)	*32%*	*32%*		
MOU Telecom Personal (minutes/month)	99.5	111.7 (3)	(12.2)	(10.9)
ARPU Telecom Personal (Argentine pesos)	74.2	66.8	7.4	11.1
Núcleo mobile lines (thousands) (2)	2,481	2,420	61	2.5
% postpaid lines (1)	*19%*	*20%*		
Broadband				
Broadband accesses at period-end (thousands)	1,771	1,707	64	3.7
ARPU (Argentine pesos)	153.0	124.7	28.3	22.7

(1) Includes lines with a ceiling invoiced at the end of the month which can be topped-up with prepaid refills.
(2) Includes WiMAX lines.
(3) The voice traffic was adjusted during 2014 also considering the minutes offered free of charge when customers top-up which were not taken into account previously because they were considered to be insignificant. The figures under comparison have been recalculated accordingly.

Revenues

Revenues for 2014 amounted to 33,341 million pesos, up 6,055 million pesos (+22.2%) compared to 2013 (27,286 million pesos), mainly thanks to the growth in the related average revenue per user (ARPU) and the sale of handsets at a higher average price. The main source of revenues was mobile telephony, which accounted for about 74% of the consolidated revenues of the Sofora - Telecom Argentina group, an increase of 22% on 2013.

Fixed-line telephony service: the number of fixed lines decreased by 31 thousand compared to the end of 2013 to a total of 4,093 thousand at December 31, 2014. Even though regulated fixed-line services in Argentina continued to be influenced by the rate freeze imposed by the Emergency Economic Law of January 2002, Average Revenue Billed per User (ARBU) rose by 9.3% compared to 2013, thanks to the sale of additional services and the spread of traffic plans. Revenues from data and ICT services also rose, because the prices of their contracts are set in US dollars and so they benefited from the significant exchange rate difference in 2014.

Mobile telephony service: Telecom Personal mobile lines in Argentina decreased by 503 thousand compared to the end of 2013, coming to a total of 19,585 thousand lines at December 31, 2014, of which 32% were postpaid. At the same time, thanks to high-value customer acquisitions and leadership in the smartphone segment, ARPU grew by 11.1% to 74.2 pesos (66.8 pesos in 2013). A large part of this growth was attributable to value added services (including SMS messaging, revenue sharing and Internet), which together accounted for 60% of revenues from mobile telephony services in 2014.

In Paraguay, the Núcleo customer base grew by 2.5% compared to December 31, 2013, reaching 2,481 thousand lines, 19% of which are postpaid.

BroadBand: Telecom Argentina's portfolio of broadband lines totaled 1,771 thousand accesses at December 31, 2014, an increase of 64 thousand on December 31, 2013. ARPU rose by 22.7% to 153 pesos (124.7 pesos in 2013), largely thanks to up-selling strategies and price adjustments.

EBITDA

EBITDA showed an increase of 1,130 million pesos (+15.0%) compared to 2013, reaching 8,673 million pesos. The EBITDA margin stood at 26.0%, down 1.6 percentage points compared to 2013, mainly due to higher employee benefits expenses and acquisitions of goods and services, also as a result of the higher charges arising from the increase in purchases of goods for resale, as well as higher costs for contracts entered into in foreign currency.

With regard to the change in the main costs, the following is noted:

	(millions of euros)		(millions of Argentine pesos)		
	2014	2013	2014	2013	Change
	(a)	(b)	(c)	(d)	(c-d)
Acquisition of goods and services	1,390	1,689	14,963	12,293	2,670
Employee benefits expenses	525	574	5,655	4,178	1,477
Other operating expenses	375	477	4,038	3,472	566
Change in inventories	6	(19)	64	(135)	199

- **acquisition of goods and services** totaled 14,963 million pesos (12,293 million pesos in 2013). The increase of 21.7% compared to 2013 (+2,670 million pesos) was mainly due to higher external service costs of 1,591 million pesos and greater purchases of goods of 895 million pesos;
- **employee benefits expenses**, amounting to 5,655 million pesos, increased by 1,477 million pesos compared to 2013 (+35.4%). The change was due to salary increases resulting from periodic revisions in union agreements, primarily linked to inflation, and to the increase in provisions for termination benefit incentives. The percentage of employee benefits expenses to total revenues was 17.0%, up 1.7 percentage points over 2013;
- **other operating expenses** amounted to 4,038 million pesos, increasing 566 million pesos on 2013. These expenses consist of the following:

(millions of Argentine pesos)	2014	2013	Change
Write-downs and expenses in connection with credit management	424	283	141
Provision charges	31	239	(208)
TLC operating fees and charges	592	518	74
Indirect duties and taxes	2,692	2,164	528
Sundry expenses	299	268	31
Total	**4,038**	**3,472**	**566**

EBIT

EBIT for 2014 came to 8,657 million pesos compared to 3,774 million pesos recorded for 2013. The increase of 4,883 million pesos was attributable to the improvement in EBITDA and the suspension of calculation of depreciation and amortization following the Sofora - Telecom Argentina group's classification under Discontinued operations, already for the Consolidated Financial Statements of the Telecom Italia Group at December 31, 2013.

Net impairment losses on non-current assets for the year 2014 mainly related to work in progress initiated in previous years and now abandoned. In 2013, these amounted to 172 million pesos and related to several business projects and IT platforms that the group had decided to abandon.
The EBIT margin stood at 13.8% of revenues (+12.2 percentage points compared to 2013).

Capital expenditures

Capital expenditures in 2014 amounted to 8,897 million pesos and increased by 3,986 million pesos compared to 2013 (4,911 million pesos). This increase was essentially related to the award of a number of mobile telephone frequencies to Telecom Personal for a total of 3,530 million pesos. See the section "Auction for mobile telephony frequencies" for further details.

Capital expenditures were also aimed at customer acquisition costs, the enlargement and upgrading of the access network to increase capacity and improve quality for the 3G mobile network, and the upgrading of broadband services on the fixed-line network, in addition to backhauling to support the growth in data traffic volumes.

Auction for mobile telephony frequencies

The auction procedures, announced by the *Secretaría de Comunicaciones* for the allocation of the frequency bands to be used for the *Servicio de Comunicaciones Personales* ("PCS"), the *Servicio de Radiocomunicaciones Móvil Celular* ("SRMC") and the *Servicio de Comunicaciones Móviles Avanzadas* ("SCMA") were carried out on October 31, 2014.
The competition was participated in by the four companies that had pre-qualified: Telecom Personal S.A., Telefónica Móviles Argentina S.A., Arlink S.A. and AMX Argentina S.A..

In this competition, Telecom Personal (Sofora – Telecom Argentina group) was awarded:

- Lot number 2 for the SRMC service,
- Lots number 5 and 6 for the PCS service,
- Lot number 8 for the SCMA service.

Telecom Personal offered a total amount of 658 million USD to acquire these frequency lots.

On November 27, 2014, with the publication on the *Boletín Oficial* (Official Gazette), the lots were officially allocated to Telecom Personal, with the sole exception of Lot 8, which was only partially allocated.
The price was set accordingly at 411 million USD and paid on December 17, 2014.
Telecom Personal has formally requested the completion of the allocation of Lot 8, which will entail the payment of an additional 247 million USD and is an essential condition for compliance with the terms and conditions of the Auction, including with regard to the significant targets in terms of quality of service.

MAIN COMMERCIAL DEVELOPMENTS OF THE BUSINESS UNITS OF THE GROUP

DOMESTIC

Consumer

In 2014, Telecom Italia pursued the development of its **Consumer Fixed-Line** business by accelerating the spread of fiber optics, increasing new activations, and protecting its voice and broadband customer base. In terms of the **spread of fiber**, the network development plan continued, driving an increase from 37 municipalities covered in December 2013 to 110 municipalities at the end of December 2014.

To support new acquisitions, during the year there were a number of promotions on the "introductory price" for fiber offerings (e.g. InternetFibra at 29 euros per month rising to 44.90 euros or Tuttofibra/Tuttofibra Plus at 39 euros per month for the first six months, rising to 54.90 euros), which are made even more attractive for limited periods (e.g. TUTTOFIBRA at 29 euros for the first 6 months rising to 44.90 euros thereafter). We also ran other local promotions during 2014 (such as including a tablet for 1 euro with 30-month lock-ins in some cities).

The **increase in new activations** was attributable mainly to the **TUTTO offer**, launched in the latter months of 2013, which combines unlimited ADSL with a phone line offering unlimited calls to all domestic fixed and mobile numbers, at the highly attractive price of 29 euros per month for the first 12 months.

The drive for new activations intensified from March 2014 onwards, with the **launch of TIM Smart**, the first "convergent" offer that combines a Telecom Italia fixed line and TIM mobile. TIM SMART covers the entire family's communication needs, both at home and on the move, thanks to extensive fixed and mobile broadband coverage and a varied range of SIMs and options (e.g. additional SIMs for smartphones and tablets, unlimited fixed-line calls, generous bundles of extra mobile minutes), all at attractive prices billed in a single monthly statement.

The launch of TIM Smart helped to **protect the customer base** by combining fixed and mobile services to meet the needs of the entire family at an economical price. In addition, it helped to limit fixed-line terminations. To reinforce this initiative, there was a continued marketing effort to maximize penetration of unlimited calls deals through the launch in April of the **TUTTO VOCE** package, which includes unlimited calls to all domestic fixed and mobile numbers, with installation and line rental included at 29 euros per month, forever.

Starting in November, we cut the **prices of the Basic Line and the home Phone Line subscription** (GTN Line) by eliminating call set-up charges, while slightly raising home phone line subscriptions and per-minute traffic rates. The change – which affected customers with a home phone line subscription and those with a basic phone tariff – is designed to ensure transparency by eliminating call set-up charges and to provide a stimulus for migration to new "all-inclusive" offers.

In November we also introduced the **New Charter of Telecom Italia Services**, which implements the resolutions of the National Regulatory Authority for Communications (AGCom) and applies to all customers. Telecom Italia's aim through this initiative is to pursue continuous improvement in its quality standards, with a view to simplifying, strengthening and ensuring transparency in customer relationships.

In the **Consumer Mobile market**, we followed a segmented approach and sales strategy designed to maximize the value of the fixed and mobile customer base, reserving unique benefits for converging customers (e.g. "If you have Telecom Italia at home, you get unlimited calls to TIM phones").

For the **Mass Market** and **Young segments**, after a 2013 characterized by a major increase in competition that led to a severe fall in the price of mobile services, Telecom Italia led the market towards a more rational price structure, setting its products and services apart through distinguishing factors such as **LTE**, **content bundling** (e.g. Sport, Entertainment, YouTube) and **new purchasing methods**.

This enabled the us to pursue a **"value" strategy**, allowing us to maintain the entry level TIM Special deal at 19 euros per month. The initiatives included enhancing the TIM Young package by enabling Facebook

and Twitter browsing without using any data allowance, as well as music streaming that also does not use up data, which has always been included. In the fourth quarter of 2014, we focused on expanding the potential target market for the deal by introducing new web-based purchasing methods. We also sought to drive purchases of new LTE-enabled smartphones in the Christmas period by offering 50 euros free phone credit and disposal of the old phone. The aim of this was to increase new technology penetration and upselling of deals with data included, through a targeted initiative that was also designed to reinforce Telecom Italia's commitment to protecting the environment.
In the **Premium segment**, the policy of curtailing subsidies continued in line with 2013 and extra benefits were concentrated into the highest value packages.
In **Mobile Broadband services**, there was a continued acceleration in 4G-LTE Internet services. As of September, ultra broadband services are already available in more than 3,000 Italian municipalities, achieving an outdoor coverage of more than 77% of the national population and the leading network performance. TIM's technology leadership was confirmed by the launch of LTE Advanced 4G Plus services, which provide connection speeds of up to 225 Mbps. It is also worth underlining that thanks to the high performance of TIM's ultra broadband network, the content offered through TIM Vision became an integral part of TIM's 4G offering, enabling customers to select between TIMVision entertainment and sport at no extra cost.

Business

Telecom Italia's business sector strategy in 2014 had two aspects: driving convergence, innovation and IT in support of its core business; and simplifying its offer and internal processes to improve delivery.
The main objective pursued during the year was to reinforce the positioning of Telecom Italia as a leading national player in terms of responding to the ICT needs of small, medium and large companies, and of the Public Administration. This was executed by leveraging its **high-profile nationwide presence** and promoting **cloud services** in order to drive increasing use of its core connectivity offering, speeding up the **spread of fixed-line fiber services and the adoption of LTE on the mobile network** thanks to significant increases in both of their coverage during the course of the year, thereby boosting the technological evolution of web access, which is the key to the delivery of next-generation services.
In the **Fixed-line** business, Telecom Italia has strengthened its commercial offering to various market segments, with the restructuring of the **TUTTO deal**, which offers customers a complete flat voice-data solution that always includes unlimited broadband, fixed-fixed and fixed-mobile traffic. This initiative contributes to the ongoing consolidation of the **focus on fiber** (next-generation networks), which has been further complemented by the expansion of service coverage and developments in IT systems that enable the targeting of larger customer segments (e.g. customers currently using outdated solutions such as ISDN).
For high-level business customers, in terms of voice services a plan is in place to drive the innovative **Nuvola IT Comunicazione Integrata** offer, which is based on VoIP and Unified Communication platforms, offering the customer significant benefits in terms of increased efficiency of operating costs, better collaboration in the business community, mobility and a move towards fixed-mobile integration.
Regarding our range of **Information Technology** products and services, we are continuing to **extend our portfolio of Cloud Services**, building an offering based on increasingly modular basic services that are easy to configure and activate online independently. In particular, in terms of the range of Cloud services for Small and Medium Business customers, in 2014 we invested in the creation of the **NuvolaStore Marketplace**, to offer a broad portfolio of services **that can be purchased online through an 'Over-The-Top' system**. Convergence with higher-value fixed and mobile core broadband services, promoted through spending credits for the market place, was the key factor in accelerating the penetration of "*as a service*" IT offerings among SMEs. Despite the continuing downturn in the IT sector, the performance of Telecom Italia in the business market improved in 2014, driven mainly by Cloud services, in which it retained its **overall leadership** – especially in Private and Hybrid Cloud services.
In terms of **Mobile** services, the Business market in 2014 was also conditioned by further development of the **Ultra BroadBand Mobile service based on the LTE network**. Marketing policies focused on implementing a more rational, efficient and targeted pricing structure across all segments, while also expanding our offering with VAS and IT solutions.
Prices largely held firm over the year, accompanied by stable sales volumes. In the modular **TIM TUTTO** range of services, having previously had LTE as an optional extra for all additional data options – at an

appropriate premium price – from the start of the fourth quarter the increased usage of broadband data services justified the inclusion of 4G on all phone and data bundles.

For customers in the direct sales channel, we have also started an extensive review of our marketing approach, which is mainly designed to protect the customer base and is built around new product and service models already tested in other segments such as: ending handset subsidies, pushing pre-paid and standard packages, and initiatives to support the growing Bring Your Own Device trend. In 2014, we also won the contract for the major Consip Mobile 6 convention for around 900,000 users in the central and local Public Administration – further confirmation of Telecom Italia's ability to maintain its leadership role and key-partner status for major customers, by winning conventions and contracts in highly complex and competitive scenarios.

Lastly, 2014 saw the start of operations at the subsidiary TIDS - Telecom Italia Digital Solutions, whose main role is to cover important and innovative adjacent markets, such as OTT cloud services and the Internet Of Things, which have grown significantly, enabling TIDS to post double-digit revenue growth in 2014.

BRAZIL

In order to offer a more comprehensive pre-paid range, TIM Brasil launched the following deals in 2014:

- in the second quarter: "**Infinity Web 100**", which enables connection to high-speed Internet for tablets and PCs through an Internet stick, "**Infinity Turbo 7**" and "**Ricarica Express**", making it possible to top up your own phone or someone else's via Facebook using a credit card previously registered on the site "Recarga Express";
- in the third quarter: "**TIM Day voice**", valid for local and long-distance calls, which for 0.75 reais per day includes up to 300 minutes to another TIM user, while the Infinity tariff plan applies above that threshold.

In addition, in light of growing mobile Internet demand, we have launched the first post-paid plan based around WhatsApp, which does not include a voice component but instead, for a price of 29.90 reais per month, offers unlimited use of WhatsApp, 300 MB of data and unlimited SMS messages to all operators, as well as 10 reais of credit for extra services.

TIM has also stepped up development of innovative products, in order to increase data traffic use, launching the following initiatives:

- from August, following the partnership with Wizard – one of the Brazil's best-known chains of language schools – a new service for English language learning, offering three levels with differentiated services at a weekly price of between 1.99 reais and 3.99 reais;
- new plans for "Machine to Machine" (M2M) devices, offering capacities of 20MB to 2.5GB and 3G and 4G services, to respond to demand for greater bandwidth and speed. To develop this kind of service, Anatel has established that these SIMs are subject to reduced FISTEL tax;
- from October, a new deal for connecting up to four devices using a single data package, without any costs for the additional chips, and data bundles of 6 GB, 10GB, 20GB and 50GB.

In terms of broadband, TIM has started to market "**Live TIM Extreme**", a fixed-line ultra broadband plan that offers speeds of 1GB – the fastest available in Brazil – thanks to FTTH technology, at the cost of 1,499.90 reais/month, and "**Live TIM Blue Box**", a device that integrates free-to-air HD channels, Netflix and YouTube, which offers leading multimedia video content and uses an integrated system called "Blue Box do Seu Jeito" that tracks user preferences.

There are two more initiatives to note from 2014:

- the signature of an important strategic cooperation agreement with ZTE Corporation to speed up technological innovation in the development of ultra broadband in Brazil, also involving the construction of an R&D center;
- the launch of a new fixed-line ultra broadband plan, offering download speeds of 70 Mbps and upload speeds of 30 Mbps. The plan costs 119.90 reais per month and includes a free Wi-Fi modem.

Regarding handset sales, during 2014 TIM expanded its range first with the Samsung Galaxy S5, followed by the second-generation Motorola Moto X and Moto G, and the LG G3 (priced between 729 reais and 1,499 reais). Also, TIM began to sell the iPhone 6 and iPhone 6 Plus in the fourth quarter, promoting it together with a Liberty plan offering progressive discounts (in line with the amount of free minutes), thereby retaining its leadership as a handset seller in Brazil.

MAIN CHANGES IN THE REGULATORY FRAMEWORK

DOMESTIC

Wholesale fixed markets

Telecom Italia Reference Offers for the year 2013

After having completed the approval of the 2013 technical and economic conditions for LLU and bitstream services (Resolutions 746/13/CONS and 747/13/CONS) of December 19, 2013, on September 1, 2014 the National Regulatory Authority for Communications (AGCom) published the resolutions on its website approving the Reference Offers for the year 2013 for the following wholesale services on Telecom Italia's fixed network:

- Wholesale Line Rental (Resolution 67/14/CIR);
- NGAN access – local installation infrastructures, ducts along the access network, primary and secondary fiber optics, terminating segments in fiber optics (Resolution 68/14/CIR);
- NGA bitstream, the VULA service and related accessory services (Resolution 69/14/CIR);
- specific capacity transmission services – terminating circuits, interconnection flows and exchange connections – (Resolution 70/14/CIR).

On September 1, 2014, the public consultation was also initiated, through Resolution No. 71/14/CIR, for the approval of the Telecom Italia Reference Offer for the year 2013 for call origination, termination and transit services over the fixed public telephone network with TDM interconnection and VoIP/IP.

Lastly, on December 23, 2014 the resolution establishing the economic conditions for the year 2013 for the end-to-end service was published (Resolution 128/14/CIR).

On December 23, 2014 and January 7, 2015, the resolutions were published for the launch of the public consultations for the approval of 2014 prices for wholesale disaggregated access services, for co-leasing services and for the WLR service. The consultations only involve the 2014 prices for the one-off contributions for these services, while the determination of the monthly rentals, based on the BU-LRIC model, has been deferred to the market analysis initiated by the Authority with Resolution 390/12/CONS dated September 4, 2012.

Lastly, on February 27, 2015, the resolution was published for the launch of the public consultation for the approval of the 2014 prices for specific capacity transmission services (terminating circuits, interconnection flows and exchange connections).

Wholesale access services

With regard to the results of the public consultation launched on September 4, 2012 (Resolution 390/12/CONS), the proceedings are still under way for the 3rd cycle of analysis of the (retail and wholesale) copper and fiber fixed-line access market for the three-year period 2014-2016, as the Authority has repeatedly deferred their conclusion.

Specifically, on February 13, 2015, the Authority launched a new public consultation on wholesale access prices for the period 2014-2017. The final decision has to be notified to the European Commission, which has the power to express an opinion on it within thirty days from notification.

In detail, the Authority announced two different regulatory scenarios: a) "Alpha Scenario", where the market is national, single and uniform; and b) "Beta Scenario" where competition conditions in some areas of the country will be different than in other areas, which will result in regulatory obligations and prices being differentiated between "competition areas" and "non-competition areas". The competition status of an area is determined according to whether there is a concentration of investments in NGA networks by at least two operators (B Areas), compared to areas where these conditions do not apply (A Areas). The distinction between the two types of areas depends on whether a set coverage threshold is reached by at least two ultra broadband networks.

The table below shows the wholesale subscription charges proposed up to 2017. The prices for the intermediate years will be obtained using a linear annual trend starting from the 2013 prices or the 2014 prices, depending on the results of the consultation.

(euros/lines/month)	"Alpha" Scenario	"Beta" Scenario	
		A Areas	B Areas
Full LLU	8.69	8.69	≤ 9.40
SLU	5.45	(*)	4.11
SHARED ACCESS	0.73	0.73	0.73
WLR POTS	11.15	11.15	-
WLR ISDN	13.79	13.79	-
Shared BITSTREAM	6.28	6.28	commercial negotiations
Naked BITSTREAM	14.53	14.53	commercial negotiations
Shared FTTC VULA	11.33	11.80	11.80
Naked FTTC VULA	16.87	16.04	16.04

(*) Intermediate value based on the level of infrastructures. The Authority has asked for opinions on the calculation methods in the consultation.

On October 9, 2014, the Commission approved the new recommendation on relevant markets, immediately removing the Retail Access Market (one of the three markets analyzed in the above procedure, which was in fact removed from the Analysis in the text of the Consultation) and the Origination Market.

In November 2014, the *Consiglio di Stato* partially upheld an appeal submitted by an operator regarding the approval of the Telecom Italia reference offer for bitstream services in 2009. The *Consiglio di Stato* upheld the petition concerning the methods of calculating the monthly rentals for the service – established by the Authority (Resolution 71/09/CONS) based on the retail minus principle – which had noted the lack of additional verification of the correctness and fairness of the quantification of the "minus" component. The *Consiglio di Stato* has asked the Authority to re-examine the size of the minus component and to that end a public consultation was launched on March 5, 2015 in which AGCom, after investigating the matter further, proposed a draft measure that confirms the minus value in force in 2009 (20% less than the retail rental fee). The public consultation will last for 30 days.

Lastly, with regard to the proceedings initiated by AGCom in June 2014, the Authority issued a press release on February 25, 2015 – in compliance with another ruling of the *Consiglio di Stato* concerning copper network wholesale access rates for the three-year period 2010-2012 – announcing the final approval of the decision on the amendment to LLU rates for the period 2010-2012. Specifically, the following changes have been made for the monthly LLU rentals: for 2012, from 9.28 euros per month to 9.05 euros per month; for 2011, from 9.02 euros per month to 8.90 euros per month; and for 2010, from 8.70 euros per month to 8.65 euros per month. The proceedings were also intended to update the WLR and bitstream rates for the same period; however, the Authority postponed this decision to a later time, as it intends to wait for the final ruling on the execution of the *Consiglio di Stato* decision on the bitstream service for 2009.

Telecom Italia reflected the effects of the new rates for the period 2010-2012 in the income statement figures for the fourth quarter 2014, with a total impact, in terms of lower revenues, of 45 million euros.

New Generation Networks

With regard to measures relating to other operators' access to Telecom Italia street cabinets, on April 9, 2014 the Authority published a decision setting out the conditions on obligations for locating and giving access to the cabinets (Resolution 155/14/CONS). In particular, Telecom Italia is required to announce the installation of new cabinets (or upgrades to existing cabinets) on a quarterly basis, to enable competing operators to participate in the planning process (this notification procedure came into full effect from the start of 2015). In addition, in order to install their own mini-DSLAMs, competing operators will be able to ask for Telecom Italia's existing cabinets to be expanded through extensions or the construction by Telecom Italia of new cabinets next to the existing ones. In the latter case, ownership of the cabinets will lie with the other licensed operators that request their construction and they will be responsible for their maintenance and related costs. Lastly, in view of the difficulties in determining the technical and construction specifications for installing the additional extensions, the Authority has postponed all decisions until a technical feasibility study to identify the correct conditions for their supply has been conducted.

High-quality wholesale access from fixed workstations

On November 17, 2014, the public consultation was launched (Resolution 559/14/CONS) on the 3rd cycle of market analyses of high-quality wholesale access from fixed workstations (market no. 4, 2014 Recommendation, formerly the market relating to terminal segments of leased lines). Telecom Italia provided its contribution within the deadline set by AGCom (January 16, 2015) and is awaiting the conclusion of the proceedings.

Retail fixed markets

Effective from July 1, 2014, the prices for traffic for Business customers subscribing to the Telecom Italia Basic Offer have changed. For the main traffic routes (local, national and fixed-to-mobile) a single price of 10 euro cents (excluding VAT) is applied for the call set-up charge and 10 euro cents (excluding VAT) for each minute of conversation.
Effective from November 1, 2014, the rental prices for GTN (General Telephone Network) lines and prices for traffic for Consumer customers subscribing to the Telecom Italia Basic Offer have changed. The amendment consists of the following changes:

- the monthly rental for GTN lines has increased from 17.54 euro per month (including VAT) to 18.54 euro per month (including VAT). There are no changes in the monthly rental prices for ISDN lines and line rental prices for customers in the special Social Groups and holders of the Social Card issued by the Government;
- for direct calls to the main traffic routes (local, national and fixed-to-mobile) the call set-up charge has been eliminated and a single price of 10 euro cents (including VAT) has been applied for each minute of conversation.

Online copyright protection

On March 31, 2014, the new Regulation on Online Copyright Protection (Resolution 680/13/CONS) came into force. At the end of a specific inquiry process, AGCom can order Telecom Italia to selectively remove content (where it operates as a Hosting Provider), or to block access to sites (where it operates as a ‘mere conduit'), or to remove contents of its catalog (in the case of provision of on-demand media services).

Sports rights

On April 9, 2014, both AGCom and the Italian Antitrust Authority (AGCM), in separate decisions, approved the Guidelines on the Offering of Rights to the Serie A Soccer League, 2015-2018. Both documents call for Serie A's offering to be conducted under fair, transparent and non-discriminatory conditions, in order to ensure open competition to all operators of all distribution platforms.

Universal Service

In the first half of 2014, the verification of the net cost for 2007 was initiated and concluded. In the implementing resolution (Resolution 100/14/CIR) AGCom determined that, also in 2007, the provision

of the mandatory universal service did not result in a net cost and therefore the mechanism for dividing the cost cannot be applied. Telecom Italia has appealed against this resolution before the TAR. In the meantime, Telecom Italia has also submitted its assessments of the net cost for 2008 and 2009 to the Authority. The auditor appointed by the Authority has concluded its work and we are awaiting AGCom's proposal.
On September 4, 2014, AGCom initiated an investigation to identify the criteria for designating one or more operators engaged to provide the Universal Service in electronic communications pursuant to Article 58 of the Electronic Communications Code. Currently the only operator designated to provide the Universal Service is Telecom Italia. During the public consultation Telecom Italia reiterated that the significant competition, and the economic and technological developments in the TLC sector to date, justify the elimination of the Universal Service obligations, as there are numerous offers on the domestic market that are comparable and equivalent to the offers marketed by Telecom Italia in terms of availability, quality and accessibility of price.
On January 23, 2015 the Administrative Court (TAR) of Lazio published two rulings that rejected Vodafone's appeal and upheld Telecom Italia's appeal against Resolution 1/08/CONS, through which the Authority, during 2008, had introduced a new calculation method for calculating the net cost for Universal Service. This new calculation method was retroactively applied, starting from the 2004 net cost, which resulted in a significant reduction in the scope of costs attributable to the Universal Service. Telecom Italia specifically objected to the possibility of retroactively applying any administrative order and, in this case, the new criteria introduced to calculate the net cost, which reduced its value to zero.

Wholesale mobile markets

Mobile termination rates on H3G network

On February 14, 2014, the *Consiglio di Stato* accepted the appeal by H3G regarding the determination of mobile termination rates from July 1, 2012, as set out in AGCom Resolution 621/11/CONS. This Resolution established, among other things, that from July 1, 2013 onward there must be complete symmetry between H3G termination rates and rates for other mobile operators, thus bringing the deadline originally set in the framework decision subject to public consultation (Resolution 254/11/CONS) forward by six months. The *Consiglio di Stato* ordered the cancellation of this change in timing, effectively restoring tariff asymmetry in favor of H3G. In a decision of May 28, 2014, in compliance with this ruling, the Authority not only restored tariff asymmetry for the second half of 2013, but also revised the termination price upwards for the H3G network for the first half of 2013.

(eurocents/minute)	Resolution 621/11/CONS (canceled)			Resolution 259/14/CONS (new prices)		
	July 2012	January 2013	July 2013	July 2012	January 2013	July 2013
H3G	3.5	1.7	0.98	3.5	2.06	1.34
Telecom Italia	2.5	1.5	0.98	2.5	1.5	0.98
Vodafone	2.5	1.5	0.98	2.5	1.5	0.98
Wind	2.5	1.5	0.98	2.5	1.5	0.98

On October 16, 2014, the Authority published Resolution 365/14/CONS, approved on July 17, 2014, which revised the termination rates on H3G for the period November 1, 2008-June 30, 2009, following the ruling by the *Consiglio di Stato* published in February 2013.
The procedure ended with the amendment of the termination rate on the H3G network for the period November and December 2008 (extending the validity of the amount of 16.26 cents per minute, which was originally effective until October 2008) and leaving the amount of 13 cents per minute unchanged for the period January-June 2009.

On February 9, 2015, the Authority published the public consultation for the 4th cycle of analysis of the mobile termination market, which was initiated on February 11, 2014.
The Authority's measure proposal establishes that all operators offering voice termination services on their own mobile network have significant market power. Accordingly, a draft measure has been submitted to public consultation that sets out the same regulatory obligations (such as, for example, access to and use of network resources, control of prices, and accounting for costs), both for mobile network operators and full MVNO operators. In addition, for the years 2014-2017, the Authority has proposed a glide path for mobile network termination rates, which is symmetric for all notified operators, as detailed in the table below:

Voice termination rates on mobile network 2014-2017

(eurocents/minute)

From 1/1/2014	From 1/1/2015	From 1/1/2016	From 1/1/2017
0.98	0.96	0.94	0.92

The duration of the public consultation is 45 days.

In the same consultation, the Authority also announced the need to initiate specific monitoring to analyze the financial and technical conditions of supply of wholesale access services by mobile network operators to virtual mobile operators, in order to assess the significance of competition restrictions on the mobile network access market.

AGCom contribution fee

On March 5, 2014, the Administrative Court (TAR) of Lazio published its ruling, fully upholding the pronouncement of the EU Court of Justice, which had been asked to issue a preliminary ruling on the matter. It accepted Telecom Italia's appeal concerning the cancellation of the resolutions through which AGCom had requested payment of 26.6 million euros for amounts the Authority considered unpaid for 2006-2010 and the amount due for the contribution fee for 2011 (24.2 million euros).
The ruling of the Lazio TAR also affirmed the principle whereby the contribution fees of operators of electronic communications networks and services should only cover costs relating to activities unequivocally used for ex-ante regulation of this sector and that revenues connected to ex-ante regulation and obtained as administration fees from the companies must not exceed the overall costs directly pertaining to this regulatory activity. AGCom lodged an appealed against the Lazio TAR ruling and requested a suspension, which, however, was rejected. On November 27, 2014, the hearing was held before the *Consiglio di Stato* on the appeal lodged by AGCom against the rulings of the Lazio TAR and, on February 17, 2015, the final ruling was published, which accepted the petitions made by Telecom Italia and rejected the appeal by AGCom, upholding the previous ruling by the Lazio TAR. This resulted in the annulment of the resolution containing the request for Telecom Italia to pay 26.6 million euros as an adjustment for the insufficient payment in the five-year period 2006-2010 for the contribution to the functioning of the Authority.
On March 14, 2014, the AGCom resolution was published setting the guidelines for the payment of the 2014 fees (Resolution 547/13/CONS) which, not only does not implement the main aspects of the aforementioned Lazio TAR ruling – even though the appeals are pending with the *Consiglio di Stato* – but also expands the tax base (revenues recorded under the item A1 "Revenues from sales and services" of the income statements published in the 2012 financial statements) despite reducing the contribution rate to 0.14%. On April 30, 2014, Telecom Italia paid an amount, via reverse charge and with reservations, of 14 million euros calculated according to the parameters deriving from the Lazio TAR ruling, applying the AGCom rate for 2014 of 0.14%, and appealed Resolution 547/13/CONS before the Lazio TAR.
In line with the requirements of the TAR and EU regulations, on November 21, 2014 the Authority published its first report on 2013 ("2013 Annual Report") which reveals that the expenses incurred for

activities attributable to the electronic communications sector, amount to approximately 40 million euros (56% of total expenses incurred by the Authority) and that the Authority "collected" approximately 4.5 million euros more in 2013 from operators in the electronic communications sector.
On March 5, 2015, the AGCom resolution containing the guidelines for the payment of the 2015 contribution fee were published (Resolution 567/14/CONS). The Authority confirmed the revenues recorded under the item A1 "Revenues from sales and services" of the income statements published in the 2013 financial statements as the tax base and set a contribution rate of 0.115%. The contribution rate for the electronic communications market, for the year 2015, is different from the rate applied to the remaining markets covered by the Authority (e.g. the media and publishing markets), set at 0.2%. The payment deadlines have also been further brought forward to April 1, 2015.

Antitrust

For information on the pending disputes relating to Proceedings A428, I757 and I761 see the Note "Contingent liabilities, other information, commitments and guarantees" of the Separate Financial Statements of Telecom Italia S.p.A. at December 31, 2014.

BRAZIL

Anatel

On June 18, 2014, the National Telecommunications Agency (Anatel) approved the new Mobile Termination Rates (MTR), Fixed Termination Rates (FTR) and Leased Line rates (EILD) for the years 2016-2019. These rates, calculated using the Bottom-Up Long Run Incremental Cost model, establish reductions ranging from 24% to 45% in the first year (2016), from 40% to 48% in the second, third, and final year (2017-2019), to reach 0.017 reais in 2019. The FTRs will undergo reductions of around 63% to 73% in the first year, from 21% to 50% in the second and third year, and from 18% to 50% in the final year, depending on the area concerned, reaching 0.005 reais in 2019. With the publication of the Glide Path and until the adoption of the LRIC model in 2019, all Significant Market Power (SMP) operators will have a single MTR for each of Anatel's 3 macro areas of Brazil. Regarding leased circuits, the benchmark values set in the cost model will only be used by Anatel in the event of conflict between operators, and the LRIC model will be used only starting from 2020.

General Regulation on the Rights of Consumers of Telecommunication Services (RGC)

On March 10, 2014, Anatel published Resolution 632/2014 – General Regulation on the Rights of Consumers of Telecommunication Services (RGC) – designed to standardize consumer protection and improve the rights of users of telecommunication services. Due to the complexity of the requirements, operators have between 120 days and 24 months from the Regulation's publication date to implement its provisions. The three main requirements are: (i) from July 8, 2014, if a call with an operator is interrupted, the provider must immediately re-establish contact by calling the customer; (ii) automatic cancellation: consumers must be able to terminate their service contract without assistance, over the phone (from July 8, 2014) and online (from March 10, 2015); and (iii) voice and data packages from October 10, 2015: consumers must be warned when their usage is approaching the limit of the amount of minutes/data included in their tariff.

"Marco Civil da Internet"

The core Brazilian legislation on Internet services (the "Marco Civil da Internet") came into force on June 23, 2014, even though the rules on some of its key aspects are still under discussion. The draft law was approved by the Senate on April 22, 2014, after years of debate, and converted into law by President Dilma Rousseff the next day, coinciding with the Net Mundial forum hosted by Brazil in São Paulo. One of the fundamental aspects still to be clarified is the concept of net neutrality and exceptions to this, in addition to the conditions and duration for which service providers must keep user access logs. While awaiting the regulations implementing the law, it has been decided that operators cannot offer free access to certain types of content.

Auction for the allocation of 4G licenses

On September 30, 2014, Anatel terminated the auction for the allocation of the user licenses for the 700 MHz band, for the development of the 4G mobile network, based on LTE technology, assigning the subsidiary TIM Celular the license for Lot 2 for a term of 15 years, which can be renewed for an additional 15 years for an end price of 1,947 million reais. The cost of the investment for TIM includes an additional 904 million reais as compensation for the clean-up cost of the band covered by the license. Also, as one of the lots offered in the auction was not allocated, TIM had to take on additional clean-up costs of 295 million reais, offset by a discount of 208 million reais on the price of the license (which was consequently reduced to 1,739 million reais).
Against payment of 1,678 million reais, TIM Celular signed the "Termo de Autorização" license assignment contract on December 5, 2014.
The clean-up operations – which should be concluded by the end of 2019, based on the forecasts of the Ministry of Communications – will be conducted by a legal entity, called AED, to be established by March 2015, in which an ownership interest will be held by all the parties awarded the license.

MEDIA

Digital frequencies

AGCom adopted Decision 181/09/CONS, enacted in article 45 of Law 88/2009, setting the criteria for the LLU digital switchover of terrestrial television networks. On the basis of this measure, the Ministry for Economic Development (MISE) allocated licenses to the digital frequencies. The measure was necessary due to the infringement proceeding 2005/5086 brought by the European Commission against Italy, which found that problems in the Italian television sector and the monopolization of frequencies by RAI and Mediaset needed to be redressed. The infringement proceeding is still pending.
Following the switch-off process, which lasted four years and was concluded on July 4, 2012, the Ministry for Economic Development definitively assigned the digital frequencies.
Specifically, on June 28, 2012, the decision was taken to definitively assign the user rights of digital frequencies for 20 years.
On July 18, 2013, AGCom adopted Resolution 451/13/CONS on the National Digital Frequency Assignment Plan. The new plan involves 22 national networks and reserves channels 57-60 UHF for mobile services, effective immediately. The amendment of the PNAFD also involved a review of the allocations made and the resolution of interference problems and international coordination issues, including replacing channel 60 UHF (which suffers interference from the mobile services on the adjacent band) – allocated to Persidera – with channel 55 UHF.
The substitution is due to be completed by June 30, 2015.
In terms of the steps taken to address the findings of the EU Commission, in 2010 AGCom – via Resolution 497/10/CONS – arranged a ‘beauty contest' for the assignment of the user rights to digital dividend frequencies. However, the contest was canceled on April 28, 2012 with the entry into force of Law 44/12 and replaced with a competitive tender under new rules set out by AGCom in Resolution 277/13/CONS (adopted on April 11, 2013) for three lots of frequencies (L1, L2 and L3).
The only party that participated in that tender – which was carried out in June 2014 and which Persidera (then TIMB) was unable to participate in, because it was incorrectly equated to RAI and Mediaset – was the Cairo group, which was awarded the MUX L3 for 31,626,000 euros.
The allocation of the two remaining frequencies (Lot L1 and L2) not yet awarded has still not been formally decided.
Also under the infringement procedure, AGCom completed the analysis of the conditions and methods of use of the transmission capacity for the broadcasting of audiovisual content, which was aimed at evaluating the possible introduction of must carry obligations for network operators that hold five MUXs.
The analysis showed that, at present, there do not appear to be any problem issues that justify the imposition of must carry obligations at national level.

Contribution fee for user rights

On September 30, 2014, following a public consultation, AGCom published Resolution 494/14/CONS setting the criteria for determining the contribution fees for user rights of television frequencies. In particular, it established:

- The value of Lot L3 of the digital dividend auction (awarded to the Cairo Group), discounted at a rate equal to the rate for 15-year 2013 BTPs, as the benchmark value.
- An increase of 5% for the second, 10% for the third, 15% for the fourth, and 20% for the fifth MUX, as an anti-monopoly measure.
- A discount of up to 30% for the DVB-T2 MUX up to 2018.
- A discount of at least 70% for local operators.
- A glide path not exceeding 8 years for non-integrated operators (such as Persidera), halved for integrated operators (such as RAI and Mediaset). During the glide path stage, the anti-monopoly measure mentioned above will only apply to Rai and Mediaset.

Considering that these contribution fees are additional to the administrative fees and user fees for the backbone network frequencies (Article 34, Article 35 and Attachment 10 of Italian Legislative Decree 259/03), AGCom has suggested that the Ministry for Economic Development conduct a full review of these specific fess to take account of the particular characteristics of terrestrial television networks.

Persidera, also supported by a legal opinion, has appealed against this resolution as it proposes criteria that would result in values that are unreasonable, discriminatory and out of proportion (approximately 15% in additional expenses on the total market value). The EU Commission has also expressed a similar opinion. In a letter dated July 18, 2014, sent to AGCom and the Ministry for Economic Development, the Commission made several observations on the measure still under consultation, as part of the infringement proceedings no. 2005/5086 concerning television frequencies.

The letter contains a crucial passage in which the Commission reiterates the importance of setting contributions that take account of the characteristics of the Italian television broadcasting market, as it is affected by several factors, including "the advantages that incumbent operators have benefited from the transition to the digital system, as well as subsequently, and in particular, as acknowledged by the Italian authorities in their 2009 proposal, the advantages of incumbent integrated vertical operators that have a significant number of multiplexes".

Persidera deems that the value of the contributions should not deviate from the international benchmark and the comparison with the mobile market:

- the UK Authority has set the contribution fee for national MUX user rights at approximately 230,000 euros per year, reserving the right to amend these values after 2020;
- a similar value would be obtained based on the values of user fee contributions for mobile frequencies pursuant to the Electronic Communications Code, adjusted proportionately to the reference market.

The Ministry for Economic Development has issued a decree (published in the Official Gazette on January 19, 2015) establishing that, by January 31, 2015, as an advance for the year 2014, network operators must pay 40% of the amount paid in 2013.

This advance serves to provide income flows to the Government budget, pending the establishment of the contribution fee regime to be applied to network operators and service providers, in consideration of the impossibility of matching progressive rates with equal revenue levels, envisaged by Law 44/12, or with the principles of proportionality and non-discrimination, established by the EU regulations.

Potential use of frequencies for mobile technology

Once the global conference on the regulation of the radio spectrum – to be held in Geneva in late 2015 (WRC-15) – has been concluded, 700 MHz band frequencies (between 694-790 MHz, corresponding to television channels 49-60 UHF) currently allocated to broadcasting, will be able to be allocated on a co-primary basis to broadband mobile services.

Ahead of this deadline, it is likely that the EU authorities will reorganize the frequency spectrum to enable the development of mobile broadband services, with a consequent reduction in the resources allocated to digital terrestrial television.

The reallocation process, which will presumably take place between 2016 and 2018, will most likely mirror the process implemented the "first" digital dividend for 800 MHz bandwidth, involving the re-farming to other available frequencies or the return of the frequencies in exchange for monetary compensation.

There is a remote possibility that, if the right regulatory and technical conditions arise at the right moment, television operators could use these frequencies to provide mobile broadband services.

In this regard, the agreement between TI Media and Gruppo Editoriale L'Espresso sets out the procedures through which TI Media will be able to acquire the user rights for channel 55 UHF allocated to the MUX TIMB2.

In particular, TI Media has reserved itself two different purchase options, one alternative to the other, involving: (i) the purchase of the right to use the UHF CH 55 or (ii) the acquisition of the entire share capital of TIMB2 S.r.l., a newly formed company, which, after completion of related approval process, will be awarded this right of use.

Both options may be exercised during the period from June 30, 2016 to June 30, 2019.

If right to use the CH 55 is transferred, a rental agreement will be signed between the two companies whose execution is subject to authorization in accordance with current regulations.

On September 1, 2014 Pascal Lamy as Chairman of the High Level Group on UHF, formed in January 2014 and consisting of representatives of broadcasters, mobile operators and manufacturers, presented the report on the future use of the UHF spectrum to the European Commission.

The report proposes a "2020-2030-2025" time frame for meeting the objectives of the European Digital Agenda, providing broadcasters a stable route to invest and grow in the medium to long term, structured as follows:

- allocation of the 700 MHz band to mobile broadband services in 2020, with a margin of more or less 2 years (2018-2022) to take account of different market situations in the Member States;
- allocation of the bandwidth under 700 MHz (470-694 MHz) to broadcast services across Europe until 2030;
- re-evaluation of the scenario in 2025 with an assessment of the state of the market and technology.

This report will serve as an input to the new European Commission, in establishing the spectrum policy, also in view of the ITU-R World Conference 2015 (WRC-15), the outcome of which could lead to more specific and stricter measures being adopted for the Member States.

COMPETITION

DOMESTIC

The market

In the second half of 2014, the Italian TLC market showed signs of easing of the strong competition pressure, involving the significant use of pricing as a lever (which was particularly intensive during 2013) that has led over the years to an impoverishment of the traditional service components, particularly the voice service.
Growth in Broadband – particularly Mobile, also aided by the penetration of next-generation handsets – continues to be the main driver of the market.
The growth in broadband has also led to an evolution towards increasing complexity in the competitive scenario, with more inter-relationships between players of different markets. This has opened the field to competition from non-traditional operators (in particular Over the Top companies - OTTs - and producers of electronic and consumer devices), in addition to giving telecommunications operators the opportunity to develop new "over the network" services (mainly in the IT and Media fields).
For the telecommunications operators, the core competition with the other traditional operators in the sector (including Mobile Virtual Operators), which today still represents the factor that has the greatest impact on market trends, is now being accompanied by an invasion by OTTs and device producers, which are exploiting their complete understanding of consumer trends, consumer electronics and software environments and which operate entirely in the digital world, based on competition strategies that are completely different to those of TLC players.
Over time, therefore, the traditional players' 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 platform, they are increasingly under pressure from consumer electronics companies, telecommunications operators and OTTS;
- in the Information Technology market, the decline in revenues is driving the various players towards the cloud computing "growth oasis", with the goal of developing and protecting their market shares in their core business. 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 games 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.

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

- development of Innovative Services in the IT market, particularly in Cloud services;
- development of new Digital Services, especially in the areas of Entertainment (e.g. TV over IP), Smart Home, Digital Advertising, Mobile Payment-Digital Identity.

Competition in Fixed 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 phenomenon by concentrating mainly on the ability to innovate their offering by developing the penetration of Broadband 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, also as Mobile Virtual Operators (MVOs).
In 2014, the migration of customers from fixed-line to mobile telephony services continued, as well as the migration to alternative communications solutions (Voice Over IP, messaging, e-mail and social network chat). For years, both for private consumers and small and medium businesses, mature traditional voice services have been replaced by value-added content and services based on the Internet protocol. This shift has been facilitated by the use of the Internet and changes in user preferences, by the spread of broadband, personal computers and other connected devices, and by the quality of the service.
The competitive scenario 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 December 31, 2014, fixed accesses in Italy totaled approximately 20.6 million (including infrastructured OLOs and Fixed Wireless Access), down from 2013. The growing competition in the access market has led to a gradual reduction in Telecom Italia's market share.
In the broadband market, at December 31, 2014 fixed broadband customers in Italy reached a penetration rate on fixed accesses of about 69%.
The spread of broadband is driven not only by the penetration of personal computers and other enabled devices (e.g. Smart TVs), but also by the growing demand for speed and access to new IP based services (Voice over IP, Content – particularly Video, social networking services, etc.).
The decline continued in revenues from the data transmission segment, which suffered the effects of competition that has led to reduction in average prices.

Competition in Mobile Telecommunications

The mobile market, which is saturated and mature in its traditional component of voice services, has experienced a decline in the number of lines, due to the rationalization of second and third SIM cards (at December 31, 2014, mobile lines in Italy numbered about 94 million, down by about 3% over 2013, which still represents a very high penetration rate of the population, of approximately 157%).
Revenues from traditional service components, such as voice and messaging, continued to decline, as these components are impacted by the strong competition between TLC operators based on pricing as a lever – which was particularly intense in 2013 but with signs of a slowdown in the second half of 2014 – in addition to the increasing spread of "communication apps". Mobile Broadband continues to grow and, although 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 2014, 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 caught on 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.
The competitive scenario in the Italian mobile telecommunications market is dominated by Telecom Italia and also by the infrastructured operators (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 mobile virtual operators (MVO), 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 infrastructured operators.

BRAZIL

At the end of 2014, the Brazilian mobile market reached 280.7 million lines. This is 3.6% more than last year and a penetration of 138.0% of the population (136.4% in 2013). Net total increases for 2014 amounted to 9.6 million lines, 0.3 million more lines than for the prior year.

CONSOLIDATED FINANCIAL POSITION AND CASH FLOWS PERFORMANCE

NON-CURRENT ASSETS

- **Goodwill:** increased by 11 million euros, from 29,932 million euros at the end of 2013 to 29,943 million euros at December 31, 2014 as a result of the following items:
  - increase of 8 million euros due to the recognition of goodwill in relation to the acquisition of control of Rete A (Media Business Unit);
  - change in exchange rates for the Brazilian companies[1] (3 million euros).

  Further details are provided in the Note "Goodwill" in the consolidated financial statements at December 31, 2014 of the Telecom Italia Group.

- **Other intangible assets:** were up 547 million euros, from 6,280 million euros at the end of 2013 to 6,827 million euros at December 31, 2014, representing the balance of the following items:
  - capex (+2,422 million euros);
  - amortization charge for the year (-1,854 million euros);
  - disposals, exchange differences, reclassifications and other movements (for a net negative balance of 21 million euros).

- **Tangible assets:** were up 168 million euros, from 13,219 million euros at the end of 2013 to 13,387 million euros at December 31, 2014, representing the balance of the following items:
  - capex (+2,562 million euros);
  - depreciation charge for the year (-2,430 million euros);
  - disposals, impairment losses, exchange differences, reclassifications and other changes (for a net positive balance of 36 million euros).

DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE

These related to the Sofora - Telecom Argentina group and included:

- financial assets of 165 million euros;
- non-financial assets of 3,564 million euros.

For more details, see the Note "Discontinued operations/Non-current assets held for sale" in the consolidated financial statements of the Telecom Italia Group at December 31, 2014.

CONSOLIDATED EQUITY

Consolidated equity amounted to 21,699 million euros (20,186 million euros at December 31, 2013), of which 18,145 million euros attributable to Owners of the Parent (17,061 million euros at December 31, 2013) and 3,554 million euros attributable to non-controlling interests (3,125 million euros at December 31, 2013).
In greater detail, the changes in equity were the following:

(1) The spot exchange rate used for the translation into euro of the Brazilian real (expressed in terms of units of local currency per 1 euro) was 3.22489 at December 31, 2014 and 3.23068 at December 31, 2013.

(millions of euros)	2014	2013
At the beginning of the year	**20,186**	**23,012**
Total comprehensive income (loss) for the year	1,539	(2,188)
Dividends approved by:	(343)	(635)
Telecom Italia S.p.A.	*(166)*	*(452)*
Other Group companies	*(177)*	*(183)*
Issue of equity instruments	64	1
Effect of Rete A acquisition	40	–
Effect of equity transactions of the Sofora – Telecom Argentina group	160	4
Other changes	53	(8)
At the end of the year	**21,699**	**20,186**

CASH FLOWS

Adjusted net financial debt at December 31, 2014 stood at 26,651 million euros, down 156 million euros compared to December 31, 2013 (26,807 million euros).
Excluding the net financial assets of the Sofora - Telecom Argentina group, amounting to 122 million euros (630 million euros at December 31, 2013), the net financial debt would have decreased by 664 million euros compared to December 31, 2013.
The table below summarizes the main transactions that had an impact on the change in adjusted net financial debt during 2014:

Change in adjusted net financial debt

(millions of euros)	2014	2013	Change
EBITDA	8,786	9,540	(754)
Capital expenditures on an accrual basis	(4,984)	(4,400)	(584)
Change in net operating working capital:	(464)	(230)	(234)
Change in inventories	*55*	*(23)*	*78*
Change in trade receivables and net amounts due from customers on construction contracts	*(125)*	*1,074*	*(1,199)*
Change in trade payables (*)	*72*	*(497)*	*569*
Other changes in operating receivables/payables	*(466)*	*(784)*	*318*
Change in provisions for employee benefits	(59)	(49)	(10)
Change in operating provisions and Other changes	(105)	(58)	(47)
Net operating free cash flow	**3,174**	**4,803**	**(1,629)**
% of Revenues	*14.7*	*20.5*	*(5.8)pp*
Sale of investments and other disposals flow	238	62	176
Share capital increases/reimbursements, including incidental costs	14	9	5
Financial investments flow	(32)	(9)	(23)
Dividends payment	(252)	(537)	285
Finance expenses, income taxes and other net non-operating requirements flow	(2,478)	(2,928)	450
Reduction/(Increase) in adjusted net financial debt from continuing operations	**664**	**1,400**	**(736)**
Reduction/(Increase) in net financial debt from Discontinued operations/Non-current assets held for sale	(508)	67	(575)
Reduction/(Increase) in adjusted net financial debt	**156**	**1,467**	**(1,311)**

(*) Includes the change in trade payables for amounts due to fixed asset suppliers.

In addition to what has already been described with reference to EBITDA, net financial debt during 2014 was particularly impacted by the following items:

Capital expenditures on an accrual basis

The breakdown of capital expenditures by operating segment is as follows:

(millions of euros)	2014	% of total	2013	% of total	Change
Domestic (*)	2,783	55.8	3,031	68.9	(248)
Brazil	2,195	44.0	1,349	30.7	846
Media and Other Operations (*)	6	0.2	20	0.4	(14)
Adjustments and eliminations	–	–	–	–	–
Consolidated Total	**4,984**	**100.0**	**4,400**	**100.0**	**584**
% of Revenues	*23.1*		18.8		*4.3 pp*

(*) Starting from 2014, the Domestic Business Unit also includes the Olivetti group, in addition to Core Domestic and International Wholesale. The comparative period has been adjusted accordingly.

Capital expenditures in 2014 totaled 4,984 million euros, an increase of 584 million euros compared to 2013. In particular:

- the **Domestic Business Unit** reported capital expenditure down by 248 million euros compared to 2013. This reduction was entirely attributable to the more traditional components of capex, and involved the abandonment of several platforms and the simplification of various industrial processes. A portion of these savings was targeted to the development of next generation networks (LTE and fiber networks, +156 million euros in capital expenditure compared to 2013), which reached 36% of network capex (28% in 2013). In addition, as already noted, in 2014, as a result of Telecom Italia's new market strategy of offering bundle deals for mobile telephony, the costs relating to subsidies to customers for the purchase of handsets are no longer recognized under capital expenditures on intangible assets. In 2013, 188 million euros was capitalized over the contractual period (24 – 30 months);
- the **Brazil Business Unit** recorded an increase in capex of 846 million euros compared to 2013, due to a negative exchange rate effect of 110 million euros, without which the increase would have been 956 million euros. The increase was essentially attributable to the allocation at the end of 2014 of the user rights for the 700MHz frequency for the development of the fourth-generation network on LTE technology, and the related incidental costs, as well as the costs for cleaning up the frequencies (freeing up of the spectrum licensed) totaling 936 million euros.

Change in net operating working capital

The change in net operating working capital for 2014 was a decrease of 464 million euros (decrease of 230 million euros in 2013). In particular:

- the change in inventories had a positive impact of 55 million euros, whereas the management of trade receivables generated a negative impact of 125 million euros mainly connected to the changes in the volumes of sales to factoring companies;
- other changes in operating receivables/payables (-466 million euros) also included the payment by Telecom Italia S.p.A. of the fines and related interest imposed by AGCM of around 105 million euros in relation to the A428 Antitrust Proceedings, as well as higher net receivables of the Brazil Business Unit due from the local financial authorities for indirect taxes amounting to 100 million euros;
- the change in operating provisions includes the effect of the full release of the remaining provisions, made in the 2009 consolidated financial statements for the Telecom Italia Sparkle affair, for a total of 84 million euros.

With reference to the capital increase reserved for employees of the Group, under the Broad-Based Share Ownership Plan concluded in July 2014, it should be noted that the items "Change in provisions for employee benefits" and "Share capital increases/(reimbursements, including incidental costs)" do not include the employee severance indemnity advances, amounting to 40 million euros, paid to employees of the companies of the Telecom Italia Group to allow them to subscribe to the Plan.

Sale of investments and other disposals flow

Sale of investments and other disposals flow for the year 2014 totaled 238 million euros and was mainly attributable to:

- the receipt of 71 million euros, already net of the 4 million euros pledged as security, from the sale by Telecom Italia S.p.A. of a property located in Milan;
- the receipt of 160 million euros from the sale to Fintech of the 17% non-controlling interest in Sofora; the amount does not include the other assets transferred at the same time as the shares, for an amount of around 10 million euros.

In 2013, this item was positive and totaled for 62 million euros and was mainly attributable to:

- the proceeds from the sale by Tierra Argentea (a company wholly owned by the Telecom Italia Group) to Fintech 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), of 11 million euros;
- the installment proceeds from the sale of the investment in EtecSA Cuba, which took place at the end of January 2011, of approximately 48 million euros;
- the net requirement 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.

Financial investments flow

This item amounted to 32 million euros and mainly consisted of:

- 9 million euros for the acquisition of control by Telecom Italia S.p.A. over the company Trentino NGN S.r.l. on February 28, 2014, as the difference between the price paid (17 million euros) and the net cash acquired (8 million euros);
- 21 million euros, for the acquisition, on June 30, 2014, of the controlling interest in Rete A S.p.A. now merged into Persidera S.p.A. (Media Business Unit). The transaction took place in the form of a contribution of the shares of Rete A as a subscription of a reserved capital increase and so the amount of the investment is represented by the net financial debt acquired.

Finance expenses, income taxes and other net non-operating requirements flow

Finance expenses, income taxes and other net non-operating requirements flow mainly consist of the payment, during 2014, of net finance expenses (1,684 million euros) and income taxes (427 million euros), as well as the change in non-operating receivables and payables. The income taxes flow includes the effect from the sale without recourse of IRES tax credits to a factoring company, which generated net proceeds of 231 million euros.

Net financial debt

Net financial debt is composed as follows :

(millions of euros)	12/31/2014 (a)	12/31/2013 (b)	Change (a-b)
Non-current financial liabilities			
Bonds	23,440	23,514	(74)
Amounts due to banks, other financial payables and liabilities	7,901	6,470	1,431
Finance lease liabilities	984	1,100	(116)
	32,325	**31,084**	**1,241**
Current financial liabilities (*)			
Bonds	2,645	2,513	132
Amounts due to banks, other financial payables and liabilities	1,872	3,413	(1,541)
Finance lease liabilities	169	193	(24)
	4,686	**6,119**	**(1,433)**
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale	43	27	16
Total Gross financial debt	**37,054**	**37,230**	**(176)**
Non-current financial assets			
Securities other than investments	(6)	(6)	–
Financial receivables and other non-current financial assets	(2,439)	(1,250)	(1,189)
	(2,445)	**(1,256)**	**(1,189)**
Current financial assets			
Securities other than investments	(1,300)	(1,348)	48
Financial receivables and other current financial assets	(311)	(283)	(28)
Cash and cash equivalents	(4,812)	(5,744)	932
	(6,423)	**(7,375)**	**952**
Financial assets relating to Discontinued operations/Non-current assets held for sale	(165)	(657)	492
Total financial assets	**(9,033)**	**(9,288)**	**255**
Net financial debt carrying amount	**28,021**	**27,942**	**79**
Reversal of fair value measurement of derivatives and related financial assets/liabilities	*(1,370)*	*(1,135)*	*(235)*
Adjusted net financial debt	**26,651**	**26,807**	**(156)**
Breakdown as follows:			
Total adjusted gross financial debt	**34,421**	**35,280**	**(859)**
Total adjusted financial assets	**(7,770)**	**(8,473)**	**703**
(*) of which current portion of medium/long-term debt:			
Bonds	*2,645*	*2,513*	*132*
Amounts due to banks, other financial payables and liabilities	*1,413*	*2,938*	*(1,525)*
Finance lease liabilities	*169*	*193*	*(24)*

The financial risk management policies of the Telecom Italia Group are aimed at diversifying market risks, fully hedging exchange rate risk, and optimizing interest rate exposure through appropriate diversification of the portfolio, which is also achieved by using carefully selected derivative financial instruments. Such instruments, it should be stressed, are not used for speculative purposes and all have an underlying, which is hedged.
In addition, to determine its exposure to interest rates, the Group sets an optimum composition for the fixed-rate and variable-rate debt structure and uses derivative financial instruments to achieve that composition. Taking into account the Group's operating activities, the optimum mix of medium/long-term non-current financial liabilities has been established, on the basis of the nominal amount, at a range of 65% - 75% for the fixed-rate component and 25% - 35% for the variable-rate component.

In managing market risks, the Group has adopted Guidelines for the "Management and control of financial risk" and mainly uses IRS and CCIRS derivative financial instruments.

To provide a better representation of the true performance of Net Financial Debt, from 2009, in addition to the usual indicator (renamed "Net financial debt carrying amount"), a measure called "Adjusted net financial debt" has also been shown, which neutralizes the effects caused by the volatility of financial markets. Given that some components of the fair value measurement of derivatives (contracts for setting the exchange and interest rate for contractual flows) and derivatives embedded in other financial instruments do not result in actual monetary settlement, the "Adjusted net financial debt" excludes these purely accounting and non-monetary effects (including the effects resulting from the introduction of IFRS 13 from January 1, 2013) from the measurement of derivatives and related financial assets/liabilities.

Sales of receivables to factoring companies

Sales of trade receivables to factoring companies completed during 2014 resulted in a positive effect on net financial debt at December 31, 2014 of 1,316 million euros (1,434 million euros at December 31, 2013). On August 4, 2014, Telecom Italia S.p.A. sold IRES tax receivables without recourse for 303 million euros. The sale of these receivables, which had arisen in 2012 pursuant to Decree Law 16/2012 and were recognized in the 2012 financial statements at December, generated net proceeds and a positive impact on financial debt of 231 million euros.

Gross financial debt

Bonds

Bonds at December 31, 2014 totaled 26,085 million euros (26,027 million euros at December 31, 2013). Their nominal repayment amount was 24,914 million euros, up 29 million euros compared to December 31, 2013 (24,885 million euros).

The change in bonds during 2014 is as follows:

(millions of original currency)	Currency	Amount	Issue date
New issues			
Telecom Italia S.p.A. 1,000 million euros 4.500% maturing 1/25/2021	Euro	1,000	1/23/2014
Telecom Italia S.p.A. USD 1,500 million 5.303% maturing 5/30/2024	USD	1,500	5/30/2014

(millions of original currency)	Currency	Amount	Repayment date
Repayments			
Telecom Italia S.p.A. 284 million euros 7.875% (1)	Euro	284	1/22/2014
Telecom Italia S.p.A. 750 million euros 7.750% (2)	Euro	750	3/3/2014
Telecom Italia S.p.A. 501 million euros 4.750% (3)	Euro	501	5/19/2014
Telecom Italia Capital S.A. USD 779 million 6.175% (4)	USD	779	6/18/2014
Telecom Italia Capital S.A. USD 528 million 4.950% (5)	USD	528	9/30/2014

(1) Net of buybacks by the Company for 216 million euros during 2012.
(2) Telecom Italia decided to use the right to early redemption 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 securities.
(3) Net of buybacks by the Company of 249 million euros during 2008, 2012 and 2014.
(4) Net of buybacks by Telecom Italia S.p.A. of USD 221 million during 2013.
(5) Net of buybacks by Telecom Italia S.p.A. of USD 722 million during 2013.

On March 18, 2014, Telecom Italia S.p.A. successfully concluded the buyback offer on four bond issues maturing between May 2014 and March 2016, buying back a total nominal amount of 599 million euros.

Details of the bond issues bought back are provided below:

Bond Name	Outstanding nominal amount prior to the purchase offer (euro)	Repurchased nominal amount (euro)	Buyback price
Buybacks			
Telecom Italia S.p.A. - 750 million euros, maturing May 2014, coupon 4.75%	556,800,000	56,150,000	100.700%
Telecom Italia S.p.A. - 750 million euros, maturing June 2015, coupon 4.625%	750,000,000	172,299,000	104.370%
Telecom Italia S.p.A. - 1 billion euros, maturing January 2016, coupon 5.125%	1,000,000,000	228,450,000	106.587%
Telecom Italia S.p.A. - 850 million euros, maturing March 2016, coupon 8.25%	850,000,000	142,020,000	112.913%

In reference to the Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group, at December 31, 2014, the figure was 196 million euros (nominal amount) and decreased by 2 million euros compared to December 31, 2013 (198 million euros).

Revolving Credit Facility and Term Loan

The following table shows the composition and the draw down of the committed credit lines available at December 31, 2014:

(billions of euros)	12/31/2014		12/31/2013	
	Agreed	Drawn down	Agreed	Drawn down
Revolving Credit Facility – expiring August 2014	-	-	8.0	1.5
Revolving Credit Facility – expiring May 2017	4.0	-	-	-
Revolving Credit Facility – expiring March 2018	3.0	-	-	-
Total	**7.0**	**-**	**8.0**	**1.5**

On August 1, 2014, i.e. the date of expiry of the 8 billion euro committed Revolving Credit Facility, the amount drawn down of 1.5 billion euros was repaid.

On the same date, the two RCFs became available for drawdown by a total of 7 billion euros. On May 24, 2012 and on March 25, 2013, Telecom Italia S.p.A. had extended the Revolving Credit Facility amounting to 8 billion euros and expiring in August 2014 ("2014 RCF") by 4 and 3 billion euros respectively, through two Forward Start Facilities that would come into force at the end of the 2014 RCF.

Telecom Italia also has a bilateral term loan expiring August 3, 2016, for 100 million euros from Banca Regionale Europea, drawn down for the full amount.

On October 20, 2014, a bilateral term loan was signed with Cassa Depositi e Prestiti for an amount of 150 million euros with a 5-year expiry, drawn down for the full amount.

On November 10, 2014, a bilateral term loan was signed with Mediobanca for an amount of 200 million euros with a 5-year expiry, 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 7.10 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 5.4%.

For details of the maturities of financial liabilities in terms of expected nominal repayment amounts, as contractually agreed, see the Notes "Financial liabilities (non-current and current)" in the consolidated financial statements at December 31, 2014 of the Telecom Italia Group.

Current financial assets and liquidity margin

The Telecom Italia Group's available liquidity margin amounted to 13,112 million euros at December 31, 2014 (net of 135 million euros related to Discontinued Operations), corresponding to the sum of "Cash and cash equivalents" and "Current securities other than investments", totaling 6,112 million euros (7,092 million euros at December 31, 2013), and the committed credit lines, mentioned above, of which a total of 7,000 million euros has not been drawn down. This margin is sufficient to cover Group Financial Liabilities due beyond the next 24 months. The reduction in "Cash and cash equivalents" compared to December 31, 2013 reflected the trend in repayments/new issues, as well as the use of liquidity to repurchase Group bonds.

In particular:

Cash and cash equivalents amounted to 4,812 million euros (5,744 million euros at December 31, 2013). The different technical forms of investing available cash at December 31, 2014 can be analyzed as follows:

- Maturities: investments have a maximum maturity of three months;
- Counterparty risk: investments by the European companies are made with leading banking, financial and industrial institutions with high credit quality. Investments by the companies in South America are made with leading local counterparties;
- Country risk: deposits have been made mainly in major European financial markets.

Current securities other than investments amounted to 1,300 million euros (1,348 million euros at December 31, 2013). These forms of investment represent alternatives to the investment of liquidity with the aim of improving returns. They consist of 254 million euros of Italian treasury bonds purchased by Telecom Italia S.p.A. and 656 million euros of Italian and European 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 385 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 the above government 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 since August 2012, in replacement of the previous policies in force.

In **the fourth quarter of 2014 adjusted net financial debt** increased by 79 million euros compared to September 30, 2014. Cash flow from operations was offset not only by the tax disbursements of the last quarter but also by the greater needs, amounting to 0.9 billion euros, deriving from the payments already made for the purchasing of licenses in Brazil and Argentina.

(millions of euros)	12/31/2014 (a)	9/30/2014 (b)	Change (a-b)
Net financial debt carrying amount	**28,021**	**28,061**	**(40)**
Reversal of fair value measurement of derivatives and related financial assets/liabilities	*(1,370)*	*(1,489)*	*119*
Adjusted net financial debt	**26,651**	**26,572**	**79**
Breakdown as follows:			
Total adjusted gross financial debt	**34,421**	**33,695**	**726**
Total adjusted financial assets	**(7,770)**	**(7,123)**	**(647)**

CONSOLIDATED FINANCIAL STATEMENTS – TELECOM ITALIA GROUP

The Telecom Italia Group consolidated financial statements for the year ended December 31, 2014 and the comparative figures for the prior year have been prepared in accordance with International Accounting Standards issued by the International Accounting Standards Board and adopted by the European Union ("IFRS").
The accounting policies and consolidation principles adopted in the preparation of the consolidated financial statements at December 31, 2014 are the same as those adopted in the consolidated financial statements at December 31, 2013, except for the use of the new Standards and Interpretations adopted by the Group since January 1, 2014, whose effects are described in the notes to the consolidated financial statements at December 31, 2014, to which the reader is referred.
The Telecom Italia Group, in addition to the conventional financial performance measures established by IFRS, uses certain alternative performance measures in order to present a better understanding of the trend of operations and financial condition. Specifically, these alternative performance measures refer to: EBITDA; EBIT; the organic change in revenues, EBITDA and EBIT; and net financial debt carrying amount and adjusted net financial debt.
Starting from 2014, Telecom Italia has revised the method for calculating the organic change in revenues, EBITDA and EBIT, no longer taking non-organic income/expenses, also including non-recurring items, into that calculation, as it did in the past. As a result, organic changes now include only the effects of the change in the scope of consolidation and of exchange differences. Figures for the periods under comparison have been reclassified accordingly. Further details on such measures are presented under "Alternative performance measures".
Moreover, the part entitled "Business Outlook for the Year 2015" contains forward-looking statements in relation to the Group's intentions, beliefs or current expectations regarding financial performance and other aspects of the Group's operations and strategies. Readers of the Annual Report are reminded not to place undue reliance on forward-looking statements; actual results may differ significantly from forecasts owing to numerous factors, the majority of which are beyond the scope of the Group's control.

PRINCIPAL CHANGES IN THE SCOPE OF CONSOLIDATION

The following changes occurred during 2014:

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

The following changes in the scope of consolidation occurred during 2013:

- *MTV group (Media Business Unit): on September 12, 2013 Telecom Italia Media completed the sale of 51% of MTV Italia S.r.l. and of its wholly-owned subsidiary MTV Pubblicità S.r.l. As a result, these companies are no longer consolidated;*
- *La7 S.r.l. (Media Business Unit): on April 30, 2013 Telecom Italia Media completed the sale of La7 S.r.l.; as a result, the company is no longer consolidated.*

Sofora - Telecom Argentina group: On November 13, 2013, Telecom Italia Group accepted the offer for the purchase of the entire controlling interest in the Sofora - Telecom Argentina group; as a result, the investment was classified as Discontinued Operations (Discontinued operations/Non-current assets held for sale). Pursuant to IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), the income statement results of the Sofora - Telecom Argentina group for 2014 and the corresponding comparative periods have been presented in the Separate Consolidated Income Statement under the specific item "Profit (loss) from Discontinued operations/Non-current assets held for sale", while the balance sheet data has been presented in two separate line items in the consolidated statements of financial position.

Separate Consolidated Income Statements

(millions of euros)	2014 (a)	2013 (b)	Change (a-b) amount	 %
Revenues	**21,573**	**23,407**	**(1,834)**	**(7.8)**
Other income	401	324	77	23.8
Total operating revenues and other income	**21,974**	**23,731**	**(1,757)**	**(7.4)**
Acquisition of goods and services	(9,430)	(10,377)	947	9.1
Employee benefits expenses	(3,119)	(3,087)	(32)	(1.0)
Other operating expenses	(1,175)	(1,318)	143	10.8
Change in inventories	(52)	48	(100)	–
Internally generated assets	588	543	45	8.3
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	**8,786**	**9,540**	**(754)**	**(7.9)**
Depreciation and amortization	(4,284)	(4,553)	269	5.9
Gains (losses) on disposals of non-current assets	29	(82)	111	–
Impairment reversals (losses) on non-current assets	(1)	(2,187)	2,186	–
Operating profit (loss) (EBIT)	**4,530**	**2,718**	**1,812**	**66.7**
Share of losses (profits) of associates and joint ventures accounted for using the equity method	(5)	–	(5)	–
Other income (expenses) from investments	16	(3)	19	–
Finance income	2,400	2,003	397	19.8
Finance expenses	(4,594)	(4,186)	(408)	(9.7)
Profit (loss) before tax from continuing operations	**2,347**	**532**	**1,815**	**–**
Income tax expense	(928)	(1,111)	183	16.5
Profit (loss) from continuing operations	**1,419**	**(579)**	**1,998**	**–**
Profit (loss) from Discontinued operations/Non-current assets held for sale	541	341	200	58.7
Profit (loss) for the year	**1,960**	**(238)**	**2,198**	**–**
Attributable to:				
Owners of the Parent	**1,350**	**(674)**	**2,024**	**–**
Non-controlling interests	610	436	174	39.9

Consolidated Statements of Comprehensive Income

In accordance with IAS 1 (*Presentation of Financial Statements*), the following consolidated statements of comprehensive income include the Profit (Loss) for the year as shown in the Separate Consolidated Income Statements and all non-owner changes in equity.

(millions of euros)		2014	2013
Profit (loss) for the year	**(a)**	**1,960**	**(238)**
Other components of the Consolidated Statements of Comprehensive Income:			
Other components that subsequently will not be reclassified in the Separate Consolidated Income Statements			
Remeasurements of employee defined benefit plans (IAS 19):			
Actuarial gains (losses)		(209)	(29)
Net fiscal impact		53	7
	(b)	**(156)**	**(22)**
Share of other profits (losses) of associates and joint ventures accounted for using the equity method:			
Profit (loss)		–	–
Net fiscal impact		–	–
	(c)	**–**	**–**
Total other components that subsequently will not be reclassified in the Separate Consolidated Income Statements	**(d=b+c)**	**(156)**	**(22)**
Other components that subsequently will be reclassified in the Separate Consolidated Income Statements			
Available-for-sale financial assets:			
Profit (loss) from fair value adjustments		74	3
Loss (profit) transferred to the Separate Consolidated Income Statements		(23)	(11)
Net fiscal impact		(15)	4
	(e)	**36**	**(4)**
Hedging instruments:			
Profit (loss) from fair value adjustments		767	(563)
Loss (profit) transferred to the Separate Consolidated Income Statements		(871)	314
Net fiscal impact		28	71
	(f)	**(76)**	**(178)**
Exchange differences on translating foreign operations:			
Profit (loss) on translating foreign operations		(225)	(1,747)
Loss (profit) on translating foreign operations transferred to the Separate Consolidated Income Statements		–	–
Net fiscal impact		–	–
	(g)	**(225)**	**(1,747)**
Share of other profits (losses) of associates and joint ventures accounted for using the equity method:			
Profit (loss)		–	1
Loss (profit) transferred to the Separate Consolidated Income Statements		–	–
Net fiscal impact		–	–
	(h)	**–**	**1**
Total other components that subsequently will be reclassified to the Separate Consolidated Income Statements	**(i=e+f+g+h)**	**(265)**	**(1,928)**
Total other components of the Consolidated Statements of Comprehensive Income	**(k=d+i)**	**(421)**	**(1,950)**
Total comprehensive income (loss) for the year	**(a+k)**	**1,539**	**(2,188)**
Attributable to:			
Owners of the Parent		**1,123**	**(1,758)**
Non-controlling interests		416	(430)

Consolidated Statements of Financial Position

(millions of euros)		12/31/2014 (a)	12/31/2013 (b)	Change (a-b)
Assets				
Non-current assets				
Intangible assets				
Goodwill		29,943	29,932	11
Other intangible assets		6,827	6,280	547
		36,770	**36,212**	**558**
Tangible assets				
Property, plant and equipment owned		12,544	12,299	245
Assets held under finance leases		843	920	(77)
		13,387	**13,219**	**168**
Other non-current assets				
Investments in associates and joint ventures accounted for using the equity method		36	65	(29)
Other investments		43	42	1
Non-current financial assets		2,445	1,256	1,189
Miscellaneous receivables and other non-current assets		1,571	1,607	(36)
Deferred tax assets		1,118	1,039	79
		5,213	**4,009**	**1,204**
Total Non-current assets	**(a)**	**55,370**	**53,440**	**1,930**
Current assets				
Inventories		313	365	(52)
Trade and miscellaneous receivables and other current assets		5,615	5,389	226
Current income tax receivables		101	123	(22)
Current financial assets				
Securities other than investments, financial receivables and other current financial assets		*1,611*	*1,631*	*(20)*
Cash and cash equivalents		*4,812*	*5,744*	*(932)*
		6,423	7,375	(952)
Current assets sub-total		**12,452**	**13,252**	**(800)**
Discontinued operations/Non-current assets held for sale				
of a financial nature		165	657	(492)
of a non-financial nature		3,564	2,871	693
		3,729	**3,528**	**201**
Total Current assets	**(b)**	**16,181**	**16,780**	**(599)**
Total Assets	**(a+b)**	**71,551**	**70,220**	**1,331**

(millions of euros)		12/31/2014 (a)	12/31/2013 (b)	Change (a-b)
Equity and Liabilities				
Equity				
Equity attributable to owners of the Parent		18,145	17,061	1,084
Non-controlling interests		3,554	3,125	429
Total Equity	**(c)**	**21,699**	**20,186**	**1,513**
Non-current liabilities				
Non-current financial liabilities		32,325	31,084	1,241
Employee benefits		1,056	889	167
Deferred tax liabilities		438	234	204
Provisions		720	699	21
Miscellaneous payables and other non-current liabilities		697	779	(82)
Total Non-current liabilities	**(d)**	**35,236**	**33,685**	**1,551**
Current liabilities				
Current financial liabilities		4,686	6,119	(1,433)
Trade and miscellaneous payables and other current liabilities		8,376	8,649	(273)
Current income tax payables		36	20	16
Current liabilities sub-total		**13,098**	**14,788**	**(1,690)**
Liabilities directly associated with Discontinued operations/Non-current assets held for sale				
of a financial nature		43	27	16
of a non-financial nature		1,475	1,534	(59)
		1,518	**1,561**	**(43)**
Total Current Liabilities	**(e)**	**14,616**	**16,349**	**(1,733)**
Total Liabilities	**(f=d+e)**	**49,852**	**50,034**	**(182)**
Total Equity and Liabilities	**(c+f)**	**71,551**	**70,220**	**1,331**

Consolidated Statements of Cash Flows

(millions of euros)		2014	2013
Cash flows from operating activities:			
Profit (loss) from continuing operations		1,419	(579)
Adjustments for:			
Depreciation and amortization		4,284	4,553
Impairment losses (reversals) on non-current assets (including investments)		13	2,197
Net change in deferred tax assets and liabilities		187	347
Losses (gains) realized on disposals of non-current assets (including investments)		(29)	82
Share of losses (profits) of associates and joint ventures accounted for using the equity method		5	–
Change in employee benefits		(59)	(49)
Change in inventories		55	(23)
Change in trade receivables and net amounts due from customers on construction contracts		(125)	1,074
Change in trade payables		(325)	(489)
Net change in current income tax receivables/payables		355	(104)
Net change in miscellaneous receivables/payables and other assets/liabilities		(583)	(268)
Cash flows from (used in) operating activities	**(a)**	**5,197**	**6,741**
Cash flows from investing activities:			
Purchase of intangible assets on an accrual basis		*(2,422)*	*(1,895)*
Purchase of tangible assets on an accrual basis		*(2,562)*	*(2,505)*
Total purchase of intangible and tangible assets on an accrual basis		(4,984)	(4,400)
Change in amounts due to fixed asset suppliers		*325*	*9*
Total purchase of intangible and tangible assets on a cash basis		(4,659)	(4,391)
Acquisition of control in subsidiaries or other businesses, net of cash acquired		(9)	(8)
Acquisitions/disposals of other investments		(2)	–
Change in financial receivables and other financial assets		(1,118)	604
Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of		–	(104)
Proceeds from sale/repayment of intangible, tangible and other non-current assets		78	88
Cash flows from (used in) investing activities	**(b)**	**(5,710)**	**(3,811)**
Cash flows from financing activities:			
Change in current financial liabilities and other		1,305	(1,785)
Proceeds from non-current financial liabilities (including current portion)		4,377	4,153
Repayments of non-current financial liabilities (including current portion)		(5,877)	(5,551)
Share capital proceeds/reimbursements (including subsidiaries)		14	9
Dividends paid		(252)	(537)
Changes in ownership interests in consolidated subsidiaries		160	79
Cash flows from (used in) financing activities	**(c)**	**(273)**	**(3,632)**
Cash flows from (used in) Discontinued operations/Non-current assets held for sale	**(d)**	**(499)**	**127**
Aggregate cash flows	**(e=a+b+c+d)**	**(1,285)**	**(575)**
Net cash and cash equivalents at beginning of the year	**(f)**	**6,296**	**7,397**
Net foreign exchange differences on net cash and cash equivalents	**(g)**	(101)	(526)
Net cash and cash equivalents at end of the year	**(h=e+f+g)**	**4,910**	**6,296**

Additional Cash Flow Information

(millions of euros)	2014	2013
Income taxes (paid) received	(427)	(863)
Interest expense paid	(4,985)	(4,456)
Interest income received	3,301	2,729
Dividends received	5	2

Analysis of Net Cash and Cash Equivalents

(millions of euros)	2014	2013
Net cash and cash equivalents at beginning of the year		
Cash and cash equivalents - from continuing operations	5,744	6,947
Bank overdrafts repayable on demand – from continuing operations	(64)	(39)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale	616	489
Bank overdrafts repayable on demand – from Discontinued operations/Non-current assets held for sale	–	–
	6,296	**7,397**
Net cash and cash equivalents at end of the year		
Cash and cash equivalents - from continuing operations	4,812	5,744
Bank overdrafts repayable on demand – from continuing operations	(19)	(64)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale	117	616
Bank overdrafts repayable on demand – from Discontinued operations/Non-current assets held for sale	–	–
	4,910	**6,296**

ANALYSIS OF THE MAIN CONSOLIDATED FINANCIAL AND OPERATING ITEMS

Acquisition of goods and services

(millions of euros)	2014	2013	Change
Purchases of goods	2,231	2,358	(127)
Revenues due to other TLC operators and interconnection costs	2,403	2,949	(546)
Commercial and advertising costs	1,473	1,565	(92)
Power, maintenance and outsourced services	1,336	1,353	(17)
Rent and leases	742	755	(13)
Other service expenses	1,245	1,397	(152)
Total acquisition of goods and services	**9,430**	**10,377**	**(947)**
% of Revenues	*43.7*	*44.3*	*(0.6)pp*

Employee benefits expenses

(millions of euros)	2014	2013	Change
Employee benefits expenses - Italy	**2,705**	**2,707**	**(2)**
Ordinary employee expenses and costs	2,697	2,688	9
Restructuring expenses	8	19	(11)
Employee benefits expenses – Outside Italy	**414**	**380**	**34**
Ordinary employee expenses and costs	410	380	30
Restructuring expenses	4	-	4
Total employee benefits expenses	**3,119**	**3,087**	**32**
% of Revenues	*14.5*	*13.2*	*1.3pp*

Average salaried workforce

(equivalent number)	2014	2013	Change
Average salaried workforce – Italy	47,519	48,541	(1,022)
Average salaried workforce – Outside Italy	11,766	10,986	780
Total average salaried workforce (1)	**59,285**	**59,527**	**(242)**
Non-current assets held for sale - Sofora - Telecom Argentina group	15,652	15,815	(163)
Total average salaried workforce - including Non-current assets held for sale	**74,937**	**75,342**	**(405)**

(1) Includes employees with temp work contracts: Average of 9 in 2014 (4 in Italy and 5 outside Italy). Average of 20 in 2013 (19 in Italy and 1 outside Italy).

Headcount at year end

(number)	12/31/2014	12/31/2013	Change
Headcount – Italy	52,882	53,155	(273)
Headcount – Outside Italy	13,143	12,468	675
Total headcount at year end(1)	**66,025**	**65,623**	**402**
Non-current assets held for sale - Sofora - Telecom Argentina group	16,420	16,575	(155)
Total headcount at year end - including Non-current assets held for sale	**82,445**	**82,198**	**247**

(1) Includes employees with temp work contracts: 9 at December 31, 2014, and 4 at December 31, 2013.

Headcount at year-end – Breakdown by Business Unit

(number)	12/31/2014	12/31/2013	Change
Domestic (*)	53,076	53,377	(301)
Brazil	12,841	12,140	701
Media	89	84	5
Other Operations	19	22	(3)
Total	**66,025**	**65,623**	**402**

(*) Starting from 2014, the Domestic Business Unit also includes the Olivetti group, in addition to Core Domestic and International Wholesale. The comparative period has been adjusted accordingly.

Other income

(millions of euros)	2014	2013	Change
Late payment fees charged for telephone services	64	63	1
Recovery of employee benefit expenses, purchases and services rendered	27	28	(1)
Capital and operating grants	26	27	(1)
Damage compensation, penalties and sundry recoveries	36	64	(28)
Other income	248	142	106
Total	**401**	**324**	**77**

Other operating expenses

(millions of euros)	2014	2013	Change
Write-downs and expenses in connection with credit management	375	380	(5)
Provision charges	84	100	(16)
TLC operating fees and charges	449	482	(33)
Indirect duties and taxes	118	128	(10)
Penalties, settlement compensation and administrative fines	68	72	(4)
Association dues and fees, donations, scholarships and traineeships	18	22	(4)
Sundry expenses	63	134	(71)
Total	**1,175**	**1,318**	**(143)**

RESEARCH AND DEVELOPMENT

With regard to "Research and Development", this subject is discussed in a specific paragraph of the Sustainability Section of this Report on Operations, in the chapter "The Community".

EVENTS SUBSEQUENT TO DECEMBER 31, 2014

For details of subsequent events see the specific Note "Events Subsequent to December 31, 2014" in the consolidated and separate financial statements at December 31, 2014 of the Telecom Italia Group and Telecom Italia S.p.A., respectively.

BUSINESS OUTLOOK FOR THE YEAR 2015

In 2015, the telecommunications market will continue to experience a decline in traditional services (voice and accesses), partly offset by the increase in revenues from innovative services thanks to the growing demand for connectivity and digital services. The combined effect of these trends is expected to cause a further overall decline in the domestic market, but much more limited than in previous years, particularly in the Mobile segment. In Brazil the forecast is for growth, albeit at slower rates than in previous years, as a result of the steady penetration and saturation of the Mobile market, as well as the migration from traditional voice-SMS messaging services to Internet services and the impact of the reduction in mobile termination rates (MTRs).

In this scenario, the Telecom Italia Group – as announced in the 2015–2017 Plan – will continue to defend its market shares and invest in the development of infrastructures, with a sharp increase in investments in innovative components. Specifically, the five areas of technology development will be fixed fiber optic ultrabroadband, mobile ultrabroadband, the establishment of new data centers to support cloud services, international fiber connections, and the transformation of industrial process to structurally reduce running costs by streamlining and upgrading infrastructures.

The aim of the additional investment is to create the conditions for revenue stabilization and recovery, based increasingly on the spread of innovative services with digital content.

Investments within the Domestic perimeter will total around 10 billion euros over the plan period, of which around 5 billion euros exclusively for the innovative component (NGN, LTE, Cloud Computing, Data Center, Sparkle and Restructuring) which, by 2017, will enable 75% of the population to be reached by fiber optics and over 95% by 4G. In Brazil, investments will rise to 14 billion reais (over 4 billion euros at current exchange rates) with the objective of extending 4G coverage to over 15,000 sites and 3G coverage to over 14,000 sites by 2017.

In this scenario, management – in keeping with the developments identified in the 2015-2017 Three-Year Plan – expects to see a progressive improvement in operating performance for the current year in both the Domestic market (with the objective of EBITDA stabilization by 2016) and in Brazil.

MAIN RISKS AND UNCERTAINTIES

The business outlook for 2015 could be affected by risks and uncertainties caused by a multitude of factors, the majority of which are beyond the Group's control.
In such a scenario, risk management becomes a strategic tool for value creation. The Telecom Italia Group has adopted an Enterprise Risk Management Model based on the methodology of the Committee of Sponsoring Organizations of the Treadway Commission (ERM CoSO Report), which enables the identification and management of risk in a uniform manner within the Group companies, highlighting potential synergies between the actors involved in the assessment of the Internal Control and Risk Management System. The ERM process is designed to identify potential events that may affect the business, to manage risk within acceptable limits and to provide reasonable assurance regarding the achievement of corporate objectives.
The main risks affecting the business activities of the Telecom Italia Group, which may impact, even significantly, the ability to achieve the objectives of the Group are presented below.

Strategic risks

Risks related to macro economic factors
The Group's economic and financial situation is subject to the influence of numerous macro economic factors such as economic growth, political stability, consumer confidence, and changes in interest rates and exchange rates in the markets in which it operates. The expected results may be affected, in the domestic market, by the struggling economic recovery associated with a high rate of unemployment, with the consequent reduction in income available for consumption and, in Brazil, generally by the slowdown in economic growth.
In addition, the Telecom Italia Group is currently undertaking numerous transactions, including corporate and extraordinary transactions, whose feasibility and completion could be affected by factors outside the control of management, such as political and regulatory factors, currency exchange restrictions, etc.

Risks related to competition
The telecommunications market is characterized by strong competition that may reduce our market share and lower prices and margins. Competition is focused both on innovative products and services, and the price of traditional services.

Operational risks

Operational risks inherent in our business relate to possible inadequacies in internal processes, external factors, fraud, employee error, errors in properly documenting transactions, loss of critical or commercially sensitive data and failures in systems or network platforms.

Risks related to business continuity
Our success depends heavily on the ability to deliver the services we provide through the IT infrastructure and network on a continuous and uninterrupted basis. The infrastructure is susceptible to interruptions due to failures of information and communication technologies, lack of electricity, floods, storms and human errors. Unexpected problems in installations, system failures, hardware and software failures, computer viruses or hacker attacks could affect the quality of services and cause service interruptions. Each of these events could result in a reduction in traffic and a reduction in revenues and/or in an increase of restoration costs, with an adverse impact on the level of customer satisfaction and number of customers, as well as our reputation.

Risks related to the development of fixed and mobile networks
To maintain and expand our customer portfolio in each of the markets in which we operate, it is necessary to maintain, update and improve existing networks in a timely manner. A reliable and high quality network is necessary to maintain the customer base and minimize the terminations to protect

the Company's revenues from erosion. The maintenance and improvement of existing installations depend on our ability to:

- upgrade the capabilities of the networks to provide customers with services that are closer to their needs;
- increase the geographical coverage of innovative services;
- upgrade old systems and networks to adapt them to new technologies.

Risks of internal/external fraud

The Group has adopted an organizational model to prevent fraud. However, the implementation of this model cannot ensure the total absence of these risks. Dishonest activities and illegal acts committed by people inside and outside the organization could adversely affect the Company's operating results, financial position and image.

Risks related to Disputes and Litigation

The Group has to deal with disputes and litigation with tax authorities, regulators, competition authorities, other telecommunications operators and other entities. The possible impacts of such proceedings are generally uncertain. In the event of settlement unfavorable to the Group, these issues may, individually or as whole, have an adverse effect on its operating results, financial position and cash flows.

Financial risks

The Telecom Italia Group may be exposed to financial risks such as risks arising from fluctuations in interest rates and exchange rates, credit risk, liquidity risk and risks 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. These risks may adversely impact the earnings and the financial structure of the Group. Accordingly, to manage those risks, Telecom Italia Group has established guidelines, at central level, which must be followed for operational management, identification of the most suitable financial instruments to meet set goals, and monitoring the results achieved. In particular, in order to mitigate the liquidity risk, the Group aims to maintain an "adequate level of financial flexibility", in terms of cash and syndicated committed credit lines, enabling it to cover refinancing requirements at least for the next 12 - 18 months.

Regulatory and Compliance Risks

Regulatory risks

The telecommunications industry is highly regulated. In this context, new decisions by the regulator and changes in the regulatory environment may affect the expected results of the Group. More specifically, the elements which introduce uncertainty are:

- lack of predictability in the timing of the introduction and consequent results of new processes;
- decisions with retroactive effect (i.e. revision of prices relating to prior years as a result of an administrative judgment) with potential impact on the timing of return on investment;
- decisions that can influence the technological choices made and to be made, with potential impact on the timing of return on investment.

Compliance risks

The Telecom Italia Group may be exposed to risks of non-compliance due to non-observance/ breach of internal (self-regulation such as, for example, bylaws, code of ethics) and external rules (laws and regulations), with consequent judicial or administrative penalties, financial losses or reputational damage.

The Group aims to ensure that processes, procedures, systems and corporate conduct comply with legal requirements. There may be some necessary time lags in making the processes compliant when non-conformity has been identified.

INFORMATION FOR INVESTORS

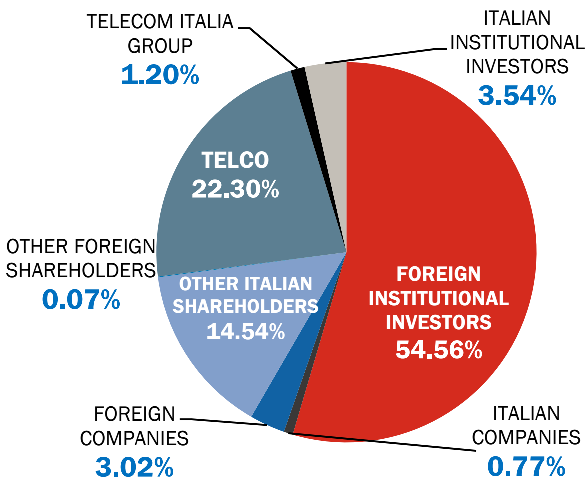
TELECOM ITALIA S.p.A. SHARE CAPITAL AT DECEMBER 31, 2014

Share capital	10,723,391,861.60 euros
Number of ordinary shares (without nominal value)	13,470,955,451
Number of savings shares (without nominal value)	6,026,120,661
Number of Telecom Italia S.p.A. ordinary treasury shares	37,672,014
Number of Telecom Italia S.p.A. ordinary shares held by Telecom Italia Finance S.A.	124,544,373
Percentage of ordinary treasury shares held by the Group to total share capital	0.83%
Market capitalization (based on December 2014 average prices)	16,568 million euros

The ordinary and savings shares of Telecom Italia S.p.A. and Telecom Italia Media S.p.A. are listed in Italy (FTSE index) whereas the ordinary shares of Tim Participações S.A. are listed in Brazil (BOVESPA index). The Telecom Italia S.p.A. ordinary and savings shares and the Tim Participações S.A. ordinary shares are also listed on the New York Stock Exchange (NYSE). The shares are listed through American Depositary Shares (ADS) representing, respectively, 10 ordinary shares and 10 savings shares of Telecom Italia S.p.A. and 5 ordinary shares of Tim Participações S.A..

SHAREHOLDERS

Composition of Telecom Italia S.p.A. shareholders according to the Shareholders Book at December 31, 2014, supplemented by communications received and other available sources of information (ordinary shares):



The shareholders of Telco (whose capital with voting rights at the date of December 31, 2014 was as follows: Generali group - 30.58%; Mediobanca S.p.A. - 11.62%; Intesa Sanpaolo S.p.A. - 11.62%; Telefónica S.A. - 46.18%) signed a shareholders' agreement, relevant for Telecom Italia pursuant to Legislative Decree 58/1998, art. 122. The description of the basic contents of the agreement is contained in the Report on the Corporate Governance and Share Ownership Structure, posted on the website: www.telecomitalia.com.

On June 16, 2014, Generali, Intesa Sanpaolo and Mediobanca also exercised the right to ask for the demerger of Telco in accordance with the shareholders' agreement. As a result, on June 26, the board of directors of Telco approved the partial non-proportional demerger of the company, which will result in an allocation, to the four newly-established beneficiary companies (each fully controlled by each of the shareholders Telefónica, Mediobanca, Generali and Intesa Sanpaolo), of the respective interests held by Telco in Telecom Italia – updated due to the effect of the dilution of the Telco investment in the ordinary share capital of Telecom Italia S.p.A., resulting from the issuance of new ordinary shares for the execution, effective from July 31, 2014, of the 2014 Broad-Based Share Ownership Plan – and therefore specifically: 14.72% to the newco controlled by Telefónica, to 4.30% to the newco of the Generali group, and 1.64% to each of the newcos controlled respectively by Intesa Sanpaolo and Mediobanca. The demerger resolution was passed by the extraordinary shareholders' meeting of Telco on July 9, 2014. As of the effective date of the demerger all the effects of the shareholders' agreement in place between the shareholders of Telco shall cease.
Under the demerger plan the transaction is subject, among other things, to obtaining the authorizations from *Conselho Administrativo de Defesa Econômica* (CADE, Brazilian antitrust authority), *Agência Nacional de Telecomunicações* (Anatel, Brazilian regulatory authority), *Comisión Nacional de Defensa de la Competencia* (CNDC, Argentine antitrust authority) and *Istituto per la Vigilanza sulle Assicurazioni (IVASS formerly ISVAP,* Italian regulatory authority of insurance companies).
To date IVASS and Anatel have issued their authorizations. There is no information available on the status of the authorization procedures with the CADE and CNDC. As far as the Company is concerned directly, Anatel has issued its approval subject, among other things, to the suspension of all political rights of Telefónica in Telecom Italia and its subsidiaries, ordering that this limitation be added by Telecom Italia S.p.A. to its Company Bylaws. Compliance with this provision must be proved by filing an authenticated copy of the amended Bylaws with the Authority.

MAJOR HOLDINGS IN SHARE CAPITAL

At December 31, 2014, taking into account the entries in the Shareholders Book, communications sent to Consob and the Company pursuant to Legislative Decree 58 of February 24, 1998, art. 120 and other sources of information, the relevant shareholders of Telecom Italia S.p.A.'s ordinary share capital are as follows:

Holder	Type of ownership	Percentage of ownership
Telco S.p.A.	Direct	22.30%
Findim Group S.A.	Direct	4.97%
People's Bank of China	Direct	2.07%

Specifically:

- On March 12, 2014, Blackrock Inc. notified Consob that, as an asset management company, it indirectly held a quantity of ordinary shares equal to 4.79% of the total ordinary shares of Telecom Italia S.p.A. at December 31, 2014.
- On February 4, 2015, Findim Group S.A. notified Consob that it held a quantity of ordinary shares equal to 1.99% of total ordinary shares of Telecom Italia S.p.A., which is below the threshold of 2% for a significant holding.

COMMON REPRESENTATIVES

- The special meeting of the savings shareholders held on May 22, 2013 elected Dario Trevisan as the common representative for three financial years (up to the approval of the financial statements for the year ended December 31, 2015).

- By decree of April 11, 2014, the Milan Court confirmed the appointment of Enrico Cotta Ramusino (already appointed by decree of March 7, 2011) as the common representative of the bondholders for the "Telecom Italia S.p.A. 2002-2022 bonds at variable rates, open special series, reserved for subscription by employees of the Telecom Italia Group, in service or retired", with a mandate for the three-year period 2014-2016.
- By decree of October 18, 2012, the Milan Court confirmed Francesco Pensato as the common representative of the bondholders for the "Telecom Italia S.p.A. 1,250,000,000 euros 5.375 percent. Notes due 2019" up to the approval of the 2014 Annual Report.

SHAREHOLDERS' MEETING

The Shareholders' Meeting has been called after the period of 120 days, established by Article 2364, paragraph 2 of the Italian Civil Code, as a result of extraordinary transactions.

RATING AT DECEMBER 31, 2014

At December 31, 2014, the three rating agencies — Standard & Poor's, Moody's and Fitch Ratings — rated Telecom Italia as follows:

	Rating	**Outlook**
STANDARD & POOR'S	BB+	Stable
MOODY'S	Ba1	Negative
FITCH RATINGS	BBB-	Negative

WAIVER OF THE OBLIGATION TO PUBLISH DISCLOSURE DOCUMENTS FOR EXTRAORDINARY OPERATIONS

On January 17, 2013, the board of directors of Telecom Italia S.p.A. resolved to exercise the option, as per article 70 (8) and article 71 (1 bis) of the Consob Regulation 11971/99, to waive the obligations to publish disclosure documents in the event of significant operations such as mergers, demergers, capital increases by means of the transfer of assets in kind, acquisitions and disposals.

RELATED PARTY TRANSACTIONS

In accordance with article 5, paragraph 8 of Consob Regulation 17221 of March 12, 2010 concerning "related party transactions" and the subsequent Consob Resolution 17389 of June 23, 2010, the following major transactions were entered into in 2014 as defined by art. 4, paragraph 1, letter a) of the aforementioned regulation.

On August 4, 2014 the threshold of greater significance of the equivalent-value ratio, set at 3.5% of the consolidated equity of Telecom Italia, was exceeded, as a result of the execution of a series of sales of tax receivables during 2014, together with the sales of trade receivables with advances to companies of the Intesa Sanpaolo group, a related party of Telecom Italia according the Procedure adopted by the Company.

As a result of the exceeding of the threshold for significant transactions, an information document was published on August 14, 2014, pursuant to Article 5 of Consob Regulation 17221/2010, available for consultation in Italian only at the website www.telecomitalia.com, section About Us – channel General Archive, Year 2014 "Governance". No other related party transactions were entered into that have materially affected the financial position or results of Telecom Italia Group and Telecom Italia S.p.A.. Finally, there were no changes or developments with respect to the related party transactions described in the 2013 Report on Operations which had a significant effect on the financial position or on the results of the Telecom Italia Group or Telecom Italia S.p.A. in 2014.

Related party transactions, when not dictated by specific laws, were conducted at arm's length. Furthermore, the transactions were subject to an internal procedure which establishes the procedures and timing for verification and monitoring. The procedure can be consulted on the Company's website at the following address: www.telecomitalia.com, section Governance – channel governance system.

The information on related parties required by Consob Communication DEM/6064293 of July 28, 2006 is presented in the financial statements themselves and in the Note "Related party transactions" in the consolidated financial statements of the Telecom Italia Group and the separate financial statements of Telecom Italia S.p.A. at December 31, 2014.

ALTERNATIVE PERFORMANCE MEASURES

In this Report on Operations, in the consolidated financial statements of the Telecom Italia Group and in the separate financial statements of the Parent, Telecom Italia S.p.A., for the year ended December 31, 2014, in addition to the conventional financial performance measures established by IFRS, certain *alternative performance measures* are presented for purposes of a better understanding of the trend of operations and the financial condition. Such measures, which are also presented in other periodical financial reports (half-year financial Report at June 30 and interim Reports at March 31 and September 30) should, however, not be considered as a substitute for those required by IFRS.

The alternative performance measures used are described below:

- **EBITDA:** this financial measure is used by Telecom Italia as the financial target in internal presentations (business plans) and in external presentations (to analysts and investors). It represents a useful unit of measurement for the evaluation of the operating performance of the Group (as a whole and at the Business Unit level) and the Parent, Telecom Italia S.p.A., in addition to **EBIT**. These measures are calculated as follows:

Profit (loss) before tax from continuing operations	
+	Finance expenses
-	Finance income
+/-	Other expenses (income) from investments (1)
+/-	Share of losses (profits) of associates and joint ventures accounted for using the equity method (2)
EBIT - Operating profit (loss)	
+/-	Impairment losses (reversals) on non-current assets
+/-	Losses (gains) on disposals of non-current assets
+	Depreciation and amortization
EBITDA - Operating profit (loss) before depreciation and amortization, Capital gains (losses) and Impairment reversals (losses) on non-current assets	

(1) "Expenses (income) from investments" for Telecom Italia S.p.A.
(2) Line item in Group consolidated financial statements only.

- **Organic change in Revenues, EBITDA and EBIT:** these measures express changes (amount and/or percentage) in revenues, EBITDA and EBIT, excluding, where applicable, the effects of the change in the scope of consolidation and exchange differences. In particular, starting from 2014, Telecom Italia has revised the method for calculating the organic change in revenues, EBITDA and EBIT, and it no longer takes non-organic income/expenses, also including non-recurring item, into account in that calculation as it did in the past. As noted above, organic changes now include only the effects of the change in the scope of consolidation and of exchange differences. Figures for the year 2013 under comparison have been reclassified accordingly.
  Telecom Italia believes that the presentation of the organic change in revenues, EBITDA and EBIT allows for a more complete and effective understanding of the operating performance of the Group (as a whole and at the Business Unit level) and the Parent. This method of presenting information is also used in presentations to analysts and investors. This Report on Operations provides a reconciliation between the "reported figure" and the "comparable" figure.

- **Net Financial Debt:** Telecom Italia believes that Net Financial Debt represents an accurate indicator of its ability to meet its financial obligations. It is represented by Gross Financial Debt less Cash and Cash Equivalents and other Financial Assets. The Report on Operations includes two tables showing the amounts taken from the statement of financial position and used to calculate the Net Financial Debt of the Group and Parent respectively.
  To better represent the real performance of Net Financial Debt, in addition to the usual indicator (called "Net financial debt carrying amount"), "Adjusted net financial debt" is also shown, which excludes effects that are purely accounting and non-monetary in nature deriving from the fair value measurement of derivatives and related financial assets and liabilities.

Net financial debt is calculated as follows:

+	Non-current financial liabilities
+	Current financial liabilities
+	Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale
A)	**Gross financial debt**
+	Non-current financial assets
+	Current financial assets
+	Financial assets relating to Discontinued operations/Non-current assets held for sale
B)	**Financial assets**
C=(A - B)	**Net financial debt carrying amount**
D)	**Reversal of fair value measurement of derivatives and related financial assets/liabilities**
E=(C + D)	**Adjusted net financial debt**

TELECOM ITALIA S.p.A.
Key operating and financial data 2014

2014

PROFIT FOR THE YEAR

636 Millions of Euros

REVENUES	EBITDA	EBITDA MARGIN
14,153 Millions of Euros	6,739 Millions of Euros	47.6 %

NET FINANCOAL DEBT CARRYING AMOUNT	CAPITAL EXPENDITURES	HEADCOUNT AT YEAR END (NUMBER)
33,423 Millions of Euros	2,693 Millions of Euros	44,164 Millions of Euros

REVIEW OF OPERATING AND FINANCIAL PERFORMANCE - TELECOM ITALIA S.p.A.

OPERATING PERFORMANCE

(millions of euros)	2014	2013	Change amount	Change %
Revenues	14,153	15,304	(1,151)	(7.5)
EBITDA (*)	6,739	7,537	(798)	(10.6)
EBITDA Margin	*47.6%*	*49.2%*	*(1.6)pp*	
EBIT BEFORE GOODWILL IMPAIRMENT LOSS	3,580	4,065	(485)	(11.9)
Goodwill impairment loss	–	(2,187)	2,187	
EBIT (*)	3,580	1,878	1,702	90.6
EBIT margin	*25.3%*	*12.3%*	*13.0pp*	
Profit before tax from continuing operations	1,299	(182)	1,481	
Profit (loss) from Continuing operations	629	(1,028)	1,657	
Profit (loss) from Discontinued operations/Non-current assets held for sale	7	–	7	
Profit (loss) for the year	636	(1,028)	1,664	
Capital expenditures	2,693	2,915	(222)	
Net financial debt	33,423	33,372	51	
Headcount at year end (number)	44,164	44,386	(222)	(0.5)

(*) Starting from 2014, for the Telecom Italia Group, the organic change in revenues, EBITDA and EBIT has been calculated excluding only the effects – where applicable – of the change in the scope of consolidation and exchange differences. Accordingly, in contrast to the past, "non-organic" income/expenses are no longer considered.

Revenues

Revenues for 2014 amounted to 14,153 million euros, down 1,151 million euros (-7.5%) from 2013. This performance reflects the adverse economic environment, in addition to the negative effect of the consequent retroactive revision by the AGCom of the copper network wholesale access prices for the period 2010-2012, which resulted in the recognition in the final quarter of lower revenues from previous years of 45 million euros.

The trend in revenues shows the following changes in the sales segments compared to 2013:

(millions of euros)	2014	2013	Change
Revenues	**14,153**	**15,304**	**(1,151)**
Consumer	7,329	8,026	(697)
Business	4,795	5,185	(390)
National Wholesale	1,786	1,897	(111)
Other	243	196	47

In particular:

- **Consumer:** revenues for the Consumer segment in 2014 amounted to 7,329 million euros, decreasing 697 million euros compared to 2013 (-8.7%). Performance, though still negative, confirmed the trend of improvement seen from the second half of 2014 compared to the first few months of the year. Compared to the same periods of 2013, the following performance was recorded in 2014: in the fourth quarter -6.2%; in the third quarter -6.0%; in the second quarter -9.9%; in the first quarter -12.5%. In particular, revenues from Mobile services fell by -398 million euros (-11.1%) compared to 2013 and -7.2% in the fourth quarter 2014 (against -6,6% in the third quarter, -13.7% in the second quarter, and -16.9% in the first quarter). This reflected the positive impact of the structural improvement in competition performance, with the gradual stabilization of the customer base and ARPU, and steady growth in mobile Internet. The Fixed-line segment also showed signs of recovery compared to the decline seen in the first half of the year (-238 million euros, -5.9%; -3.4% in the fourth quarter, -6.1% in the third quarter, -7.9% in the second quarter and -6.2% in the first quarter), owing to stable market share and the positive performance of Broadband ARPU, supported by the increased proportion of customers with flat contracts and service upgrades, as well as the transition to Fiber;
- **Business:** revenues in the Business segment amounted to 4,795 million euros, down 390 million euros from 2013 (-7.5%), but with an improvement on the previous periods, especially for revenues from services (4,414 million euros, -426 million compared to 2013, or -8.8%; -6.7% in the fourth quarter of 2014, -8.0% in the third quarter, -10.6% in the second quarter and -9.8% in the first quarter). In the Mobile business (-159 million euros, -11.7%), despite the effective defensive measures and growth of the customer base (which increased by 3.7%), revenues from traditional voice and messaging services declined (-183 million euros in 2014, compared to 2013), due to the repositioning of customers towards deals with lower overall ARPU. The Fixed-line segment (-271 million euros, -7.6%) continued to feel the effects of the economic downturn and the contraction in prices on traditional voice and data services, although there were signs of recovery in the last half of the year, partly thanks to the steady growth in ICT revenues (+3.5% compared to 2013, of which +22.0% for Cloud services);
- **National Wholesale:** revenues for the Wholesale segment in 2014 came to 1,786 million euros, decreasing 111 million euros compared to 2013 (-5.9%). The decline was mainly attributable to the reduction in fixed-line and mobile termination rates, the already mentioned retroactive revision of wholesale access prices by the Regulatory Authority for the period 2010/2012, the beginning of the migration to IP infrastructure solutions, and the drop in prices for national roaming.

EBITDA

EBITDA came to 6,739 million euros, decreasing 798 million euros (-10.6%) from 2013 (7,537 million euros).
The EBITDA margin rose from 49.2% in 2013 to 47.6% in 2014.

At the EBITDA level, the negative effects described in the commentary on revenues were partly offset by the reduction in operating costs which are analyzed below.

Acquisition of goods and services

Acquisition of goods and services amounted to 5,093 million euros, decreasing 341 million euros (-6.3%) from 2013 (5,434 million euros). The change was attributable to a general reduction in the main cost items, particularly revenues due to other TLC operators, and commercial and advertising costs, and purchases of goods. In particular, the decrease in the costs for the purchase of goods was also absorbed by the higher costs, resulting from Telecom Italia's new market strategy aimed at gradually ceasing to subsidize handsets in "bundle deals". The new commercial strategy had an impact of 63 million euros of costs recognized in the income statement for 2014. In 2013, the capitalized costs for subsidizing handsets (amortized over the term of the contract with the customer, from 24 to 30 months) amounted to 188 million euros.

Further details are provided in the Note "Intangible assets with a finite useful life" in the separate financial statements of Telecom Italia S.p.A. at December 31, 2014.

(millions of euros)	2014	2013	Change
Purchases of goods	1,012	1,084	(72)
Revenues due to other TLC operators and interconnection costs	751	848	(97)
Commercial and advertising costs	715	804	(89)
Professional and consulting services	111	176	(65)
Power, maintenance and outsourced services	1,098	1,078	20
Rent and leases	777	774	3
Other	629	670	(41)
Total acquisition of goods and services	**5,093**	**5,434**	**(341)**
% of Revenues	*36.0*	*35.5*	*0.5pp*

Employee benefits expenses

Details are as follows:

(millions of euros)	2014	2013	Change
Ordinary employee expenses and costs	2,272	2,236	36
Expenses for mobility under Law 223/91	5	15	(10)
Total employee benefits expenses	**2,277**	**2,251**	**26**

Employee benefits expenses increased by 26 million euros compared with 2013, due to the increase in ordinary employee expenses of 36 million euros, partially offset by the reduction in expenses for mobility. In particular:

- employee benefits expenses increased due to the higher expenses resulting from the increase in the contractual minimums established in the TLC National Collective Labor Agreement signed on February 1, 2013, in addition to the recognition of the notional costs connected to the commencement of the Broad-Based Share Ownership Plan and the Stock Option Plan (21 million euros). The increase was partially offset by the reduction in costs due to the decrease in the average salaried workforce by 573 employees (of which an average of 429 employees as a result of the application of the "Solidarity Contracts", which the Company has applied since the second quarter 2013);
- with regard to the expenses for mobility, a total of 5 million euros were recognized following the mobility agreement pursuant to Law 223/91 signed by the Company with trade unions on December 1, 2014 as a supplement to the agreement of April 5, 2013 (under the framework agreement of March 27, 2013). In the previous year, expenses totaling 15 million euros had been recognized for the mobility agreement pursuant to Law 223/91 signed by Telecom Italia with trade unions on April 5, 2013 (as part of the framework agreement of March 27, 2013).

The headcount at December 31, 2014 amounted to 44,164, a decrease of 222 from December 31, 2013.

Other operating expenses

Details are as follows:

(millions of euros)	2014	2013	Change
Write-downs and expenses in connection with credit management	292	280	12
Provision charges	2	11	(9)
TLC operating fees and charges	50	55	(5)
Indirect duties and taxes	70	76	(6)
Penalties, settlement compensation and administrative fines	68	72	(4)
Association dues and fees, donations, scholarships and traineeships	13	18	(5)
Sundry expenses	37	112	(75)
Total	**532**	**624**	**(92)**

Other operating expenses came to 532 million euros, a decrease of 92 million euros compared to 2013 (-14.7%), mainly attributable to sundry expenses, which in 2013 included 84 million euros of estimated costs for the fine imposed by the Italian Antitrust Authority (AGCM) at the end of the A428 proceedings.

Depreciation, amortization and capital expenditures

Depreciation and amortization charges amounted to 3,190 million euros (3,470 million euros in 2013), decreasing 280 million euros, with 112 million euros relating to the depreciation of tangible assets and 168 million euros to the amortization of intangible assets.
The decrease in depreciation was mainly due to the decrease in capital expenditure in recent years and was concentrated in the following areas: fixed-line and mobile transmission equipment (-17 million euros), fixed-line/mobile switching systems (-18 million euros), goods rented to customers (-16 million euros in the fixed-line segment and -33 million euros in the mobile segment), and underground cables (-14 million euros).
The amortization was essentially the result of the change in amortizable software assets and the already mentioned decrease in subscriber acquisition costs (SAC).

Capital expenditure amounted to 2,693 million euros (2,915 million euros in 2013), decreasing 222 million euros, as a result of a reduction in capital expenditure on intangible assets of 264 million euros, partially offset by the increase in capital expenditure on tangible assets of 42 million euros.

Gains (losses) on disposals of non-current assets

Gains/losses on disposal of non-current assets showed gains of 31 million euros (losses of 2 million euros in 2013). This performance was primarily attributable to the recognition of gains of 38 million euros, following the sale – which took place in March 2014 – of a building owned by Telecom Italia, located in Milan. The sale price was 75 million euros.

Impairment losses on non-current assets

There were no net impairment losses on non-current assets in 2014 (2,187 million euros in 2013 resulting from the impairment loss on goodwill for the Domestic Business Unit).
In preparing the 2014 Annual Report, the Company performed the goodwill impairment test. The results of that testing, carried out in accordance with the specific procedure adopted by the Telecom Italia Group, did not require the impairment of the goodwill allocated to the Group's domestic operations.
A more detailed analysis is provided in the Note "Goodwill" in the separate financial statements of Telecom Italia S.p.A. at December 31, 2014.

EBIT

EBIT amounted to 3,580 million euros, increasing 1,702 million euros from 2013 (1,878 million euros).
EBIT for 2014 reflected the positive effect of the reduction in depreciation and amortization (-280 million euros compared to 2013), as well as the already mentioned gain of 38 million euros following the sale of the company-owned building located in Milan. You are also reminded that the EBIT for 2013 reflected the goodwill impairment loss of 2,187 million euros on domestic operations.
The EBIT margin amounted to 25.3% (12.3% in 2013).

Income (expenses) from investments

This item was broken down as follows:

(millions of euros)	2014	2013	Change
Dividends	6	104	(98)
Other income and gains on disposals of investments	–	1	(1)
Other income from investments	–	2	(2)
Impairment losses on financial assets	(127)	(180)	53
Losses on disposals of investments	–	–	–
Total	**(121)**	**(73)**	**(48)**

In particular, the following is noted:

- dividends mainly related to the associate SIA (4 million euros). Dividends for 2013 mainly related to the subsidiaries Telecom Italia Sparkle (99 million euros) and Telecom Italia Digital Solutions (3 million euros).
- Impairment losses mainly related to write-downs of investments in subsidiaries (63 million euros for Telecom Italia Media, 33 million euros for Olivetti, 21 million euros for TI Information Technology, and 2 million euros for Telecontact) and in associates (6 million euros for Tiglio I). Impairment losses for 2013 related to write-downs of investments in subsidiaries (140 million euros for Telecom Italia Media, 13 million euros for Olivetti, 21 million euros for TI Information Technology, and 2 million euros for Telecontact) and in associates (1 million euros for Tiglio I).
- Gains on disposals of investments for 2013 related to the gain resulting from Adjustment Price for the sale of Matrix which took place at the end of 2012, whereas other income from investments for 2013 related to the proceeds from the liquidation of Tecnoservizi Mobili.

Finance income (expenses)

Finance income (expenses) shows net expenses of 2,160 million euros (net expenses of 1,987 million euros in 2013).
The performance resulted from the net effect of:

- reduction in finance expenses due to a decrease in the debt position;
- negative impact of approximately 37 million euros resulting from application (from 2013) of IFRS 13; positive impact of 51 million euros in 2013);
- issue by Telecom Italia Finance S.A. of the bond with mandatory conversion 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.), which resulted in the accounting recognition of the option embedded in the financial instrument ("embedded option") separately from the related liability. This optional component was initially recognized in the financial statements of Telecom Italia Finance; having been used as equity settlement, it was transferred at fair value on the financial statements of Telecom Italia S.p.A., simultaneously with the approval by the Shareholders' Meeting on December 20, 2013 of Telecom Italia share capital increase. The fair value measurement of the option at year-end resulted in a negative impact on the adjustments on non-hedging derivatives of 174 million euros (negative impact of 29 million euros at the end of 2013).

Income tax expense

Income tax expense amounted to 670 million euros, decreasing 176 million euros compared to 2013 (846 million euros), mainly due to the reduction in the taxable base.

Profit (loss) from Discontinued operations/Non-current assets held for sale

Net profit (loss) from discontinued operations/non-current assets held for sale shows a profit of 7 million euros (not present in 2013), relating to the dividends for the year 2013 from the company Sofora Telecomunicaciones.
It should be noted that in the Telecom Italia S.p.A. Separate Financial Statements the carrying amount of Sofora Telecomunicaciones has been classified under "Discontinued operations/Non-current assets held for sale", following the acceptance – on November 13, 2013 – of the purchase offer made by the Fintech Group for the shares held in that company. The transaction is part of a broader project involving the sale of the entire controlling stake in Telecom Argentina, both directly and through the subsidiaries Telecom Italia International, Sofora Telecomunicaciones, Nortel Inversora and Tierra Argentea. On October 24, 2014, Telecom Italia signed the amendment agreements of the contract for the sale of the interest in the Sofora - Telecom Argentina group to Fintech. In particular:

- the first closing took place on October 29, 2014 and, as a result, 17% of the Telecom Italia International's investment in Sofora was sold. A consideration was received for this closing – also including other related assets – totaling USD 215.7 million (around 170 million euros);
- the sale of the controlling interest of 51% in the capital of Sofora (32.50% held by Telecom Italia and 18.50% by Telecom Italia International) is due to take place within the following two and a half years, subject to approval by the Argentinian regulatory authority;
- also under the amendment agreements of the contract for the sale of the interest in the Sofora - Telecom Argentina group, Telecom Italia International issued, and Fintech fully subscribed a debt security with a value of USD 600.6 million, a term of 6 years and a fixed coupon of 4.325% per year, payable annually. The bond was guaranteed by Telecom Italia. In addition, at the time of issue of the bond by Telecom Italia International, the debt security was pledged in favor of Telecom Italia International N.V. and Telecom Italia S.p.A., as a guarantee of Fintech's future obligations to those companies under the sale agreement. Further details are provided in the Note "Contingent

liabilities, other information, commitments and guarantees" in the separate financial statements of Telecom Italia S.p.A. at December 31, 2014.

Profit (loss) for the year

The Parent, Telecom Italia S.p.A., posted a profit of 636 million euros in 2014 (loss of 1,028 million euros in 2013). Net of non-recurring items, the net profit (loss) for 2014 would have been a profit of 618 million euros (profit of 1,255 million euros in 2013).

FINANCIAL POSITION AND CASH FLOWS PERFORMANCE

Financial position structure

(millions of euros)	12/31/2014 (a)	12/31/2013 (b)	Change (a-b)
Assets			
Non-current assets	55,456	55,464	(8)
Goodwill	*28,424*	*28,424*	–
Other intangible assets	*4,015*	*4,420*	*(405)*
Tangible assets	*10,110*	*10,225*	*(115)*
Other non-current assets	*12,179*	*11,834*	*345*
Deferred tax assets	*728*	*561*	*167*
Current assets	6,093	7,023	(930)
Inventories, Trade and miscellaneous receivables and other current assets	*3,603*	*3,629*	*(26)*
Current income tax receivables	*80*	*101*	*(21)*
Current financial assets	*2,410*	*3,293*	*(883)*
Discontinued operations/Non-current assets held for sale	–	–	–
	61,549	**62,487**	**(938)**
Equity and liabilities			
Equity	16,506	16,580	(74)
Non-current liabilities	31,765	30,799	966
Current liabilities	13,278	15,108	(1,830)
Liabilities directly associated with Discontinued operations/Non-current assets held for sale	–	–	–
	61,549	**62,487**	**(938)**

Non-current assets

- Goodwill: unchanged compared to December 31, 2013
- Other intangible assets: down 405 million euros, representing the sum of the following:
  - capex (+971 million euros);
  - amortization charge for the year (-1,375 million euros);
  - disposals, reclassifications and other movements (-1 million euros).
- Tangible assets: down 115 million euros, representing the sum of the following;
  - capex (+1,722 million euros);
  - depreciation charge for the year (-1,815 million euros);
  - disposals, reclassifications and other movements (-22 million euros).

Equity

Equity amounted to 16,506 million euros, down 74 million euros compared to December 31, 2013 (16,580 million euros). The changes in equity during 2014 and 2013 are detailed in the following table:

(millions of euros)	2014	2013
At the beginning of the year	**16,580**	**17,729**
Profit (loss) for the year	636	(1,028)
Dividends approved	(166)	(454)
Issue of equity instruments and other changes	138	2
Movements in the reserve for available-for-sale financial assets and derivative hedging instruments	(475)	345
Movements in the reserve for remeasurements of employee defined benefit plans (IAS 19)	(207)	(14)
At the end of the year	**16,506**	**16,580**

Cash flows

Change in net financial debt

(millions of euros)	2014	2013	Change
EBITDA	6,739	7,537	(798)
Capital expenditures on an accrual basis	(2,693)	(2,915)	222
Change in net operating working capital:	(778)	(286)	(492)
Change in inventories	*42*	*(35)*	*77*
Change in trade receivables and net amounts due from customers on construction contracts	*(103)*	*769*	*(872)*
Change in trade payables (*)	*(386)*	*(391)*	*5*
Other changes in operating receivables/payables	*(331)*	*(629)*	*298*
Change in employee benefits	(48)	(33)	(15)
Change in operating provisions and Other changes	(81)	(27)	(54)
Net operating free cash flow	**3,139**	**4,276**	**(1,137)**
% of Revenues	*22.2*	*27.9*	
Sale of investments and other disposals flow	86	18	68
Financial investments flow	(43)	(174)	131
Dividends flow	(154)	(350)	196
Share capital increases/reimbursements	9	–	9
Financial expenses, income taxes and other net non-operating requirements flow	(3,088)	(2,264)	(824)
Reduction (Increase) in net financial debt	**(51)**	**1,506**	**(1,557)**

(*) Includes the change in trade payables for amounts due to fixed asset suppliers.

The reduction in net operating free cash flow in 2014 compared to 2013 (-1,137 million euros) was mainly due to the decrease in EBITDA (-798 million euros) and the performance of working capital (-492 million euros), primarily due to changes in trade receivables, whose effects were partially mitigated by the lower capital expenditure requirement.

With regard to the capital increase reserved to employees of the Group, under the Broad-Based Share Ownership Plan concluded in July 2014, the items "Change in employee benefits" and "Share capital increases/reimbursements" do not include the employee severance indemnity advances, amounting to 36 million euros, paid to employees of the Company to allow them to subscribe the shares servicing the Plan.

In addition to what has already been described with reference to EBITDA, net financial debt during 2014 was particularly impacted by the following items:

Flow of capital expenditures on an accrual basis

Capital expenditure amounted to 2,693 million euros (2,915 million euros in 2013), decreasing 222 million euros, as a result of a reduction in capital expenditure on intangible assets of 264 million euros, partially offset by the increase in capital expenditure on tangible assets of 42 million euros.

Sale of investments and other disposals flow

This item amounted to 86 million euros and was mainly generated by the above-mentioned sale of the property located in Milan, as well as the proceeds from the reimbursement of the investment in Tierra Argentea.

Financial investments flow

Financial investment flow amounted to 43 million euros and included the payments of 17 million euros for the acquisition of control of Trentino NGN and 8 million euros for the acquisition of direct control in Telecom Italia San Marino, in addition to payments made to subsidiaries and associates for share capital increases or replenishment of share capital and/or partial coverage of losses (primarily 10 million euros to Olivetti, 5 million euros to TI Information Technology, 1 million euros to Tierra Argentea, and 1 million euros to Telecom Italia Ventures).

Share capital increases/reimbursements

This item amounted to 9 million euros and was the result of the issuance of ordinary shares to service the 2014 Broad-Based Share Ownership Plan, subscribed by the employees of the companies of the Telecom Italia Group, and by the employees of Telecom Italia S.p.A., for amounts subscribed other than through the use of employee severance indemnities (bank transfer or loan).

Finance expenses, income taxes and other net non-operating requirements flow

Finance expenses, income taxes and other net non-operating requirements flow mainly includes the payment of income taxes, net finance expenses, and the change in non-operating receivables and payables.

Net financial debt

Net financial debt amounted to 33,423 million euros, increasing 51 million euros compared to 33,372 million euros at the end of 2013.
In addition to the usual indicator (renamed "Net financial debt carrying amount"), another indicator is also presented called "Adjusted net financial debt" which excludes effects that are purely accounting and non-monetary in nature deriving from the fair value measurement of derivatives and related financial assets and liabilities.
The details are as follows:

(millions of euros)	12/31/2014	12/31/2013	Change
Non-current financial liabilities			
Bonds	15,806	15,828	(22)
Amounts due to banks, other financial payables and liabilities	13,327	12,325	1,002
Finance lease liabilities	877	1,001	(124)
	30,010	**29,154**	**856**
Current financial liabilities (1)			
Bonds	1,846	1,406	440
Amounts due to banks, other financial payables and liabilities	5,736	7,288	(1,552)
Finance lease liabilities	165	188	(23)
	7,747	**8,882**	**(1,135)**
Total Gross financial debt	**37,757**	**38,036**	**(279)**
Non-current financial assets			
Financial receivables and other non-current financial assets	(1,924)	(1,371)	(553)
	(1,924)	**(1,371)**	**(553)**
Current financial assets			
Securities other than investments	(802)	(1,462)	660
Financial receivables and other current financial assets	(303)	(547)	244
Cash and cash equivalents	(1,305)	(1,284)	(21)
	(2,410)	**(3,293)**	**883**
Total financial assets	**(4,334)**	**(4,664)**	**330**
Net financial debt carrying amount	**33,423**	**33,372**	**51**
Reversal of fair value measurement of derivatives and related financial assets/liabilities	(1,942)	(1,063)	(879)
Adjusted net financial debt	**31,481**	**32,309**	**(828)**
Breakdown as follows:			
Total adjusted gross financial debt	**34,636**	**35,934**	**(1,298)**
Total adjusted financial assets	**(3,155)**	**(3,625)**	**470**
(1) *of which current portion of medium/long-term debt:*			
Bonds	*1,846*	*1,406*	*440*
Amounts due to banks, other financial payables and liabilities	*2,273*	*5,380*	*(3,107)*
Finance lease liabilities	*165*	*188*	*(23)*

The non-current portion of gross financial debt amounted to 30,010 million euros (29,154 million euros at the end of 2013) and represented 79.5% of total gross financial debt.
In line with the Group's objectives in terms of debt composition and in accordance Guidelines adopted for the "Management and control of financial risk", Telecom Italia S.p.A., in securing both third-party and intercompany loans, uses IRS and CCIRS derivative financial instruments to hedge its liabilities.
Derivative financial instruments are designated as fair value hedges for managing exchange rate risk on financial instruments denominated in currencies other than euro and for managing interest rate risk on fixed-rate loans. Derivative financial instruments are designated as cash flow hedges when the objective is to fix the exchange rate and interest rate of future variable contractual flows.

To better represent the real performance of Net Financial Debt, from 2009, in addition to the usual indicator (renamed "Net financial debt carrying amount"), a measure called "Adjusted net financial debt" has also been shown, which neutralizes the effects caused by the volatility of financial markets. Given that some components of the fair value measurement of derivatives (contracts for setting exchange and interest rates for contractual flows) and derivatives embedded in other financial instruments do not result in actual monetary settlement, the "Adjusted net financial debt" excludes these purely accounting and non-monetary effects (including the effects resulting from the introduction of IFRS 13 from January 1, 2013) from the measurement of derivatives and related financial assets/liabilities.

Sales of receivables to factoring companies

The sales of trade receivables to factoring companies completed in 2014 resulted in a positive effect on net financial debt at December 31, 2014 of 1,212 million euros (1,353 million euros at December 31, 2013). On August 4, 2014, Telecom Italia S.p.A. sold IRES tax receivables without recourse for 303 million euros. The sale of these receivables, which had arisen in 2012 pursuant to Decree Law 16/2012 and were recognized in the 2012 financial statements at December, generated net proceeds and a positive impact on financial debt of 231 million euros.

Gross financial debt

Bonds

Bonds at December 31, 2014 totaled 17,652 million euros (17,234 million euros at December 31, 2013). Their nominal repayment amount was 16,889 million euros, up 311 million euros compared to December 31, 2013 (16,578 million euros).

The change in bonds during 2014 is detailed below:

(millions of original currency)	Currency	Amount	Issue date
New issues			
Telecom Italia S.p.A. 1,000 million euros 4.500% maturing 1/25/2021	Euro	1,000	1/23/2014
Telecom Italia S.p.A. USD 1,500 million 5.303% maturing 5/30/2024	USD	1,500	5/30/2014

(millions of original currency)	Currency	Amount	Repayment date
Repayments			
Telecom Italia S.p.A. 284 million euros 7.875% [(1)]	Euro	284	1/22/2014
Telecom Italia S.p.A. 750 million euros 7.750% [(2)]	Euro	750	3/3/2014
Telecom Italia S.p.A. 501 million euros 4.750% [(3)]	Euro	501	5/19/2014

(1) Net of buybacks by the Company for 216 million euros during 2012.

(2) Telecom Italia decided to use the right to early redemption 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 securities.

(3) Net of buybacks by the Company of 249 million euros during 2008, 2012 and 2014.

On March 18, 2014, Telecom Italia S.p.A. successfully concluded the buyback offer on four bond issues maturing between May 2014 and March 2016, buying back a total nominal amount of 599 million euros.

Details of the bond issues bought back are provided below:

Bond Name	Outstanding nominal amount prior to the purchase offer (euro)	Repurchased nominal amount (euro)	Buyback price
Buybacks			
Telecom Italia S.p.A. - 750 million euros, maturing May 2014, coupon 4.75%	556,800,000	56,150,000	100.700%
Telecom Italia S.p.A. - 750 million euros, maturing June 2015, coupon 4.625%	750,000,000	172,299,000	104.370%
Telecom Italia S.p.A. - 1 billion euros, maturing January 2016, coupon 5.125%	1,000,000,000	228,450,000	106.587%
Telecom Italia S.p.A. - 850 million euros, maturing March 2016, coupon 8.25%	850,000,000	142,020,000	112.913%

In reference to the Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group, at December 31, 2014, the figure was 196 million euros (nominal amount) and decreased by 2 million euros compared to December 31, 2013 (198 million euros).

Revolving Credit Facility and Term Loan

The following table shows the composition and the draw down of the committed credit lines available at December 31, 2014:

(billions of euros)	12/31/2014		12/31/2013	
	Agreed	Drawn down	Agreed	Drawn down
Revolving Credit Facility – expiring August 2014	-	-	8.0	1.5
Revolving Credit Facility – expiring May 2017	4.0	-	-	-
Revolving Credit Facility – expiring March 2018	3.0	-	-	-
Total	**7.0**	**-**	**8.0**	**1.5**

On August 1, 2014, i.e. the date of expiry of the 8 billion euro committed Revolving Credit Facility, the amount drawn down of 1.5 billion euros was repaid.
On the same date, the two RCFs became available for drawdown by a total of 7 billion euros. On May 24, 2012 and on March 25, 2013, Telecom Italia S.p.A. had extended the Revolving Credit Facility amounting to 8 billion euros and expiring in August 2014 ("2014 RCF") by 4 and 3 billion euros respectively, through two Forward Start Facilities that would come into force at the end of the 2014 RCF.
Telecom Italia also has a bilateral term loan expiring August 3, 2016, for 100 million euros from Banca Regionale Europea, drawn down for the full amount.
On October 20, 2014, a bilateral term loan was signed with Cassa Depositi e Prestiti for an amount of 150 million euros with a 5-year expiry, drawn down for the full amount.
On November 10, 2014, a bilateral term loan was signed with Mediobanca for an amount of 200 million euros with a 5-year expiry, drawn down for the full amount.

Maturities of financial liabilities

The average maturity of non-current financial liabilities (including the current portion of medium/long-term financial liabilities due within 12 months) is 6.89 years.
Details of the maturities of financial liabilities in terms of expected nominal repayment amounts, as contractually agreed, are provided in the Notes "Financial Liabilities (current and non-current)" and "Financial Risk Management" in the separate financial statements of Telecom Italia S.p.A. at December 31, 2014.

Financial assets

Financial assets totaled 4,334 million euros (4,664 million euros at December 31, 2013), of which 964 million euros relating to financial receivables from Group companies.

It should also be noted that 2,410 million euros (3,293 million euros at December 31, 2013) have been classified as current financial assets. This level of current assets, together with unused committed credit lines of 7,000 million euros, allows the Company to amply meet its repayment obligations.

In particular:

- **Cash and cash equivalents** amounted to 1,305 million euros (1,284 million euros at December 31, 2013). The different technical forms of investing available cash at December 31, 2014 can be broken down as follows:
  - Maturities: investments have a maximum maturity of three months;
  - Counterparty risk: investments are made with leading banking and financial institutions with high-credit-quality;
  - Country risk: deposits have been made mainly in major European financial markets.

- **Securities other than investments** amounted to 802 million euros (1,462 million euros at December 31, 2013). These forms of investment represent alternatives to the investment of liquidity with the aim of raising the return. They consist of:
  - Italian treasury bonds (254 million euros) and Treasury Credit Certificates (5 million euros assigned to Telecom Italia S.p.A. as the holder of trade receivables, as per Italian Ministry of Economy and Finance Decree of December 3, 2012). The purchases of BTPs and CCTs, which, pursuant to Consob Communication DEM/11070007 of August 5, 2011, represent investments in "Sovereign debt securities", have been purchased 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. For more details see the Note "Financial risk management" in the separate financial statements of Telecom Italia S.p.A. at December 31, 2014;
  - securities held in portfolio by Telecom Italia S.p.A. for a total nominal amount of 635 million euros, resulting from the buyback offer on bonds of Telecom Italia Capital S.A. completed on June 3, 2013.

FINANCIAL STATEMENTS - TELECOM ITALIA S.p.A.

Separate Income Statements

(millions of euros)	2014	2013	Change amount	Change %
Revenues	**14,153**	**15,304**	**(1,151)**	**(7.5)**
Other income	274	256	18	7.0
Total operating revenues and other income	**14,427**	**15,560**	**(1,133)**	**(7.3)**
Acquisition of goods and services	(5,093)	(5,434)	341	6.3
Employee benefits expenses	(2,277)	(2,251)	(26)	(1.2)
Other operating expenses	(532)	(624)	92	14.7
Change in inventories	(43)	42	(85)	
Internally generated assets	257	244	13	5.3
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	**6,739**	**7,537**	**(798)**	**(10.6)**
Depreciation and amortization	(3,190)	(3,470)	280	8.1
Gains (losses) on disposals of non-current assets	31	(2)	33	
Impairment reversals (losses) on non-current assets	–	(2,187)	2,187	-
Operating profit (loss) (EBIT)	**3,580**	**1,878**	**1,702**	**90.6**
Income (expenses) from investments	(121)	(73)	(48)	(65.8)
Finance income	2,435	2,458	(23)	(0.9)
Finance expenses	(4,595)	(4,445)	(150)	(3.4)
Profit (loss) before tax from continuing operations	**1,299**	**(182)**	**1,481**	
Income tax expense	(670)	(846)	176	20.8
Profit (loss) from continuing operations	**629**	**(1,028)**	**1,657**	
Profit (loss) from Discontinued operations/Non-current assets held for sale	7	–	7	
Profit (loss) for the year	**636**	**(1,028)**	**1,664**	

Statements of Comprehensive Income

In accordance with IAS 1 (Presentation of Financial Statements), which came into effect on January 1, 2009, the following statements of comprehensive income include the profit (loss) for the year as shown in the separate consolidated income statements and all non-owner changes in equity.

(millions of euros)		2014	2013
Profit (loss) for the year	**(a)**	**636**	**(1,028)**
Other components of the Statements of Comprehensive Income:			
Other components that subsequently will not be reclassified in the separate income statements			
Remeasurements of employee defined benefit plans (IAS 19):			
Actuarial gains (losses)		(186)	(19)
Net fiscal impact		51	5
		(135)	**(14)**
Total other components that subsequently will not be reclassified in the separate income statements	**(b)**	**(135)**	**(14)**
Other components that subsequently will be reclassified in the separate income statements			
Available-for-Sale financial assets			
Profit (loss) from fair value adjustments		67	(26)
Loss (profit) transferred to the Separate Income Statement		–	–
Net fiscal impact		(18)	8
	(c)	**49**	**(18)**
Hedging instruments:			
Profit (loss) from fair value adjustments		(489)	175
Loss (profit) transferred to the Separate Income Statements		(234)	326
Net fiscal impact		199	(138)
	(d)	**(524)**	**363**
Total other components that subsequently will be reclassified in the separate income statements	**(e = c+d)**	**(475)**	**345**
Total other components of the statements of comprehensive income	**(f= b+e)**	**(610)**	**331**
Total comprehensive income (loss) for the year	**(a+f)**	**26**	**(697)**

Statements of Financial Position

(millions of euros)		12/31/2014 (a)	12/31/2013 (b)	Change (a-b)
Assets				
Non-current assets				
Intangible assets				
Goodwill		28,424	28,424	–
Intangible assets with a finite useful life		4,015	4,420	(405)
		32,439	**32,844**	**(405)**
Tangible assets				
Property, plant and equipment owned		9,268	9,307	(39)
Assets held under finance leases		842	918	(76)
		10,110	**10,225**	**(115)**
Other non-current assets				
Investments		9,243	9,329	(86)
Non-current financial assets		1,924	1,371	553
Miscellaneous receivables and other non-current assets		1,012	1,134	(122)
Deferred tax assets		728	561	167
		12,907	**12,395**	**512**
Total Non-current assets	**(a)**	**55,456**	**55,464**	**(8)**
Current assets				
Inventories		111	154	(43)
Trade and miscellaneous receivables and other current assets		3,492	3,475	17
Current income tax receivables		80	101	(21)
Current financial assets				
Securities other than investments, financial receivables and other current financial assets		*1,105*	*2,009*	*(904)*
Cash and cash equivalents		*1,305*	*1,284*	*21*
		2,410	3,293	(883)
Current assets sub-total		**6,093**	**7,023**	**(930)**
Discontinued operations/Non-current assets held for sale		**–**	**–**	**–**
Total Current assets	**(b)**	**6,093**	**7,023**	**(930)**
Total Assets	**(a+b)**	**61,549**	**62,487**	**(938)**
Equity and liabilities				
Equity				
Share capital issued		10,724	10,694	30
less: Treasury shares		(21)	(21)	–
Share capital		**10,703**	**10,673**	**30**
Paid-in capital		**1,725**	**1,704**	**21**
Other reserves and retained earnings (accumulated losses), including profit (loss) for the year		**4,078**	**4,203**	**(125)**
Total Equity	**(c)**	**16,506**	**16,580**	**(74)**
Non-current liabilities				
Non-current financial liabilities		30,010	29,154	856
Employee benefits		910	762	148
Deferred tax liabilities		2	2	–
Provisions		484	469	15
Miscellaneous payables and other non-current liabilities		359	412	(53)
Total Non-current liabilities	**(d)**	**31,765**	**30,799**	**966**
Current liabilities				
Current financial liabilities		7,747	8,882	(1,135)
Trade and miscellaneous payables and other current liabilities		5,531	6,226	(695)
Current income tax payables		–	–	–
Current liabilities sub-total		**13,278**	**15,108**	**(1,830)**
Liabilities directly associated with Discontinued operations/Non-current assets held for sale		**–**	**–**	**–**
Total Current Liabilities	**(e)**	**13,278**	**15,108**	**(1,830)**
Total Liabilities	**(f=d+e)**	**45,043**	**45,907**	**(864)**
Total Equity and Liabilities	**(c+f)**	**61,549**	**62,487**	**(938)**

Statements of Cash Flows

(millions of euros)		2014	2013
Cash flows from operating activities:			
Profit (loss) from continuing operations		629	(1,028)
Adjustments for:			
Depreciation and amortization		3,190	3,470
Impairment losses (reversals) on non-current assets (including investments)		132	2,371
Net change in deferred tax assets and liabilities		65	140
Losses (gains) realized on disposals of non-current assets (including investments)		(31)	1
Change in employee benefits		(48)	(33)
Change in inventories		43	(35)
Change in trade receivables and net amounts due from customers on construction contracts		(103)	769
Change in trade payables		(112)	(388)
Net change in current income tax receivables/payables		332	(53)
Net change in miscellaneous receivables/payables and other assets/liabilities		(396)	(667)
Cash flows from (used in) operating activities	**(a)**	**3,701**	**4,547**
Cash flows from investing activities:			
Purchase of intangible assets on an accrual basis		*(971)*	*(1,235)*
Purchase of tangible assets on an accrual basis		*(1,722)*	*(1,680)*
Total purchase of intangible and tangible assets on an accrual basis		(2,693)	(2,915)
Change in amounts due to fixed asset suppliers		*(360)*	*(81)*
Total purchase of intangible and tangible assets on a cash basis		(3,053)	(2,996)
Acquisitions/disposals of control of subsidiaries or other businesses, net of cash acquired		(1)	5
Acquisitions/disposals of other investments		(43)	(174)
Change in financial receivables and other financial assets		337	(108)
Proceeds from sale/repayment of intangible, tangible and other non-current assets		86	18
Cash flows from (used in) investing activities	**(b)**	**(2,674)**	**(3,255)**
Cash flows from financing activities:			
Change in current financial liabilities and other		2,295	(194)
Proceeds from non-current financial liabilities (including current portion)		4,411	2,441
Repayments of non-current financial liabilities (including current portion)		(7,518)	(3,025)
Share capital proceeds/reimbursements		9	–
Dividends paid		(166)	(454)
Cash flows from (used in) financing activities	**(c)**	**(969)**	**(1,232)**
Cash flows from (used in) Discontinued operations/Non-current assets held for sale	**(d)**	**7**	**–**
Aggregate cash flows	**(e=a+b+c+d)**	**65**	**60**
Net cash and cash equivalents at beginning of the year	**(f)**	**971**	**911**
Net cash and cash equivalents at end of the year	**(g=e+f)**	**1,036**	**971**

Additional Cash Flow Information

(millions of euros)	2014	2013
Income taxes (paid) received	(352)	(759)
Interest expense paid	(4,928)	(4,419)
Interest income received	3,230	2,708
Dividends received	12	104

Analysis of Cash and Cash Equivalents

(millions of euros)	2014	2013
Net cash and cash equivalents at beginning of the year:		
Cash and cash equivalents	1,284	2,146
Bank overdrafts repayable on demand	(313)	(1,235)
	971	**911**
Net cash and cash equivalents at the end of the year:		
Cash and cash equivalents	1,305	1,284
Bank overdrafts repayable on demand	(269)	(313)
	1,036	**971**

RECONCILIATION OF CONSOLIDATED EQUITY

(millions of euros)	Profit (loss) for the year		Equity at 12/31	
	2014	2013	2014	2013
Equity and Profit (Loss) for the year of Telecom Italia S.p.A.	**636**	**(1,028)**	**16,506**	**16,580**
Equity and Profit (Loss) for the year of consolidated companies, net of the share attributable to Non-controlling interests	1,055	790	18,102	17,501
Consolidation adjustments on the Equity and Profit (Loss) for the year attributable to owners of the Parent:				
elimination of carrying amount of consolidated investments	–	–	(29,459)	(29,707)
impairment losses of consolidated companies included in the results of parent companies	96	197	10,927	11,011
elimination of goodwill recognized in Parent financial statements	–	2,187	(28,424)	(28,424)
recognition of positive differences arising from purchase of investments, of which:				
- goodwill	–	(2,187)	29,735	29,733
- allocation of the purchase price to the net assets acquired and the liabilities assumed in the business combinations	(4)	(22)	109	143
measurement of hedging derivatives at Group level	(8)	(53)	650	226
effect of elimination of carrying amount of Parent's shares held by Telecom Italia Finance	–	–	(110)	(90)
intra-group dividends	(450)	(596)	–	–
other adjustments	25	38	109	88
Equity and Profit (Loss) for the year attributable to owners of the Parent	**1,350**	**(674)**	**18,145**	**17,061**
Equity and Profit (Loss) for the year attributable to Non-controlling interests	610	436	3,554	3,125
Equity and Profit (Loss) for the year in the consolidated financial statements	**1,960**	**(238)**	**21,699**	**20,186**

SOCIAL AND ENVIRONMENTAL IMPACTS OF OPERATIONS AND THEIR ECONOMIC ASPECTS

The changes taking place in the environment and society create economic risks, as well as commercial opportunities for Telecom Italia. Accordingly, an analysis was conducted to understand the importance for the Company of elements stakeholders are interested in ("materiality analysis"). Among other aspects, this analysis revealed the weight of costs linked to high energy tariffs and the opportunity created by the sales of services that have environmental and social impacts, such as services that allow businesses and households to reduce their utilities, or services cities can use to reduce their greenhouse gas emissions or, in the social arena, remote medical or distance learning services. Below several cases are illustrated where social and environmental factors had direct economic impacts on Telecom Italia and, lastly, the materiality analysis is briefly described. For the details of the analysis, see the sustainability section of this Report.

EFFICIENCY IMPROVEMENTS IN ENVIRONMENTAL COSTS – REDUCTION IN UTILITIES

Telecom Italia is the second largest consumer of electricity in Italy, consuming 2.4 TWh of energy per year. The technological developments initiated during 2014 mainly linked to the NGAN implementation plan and the LTE technology are causing a growth in energy consumption in the fixed line and mobile areas. However, the efficiency measures carried out during the year partially canceled out the growth driven by the implementation of the new infrastructures, limiting the increase in consumption. The measures included the extensive upgrading of the lighting system, the increase in self generation from both renewable sources and trigeneration plants, energy management, and the modernization of energy stations and refrigerator units. Telecom Italia has set up an extensive network of sensors (28,000 submeters, installed at over 2,600 sites, 55% of the Group's consumption) for real-time monitoring and control of the use of electricity at its locations. These measures enabled a reduction in consumption of over 70GWh, limiting the growth in consumption to around 30GWh (the growth would have been over 100GWh without these energy efficiency measures), for an estimated total saving of around 12 million euros.

In 2014, the scope of the ISO 50001 certificate was also extended to other sites and the ISO 14064 certification was obtained. Telecom Italia's energy efficiency was also acknowledged through the assignment of White Certificates (TEE) in 2014 for 27 projects relating to previous years, corresponding to savings of around 47,000 TOE per year.

OPTIMIZATION OF SOCIAL COSTS – ENGAGEMENT WITH WORKERS' REPRESENTATIVES

Telecom Italia places a significant focus on listening to and engaging workers' representatives in many areas of work, including the reorganization process. As a result, agreements can be reached for efficiency improvement plans that are able to reconcile the needs of workers with those of the Company. In particular, a long, complicated negotiation process was successfully concluded with the signing of a framework agreement to manage expected redundancies. The negotiations were driven by the intention to achieve open dialog, and the agreement reached is the tangible proof of this. As a result of the Agreement, "defensive" solidarity contracts will be applied, combined with the strategic role of training as the fundamental driver of professional retraining and requalification to counter redundancies. A "defensive" solidarity contract is an agreement that involves reducing working hours in order to avoid reducing the workforce. The workers involved in the application of the contract shall receive a partial reimbursement by the INPS of the remuneration not received as a result of the reduction in working hours.

In 2014, the benefits on the cost of labor deriving from the solidarity contracts amounted to 145 million euros for the Group (108 million euros in 2013) and around 121 million euros for Telecom Italia S.p.A. (92 million euros in 2013).

GROWTH OPPORTUNITIES

At the present time, ICT services for environmental protection and to improve people's quality of life are still niche services. However, they are showing positive growth rates and are likely to see a widespread expansion in the future. Telecom Italia's laboratories have been involved in research and development of these types of services for some time, some of which have already moved from testing to the market. Thus, customers are provided with a wide range of solutions aimed at reducing utilities, lowering CO2 emissions, improving health-care services and bureaucracy, and increasing individuals' safety and security. The numerous services offered by Telecom Italia (described on http://www.nuvolaitaliana.it/soluzioni-verticali/), include, in relation to the environment, Nuvola It Energreen, the services platform for managing energy issues that enables companies and publicly-owned entities to record their consumption profiles and efficiently and effectively manage them. This meets the following primary needs:

- knowledge and certainty of consumption to identify unusual trends and profiles: becoming aware of consumption results in savings that can reach 8% of the total;
- governance of the energy consumption process within individual enterprises;
- implementation of efficiency improvement policies and measurable action plans.

For Nuvola It Energreen alone, sales for 2014 came to just under half a million euros. The market for videoconferencing solutions continues to grow, with increases above 10% per year, and a turnover of close to 8 million euros in 2014. Available in varying commercial packages, tailored to the needs of small, medium-sized and large companies, with service and quality levels up to high definition and telepresence, the videoconferencing services can drastically reduce the number of physical transfers and, consequently, of CO2.

The Telecom Italia Group is increasingly committed to the development of Digital Health Services, designed to meet the needs of doctors and patients of both public and private facilities, through:

- platforms for the remote monitoring of the main vital signs, remote consultation, remote medical aid, remote diagnosis, remote medical reporting, and remote assistance for patients;
- solutions for acquiring and storing health information such as personal details, patient classification, measurements of clinical parameters, pharmacotherapy, laboratory test results, and X-ray images, specific to each patient (also accessible via tablet);
- services for the legal management of diagnostic images (X-rays, ultrasound, CT, MRI, etc.) and health documents (reports, certificates, etc.).

The Digital Health services make the organization and management of medical assistance easier, more effective, more economical and more accessible to the public. The spread of these solutions has increased significantly in recent years, reaching a value, in 2014, of around 3 million euros, half of which via Cloud solutions.

Many other vertical solutions are offered on the market that directly or indirectly contribute to reducing consumption and emissions through optimization and efficiency improvement. For example, fleet localization services that enable cost and consumption optimization through satellite GPS localization and integrated instruments for managing commercial vehicle fleets and planning their movements. The set of Nuvola It Localizza, My Fleet Platform, Nuvola It Public Drive, and Nuvola It Your WAY solutions almost doubled turnover in 2014, bringing in a revenue of almost 5 million euros.

MATERIALITY ANALYSIS

To gain an understanding of its stakeholders' priorities, Telecom Italia conducted an assessment of the relative importance of various issues, linked to sustainability, emerging from numerous national and international information sources, from inside and outside the Group. These issues were analyzed both from an internal and external perspective.

The internal perspective was provided by top management, which, thanks to the involvement of a significant sample of representatives of all the company functions, was able to express an opinion on the relevance of each issue for Telecom Italia.
To gather the external perspective, on the other hand, two focus groups were organized, consisting of employees representing the functions that usually have contact with the Group's various categories of stakeholder. These employees were asked to assess the relevance of the issues in relation to the perceptions of those stakeholders.
By assessing the results of the analyses conducted, it was possible to assign a priority to the issues and construct a materiality matrix for the Group. In particular, the results revealed the importance both for stakeholders and for the Company of innovation in services (including services with social and environmental aspect) and the management of the workforce. In contrast, energy consumption was found to be very important from the Company's perspective, but less so for stakeholders. The analysis is described in detail in the Sustainability section of this Report.

CORPORATE BOARDS AT DECEMBER 31, 2014

BOARD OF DIRECTORS

The shareholders' meeting held on April 16, 2014 appointed the new board of directors of the Company, composed of 13 directors, with a three-year term of office, until the approval of the financial statements for the year ended December 31, 2016). The same shareholders' meeting also appointed Giuseppe Recchi as Chairman of the Company's board of directors.
On April 18, 2014, the board of directors appointed Marco Patuano as Chief Executive Officer of the Company.
As a result, the Board of Directors of the Company is now composed as follows:

Chairman	Giuseppe Recchi
Chief Executive Officer	Marco Patuano
Directors	Tarak Ben Ammar Davide Benello (independent) Lucia Calvosa (independent) Flavio Cattaneo (independent) Laura Cioli (independent) Francesca Cornelli (independent) Jean Paul Fitoussi Giorgina Gallo (independent) Denise Kingsmill (independent) Luca Marzotto (independent) Giorgio Valerio (independent)
Secretary to the Board	Antonino Cusimano

All the board members are domiciled for the positions they hold in Telecom Italia at the registered offices of the Company in Milan, Via G. Negri 1.
The board of directors also renewed the internal committees, without changing their duties, respectively appointing the following members:

- **Control and Risk Committee -** the Directors: Lucia Calvosa (Chairman appointed in the meeting of May 8, 2014), Laura Cioli, Francesca Cornelli, Giorgina Gallo and Giorgio Valerio;
- **Nomination and Remuneration Committee -** the Directors: Davide Benello (Chairman appointed in the meeting of May 9, 2014), Flavio Cattaneo, Jean Paul Fitoussi and Denise Kingsmill.

BOARD OF STATUTORY AUDITORS

The ordinary shareholders' meeting of May 15, 2012 appointed the Company's Board of Statutory Auditors with a term up to the approval of the 2014 financial statements.
At the shareholders' meeting of April 17, 2013, Roberto Capone formerly alternate auditor, was appointed acting auditor, after substituting for Sabrina Bruno who had resigned, and Fabrizio Riccardo Di Giusto was appointed alternate auditor. Their terms of office were aligned to those of the other members of the Board of Statutory Auditors. The Board of Statutory Auditors of the Company is now composed as follows:

Chairman	Enrico Maria Bignami
Acting Auditors	Roberto Capone Gianluca Ponzellini Salvatore Spiniello Ferdinando Superti Furga
Alternate Auditors	Ugo Rock Vittorio Mariani Franco Patti Fabrizio Riccardo Di Giusto

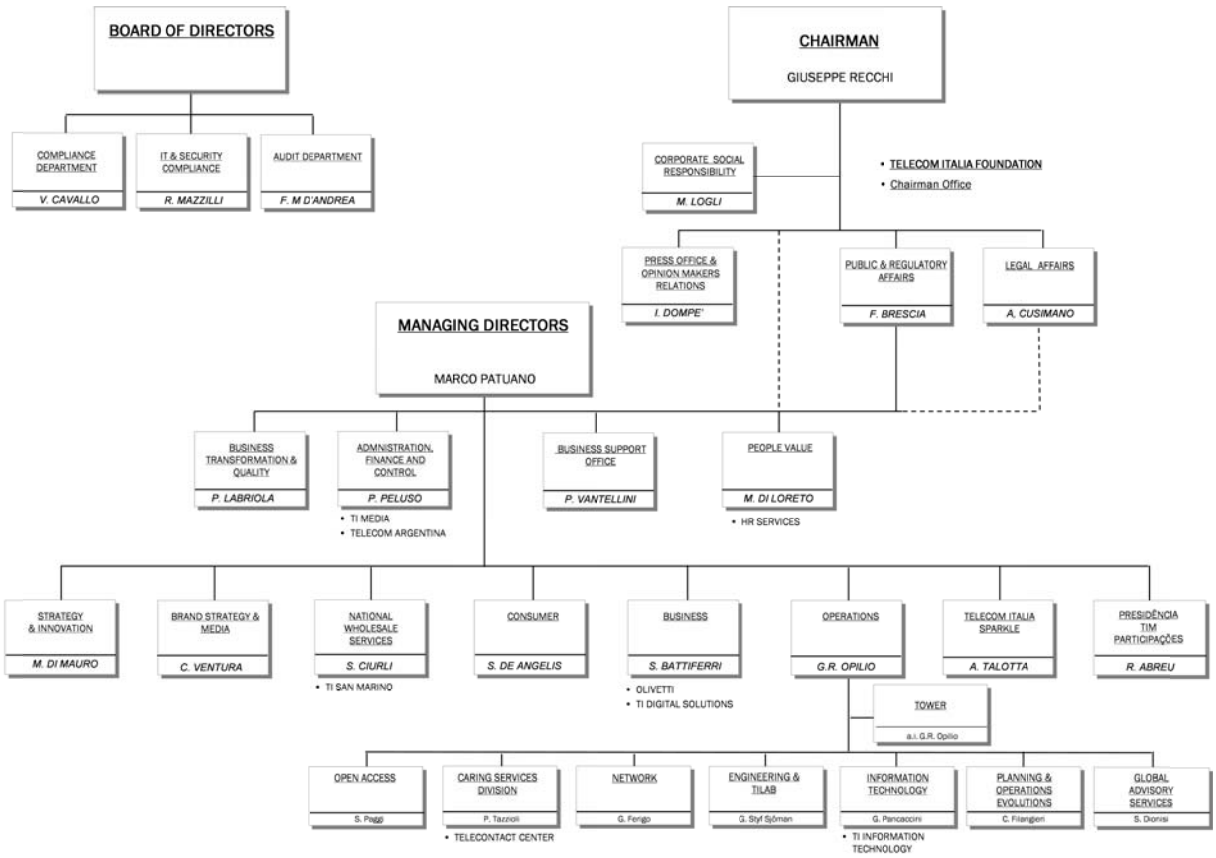
INDEPENDENT AUDITORS

The shareholders' meeting held on April 29, 2010 appointed the audit firm of PricewaterhouseCoopers S.p.A. to audit the Telecom Italia financial statements for the nine-year period 2010-2018.

MANAGER RESPONSIBLE FOR PREPARING THE CORPORATE FINANCIAL REPORTS

At the meeting of April 18, 2014, the board of directors confirmed Piergiorgio Peluso (Head of the Group Administration, Finance and Control Function) as the manager responsible for preparing Telecom Italia's financial reports.

MACRO-ORGANIZATION CHART AT DECEMBER 31, 2014



SUSTAINABILITY SECTION

INTRODUCTION

Telecom Italia began to deal with sustainability in 1997 by creating a department dedicated to publishing the first socio-environmental report. Since then we have been analysing the Group's performance in respect of the major stakeholders with whom it interacts: Customers, Suppliers, the Environment, the Community, Human Resources, Competitors, Institutions and Shareholders.
As a demonstration of the importance attached to this subject, as of 2002, information and indicators regarding sustainability have been incorporated into the Report on Operations, which is consistent with the Group's desire to present financial and non-financial data together.

REFERENCES AND GOVERNANCE

The Telecom Italia Group operates with the conviction that business activities must be conducted in a way that considers the expectations of stakeholders, in keeping with the principles established by internationally recognised standards. In defining and implementing its sustainability strategy and programmes, the Group is inspired by the guidelines issued by the main global guidance and standardisation organisations in the field of Corporate Responsibility.

In 2002, Telecom Italia subscribed to the principles of the main point of reference at the global level, that is, the Global Compact, which was launched in 2000 by the UN to promote the protection of the environment, respect for human rights and working standards, and anti-corruption practices.
The System of Sustainability Management also takes into account the principal reference regulations and international standards:

- European Commission directives, recommendations and communications;
- the OCSE guidelines directed at multinational enterprises;
- the ISO 9000 and ISO 14000 certificates governing Quality and Environmental Management Systems;
- principles of the International Labour Organization (ILO) Conventions on respecting the fundamental rights of workers;
- the Social AccountAbility 8000 standard (SA 8000), aimed at promoting respect for human rights and working conditions by companies and their supply chains;
- AA1000 AccountAbility Principles Standard (APS 2008) drawn up by AccountAbility, an international organisation which promotes collaboration between stakeholders, and lays down standards and guidelines on matters of sustainability. The APS 2008 establishes the principles that a Company must respect in order to define itself as accountable, which are covered in the Reporting section;
- ISO 26000 guidelines for private and public organisations of all sizes.

The Group’s Corporate Governance system is founded on the central role of the Board of Directors and the independent administrators, the transparency of management decisions, the effectiveness of the Internal Control System and on the strict regulations on potential conflicts of interest. The Internal Control System includes the Organisational Model pursuant to Legislative Decree No. 231 of June 8, 2001, aimed at preventing offences such as corruption, extortion and corporate offences.
Sustainability is subject to the supervision of the Committee for Control and Risks, which ensures the consistency of actions carried out by Group companies and the Fondazione Telecom Italia with the principles of the Group's Code of Ethics and Conduct and with the values adopted by the Group. The Committee also monitors the development of laws, regulations and best practice regarding corporate social responsibility.

PLACEMENT IN THE INDEXES

Sustainability indexes are stock indexes in which securities are selected on the basis of economic-financial parameters as well as social and environmental criteria. The selection process is carried out by specialised agencies that assess companies on the basis of publicly available information or questionnaires, taking account of opinions expressed by the media and stakeholders. Inclusion in these indexes is an important achievement for companies because of the positive effects on their reputation and because, in addition to the pension funds and ethical funds, an ever increasing number of investors favour these companies, considering them to be less risky and more promising in the medium to long term.
Taking part in the process of evaluation is, moreover, a timely moment for reflection within the company on the results achieved. In fact, the suggestions of the rating agencies at the end of the process are taken into careful consideration when planning improvement actions in the future.

In 2014, Telecom Italia was not only confirmed for the eleventh year running in both the sustainability index categories of the Dow Jones (Dow Jones Sustainability Index World and Europe) but also emerged as the industry leader in its sector, the only Italian company to achieve this recognition.

Furthermore, in 2014, Telecom Italia was included for the first time in the Climate Disclosure Leadership Index (CDLI) of the Carbon Disclosure Project (CDP).

Telecom Italia has been included in the Financial Times Stock Exchange for Good (FTSE4Good) Global and Europe series since its inception.

Telecom Italia is also included in the following indexes:

- Euronext Vigeo:
  - Europe 120;
  - Eurozone 120.

- Ethibel Sustainability Indexes (ESI):
  - Excellence Europe;
  - Excellence Global.

- ECPI Indexes:
  - ECPI Euro Ethical Equity;
  - ECPI EMU Ethical Equity.

Finally, Telecom Italia is classified as "prime" in the OEKOM rating

Tim Participações, the listed holding company of the TIM Brasil Group, has had its position confirmed in the ISE (Índice de Sustentabilidade Empresarial) index, managed by BM&F Bovespa (the São Paolo stock exchange) together with the Brazilian Environment Ministry and other financial sustainability organisations.

REPORTING

Scope and criteria

The Sustainability Report complies with the same accounting principles and the same consolidation scopes as the Consolidated Financial Statements, except for some information (particularly associated with environmental performance) which is highlighted in the text[1].

[1] In accordance with the materiality principle, in these cases only information relating to companies with more than 40 employees and a turnover of more than 300,000 euros are included. Furthermore, for environmental data, in order to allow a proper assessment of the trend, the scope used in previous years is reclassified according to the last year.

In accordance with the triple bottom line[1] approach, the company's economic and financial data has to be shown together with the environmental and social results. The overall analysis of company performance including all three dimensions provides stakeholders with complete and comprehensive information and allows interests to be balanced in a way that guarantees the success and survival of the company in the medium and long term. For this reason, as of 2003, the Group has integrated the sustainability data in the Consolidated Financial Statements, in fact preceding the application of European Directive 51/2003, which was transposed in Italy by Legislative Decree No. 32 of February 2, 2007.
The Sustainability Report, which is drawn up for every calendar year, complies with the same deadlines as the Group's Annual Financial Report and is based on a multi-stakeholder approach, involving the joint analysis of actions taken in respect of the main stakeholders with whom the Company interacts. This is drawn up according to a system of indicators (KPI - Key Performance Indicators) which measure the company's performance and the degree of achievement of objectives previously established for areas in which the Company has major impact.

The KPIs are defined on the basis of:

- the analysis of the Global Reporting Initiative (GRI), an international organisation which develops universally applicable guidelines for drawing up sustainability reports;
- the demands received from stakeholders;
- the questionnaires sent out by the leading rating agencies for the purpose of admission to the stock market sustainability indexes;
- the experience the Company has gained in the field of sustainability in over 18 years.

The KPIs are managed on a dedicated application system (BPC) that uses the same platform used for financial reporting and controlling.

AccountAbility 1000

The sustainability report[2] is based on the AA1000 AccountAbility Principles Standard (APS 2008), adopted by the Group as of the 2009 Financial Statements, and set out below:

- inclusivity: identification of the stakeholders and their expectations, and development of involvement strategies aimed at improving the Company's sustainability performance;
- materiality: identification of the important issues for the organisation and its stakeholders;
- responsiveness: a description of the initiatives carried out by the Company to meet the expectations of stakeholders.

The adherence of Telecom Italia's Sustainability Report to the AA1000 standard is verified by the PricewaterhouseCoopers auditing company.

Telecom Italia has reviewed its materiality analysis process with the aim of refining it and ensuring that it conforms to the requirements of the new guidelines defined by the Global Reporting Initiative G4, thus focusing it on identifying the most relevant topics in terms of the socio-environmental and economic impact generated by the Group, both inside and outside the organisation.

Identification of relevant topics

An initial list of topics to be explored during the subsequent stages of the analysis process were identified. Numerous sources of information, both national and international, public and non-public, internal and external to the Group were analysed.

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1 This approach was defined for the first time by John Elkington in 1994 in the article “Towards the sustainable corporation: Win-win-win business strategies for sustainable development". California Management Review 36, no. 2: 2: 90-100.

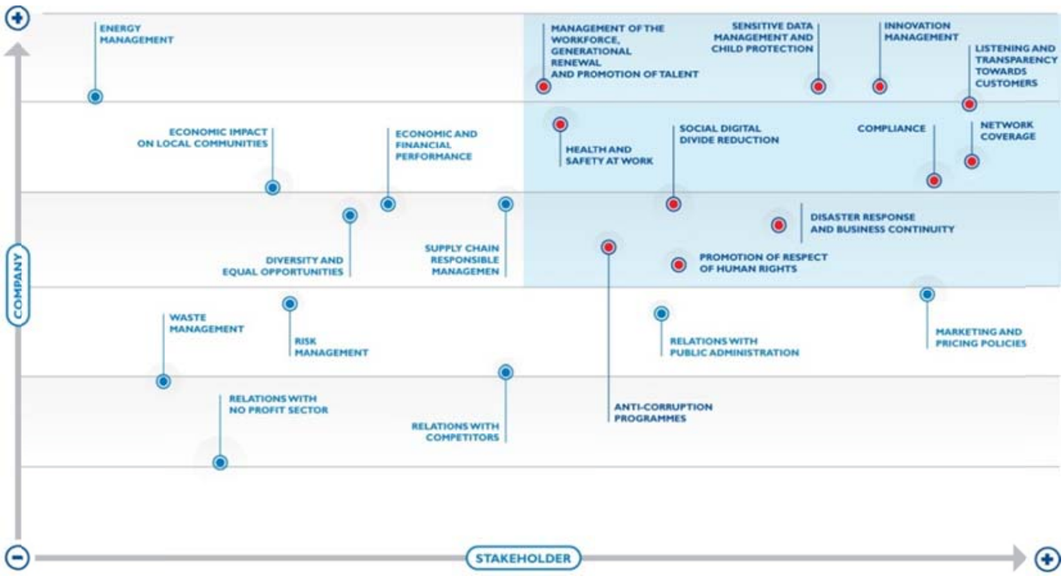
2 The Group sustainability report for 2013 was approved by the Board of Directors in April 2014.

At the end of this initial screening, Telecom Italia was therefore able to draw up a list of relevant topics representing 9 macro areas:

- Direct and indirect economic impacts;
- Risk management and Public Policy;
- Business ethics and promotion of human rights;
- Market position and customer protection;
- Compliance with national and international regulations;
- Responsible management of human resources, promotion of diversity, equal opportunities and the health and safety of workers;
- Responsible management of the supply chain;
- Initiatives for local Communities;
- Responsible management of energy resources, atmospheric emissions and waste.

Assignment of priorities

The assignment of priorities among the topics emerging from the aforesaid analysis, led to the identification of the material issues to be disclosed in the sustainability report.
During this phase, Telecom Italia assessed the importance of the topics identified from an internal and external viewpoint.
The internal viewpoint was provided by Top Management which, with the involvement of a significant sample of representative contacts from all the company's departments, expressed its opinion on the relevance of each topic for Telecom Italia.
The external viewpoint was instead surveyed by organising two focus groups involving employees representing the departments that normally deal with the Group's various categories of stakeholders. These employees were asked to assess the relevance of the topics based on the perceptions of stakeholders with whom they normally have relations.
Assessing the results of the analyses carried out allowed the topics to be put in order of priority and the materiality matrix summarising the results for the 2014 report to be created.



Validation

The validation of the topics and the whole materiality analysis process was carried out by the Corporate Social Responsibility department, which was assisted by the Telecom Italia Lab department assigned to survey perceptions through psycho-social research analyses.
The review phase is due to take place as a preparatory stage prior to the next reporting cycle, with the aim of submitting the results of the analyses carried out, updated in the following year, to specific stakeholder engagement activities.

ECONOMIC VALUE GENERATED AND DISTRIBUTED

The economic value generated and distributed to stakeholders is shown below[1]. Since 2008, the method of presentation recommended by the Global Reporting Initiative (GRI) has been adopted, with appropriate adaptation.

(million euros)	2014	2013
Direct economic value generated		
a) Total revenue and operating income	21,974	23,731
b) Interest payable and dividends paid	228	149
c) Net gains (losses) on disposals of non-current assets	29	(82)
d) Direct economic value generated (a+b+c)	**22,231**	**23,798**
Economic value distributed		
e) Operating costs	9,951	10,976
f) Employee costs	3,119	3,087
g) Shareholders and providers of capital	2,259	2,508
h) Taxes and duties	852	961
i) Economic value distributed (e+f+g+h)	**16,181**	**17,532**
Economic value retained (d-i)	**6,050**	**6,266**

(million euros)	2014	2013
Wages and salaries	2,202	2,183
Social security costs	801	788
Other expenses	116	116
Employee costs	**3,119**	**3,087**

(million euros)	2014	2013
Purchases of materials and services	9,430	10,377
Other operating costs(*)	1,057	1,190
Change in inventories	52	(48)
Internally generated assets	(588)	(543)
Operating costs	**9,951**	**10,976**

(*) Mainly includes write-downs and charges connected to the management of non-financial credits of 375 million euros (380 million euros in 2013), accruals for risks of 84 million euros (100 million euros in 2013), and contributions and fees for the performance of TLC activities of 449 million euros (482 million euros in 2013) net of “Other taxes and duties” of 118 million euros (128 million euros in 2013) included in the item “Taxes and duties”.

(million euros)	2014	2013
Dividends distributed	319	595
Interest payable	1,940	1,913
Shareholders and providers of capital	**2,259**	**2,508**

(million euros)	2014	2013
Income taxes	734	833
Indirect taxes and duties	118	128
Taxes and duties	**852**	**961**
regarding Domestic BU	724	826
regarding the Brazilian BU	122	126
regarding activities abroad/other	6	9

1 The value distributed to the stakeholder, The Community, is not shown in the table. Please see the respective chapter.

CUSTOMERS

Customer satisfaction

The customer listening system aimed at monitoring customer satisfaction covers the following areas:

- operational processes and events assessed on a "reactive" basis, i.e. immediately after a specific event (e.g. delivery, assurance, sale, sales support);
- customer contact channels (e.g. points of sale, customer care, web, billing);
- key products and services (e.g. fixed and mobile broadband);
- life cycle (customer journey) monitored during the main stages of the customer's relationship with his/her operator;
- customer satisfaction assessed on a "reflective" basis, i.e. not in connection with a specific event, determined by the Customer Satisfaction Index - CSI - which adopts the international statistical survey standards (ACSI - American Customer Satisfaction Index model) to determine perceived quality in relation to the main satisfaction drivers for the various customer segments (consumer fixed, consumer mobile, small enterprise fixed and mobile, large/medium enterprise and vertical), particularly in comparison to similar services offered by the leading competitors (except for the vertical segment). The CSI is certified in accordance with the UNI 11098:2003 Guideline (for determining customer satisfaction and measuring the respective process indicators). Customer Satisfaction targets are included in the management (MBO) and collective (PR) incentive schemes.

Telecom Italia has begun tests to develop the listening system into a Customer Experience Management (CEM) system, including measurement of the *Net Promoter Score (NPS),* which measures customer word-of-mouth based on the balance between "detractor" customers and "promoter" customers and on investigating the reasons given by customers. The tests aimed at defining the new methodology are currently being developed.

The information in the following table refers to the average annual progressive value of total customer satisfaction with Telecom Italia's customer care service measured on a "reactive" basis.
With a view to assessing the customer care service in particular, the questionnaires were revised in 2014 to assess the customer experience more accurately, moving from satisfaction to assessing the service received (on a scale of 1 to 10).

Type of customer care customer

	Overall satisfaction		
	2014	2013	2012
187 consumer fixed telephony	8.08	8.48	8.46
119 consumer mobile telephony	8.49	8.72	8.69
191 business fixed telephony	7.79	8.18	8.1
191 business mobile telephony	7.83	8.13	8.22

Average satisfaction measured on a scale of 1-10, where 1 means “not at all satisfied” and 10 means “completely satisfied”.

The CSI values of Telecom Italia by segment are shown below.

Customer segment

	2014	2013	2012
Consumer	76.28	75.84	75.45
Small Enterprise	65.85	65.56	65.88
Large/Medium Enterprise + Vertical	72.26	71.75	71.38
Totals	**73.47**	**73.01**	**72.76**

Average satisfaction is measured on a scale of 0-100, where 0 means “not at all satisfied” and 100 means “completely satisfied”.
For the purposes of this trend, the 2012 result has been recalculated based on the new CSI 2013 model.

TIM Brasil carries out two types of nation-wide customer satisfaction surveys by means of interviews:
– the TIM and competitors' consumer customer survey, conducted twice a year (May and November) on a "reflective" basis, measures the customer's general perception of the company (e.g. sales structure, call centre, network coverage and quality of the network, also as regards the Internet connection, technical support, the price of services, promotions, billing);
– the call centres survey, conducted once a month on a "reactive" basis, with the involvement of TIM customers (consumer and business) who have contacted the call centre in the previous 15 days.

	2014	2013	2012
Consumer Customer survey(*)	7.54	7.92	8.03
Consumer Mobile Telephony Call Centre survey(**)	7.3	7.47	7.47
Business Mobile Telephony Call Centre survey(***)	7.16	7.15	6.8

(*) Average index, on a scale of 0 to 10.
(**) Average mobile consumer customer satisfaction index on a Scale of 0 to 10.
(***)Average mobile business customer satisfaction index on a scale of 0 to 10.

Customer satisfaction within incentives schemes

Telecom Italia's managerial incentive systems include many targets associated with customer satisfaction, in keeping with the business plan for the current period. The targets are measured using customer satisfaction indices, monitored by means of periodic surveys; for 2014, the management incentive scheme provides for two different indices, one related to customer segments in which Telecom Italia has already achieved optimum positioning compared to competitors and the other relating to customer segments with a more critical competitive position. The purpose of this segmentation of the customer satisfaction indicator is to pursue an improvement in the critical segments and to maintain the position achieved in the optimum segments.
Specific targets associated with quality parameters and consistent with the criteria established for corporate and segment customer satisfaction indicators have been established in the collective incentive systems for Telecom Italia staff and for particularly critical processes and activities (commercial and technical front-end).
Finally, specific objectives associated with customer satisfaction have been set in the collective incentive scheme - known as CANVASS - which involves some of the staff in the Caring Services Customer Care, Business Customer Care and Technology Open Access departments.

INSTITUTIONS

Strategy and stakeholders

Telecom Italia Group is determined to continue its collaborative and transparent relations with national and supranational institutions in order to facilitate dialogue on matters of mutual interest and to ensure the Group's viewpoint is faithfully represented.
The key stakeholders are:

- central national institutions: Parliament, Government, Ministries, Public Administration;
- local institutions and their representative associations: Regions, Provinces, Municipalities, "Comunità montane", the National Association of Italian Municipalities (ANCI), the Union of Italian Provinces (UPI);
- the Italian Communications Authority (AGCOM) (see Competitors), the Italian Competition and Market Authority (AGCM) (see Competitors) and the Italian Data Protection Authority;
- European and international institutions: the European Commission and its regulation committees, the Council and the European Parliament, BEREC (Body of European Regulators for Electronic Communication), the OECD (Organisation for Economic Cooperation and Development);
- the United Nations (UN): particularly the Global Compact, UNEP (United Nations Environment Programme), UNFCCC (United Nations Framework Convention on Climate Change), ITU (International Telecommunication Union) and the other UN agencies (e.g. UNHCR).

Central national institutions

Lobbying activities are principally conducted with the parliamentary committee members of the upper and lower houses of the Italian parliament concerned with issues that could impact on the company, including those of an economic and financial nature or concerning privacy, telecommunications, Internet and TV. Involvement in parliamentary hearings is also a way of examining specific issues in detail and creating opportunities for discussion about matters being debated in parliament.
The monitoring of law-making activity among institutions often leads to amendments to individual measures being proposed.
Moreover, Telecom Italia provides information to ministries (mainly the Ministry for Economic Development) regarding the activities of the inspection body (parliamentary questions) directed at the Group.

National legislative activity specifically monitored by Telecom Italia during 2014 mainly concerned draft legislation being examined by the Italian parliament and the law decrees introduced by the governments of Enrico Letta and Matteo Renzi - the latter in office since February 22, 2014 - which might have an impact on the electronic communications sector.

Local national institutions

At local level, Telecom Italia maintains constant dialogue with institutions on subjects of a general nature regarding the electronic communications sector, with particular reference to network development and to other issues of interest to the company's business. The aim is to resolve any issues encountered, to guide the local law-making process in such a way that it respects the national reference framework, to promote the Group's image and represent its position regarding these issues. The dialogue takes place both directly with local authorities and with their representative associations: ANCI and UPI.

Monitoring and constant interaction with the decision-making centres of local institutions take place by means of hearings, including the presentation of position documents relating to the drafting of local regulations, and involvement in workshops as well as in the work of regional commissions and

ministerial and specialist work groups. Furthermore, Telecom Italia frequently organises communication initiatives on specific issues of local interest.
Coordination with the company departments operating at the local level is fundamental for the purpose of acquiring information regarding the approaches and expectations of local institutions and providing suitable solutions.

European and international institutions

Relations with European and supranational institutions are both institutional (e.g. participation in discussion platforms, public consultations, workshops, meetings of parliamentary committees) and collaborative (meetings with the European Commission, Permanent Representatives of EU Member States, the European Parliament, Agencies or working groups and specialised studies under the auspices of EU institutions, including the Centre for European Policy Studies). The company's position in respect of BEREC and the European Commission is asserted through individual action and/or with the involvement of other operators.

Among the issues tackled at European level, which were the subject of the main legislative/regulatory provisions relevant to the Group, we would mention for example: the European Commission's proposal for a Regulation concerning the Single European Market for Telecommunications, the Recommendation on Costing Methodologies and Non-Discrimination Principles, the Regulatory Framework Review, the procedures for notification of the decisions of National Regulatory Authorities to the Commission pursuant to framework article 7, the implementation of the new Recommendation on Relevant Markets, the BEREC public consultation documents and the regulatory framework interpretation and implementation documents discussed and adopted in the context of the BEREC annual work programme, the review of the Directive on Payment Services, the process of adoption of the new Regulation for the Protection of Personal Data, involvement in the expert groups on Cloud Computing (C-SIG) with regard to the drafting of Service Level Agreements - SLAs -, of a Code of Conduct on the protection of personal data in the Cloud environment and the drafting of standard contract clauses for cloud services, the process of adopting the new Directive on cyber-security and the NIS Platform, the new regulation on electronic identity and trust services and respective implementation measures. In the field of child protection, Telecom Italia is actively involved in two particularly important initiatives aimed at increasing the safety of children using the Internet: these are the "Better Internet for Kids" platform (a committee set up by Commissioner Kroes in 2011) and the ICT Coalition (a committee of European ICT industries).

As regards relations with the UN, the activities carried out as part of the Global Compact (GC) are of particular importance, taking the form of participation in the working group on Human Rights organised by the GC Network Germany and in the various activities of the Italian network.

Telecom Italia interfaces with institutions, particularly supranational ones, both individually and as a member of important associations operating on the European and international scene, such as ETNO, GSMA, Business Europe, TABC .

COMPETITORS

Strategy and stakeholders

Telecom Italia is committed to promoting fair competition, a factor considered to be in its interests and those of all market operators, customers and stakeholders in general, promoting and participating in initiatives and projects, together with competitors, and in the management of technical round tables and the activities of trade associations.

Our target audiences in this respect are:

- OLOs (Other Licensed Operators), alternative telecommunications operators, large and small, of fixed and mobile networks;
- the Italian Communications Authority (AGCOM);
- the Italian Competition and Market Authority (AGCM);
- associations, trade federations and associations including, in Italy, Confindustria, CD Confindustria Digitale, Asstel, Assinform, Fondazione Ugo Bordoni; in the world: ETNO (European Telecommunications Network Operators' Association), EIF (European Internet Foundation), EABC (European-American Business Council), ITU (International Telecommunication Union), EITO (European Information Technology Observatory), BIAC (Business and Industry Advisory Committee), BEREC (Body of European Regulators for Electronic Communications), GeSI (Global e-Sustainability Initiative).

Services to OLOs

The Telecom Italia National Wholesale Service (NWS) department is the point of contact for other licensed operators (OLOs) and ISPs (Internet Service Providers) regarding the provision of network infrastructure and services for subsequent marketing by the said OLOs of electronic communication services to their own end customers. NWS is responsible for pre- and after-sales design, identifying requirements and drawing up offers and contracts, sales, support and billing for products/services supplied. Organisational and administrative separation between the retail departments of Telecom Italia and NWS, which is verified every year by an external body, ensures compliance with the principles of equal treatment and non-discrimination established by current regulatory provisions and in particular Resolution 152/02/CONS.

On an annual basis, NWS draws up and submits the reference offers (RO) for the various regulated wholesale services. The process of approval of each reference offer involves joint examinations and reviews designed to provide the clarifications requested by AGCOM, which approves its contents and monitors the work of the NWS in order to ensure that competition is safeguarded. AGCOM also acts as the guarantor and relevant authority in cases brought by OLOs/ISPs and end users on regulatory matters.

In addition to the regulated services, NWS offers infrastructure and transmission capacity, data access and transmission,TLC equipment hosting, outsourcing and all the added value services that allow operator networks to be "virtualised".

For further information regarding dialogue and involvement initiatives (Wholesale Forum, Wholesale Tour, Wholesale Portal), caring initiatives and the actions taken to measure OLO satisfaction go to the Telecom Italia Wholesale website at http://www.wholesale-telecomitalia.it.

The Italian Communications Authority (AGCOM)

Telecom Italia interacts with AGCOM in order to contribute to the administration of the regulatory process on matters considered concrete to the growth in value of the Company. For this purpose, Telecom Italia pursues an honest dialogue and ongoing discussion with the Authorities and institutions with the aim of achieving a simple, effective and symmetrical regulatory framework. Furthermore, the Group makes its own knowledge available by participating in public consultations, institutional hearings, conventions, public meetings and by presenting appropriate testimony and petitions. The constant discussions with AGCOM and the institutions ensure that Telecom Italia gathers their opinions, supplying transparent, reliable responses, and anticipates events, creating and exploiting the best opportunities for the Company. For further information on legal provisions that regulate public consultations, market analyses, fact-finding surveys and dispute resolution among operators see the sustainability section of the website www.telecomitalia.com.

The Italian Competition and Market Authority (AGCM)

As part of the protection of competition and the consumer, Telecom Italia Group interacts with the Antitrust authority both in a preventative way and during proceedings launched by it. As well as answering requests from the Authorities, in order to ensure transparency, company departments organise periodic information meetings in advance with the aim of making it easier to understand the development of the market and its effects on the Authority's areas of responsibility.
The areas in which prior information is provided include the development of the Group's offer, the company's position on strategic issues such as the development of the access network and Net Neutrality, the development of pricing criteria adopted in the markets in which the Company is in a dominant position, and the technical and economic characteristics of certain offers disputed by competitors.

SUPPLIERS

General matters

The selection, assessment and control of the Telecom Italia Group's suppliers involves a pre-contractual qualification stage in which the economic/financial and technical/organisational characteristics are assessed. Verification of these characteristics leads to inclusion in the Group's Register of Suppliers (the Register). The Group requires every supplier to make a commitment, on behalf of the company in question and any authorised sub-contractors, collaborators and employees, to observe the principles of ethics and conduct contained in the Group's Code of Ethics.
While the supply is taking place, registered companies which have received purchase orders normally undergo incoming quality control checks (a requirement for the acceptance and use of the purchased goods) and monitoring of the vendor rating (systematic assessment of the supply). Environmental and social checks are also carried out.

Sustainability initiatives

The main initiatives implemented in 2014 are listed below.

- The implementation of the new process that defines the activities aimed at improving the Corporate Social Responsibility (CSR) of the supply chain continued with a more comprehensive system of elements used to assess the sustainability of suppliers during the qualification stages, incoming quality and vendor rating. The most significant aspects of the process include:
  - the classification of suppliers based on the potential risks associated with their sustainability performance, carried out using a specific method that considers the social-environmental and business continuity aspects associated with the procurement markets in which they operate. For this reason, purchase markets (i.e. homogeneous purchase categories) have been classified based on parameters such as the geographical areas of reference and the risks associated with them, the potential impact on the environment and on society of the suppliers' activities and of the products/services supplied throughout their entire life cycle, including the risks relating to human, employment and environmental rights and the impact on the reputation of Telecom Italia as a customer;
  - the creation of a matrix that, by relating the spending to the specific purchase market, with the risk index calculated on the basis of the parameters described, has allowed purchase markets to be subdivided into four categories, identifying the most critical ones in terms of sustainability and economic impact. Suppliers belonging to the most at risk categories will undergo CSR audits carried out by staff from the company or specialised third party companies. These audits will be repeated periodically to monitor the implementation of corrective actions and, if the results are positive, in order to verify that the standard of performance found is being maintained. It is expected that the activity, developed for the Domestic BU, will be extended to Brazilian suppliers during the course of 2015.

- the preparation of a self-assessment questionnaire to be submitted during the qualification of new suppliers belonging to the highest risk purchase categories, in terms of sustainability and, periodically, to previously qualified suppliers. Periodically updated based on the results and evolution of the qualification process, the questionnaire was developed according to the main requirements of the relevant responsible corporate management standards relating to respect for ethical values and to safeguarding the environment (including SA 8000, Global Compact and ISO 14001) and to the best industry practices. The self-assessment sustainability questionnaire, previously sent on an experimental basis in 2011 and 2012 to over 100 significant suppliers identified by the above methods, was integrated in 2014 into the application that handles the supplier qualification process which automatically extended it to all new suppliers operating in markets where sustainability is considered to be at risk. Suitable refresher campaigns were mounted for suppliers previously qualified in Telecom Italia's Register of suppliers. The results of the questionnaire will make it possible to refine the risk matrix described above. In Brazil, a self-assessment questionnaire on sustainability issues was sent to suppliers with whom orders of over 5 million Reais are placed. The results will be taken into consideration in selection processes.
- The inspection has been planned for March 2015 for the "Quality Management System" to maintain ISO 9001:2008 Certification (renewal obtained in October 2013) for “supply chain” activities falling under the responsibility of the Business Support Office.

In 2014, application continued of the green procurement policy, which contains guidelines for establishing the environmental requirements of products/services purchased. The policy covers all stages of the product life: design, production, use and end of life. Published on the "Vendors Hub" supplier portal of Telecom Italia and in the sustainability section of the telecomitalia.com website, the document helps to orient purchasing policies towards low environmental impact products and services.

Finally, with a view to ensuring the involvement of suppliers in sustainability issues, some of the questions in the annual satisfaction survey (see Involvement Initiatives) relate to the green procurement policy and to the principles relating to human and employment rights, and to their implementation by suppliers.

Sustainability checks

Activities intended to verify the CSR performance of common suppliers and sub-suppliers continued in 2014 in the framework of the Joint Audit Cooperation (JAC) initiative, in accordance with the Memorandum of Understanding signed at the end of 2009 by Telecom Italia, Orange and Deutsche Telekom. In 2011, Belgacom, KPN, Swisscom and Vodafone Group signed up to the memorandum, followed by Telenor and TeliaSonera in 2012 and Verizon in 2013.
The purposes of the Joint Audit Cooperation initiative are:

- to verify the sustainability of the most important suppliers/sub-suppliers that are common to the members of the JAC, with production plants located in geographical areas with a significant degree of socio-environmental risk. The checks are carried out by means of audits conducted by third parties using a specific method developed by the JAC members themselves, who share the results of the verifications;
- to contribute to the increased sustainability of suppliers/sub-suppliers involved by devising and implementing corrective actions and ongoing improvement programmes, establishing long-lasting and mutually beneficial cooperation with them in terms of efficiency, productivity and risk reduction in the supply chain.

Between 2010 and 2014, thanks to the gradual increase in the number of members of JAC, 148 audits were carried out – including 37 in 2014 alone - in production plants (suppliers and sub-suppliers) located in Asia, Central and South America, North Africa and Eastern Europe. The checks were carried out through international specialised companies selected by competitive tender and related to a total of around 540,000[1] workers. The suppliers included in the audit campaign belonged to the user devices and appliances, network appliances and IT equipment production sectors.

For all the non-conformities encountered, specific corrective action plans were drawn up that established resolution procedures and timetables amongst others. The implementation of these plans is monitored on a constant basis by the JAC members.

Involvement initiatives

Use of the suppliers' portal (Vendors Hub), launched at the end of 2011 to improve communication and optimise operational processes by applying social networking systems to the business context, is now well established. The portal now includes 2,395 active vendors on the application platform.
The portal allows suppliers to access a private area to view important data and events connected to their relationship with Telecom Italia and manage all their own details, thus improving the smooth operation and transparency of the relationship. The Vendors Hub also includes a public area containing information for potential suppliers.

Documentation is exchanged electronically (e.g. offers, purchase orders, contracts, qualification documentation, surveys), thus reducing the environmental impact resulting from the use of paper and from transporting and storing documents.

For the seventh consecutive year, the Group's main suppliers have been involved in the survey on satisfaction with the Purchasing department and, more generally, with Telecom Italia. The online questionnaire, consisting of 28 questions, remained active for 2 weeks. The analysis involved 1,240 active suppliers in the Vendors Hub, with a participation rate of 55.4%, higher than the one recorded in previous editions and around 7% higher than the one achieved in 2013. The overall assessment of the supply relationship with the Telecom Italia Group achieved a score of 78/100, having improved by three percentage points compared to 2013. The positive satisfaction rating achieved in previous surveys was therefore confirmed.

THE ENVIRONMENT

The information regarding environmental *performance* is drawn from management data, some of which is estimated. The data shown below relate to energy use (heating, transport and electricity), atmospheric emissions, use of water, paper and waste production. Some of the Media BU's figures are up on the previous period, albeit with a very low incidence compared to the group as a whole, as a result of variations in the scope of the BU's business.

Energy

Energy consumption by the Telecom Italia Group is presented according to the guidelines proposed by the Global Reporting Initiative regarding direct consumption for heating, electricity generation and transport (Scope1, according to the GreenHouse Gas Protocol([2])) and indirect consumption for the purchase and use of electricity (Scope2).

[1] Including 458,000 on Telecom suppliers.
[2] The Greenhouse Gas (GHG) Protocol, developed by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD), defines the standards of reference for measuring, managing and recording greenhouse gas emissions.

Heating systems

		Group	Domestic	Brazil	Media
			Group breakdown by Business Unit (%) and % variation compared to the previous 2 years		
Energy generated by heating oil	MJ	107,863,648	100%	0%	0%
Energy generated by Natural Gas	MJ	609,854,508	100%	0%	0%
Total energy for heating	MJ	**717,718,156**	**100%**	**0%**	**0%**
2014 v. 2013		(10)%	(10)%	0%	0%
2014 v. 2012		11%	12%	0%	(100)%

The data in the table show that in 2014 there was a significant reduction compared to 2013 and an increase compared to 2012; this effect was expected and was already highlighted last year, underlining that the significant increase shown did not represent a real increase in consumption but was the consequence of an adjustment on the previous period. The system used to measure the energy use of large buildings is now more efficient and precise.

In Brazil, given the particular climate conditions throughout the year, indoor heating is not used. The Media BU operates the broadcasting business and, as has already been said, it is extremely small compared to the Group as a whole.

Transport[1]

		Group 2014	Domestic	Brazil	Media
			Group breakdown by Business Unit (%) and % variation compared to the previous 2 years		
Energy from unleaded petrol	MJ	57,556,026	17%	83%	0%
Energy by heating oil	MJ	640,450,882	99%	0%	1%
Energy from LPG	MJ	4,846,838	100%	0%	0%
Energy by natural gas	MJ	375,843	100%	0%	0%
Total energy for transport (*)	MJ	703,229,589	92%	7%	1%
2014 v. 2013		(3)%	(3)%	(4)%	2%
2014 v. 2012		(6)%	(6)%	4%	(20)%
Total number of vehicles	no.	20,049	95%	5%	0%
2014 v. 2013		0%	0%	(3)%	(7)%
2014 v. 2012		(1)%	(1)%	14%	(48)%
Total distance travelled	Km	301,777,289	94%	5%	1%
2014 v. 2013		(3)%	(3)%	(6)%	1%
2014 v. 2012		(6)%	(6)%	3%	(31)%

(*) Represents conversion into MegaJoules of the consumption of unleaded petrol, diesel and LPG (expressed in litres) and methane (expressed in kg).

As a consequence of the reduction in distances travelled, the downward trend in the energy used for transport continues.

Consumption figures for electricity used to operate telecommunications and civil/industrial technological plants are shown below.

1 The data shown in the tables and graphs relating to transport refer to all the Group's vehicles (industrial, commercial, used by senior managers/middle managers/sales people), both owned and hired. The vehicles, consumption and mileage of vehicles owned or in use by the sales force of Tim Brasil have been included only where usage is significant and continuous.

Electricity procured and produced

			Group breakdown by Business Unit (%) and % variation compared to the previous 2 years		
		Group	Domestic	Brazil	Media
Electricity from mixed sources	kWh	604,934,214	16%	80%	4%
2014 v. 2013		(74)%	(95)%	20%	39%
2014 v. 2012		(74)%	(95)%	33%	5%
Electricity from renewable sources	kWh	1,911,262,764	100%	0%	0%
2014 v. 2013		4,785%	4,785%	0%	0%
2014 v. 2012		3,842%	3,842%	0%	0%
Total electricity	kWh	**2,516,196,978**	**80%**	**19%**	**1%**
2014 v. 2013		5%	1%	20%	39%
2014 v. 2012		5%	0%	33%	5%

Energy use across the Group has risen as a result of the increased volume of traffic and services offered to customers. In particular, the rate of growth is significant in Brazil as a consequence of the expansion in the network and the market.
In 2014, Telecom Italia entered into an agreement, that also covers 2015, to buy guarantees of origin that certify the electricity generated by renewable sources. This explains in this table the big percentage changes in the quantities of electricity used, by type, compared to previous years.

In accordance with the energy policy adopted, the Group continued to take action in the following areas this year:

- seeking energy saving opportunities, i.e. recovering energy without structural changes but through organic action - e.g. temperature alignment and redefinition of Group policies, improving the efficiency of existing cogeneration plants, energy stations, recalibration of set-points in multi-system sites, cogeneration refrigeration systems, free cooling, disconnection of obsolete equipment;
- technological upgrading and distributed generation work, with investments aimed at achieving "less use at a lower cost", including new free cooling technologies, prioritising air conditioning, lighting of offices and industrial sites, trigeneration plants (including micro plants), geothermal and other renewable sources;
- work on increasing awareness of the impact of people's behaviour, in order to emphasise the "enabling factors" that help to save energy and reduce the carbon footprint, defining dedicated roles aimed at guiding the implementation of initiatives to disseminate the results achieved at all levels and promoting a culture of energy-saving and environmental respect within the Company.

Previously launched energy saving initiatives continued and new initiatives were undertaken in 2014 in Italy:

- technological modernisation and streamlining of exchange and Radio Base Station (RBS) equipment, involved 552 power stations, 676 air conditioning systems and 1,169 batteries during the year;
- in the context of IT efficiency projects, work continued on replacing and modernising technologically obsolete platforms with a consequent migration of data network services to innovative and more efficient platforms; the gradual freeing-up of spaces resulting from the transfer of traditional voice customers to VoIP platforms and the gradual expansion of the fixed ultrabroadband network make it possible to increase the compactness of exchanges on the PSTN [1] network for fixed network equipment and to concentrate 2 or more SGUs[2] (SuperSGU project) with significant savings in electricity use;
- activities continued to assess and optimise the efficiency of the mobile network with multiannual objectives assessed over 5 years to achieve energy savings of 10% in infrastructure and 20% in transmission equipment. Once these targets are reached, a discount of 3% on the amount charged for LTE licences in Italy will be guaranteed;

1 PSTN = Public Switched Telephone Network.
2 SGU = *Stadio di Gruppo Urbano* (Urban Group Stage); is a type of exchange that provides urban telephone switching.

- modernisation of mobile access network nodes with a "green" approach, i.e. paying particular attention to saving energy and to the energy certification of solutions adopted, as well as a "future proof" approach, intended to anticipate the future developments and benefits of technology by adopting multi-standard integrated 2G/3G/4G technologies.
- new solutions have been adopted that have allowed the greater energy efficiency of GSM radio base stations to be achieved; these solutions, which only involved work on the software, were implemented out together with the suppliers (Ericsson, Nokia and Huawei);
- efficiency development activities continued following the energy audits carried out on the 6 offices and Data Processing Centres in Bari and Rozzano;
- further efficiency works on the consumption of gas for property heating through the use of software for dynamic automatic boiler regulation. The work focused on the top 10 buildings sorted by consumption;
- as part of the lighting project, work began to install ceiling lights in office premises. The lighting systems will be fitted with presence detectors and variable light controls to adjust the lighting required depending on external lighting. Around 15,000 ceiling lights were installed in 2014;
- as part of the work done to increase self-generation, 7 new co-generation plants were installed, which will be tested during the first six months of 2015.

There are also plans to take further efficiency measures in 2015:

- also in the context of IT solutions that do not require the replacement of hardware, field tests are set to continue, with the subsequent adoption of energy efficiency solutions in all suitable 2G stations, with similar solutions planned for the 3G and LTE access networks as well;
- the “SuperSGU” project mentioned previously will lead not only to a lower risk of interruption of the service and obsolescence of the equipment but also to a decrease in operating costs and the planned achievement of the energy efficiency certificates in the 2-year period 2015-2016;
- following the energy audits already carried out, work is also planned on the Bologna, Padua and Pomezia DPCs;
- the installation of more efficient ceiling lights will continue at a rate of around 1,000 replacements a week;
- the optimisations achieved on the consumption of gas for civilian heating will be extended to other buildings across the country.

During 2014, Telecom Italia was awarded energy efficiency certificates (Titoli di Efficienza Energetica - TEE) for 27 projects relating to previous years, corresponding to around 47,000 TOEs (Tonnes of Oil Equivalent) per year saved and an estimated financial value, over 5 years, of around 44 million euros. The certificates, also known as white certificates, certify the achievement of energy savings in the final use of energy as a result of work and projects carried out to improve energy efficiency. Established by ministerial decree of July 20, 2004, these certificates are issued by GSE[1] to reward entities carrying out innovative projects resulting in a significant saving of electricity or fuel. One White Certificate corresponds to 1 TOE saved, and to a negotiable financial value: which means it can be purchased by entities “required” to achieve specific annual quantitative targets for primary energy saving – i.e. distributors of electricity and natural gas - who can thus achieve the reduction targets required by the Authority.

During 2014, the ISO 50001 certification, obtained in 2013 with an audit of the Rome Parco de' Medici offices, was extended to the Bologna Corticella premises, which house offices and a major telephone exchange. ISO 50001 is a voluntary standard applicable to all kinds of organisations, public and private, which establishes the requirements to be fulfilled by organisations and management models that aim to improve energy efficiency; it promotes the best energy management practices and supports projects and initiatives to reduce greenhouse gas emissions.

Also with regard to certifications:

- in addition to the ISO 50001 certification, the Bologna Corticella site also achieved the ISO 14064 certification. The main aim of the ISO 14064 standard is to provide organisations with tools and

[1] Gestore dei Servizi Energetici, GSE S.p.A. – www.gse.it

procedures based on a scientific and systematic approach, in order to quantify, monitor, record and validate or verify inventories of greenhouse gas (GHG) emissions or projects related to cutting these emissions;

- experiments were completed on the Rozzano 2 data centre to define its energy certification level or Power Usage Effectiveness (PUE)[1]. The value of the PUE indicator for Rozzano 2 was determined to be 1.66 in February 2014: this is a very good value that ranks among the best in the industry in Europe. Towards the end of the year, activities were launched to measure the PUE indicator of the Cesano Maderno, Turin, Pomezia and Rozzano 1 and 3 data centres as well.

Atmospheric emissions

Greenhouse gas emissions by Telecom Italia and the Group consist almost exclusively of carbon dioxide and are due to the use of fossil fuels for heating, transport, electricity generation, purchase of electricity produced by third parties and staff travel (for business trips and commuting between home and work). In addition to these, dispersals of hydrochlorofluorocarbons and hydrofluorocarbons (HCFC and HFC) from air conditioning plants are also considered and converted into kg of CO_2 equivalent.

For atmospheric emissions as well, use is made of the Global Reporting Initiative - GRI Version 4 - guidelines, which refer to the definitions of the GHG Protocol, distinguishing between direct emissions (Scope1: use of fossil fuels for transport, heating, power generation), indirect emissions (Scope2: purchase of electricity for industrial and civil use) and other indirect emissions (Scope3). Unless otherwise stated, the atmospheric emission figures given in this Report have been calculated based on the updated coefficients made available by the GHG Protocol[2].

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1 The PUE indicator is the parameter used internationally to measure the energy consumption and requirements of data centres. It was promoted by the US industrial consortium The Green Grid and compares the consumption of IT components to the total consumption directly associated with the operation of server rooms. The closer this index is to 1, the more the use of energy in the DC is efficient for the purpose of delivering ICT services.

2 Emissions relating to the consumption of electricity purchased in the Italian market in 2012 and 2013 have been calculated by using the 2009 emission factor published by the GHG Protocol - which considers the national energy mix - equal to 386 grams of CO_2/kWh. For Brazil, the average emission factors for 2012, 2013 and 2014 have been used, as calculated and published by the *Ministério da Ciência, Tecnologia e Inovação* (Ministry of Science, Technology and Innovation), of approximately 65.3, 96 and 135.5, grams respectively of CO_2/kWh. This trend displays an increasing tendency by Brazil to use fossil fuels to generate electricity.

The following table shows the total CO_2 emissions of the Telecom Italia Group.

Atmospheric emissions

		Group breakdown by Business Unit (%) and % variation compared to the previous 2 years			
		Group	Domestic	Brazil	Media
CO_2 emissions from transport	kg	52,408,809	92%	7%	1%
CO_2 emissions from heating	kg	41,174,283	100%	0%	0%
Emissions of CO_2 equivalents for HCFC/HFC(*) dispersals	kg	7,357,860	100%	0%	0%
CO_2 emissions from electricity generation by cogeneration	kg	36,858,508	100%	0%	0%
CO_2 emissions from electricity generation using diesel	kg	2,851,373	81%	16%	3%
Total direct emissions of CO_2 - under Scope1 GRI	kg	**140,650,833**	**97%**	**3%**	**0%**
2014 v. 2013		(11)%	(11)%	(4)%	2%
2014 v. 2012		(3)%	(3)%	3%	(24)%
CO_2 emissions from purchases of electricity generated by mixed sources	kg	79,005,678	4%	83%	13%
Total indirect emissions of CO_2 - under Scope2 GRI	kg	**79,005,678**	**4%**	**83%**	**13%**
2014 v. 2013		(90)%	(100)%	69%	39%
2014 v. 2012		(90)%	(100)%	176%	5%
CO_2 emissions from work-home commuting(†)	kg	65,983,516	94%	6%	0%
CO_2 emissions from air travel(‡)	kg	11,370,398	55%	45%	0%
Total other indirect emissions of CO_2 - under Scope3 GRI	kg	**77,353,914**	**88%**	**12%**	**0%**
2014 v. 2013		(4)%	(6)%	14%	5%
2014 v. 2012		(4)%	(5)%	8%	1%
Total CO_2 emissions	kg	**297,010,425**	70%	26%	4%
2014 v. 2013		(70)%	(78)%	54%	36%
2014 v. 2012		(70)%	(78)%	118%	3%

(*) Hydrochlorofluorocarbons (HCFCs) and hydrofluorocarbons (HFCs), in terms of equivalent CO_2 emissions are determined by reference to specific Global Warming Potential (GWP) parameters for the two gases: the index is based on a relative scale that compares the gas considered with an equal mass of carbon dioxide with a GWP of 1. The GWP of HCFC used was 1,780 and that of HFC was 1,300.

(†) In determining the impact of home-work commuting, reference is made to statistical data produced on the company's personnel. In 2014 all the companies within the Domestic BU have been included in the calculation, whilst in the past years only the main ones had been taken into consideration. In order to allow a proper comparison, the emissions generated in 2013 and 2012 have been re-calculated.

(‡) Emissions due to air travel were calculated by the study and research centre of American Express (the Travel Agency used by Telecom Italia) supported by UK DEFRA (Department of Environment, Food and Rural Affairs) based on the number of journeys actually made, subdivided by the duration of each individual journey (short or long).

The table showing emissions of carbon dioxide, particularly those excluded from the GRI Scope 2, is strongly and positively influenced, compared to previous years, by the agreement signed for the purchase, in 2014 and 2015, of guarantees of origin which certify the electricity generated by renewable sources. In 2014, the agreement related to almost 100% of the electricity used by the Domestic BU.

Water

Water consumption

			Group breakdown by Business Unit (%) and % variation compared to the previous 2 years		
		Group	Domestic	Brazil	Media
Consumption of water drawn from artesian wells	m³	139,087	100%	0%	0%
Consumption of water provided by water supply companies	m³	4,628,029	95%	5%	0%
Consumption of water drawn from other sources	m³	22,475	0%	100%	0%
Total water consumption(*)	m³	4,789,591	95%	5%	0%
2014 v. 2013		(2)%	(3)%	9%	(27)%
2014 v. 2012		(16)%	(17)%	17%	(98)%

Water consumption has fallen compared to previous periods, which is particularly significant compared to consumption in 2012 and reflects the efforts made to reduce waste and speed up maintenance. Water continues to be an important indicator of environmental performance and a correct approach to the use of natural resources.

Paper

Paper for office use

			Group breakdown by Business Unit (%) and % variation compared to the previous 2 years		
		Group	Domestic	Brazil	Media
Non-recycled paper purchased	Kg	1,569	100%	0%	0%
Recycled paper purchased	Kg	0	0%	0%	0%
FSC certified paper purchased	Kg	350,700	87%	13%	0%
Total paper purchased	Kg	352,269	87%	13%	0%
2014 v. 2013		(3)%	(1)%	(16)%	103%
2014 v. 2012		(24)%	(21)%	(30)%	(89)%

Purchases of paper for office and commercial use (telephone bills) continue to be directed at product types that meet the highest environmental standards based on the responsible management of forests according to the Forest Stewardship Council (FSC, see fsc.org) requirements.
The reduction in paper consumption for office use shown in the following table is in line with a historical trend resulting from work done to raise awareness about the responsible use of paper in the workplace and rationalisation of energy use through the "*printing on demand*" project, which provides for the use of shared high performance printers and printing methods that save energy and consumables. Activities continued with the aim of achieving overall reductions in the use of paper for business purposes, including the promotion among customers of electronic invoices and statements.

Waste

The data shown in the table refer to the quantity of waste consigned[1] and recorded by law[2].

Waste consigned

			Group breakdown by Business Unit (%) and % variation compared to the previous 2 years		
		Group	**Domestic**	**Brazil**	**Media**
Hazardous waste	Kg	4,033,285	100%	0%	0%
Non-hazardous waste	Kg	9,017,050	95%	5%	0%
Total waste consigned(*)	Kg	13,050,335	97%	3%	0%
2014 v. 2013		(21)%	(20)%	(41)%	(3)%
2014 v. 2012		(32)%	(32)%	(36)%	(87)%
Waste sent for recycling or recovery	Kg	12,617,183	99%	1%	0%
% Waste sent for recycling or recovery		97%	99%	39%	0%

(*) The data does not include the Domestic BU telephone poles because these are not disposed of as ordinary waste but under the framework agreement signed in 2003 with the Ministry of the Environment, the Ministry of Production Activities and the production and recovery companies, subject to the favourable opinion of the conference of State-Regions-Autonomous Provinces. In 2014, Telecom Italia decommissioned 120,156 poles weighing a total of 9,612,420 kg.

Waste data varies over time according to the quantities and types delivered to the companies contracted to treat it. The most important item of data for Telecom Italia's purposes is the ratio between waste produced and consigned for recycling/recovery, which reached a significant level.
Ministerial Decree No. 65 of March 8, 2010 (published in the Gazzetta Ufficiale on May 10, 2010) implemented the collection of Waste Electrical and Electronic Equipment (WEEE) by all Telecom Italia sales channels as of June 18, 2010, resulting in the company's registration as a "distributor" in the national Register of environmental managers.

Telecom Italia has entered into contracts aimed at recovering used, faulty and end-of-life products and materials, in order to allow components and raw materials to be reclaimed. In 2014, this allowed the landfill disposal of 1,200,000 products to be avoided and tangible financial benefits to be gained from their recovery.
The various management activities allowed logistics and network products (121,653 items) and commercial logistics products (156,527 items) to be regenerated, components and raw materials (824,213 items) to be sent for recovery and used products (95.104 items) to be resold.
This activity has a dual purpose: contributing to a reduction in WEEE produced while at the same time generating a financial benefit resulting from the difference between the cost that would be incurred for the purchase of new equipment and the cost of regeneration.

Electromagnetic emissions

The actions of the Telecom Italia Group on the subject of electromagnetic emissions are essentially:

- careful management of its equipment during its entire life cycle and in compliance with current regulations and internal *standards* of efficiency and safety;
- deployment of, and constant research into, the latest technological instruments for checks and controls.

Systematic monitoring of the levels of electromagnetic emissions in installations aims to ensure that legal limits are respected and high safety standards are maintained for workers and the general population. According to the checks carried out in Italy, the electromagnetic emissions generated are well within legal limits. As part of the certification of mobile phones sold on the market under the TIM brand, TILab performs tests on all technologically innovative products to check the SAR (Specific

1 By "waste consigned" is meant waste delivered to carriers for recycling or reclamation or disposal.
2 Slight variations compared to the situation on December 31 may occur until the following March 30, because the source of the data is the records of waste loaded and unloaded, which are consolidated once the actual weight at destination has been verified. The information is supplied to the producer of the waste within 3 months of consignment, which is the reason for the potential variations in the data.

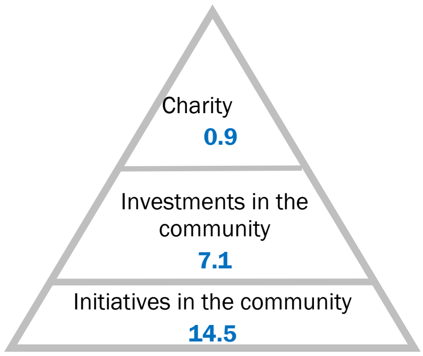
Absorption Rate) declared by suppliers. This parameter estimates the quantity of electromagnetic energy per unit of body mass absorbed by the human body in the event of exposure to the electromagnetic field generated by telephones and other mobile devices. Telecom Italia certifies and sells through its sales network only mobile devices with a SAR value lower than the limit set by European legislation. In determining this conformity Telecom Italia complies with the instructions given in the ICNIRP (International Commission on Non-Ionizing Radiation Protection) guidelines and subsequent declarations of conformity[1]. This qualification, which is carried out during the pre-marketing stage, when Telecom Italia does not often have the SAR value declared by the supplier, makes the test more valuable than a simple quality control check.
Joint activities are also taking place with a number of ARPAs (regional environmental protection agencies) to assess the electromagnetic fields generated by RBSs, considering the actual power transmitted based on traffic and power control mechanisms, in accordance with changes to the Prime Ministerial Decree of 8/7/2003 contained in the Decree Law on Growth 179/2012. Similar attention is paid to the emissions from mobile devices using the frequency bands operated by Telecom Italia.

THE COMMUNITY

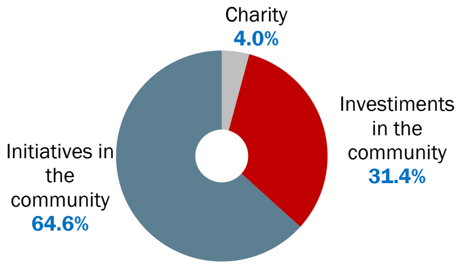
The contribution made to the community by the Telecom Italia Group, calculated according to the London Benchmarking Group (LBG) guidelines, amounted to 22.5 million euros in 2014.
The contribution has been calculated using management data partly based on estimates.

More than 100 major international companies subscribe to the LBG, which was founded in 1994 and is the global gold standard for the classification of voluntary contributions made by companies in favour of the community.
In accordance with the LBG model, in order to measure and represent the Group's commitment to the community, the contributions disbursed have been subdivided into three categories (Charity, Investments in the community, Initiatives in the community), adopting the customary pyramid-shaped representation, which places initiatives of a charitable nature at the top and initiatives which in addition to being of benefit to the community are in the commercial interest of the Company at the bottom.

LBG DIAGRAM
22.5 million euros



PERCENTAGE DISTRIBUTION OF THE TELECOM ITALIA GROUP



[1] Guidelines for Limiting Exposure to Time-Varying Electric, Magnetic, and Electromagnetic Fields (up to 300 GHz). Health Physics 74 (4): 494-522; 1998; Statement on the "Guidelines for limiting exposure to time-varying electric, magnetic and electromagnetic fields (up to 300 GHz)". Health Physics 97(3):257-259; 2009.

Fondazione Telecom Italia commitment

The mission of the Fondazione Telecom Italia (FTI) is to promote the culture of digital change and innovation, promoting integration, communication, economic and social growth.
FTI can operate, in Italy and abroad, by the methods and with the tools that are considered appropriate in each case for it to achieve its statutory purposes.

In accordance with this mission, three areas of intervention have been identified:

- Education: innovation in teaching and education, promoting initiatives aimed at updating the technology in Italian schools and introducing radical innovations in educational methods and tools.
- Innovation culture: becoming a reference point for innovation culture through an annual international conference, two university lectures and research publications on topics related to business and the history of innovation.
- Social empowerment: promoting the processes of change taking place in society through new technologies for social enterprises, to help them "do good well".

The main projects that were launched or continued in 2014 are shown below:

Open Call on communication impairments
With an open call, FTI decided to focus on language disorders, which account epidemiologically for over 70% of neuropsychiatric conditions in children and which the World Health Organization says are a warning bell for mental health, considering that in 2/3 of cases they tend to develop into psychiatric disorders in adolescence and adulthood unless dealt with appropriately. 205 projects were received and out of these 3 winners were selected.

Volis Project
Hearing loss affects 70,000 people in Italy. The Volis project aims to develop Italian sign language (LIS) and verbal language comprehension tests with the help of lip reading and all the available language techniques that can be used with deaf or hearing children with communication or language impairments associated with developmental disorders, such as intellectual disabilities and autistic spectrum disorders. These tests will be implemented on an online platform accessible to all the professionals involved (communication assistants, educators, teachers, speech therapists, psychologists, child neuropsychiatrists), subject to registration and authentication. The cloud-based platform will record the answers given by the child being tested, producing an output that will be related to the relevant medical history. This will allow the level of understanding of sign language by the child to be determined and any clinical treatment proposals to be made. Furthermore, the protocol created will be made available in OpenAPI mode.

SI DO RE MI Project
Autism affects 1 in 150 children in Italy. There are over 6.2 million children currently between the ages of 1 and 12 years old. The number of children interested by the project is therefore estimated to be around 42,000. The project provides for the development of a system that uses cloud computing to control sound and music generated by the gestures of children affected by autism. The acoustic feedback thus created is intended to emphasise and stimulate interaction with the surrounding world. The data related to children interacting with the system is monitored remotely by specialists to analyse trends in the disorder.

Cinque Petali (Five Petals) Project
Cinque Petali, a project run by the Piacenza local health authority, is dedicated to children with language/learning disorders. It aims to strengthen the technological tools available to support rehabilitation and develop preventive action for children, with a view to reducing the occurrence of forms of behaviour during development that can develop into psychiatric disorders. The Piacenza local health authority intends to support all the children in its care who are affected by serious communication impairment with a diagnosis of developmental disorders. The project intends to supply 11 ipads

equipped with the main compensatory computer programs (which children will use at school, at home and in their leisure time) with individual and customised paths aimed at ensuring independent communication, integration and interaction for socialising with their peers, networking and constant monitoring of the child by the healthcare system.

Tenders launched by the Foundation

Invisible assets, places and mastery of traditional crafts

2013 saw the end of a tendering process in which the "invisible assets" of historic and artistic heritage were associated with the recovery and reassessment of ancient crafts. The tendering process aims to demonstrate that creative spirit is alive in Italy and makes the country unique. This spirit can be combined with the enabling technologies of the web and digital connections, which are a vital component of the tender, as they provide a driving force for Italian culture and economy as a whole, promoting the tendered project both in Italy and abroad.

The tender process attracted great interest among non-profit-making organisations, municipalities and universities.

Projects received: 478 - Towns interested: 272 - Crafts involved: 168. In 2014, the projects underwent a careful selection process: the criteria used to choose from among the proposals received are originality, degree of replicability, extent of interaction with the local community and future self-sustainability, as well as the use of innovative technologies. The following 8 projects were selected at the end of the assessment process:

- Fondazione Genti d'Abruzzo, Pescara (TessArt'è Project)
- Scuola Superiore Sant'Anna, Pisa (AMica Project. Immersive Virtual Environments for Communicating Handicraft Skills)
- Municipality of Vigevano (Shoe Style Lab Project - History and innovation in footwear in Vigevano)
- Fondazione Valle Delle Cartiere, Toscolano Maderno (Brescia) (Toscolano 1381 Project - A paper, a history, a future)
- Istituto Suor Orsola Benincasa, Naples (Art in Light Project)
- Arci Genova, Municipality of Genoa, Auser Genova and Liguria (Staglieno Factory Project)
- Associazione Clac, Palermo (Crezi Food Kit Project)
- Cooperativa Sociale Centro di Lavoro San Giovanni Calabria, Verona (Digital technology to relaunch black art Project).

Promoting the integration of foreign citizens

In 2013 FTI launched a tender process for "Promoting the integration of foreign citizens by using technological platforms". The purpose of this tender is to help towns with a resident population of over 50,000 inhabitants, where at least 9% of the population are foreign, to improve knowledge of the services available for foreign users, guiding users and operators and making it easier for them to use the available services by creating portals, communication points in the main meeting places and specific free apps.

Projects received: 25 out of 56 municipalities eligible - Regions involved out of the number eligible to take part: 9 out of 11.

AgendaImpegno

For the third year running, FTI and Telecom Italia have been working with "Libera Associazione contro le Mafie", an association founded by Father Luigi Ciotti, on a new project that aims to encourage action, contributions and discussions on important issues ranging from respect for the Italian Constitution to the right to work, from environmental protection to the fight against poverty, from respect for women to combating bullying. This all takes place through a dedicated space on the Internet. The contributions were often enriched by interviews with influential people.

Initiatives involving employees

FTI is also very careful to look within the Company with initiatives that promote the volunteering spirit of its employees actively engaged in social work with non-profit organisations.

In 2014, FTI also confirmed a corporate volunteering initiative that will be launched in 2015 involving many employee "angels" from all over Italy who passionately and enthusiastically support FTI in its philanthropic activities.
For further information regarding the strategy and projects of FTI go to the fondazionetelecomitalia.it website.

Social Responsibility Projects

Telecom Italia has launched a programme with the dual purpose of improving the competitive position of the company and contributing to the economic, environmental, social and cultural development of the communities in which it operates, actively involving various different stakeholders. The projects run in 2014 focused on three areas of activity: digital culture, social innovation and environmental protection. The common denominator of all the initiatives was the establishment of participatory, equitable and stable relationships and replicable intervention models both inside and outside the company.

Digital Culture
Telecom Italia has for a long time developed and supported digital education projects aimed at showing young people how to make an informed use of the Internet. During 2014, the Group worked with the Postal and Communication Police to implement the "Una vita da social" initiative, a road show designed to educate people regarding legality on the Internet, presenting students, families and visitors with the main pitfalls of the Web and in particular the risks children face when browsing the Internet, dealing with highly topical issues, including cyberbullying and online grooming. A bus specially fitted with multimedia technologies travelled over 9,000 km from northern to southern Italy, on a tour that stopped off in 40 cities. The initiative attracted over 400,000 students in schools and 100,000 in city squares, 8,000 teachers and 15,000 parents. The project's Facebook page received an equally high number of likes, with over 18,000 supporters.

In the field of digital culture, Telecom Italia also runs projects aimed at bringing high quality cultural content and digital languages together, making the most of the interaction opportunities offered by the Web. These include:

- the PappanoinWeb project, established as part of the partnership with the National Academy of Saint Cecilia, conceived for the purpose of bringing classical music to the Web and in its fourth year as of 2014. Over the four years of the programme, the concerts offered have been watched by over 150,000 users in streaming on telecomitalia.com, particularly thanks to the listening guides, exclusive interviews and the opportunities to interact with an expert musicologist at the Academy during direct broadcasts. A big open air rehearsal also allowed around 2,000 employees of Telecom Italia to experience the excitement backstage, with the protagonists, and to view the real difficulties of a high level musical performance;
- the Eutopia webzine, originating from the partnership between Telecom Italia and Editori Laterza, which fulfils the aim of drawing the public, particularly the young, into the debate about the prospects for a new European model of society;
- the partnership with Scuola Holden of Turin, founded by Alessandro Baricco, which aims to experiment with new ways of teaching and sharing ideas, knowledge, creativity through digital technology. The Web becomes a vehicle to allow the public to participate in master classes and special events happening in the School. The collaboration has allowed a pioneering multimedia laboratory and original dissemination projects to be set up, including the #wehaveadream social writing experiment.

Social Innovation
At the end of 2014, the WITHYOUWEDO fundraising platform was launched to receive requests for donations from public and private entities intending to implement projects in the fields of social innovation, environmental protection and digital culture. In addition to providing the technological and communication support of the platform (withyouwedo.telecomitalia.com), Telecom Italia undertakes to make a 25% contribution (up to a maximum of 10,000 euros) to fund 9 projects.

Also renewed was the partnership with the Genoa Festival of Science, which promotes scientific culture internationally. Through the ScienzainWeb project Telecom Italia provides the Festival with its technological and communication expertise in order to share cultural content with a bigger audience on the Web. The 2014 event, dedicated to Time, attracted over 200,000 visitors in person and around 20,000 users connected in streaming, live and on demand, on telecomitalia.com.
New branched networks, collaboration models and sharing of values and objectives are the cornerstones for the development of social innovation. This is the context in which the Sustainable City partnership was born: a special project set up as part of the Economondo event in Rimini, which recreates an ideal city in which it is possible to come face-to-face with the models and factors that influence quality of life. Telecom Italia has launched EcomondoinWeb: a selection of streamed events allowing people to connect, even remotely, to the Città delle Reti Intelligenti (city of smart networks). The 2014 event attracted over 100,000 visitors in person and thousands of users connected in streaming, live and on demand, on telecomitalia.com.
In 2014, Telecom Italia became a Founding Member of the Digital Champions Association, set up in Italy following the establishment of the office of Digital Champion in the European Union. Digital Champions are appointed by each Member State to promote the benefits of an inclusive digital society and have three aims:

- they must act as a kind of help desk for public administrators on digital matters
- they must defend citizens where broadband access, Wi-Fi and other rights are denied
- they must promote digital literacy projects for everyone from children to their grandparents, by fund raising if necessary.

The association aims to appoint a digital champion in each Italian municipality. Telecom Italia's involvement is a demonstration of Telecom Italia's commitment to supporting digital inclusion.

Environmental Protection
The IoRiciclo (I Recycle) initiative makes it easier to return old telecommunications appliances, offering a discount on the purchase of new appliances in TIM stores. Promoting the shared values involved, in addition to the environmental benefits, the initiative aims to increase visitors to the over 1,200 stores already included in the TIM Valuta[1] collection network and to extend the collection service to around 2,000 stores.

Research and development

Research and development activities at Telecom Italia are carried out by the Information Technology, Engineering & TILab, Innovation & Industry Relations departments, which oversee the analysis of new technologies and the engineering of services offered to customers.

Also particularly important are the research laboratories and business incubators.
TIM #WCAP is Telecom Italia's open innovation structure that provides support and resources for ideas and projects that contribute to the future of entrepreneurship.

Since it was launched in 2009, TIM #WCAP has brought together over 7,000 projects, supported 220 start-ups and disbursed 4.5 million euros, and 21 start-ups have become suppliers to Telecom Italia, thus making a strong contribution to the whole digital economy supply chain.

Since 2013, TIM #WCAP has had 4 accelerators in the nerve centres of Italian digital innovation: Milan, Bologna, Rome and Catania. A total area of over 3,000 sq.m. providing start-ups with dedicated spaces to accelerate their development and the technical resources and infrastructure needed for them to grow and launch onto the market.

[1] With TIMValuta you can have your mobile phone, smart phone or tablet valued without obligation at any TIM store participating in the initiative and immediately receive a discount to use as you prefer: to buy a new mobile phone, smart phone, tablet, dongle, Internet Pack or to top up your TIM phone. The initiative was associated with IoRiciclo, an environmental commitment initiative undertaken by the Telecom Italia corporate social responsibility department.

The 2014 programme ended with 1,600 participants, 1,300 completed projects, including 67 international applications, the award of 41 business grants worth 25,000 euros each and access to the acceleration path in the 4 acceleration centres. During the course of the year, the TIM #WCAP programme was boosted by a major innovation: the new reward-based crowdfunding platform, on which projects and businesses can receive funding from the community.

Relevant issues

The themes on which projects are developed are identified on the basis of the Three-Year Technological Plan, the reference document for the Group, which provides guidelines for the evolution of the network, platform and services.

Published annually, following a wide-ranging process involving all the areas of the company involved, the Plan identifies the main external factors (regulations, standards, vendors, other market operators) that may influence the company's strategies and highlights the emerging and cross-cutting technologies in other sectors that may be of interest to the Group.

Projects and initiatives in this field can be divided into 4 macro-areas:

- New generation networks
- Future Internet applications
- Positive environmental impacts
- Positive social impacts

New generation network projects

- Telephone app: "Home and office cordless" for Wi-Fi voice calls via FIBRE and ADSL Modem, including functions such as access to the contacts directory integrated with the original one of the device, viewing of recent landline calls (received, made, missed) and access to supplementary services and voice mail.
- The 187 app has been boosted by new functions intended to speed up the provision of technical and sales support to customers.
- Light Cabling: as part of the "SKY via Telecom Italia" project, allowing the SKY video decoder to be connected with the Telecom Italia Fibre modem, a non-invasive cabling solution has been identified that can be used when neither traditional cabling nor a Wi-Fi connection are feasible.
- Access Gateway (modem/router) for ADSL and Fibre services: in particular some Wi-Fi ADSL and Fibre Modems have undergone technological improvements and extensions of their functions with particular attention paid to privacy issues.
- TIM Vision has also benefited from the introduction of telemetry, to monitor quality of service, and a new design with an optimised user interface.
- During the year, a commercial trial was launched for the sale of a smart home service associated with the purchase of a monitoring/video surveillance kit that uses proprietary technologies for both the application software and the connectivity with the sensors.
- As part of the activities done to support Open Access engineers, Augmented Reality apps were developed to guide installation/maintenance activities on the new generation network. The "PermutO" app for Android was devised and distributed to engineers to assist anyone required to carry out a replacement in an exchange to do his work correctly, with simple, clear and always available instructions.
- An activity is under way to develop the so-called "Capillary Networks", which are a new segment of the multi-service access network for meters and sensors in the world of the IoT1, integrated with fixed and mobile network assets and with the engineering, design, planning and management processes of Telecom Italia. The Capillary Networks are the first concrete element for the development of Smart Urban Infrastructures, the enabling platforms for the development of new services characterising the Smart Cities of the near future.
- With regard to the mobile access network, the necessary simulation and experimental activities were completed in 2014 to introduce the Carrier Aggregation service, allowing the introduction of Advanced LTE2 in the Telecom Italia 4G network. For the first time in Italy, this allowed customers to

[1] IoT: Internet of Things

[2] Long Term Evolution, also known as G4, is an advanced, high speed mobile telephony standard

experiment on a live network the potential of developments in the 4G mobile network, demonstrating a connection speed "in the field" of up to 180 Mb per second. Marketed under the 4G+ brand, the service became commercially available in 60 cities at the end of 2014. The launch of Advanced LTE based services is a stage in the process undertaken by Telecom Italia to develop the new 4G LTE network in which TIM is a leader thanks to its coverage of over 2,500 towns and cities, accounting for 74% of the Italian population.

Future Internet application projects

Proximity technology services that make life easier for users

- The TIM Wallet Consumer/Business service allows physical wallets to be replaced by virtual ones on mobile phones using NFC technology[1]. Purchases are made or access is gained to sites by placing the phone close to a reader, such as a POS or turnstile. Already tested by Telecom Italia employees, the application has been marketed under the TIM Wallet brand. In particular, Mediolanum payment cards and a co-branded TIM SmartPAY card as a collaboration between Telecom Italia, VISA and Intesa Sanpaolo have been launched, plus the Badge app for access to company offices. In some cities, the app also allows bus tickets to be purchased with you phone credit. Other cards from other banks will be available in future. Furthermore, virtual coupons available to spend at commercial retailers have been tested on a group of employees.

Smart applications for the Internet of the future

- Telecom Italia is actively involved in creating the Future Internet platform (FI-WARE) 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. Telecom Italia is also promoting these technologies through the involvement of smart cities which, as ideal users of the experimental FI-WARE (FI-Lab) environment, can make their data available in an open format and promote the development of services and applications for the benefit of citizens. In this respect, a demonstration app has been created with partners connected to the city of Turin (Polytechnic of Turin, Torino Wireless) to produce textual and graphic information on the degree of safety perceived by citizens based on non-emergency reports made to the city's police. An interactive graphic test questionnaire was given to citizens during the event entitled “La notte dei ricercatori” [Night of the Researchers] on September 26.
- Telecom Italia has directed the end-to-end design and implementation of mobile solutions for EXPO 2015 with a smart city app prototype for Expo 2015 and an app for the "Padiglione Italia" (the Italian Pavilion). The smart city app supplies information, services and entertainment during the event, regarding the participating countries, the city and the country, the partners and players involved. The purpose is to establish an ongoing relationship with the visitor, using LTE mobile broadband connectivity. The Padiglione Italia app allows the use of information and multimedia content and enables an innovative "virtual tour" mode. It is currently being used to show what Padiglione Italia will look like - starting with a model - and in 2015 it will be used by visitors to the actual pavilion that will house the exhibition. Both apps are leveraging innovative technologies created by Telecom Italia in the field of augmented reality and visual searching.
- Following the launch of the Android version at the end of 2013, the iPhone and iPad version of FriendTV is now available in the app store. FriendTV is a guide for the main television channels, strongly integrated with social media, which allows users to participate in real time in the most highly commented programmes on the Web. The app was designed and developed as part of the SocialTV project, which aims to leverage the spread of "second screen" services and real time interactivity conveyed through social media.
- Telecom Italia has contributed to developing the new ISO/IEC MPEG “Compact Descriptors for Visual Search” international standard and holds four of the patents in the regulatory and informative part of the new standard. The visual search technology was implemented on the Duser server and on the build.it framework, allowing cloud services to be requested. MPEG CDVS was also implemented on mobile devices using GPU to speed up image and video analysis by ensuring a high degree of

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1 Near Field Communication: a technology that supplies short range bi-directional wireless connectivity (up to a maximum of 10 cm).

parallelisation of calculations. These technologies are used by mobile apps to allow information on the image framed by the photo camera to be obtained without the help of codes. They are also the basis of Visual Intelligence, the extraction of information from multimedia content, which constitutes the great majority of data sent via the Internet.

- Building on its collaboration with RAI in broadcasting live interviews conducted on the 4G mobile network using the Smart Reporter product, and on dedicated web streaming events for business customers (LiveOnLTE), Telecom Italia is designing a Cloud platform, called Cloud Reporter, to allow consumer or business customers to create their own streaming videos live on the Web. This is a portal which will allow a Live video streaming channel to be set up independently and in a few steps to allow everyone to follow it using their web browser. Video content is produced very simply by smart phones or tablets or using consumer video cameras, webcams and a PC. Filming can take place on the move, making the most of the 4G mobile network. The service is also intended to create professional events using high end cameras and the Smart Reporter product (portable encoder carried in a backpack) developed from experiments conducted with RAI. The target market for the service is both Consumers and Small Businesses and enhances the offer of broadband connectivity from TIM (4G LTE) and Telecom Italia (ADLS and Fibre). In addition to providing a specific service, Cloud Reporter provides APIs (Application Programming Interfaces) for other services to be built that involve managing a video resource for the purpose of streaming via the Internet. These APIs are offered via the Build.it platform, which provides the building blocks for Cloud functions to be created. Cloud Reporter is also therefore an evolved Building Block which, by combining other Build.It components, offers a specific service logic for processing video files to be streamed via the Internet.
- TIM CheckApp is the free app that Telecom Italia provides for customers to understand and manage the apps on their smartphones, ensuring that a context that is not without its potential pitfalls (in terms of security, privacy and usage, all critical aspects) is more accessible and understandable for all categories of customers. With TIM CheckApp, customers are made aware of the potential dangers of each app, in terms of privacy, and can view data usage (mobile and Wi-Fi) by each individual app on their device.

Development of big data solutions[1]

The Joint Open Lab Trentino SKIL (Semantics & Knowledge Innovation Lab) has developed the CitySensing big data platform which, using advanced data analysis technologies, processes the flow of data from the Telecom Italia mobile network and social networks to monitor urban phenomena, such as the possible pedestrianisation of areas, mobility, etc., during particular events. These technologies are currently used by Telecom Italia in many application contexts, including monitoring the flow of tourists, preferences regarding travel on public transport or support to public administration in urban planning activities.

Mobile Territorial Lab (MTL)[2] is the SKIL project for the processing 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. MTL has developed advanced transparent personal data management technologies, including My Data Store, an example of personal data store which was one of the top reference cases at the World Economic Forum[3].

Working with local institutions in Trentino, SKIL is experimenting with advanced solutions for citizen services based on personal data, one example being the joint monitoring of air quality with the involvement of citizens using personal sensors.

One of the Open Innovation initiatives was the first Telecom Italia Big Data Challenge 2014[4] which brought together over 1,100 participants from around the world to discuss the creation of smart city projects using large amounts of geo-referenced data. A panel of judges consisting of representatives from academia, industry and the media assessed the best three projects: a method for predicting energy consumption based on mobile network traffic, a web application for classifying urban areas based on phone and other traffic, and a visualisation which shows the impact of vehicle traffic and the weather on

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1 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 require capture, processing, management, analysis and display tools that differ from conventional ones.

2 www.mobileterritoriallab.eu

3 http://www3.weforum.org/docs/WEF_IT_UnlockingValuePersonalData_CollectionUsage_Report_2013.pdf

4 www.telecomitalia.com/bigdatachallenge.

levels of pollution in the city of Milan. Given the success and effectiveness of the initiative in promoting the Big Data topic internationally, Telecom Italia is now committed to organising another event in 2015.

Projects with positive environmental impacts

- The smart mobility innovation project continues with the development of application prototypes aimed at testing the solutions developed, focusing first of all on tests conducted with the participation of employees in Italy, with a view to then extending this to Brazil. In particular, a prototype ride sharing and multimodal transport app for commuting, smart parking solutions and company care management, with the aim of optimising and reducing the flow of vehicles, are being developed.
- In the field of Internet of Things (IoT) applications, 2014 was the year in which gas metering was launched for domestic meters (over 20 million), a field in which Telecom Italia is able to supply network and management solutions. Telecom Italia also participated in a tender launched by AEEG[1], which it won with IREN, for multi-service trials aimed at extending the use of gas metering networks to other metering and smart city services. Testing and assessment campaigns have been launched on new generation IoT networks for services with low transmission speed requirements, high coverage and extremely low cost and consumption.
- Telecom Italia is the coordinator of the INTrEPID "INTelligent systems for Energy Prosumer buildings at District level" project, a pilot project for which was launched with the involvement of various users in Italy and Denmark. The pilot project provides for the use of remotely controlled Wi-Fi fridges, a series of energy monitoring sensors available for various technologies and the use of an IoT platform and business intelligence modules to generate suggestions for users, aimed at saving energy. The project is being carried out with external Partners including ENEL Ingegneria e Ricerca, Honeywell and RSE (Ricerca sul sistema energetico).
- Telecom Italia, Enel Distribuzione and Indesit Company conducted an experiment with various users to verify the environmental benefits of improving the end customer's awareness of electricity consumption. Customers were supplied with a prototype web app and electricity metering devices, including a device for communicating directly with the Enel electricity meter. During the testing period of around twelve months – thanks to the active involvement of users through appropriate feedback and newsletters - an average reduction in consumption of around 9% was recorded which, nationally, would allow residential consumption to be reduced by 5.6 TWh, leading to a fall in CO_2 emissions of around 3 million tonnes.
- Working with partners in the Energy@home Association and the i3P Incubator of the Polytechnic of Turin, Telecom Italia organised a Hackathon at the end of November on the topic of the Smart Home: a competition for business ideas and fast prototyping involving 115 people, including Italian start-ups, university students and young researchers. Over a weekend, participants created prototypes of their ideas, integrating pre-commercial products from Energy@home companies: the Enel electronic meter, Indesit's connected household appliances, Telecom Italia's broadband gateway and home automation devices. The winning project was Hiris, developed by 3 Italian start-ups: thanks to a wearable device connected to the home network, like a watch or a bracelet, which reacts to a series of preset movements, Hiris allows objects which are themselves connected to the network to be remotely controlled, meaning that shutters can be raised with a single gesture, the temperature of the home thermostat can be changed or lights can be switched on and off.
- Experiments have been launched at the Telecom Italia Data Centre in Rozzano where service robotics are applied to environmental monitoring to save energy and prevent potentially anomalous heat situations known as hot spots.

Projects with positive social impacts

- The guiding principle behind the "Robot a corte" project is to develop an online cultural heritage enhancement model in which the asset becomes a real catalyst to attract public interest in the heritage of a particular area. This is done by training and professionalising the operators (tour guides and entertainers). The first robotics experiment has been launched at the Racconigi Castle where, thanks to the "Virgil" robot, visitors can view areas that are not currently open to tourists.

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[1] AEEG - Electricity, Gas and Water System Authority.

- The digital island innovation project is continuing on two fronts: by setting up an internal prototype within Telecom Italia, for the purpose of creating an open platform for testing smart city services, and through the project funded by Smart Metro Quadro. In particular, a public workshop was organised, with the involvement of the city of Turin, for the purpose of determining the best scenarios for the use of digital islands.
- Collaboration was consolidated with the eco-design department of the faculty of architecture of the Polytechnic of Turin with the aim of promoting a systemic approach to designing solutions, even in research projects, so that all the relevant elements are taken into account (materials, processes, lifecycle of the solution), including the impact on the ecosystem.
- The innovative LIVEonLTE has been set up to test the new TIM 4G network as a means to send live video, with no satellite link or radio bridges, using a simple smartphone. LIVEonLTE continues as LIVEon4G, an official TIM channel.
- Telecom Italia and Anonima Fumetti, working with the Accademia Albertina di Belle Arti in Turin, are bringing comics to the Web with UltraMe, an innovative publishing project that integrates the creativity of young artists and professionals in the field with the advanced multimedia technologies developed by Telecom Italia.
- In the Telecom Italia Joint Open Lab S-Cube “Smart Social Spaces” new technologies and services are being tested for future smart spaces, where Internet technologies, proximity wireless connections (Bluetooth Low Energy, Wi-Fi Direct, LTE-Direct) and smart and wearable objects (smart screens, smart glasses, smart watches, etc.) are being studied and used to create new ways of interacting and communicating between people, objects and physical spaces themselves. These technologies will allow users to make immediate use of strongly personalised and contextualised services and information, making it easier for citizens to participate in the creation of smart cities, and will enable new forms of communication mediated by physical spaces. During events, such as Expo 2015, smart communication between visitors, citizens and organisers will be a key element for the success of the event itself.

Commitment to Ambient Assisted Living (AAL) 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. Working with JOL WHITE, which perfected the Android app and developed the respective data collection platform, each patient's work plan can now be determined, checking performance and communicating with the patient by messaging and video calls.
- Vrehab, the monitoring and telerehabilitation system for patients with Parkinson's disease developed with CNR-IEIIT in Turin, the University of Parma and the Italian Auxology Institue of Verbania, has entered the validation phase. The system allows the patient's state of health to be validated by analysing the movements of the upper and lower limbs. Patients who took part in the trial are members of the Amici Parkinson Piemonte Association (AAPP) and the tests were conducted at the offices of the Association with around 80 people. With the support of the Association, a trial is being organised in patients' homes.
- Telecom Italia is also focused on the world of the elderly. The aim of the European WIDER (green groWing SMEs: The Innovation and Development in the energy sector in mEd aRea) project 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.
- Using Cassiel 2.0, remote assistance is provided to elderly people, monitoring them and receiving alarm signals in cases of emergency. The data collected by sensors located in dwellings are processed to perform behavioural analyses with a view to improving quality of life. The complete solution also supports video calling and a reminder service called RicordaTI to monitor all kinds of events that must not be forgotten, such as drug therapies. With the involvement of pharmacies in entering dosages on the system, and using a simple tablet app, the system also becomes usable by people with mild cognitive impairments.
- WebSensor is a prototype for remote monitoring of progress in Parkinson's disease developed with the support of neurologists. A set of sensors worn on the feet and hands monitors the exercises

performed by the patient and sends the respective data to a platform that processes them and supplies parameters that can be used to assess the status of the disease.

- A prototype called PAPI has been developed for the remote rehabilitation of patients affected by slight cognitive function deficits. The system provides a kit of interactive games for Android tablets, designed with neurologists to simulate the patient's various cognitive functions. The games communicate with a remote server to send data relating to the patient's performance and to download the game settings. The games are being tested on 30 people over 65 in the area of Pisa, working with NeuroCare in Cascina (Pisa).
- Phaser is a project funded by EIT ICT Labs to prevent cardiovascular diseases. The consortium includes Philips, which provides a special sensorised watch to detect the quality of sleep, the heart beat and an estimate of stress levels. The system works out a cardiovascular risk index with a series of associated suggestions and an indication of the stress level, taking a series of static and dynamic parameters detected by the watch and by electromedical equipment as a basis. The first service prototype benefits from the advice given by the team of epidemiologists at Imperial College London and cardiologists at Scuola Superiore Sant'Anna, Pisa. To achieve the greater involvement of patients, the service is also delivered with gamification techniques, creating teams that challenge one another to achieve personalised objectives.

Solutions for "scuola 3.0" ("school 3.0")

- As part of the collaboration between Telecom Italia and the Regional Education Department of Piedmont, a training course was held for secondary school teachers to teach them how to use the platform to publish programs or "robotic apps" in a social environment involving support and discussion among the network of schools. This was a preparatory course for the launch of field tests with a school during the next school year.
- SOCIETY (SOCIal Ebook communiTY), the multidevice collaborative reading tool with which Telecom Italia supports young people affected by specific learning disabilities (SLD), was redesigned between 2013 and 2014 to make the experience of using the service generally simpler and more interactive. This was made possible thanks to the feedback from teachers and students during the trial taking place in schools across Italy and thanks to a number of interviews specifically conducted with students affected by SDL.

TELECOM ITALIA PEOPLE

Telecom Italia people: concise figures[1]

A summary of the numbers relating to the Group people can be seen in the table below:

Telecom Italia Group

(units)	31.12.2014	31.12.2013	Changes
Italy	52,878	53,152	(274)
Abroad	13,138	12,467	671
Total personnel on payroll	***66,016***	**65,619**	**397**
Agency contract workers	9	4	5
Total personnel	*66,025*	**65,623**	402
Non-current assets held for sale	16,420	16,575	(155)
Total	*82,445*	**82,198**	247

Excluding personnel concerned with non-current assets held for sale (Telecom Argentina Group) and agency contract workers, the Group's workforce has increased by 397 units compared to December 31, 2013.

These changes are due to

- exit of the company Olivetti I-Jet (8 people) from the consolidation scope;
- entry into the scope of consolidation of the company Rete A (12 people);
- net turnover (net of changes to scope) up by 393 units, as detailed below by individual Business Unit:

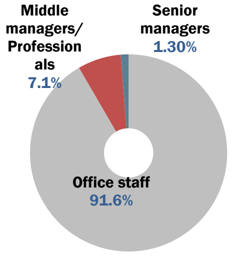
(units)	Recruited	Departed	Net change
Domestic	822	1,119	(297)
Brazil	5,216	4,515	701
Media and others	2	13	(11)
Turnover	6,040	5,647	393

The people in the Telecom Italia Group, net of those relating to "Non-current assets held for sale" and temporary contract workers, can be broken down in various ways.

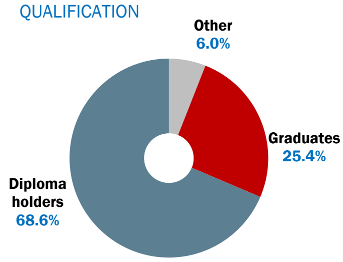
1 Unless otherwise stated, the data shown in the tables contained in the Human Resources chapter relate to all the Telecom Italia Group companies.

Telecom Italia Group: distribution by professional category and academic qualification

TELECOM ITALIA GROUP: EMPLOYEE BREAKDOWN BY JOB CATEGORY

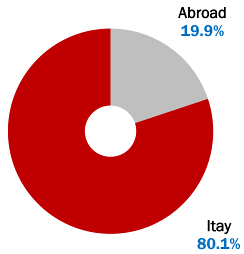


TELECOM ITALIA GROUP: EMPLOYEE BREAKDOWN BY LEVEL OF ACADEMIC QUALIFICATION

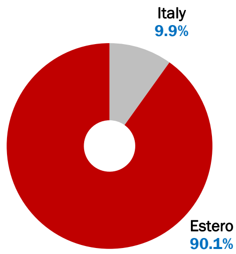


Telecom Italia Group: distribution of employees and new employees by geographic area

TELECOM ITALIA GROUP: DISTRIBUTION OF EMPLOYEES BY GEOGRAPHICAL AREA



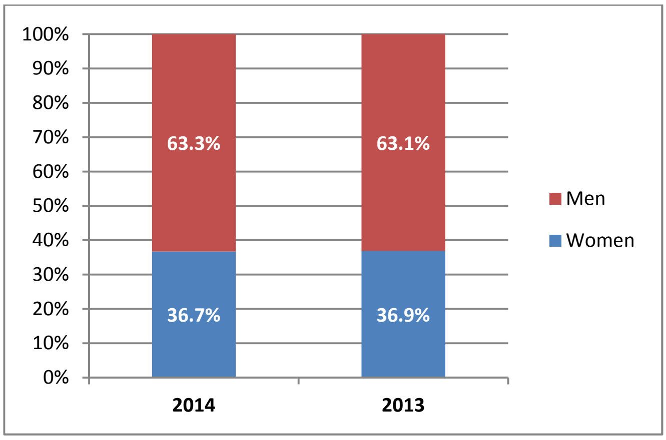
TELECOM ITALIA GROUP: HIRINGS BY GEOGRAPHICAL AREA



Gender balance

In 2014, the distribution of men and women was the following:

(units) Distribution of men and women	31.12.2014	31.12.2013	Changes
Men	41,808	41,375	433
Women	24,208	24,244	(36)
Total	66,016	65,619	397



In 2014, the percentage of women holding senior management positions in the Telecom Group was approximately 16% while, in middle management, the proportion of the total was 27%, in the respective professional categories.

People Caring

Telecom Italia is firmly convinced that social and economic sustainability depends first and foremost on respect and attention for the people working in the Group. On the basis of this belief, numerous initiatives are taken to ensure that people can go peaceably about their work and, as far as the Company is able to assist in this respect, their day-to-day personal lives. A group of people in the Company is dedicated entirely to listening to the needs expressed by employees and to developing initiatives which can satisfy them. Thus, thanks to the investigations and information collected, and after having held meetings and focus groups with employees, four areas have been identified for the development of specific initiatives:

- improving the balance between working life and free time, supporting employees and their families in their requirements;
- contributing towards volunteering initiatives taken by employees;
- promoting diversity in the workplace;
- promoting psychological and physical well-being.

New skills and development

One of the most important times in people's working lives is when they stop to consider what they have completed, their relevance to the Company and future prospects. The performance analysis process provides the opportunity to make this kind of reflection, aimed at identifying areas of strength and improvement, as well as helping employees to enhance their individual performance through an open discussion with their manager.
The method used in Telecom Italia to assess performance is frequently analysed and reshaped, so as to ensure that the assessment reveals a correct, complete profile of the person assessed, their needs and prospects. For example, the process that resulted in the 2013 performance review had been partially revised with respect to previous editions, in view of the evidence that had emerged from a survey in which all employees could take part, and specific focus groups that involved a panel of evaluators and evaluatees from the various areas of the company[1]. Thereafter, the method used was further analysed with an investigation that involved 1,200 employees. In actual fact, the new Group People Strategy

[1] The process is repeated regularly each year and involves all employees of the domestic BU, apart from managers with MBOs, who are assessed according to the targets of said MBOs (in the future they too will be subject to the same assessment methods as the other employees). In one case, to assess 2011 performance, a campaign was missed for organisational purposes. In Brazil too, assessment campaigns are repeated each year, involving all employees who have worked at least 149 days in the company. For the Brazilian call centre operators, performance is assessed by means of an ad hoc programme.

provides for a detailed examination aimed at developing a renewed performance management model. Thus a specific "workshop" has been established with the task of preparing a new performance system; this will be implemented on a Group level early 2015 and is set to involve all professional and managerial levels, enabling individual merits to be appraised from several viewpoints, on the basis of a competence model that is the same for everyone. The results will feed into the other development systems in an integrated way.

Performance management is part of a broader, more extensive Development Model hinged on the value of the person through the creation of transparent, fair, inclusive and differentiated assessment and development systems able to reveal capacity, aptitude and knowledge of the individual and encourage continuous improvement of people and the organisation.

Talent in action was another initiative taken to identify talent within the company. Initially, this involved a survey whereby employees could identify their most worthy colleagues. In complete transparency, each person identified was able to view his/her profile in terms of characteristics and quantity of feedback received. Subsequently, the process of identifying the pool of "talent in action" was split into two stages:

- drawing up the “top ranking reputation” list with the aim of ensuring the continued comparability of individual data and the same opportunities;
- drawing up the “talent in action” list, in which, in addition to the reputation data, representing the view of the professional community, individual elements, such as performance, were taken into consideration, representing the career history of each individual.

Those on the “talent in action” list were contacted to launch the individual enhancement process by participating in an on-line self-assessment system aimed at creating a snapshot of their professional profile in terms of skills and motivation. By September, everyone on the "talent in action" list will have put together their enhancement plans, which will include "on-field" and motivational training.

In addition to performance assessment and talent scouting, potential and skill assessment activities to map the skills needed for specific positions and internal recruiting activities to enhance internal expertise also take place. For internal recruiting activities, in addition to the job posting tool, a project posting process was tested which gives people the opportunity to apply to run fixed-term projects exploiting their skills and acquiring others.

As regards External Recruiting activities, starting from the second half of the year, the "2014 Recruitment Plan" was launched, enabling 203 young new employees to be hired on permanent contracts. These new additions, 28% of whom came from the stabilisation of higher apprenticeship paths and 72% from the external market, brought the portfolio of company skills into line with the technological and business evolution of the reference market. More specifically, computing, engineering and technological skills were added, divided up into 20 different professional profiles. The new additions were both recent graduates (34%) aged an average of 26 years old and junior professionals (66%) with an average age of 30 years old. The basin consisted of one third women and two thirds men and was characterised by a medium-high level of education insofar as 75% of people had a specialised university degree, mainly in TLC Engineering, Computing, Electronics or Economics (Business, Management or Marketing).

Brazil

In Brazil, the main selection programmes implemented in 2014 were:

- “Jovem Aprendiz" (Young Apprentice), a programme to promote the training of young people between the ages of 16 and 24 for potential employment in the Company. An administrative training course is provided for young people to prepare them to enter the world of work. This path naturally takes place in complete compliance with the law;
- "Talentos sem Fronteiras" (Talents without frontiers), intended to scout the market for young graduates in order to create a talented team of people who can be trained to build the company management team of the future. In 2014, 13 young talented people were recruited in strategic areas of the business;

- “Estágio sem Fronteiras" (Internships without frontiers), selects talented interns with the aim of offering young university students an opportunity to develop in diverse ways and prepare for the labour market, as well as to increase their potential for finding permanent employment in the company and possibly access the "Talenti senza Frontiere" programme. TIM selected around 120 young people in 2014.

Collaboration with universities

Telecom Italia has launched a new relationship model with leading universities and national and international research centres, which focuses on enhancing talent to transfer innovation to the company. The goal is to strengthen and accelerate Telecom Italia's ability to innovate while at the same time contributing to the development of young people by offering them the opportunity to gain new skills and experiences.
Initiatives include:

- financing of scholarships to help young engineering and economics graduates achieve a postgraduate qualification - 100 doctorate scholarships have been assigned for the development of specific research projects of interest to the company, the subjects of which range from cloud computing to geomarketing, from big data to e-health, from LTE to robotics, including issues related to web law and economics. For the 2014-2015 academic year, over 20 doctoral scholarships are envisaged;
- collaboration with postgraduate study courses - 5 master's courses have been launched, of which for one, "Smart Solutions-Smart Communities", developed jointly with Scuola Superiore Sant'Anna, 80% of the participants in the first edition are expected to be hired;
- a permanent national and European observatory on issues connected with the transition from school to work and the development of new skills for young people;
- sponsorship of the Tim Chair in Market Innovation at the Bocconi University of Milan, as part of the Master's Degree in Economics and Management of Innovation and Technology. The programme includes the main technological product and service development, creation and marketing models;
- support of the CReSV (Centro Ricerche su Sostenibilità e Valore [Sustainability and Value Research Centre]) for the improvement of innovative and sustainable business models;
- collaboration with secondary schools, under the scope of the "Network Scuola Impresa" (school business network) project. The project, which was launched in 2009, aims to create a structured relationship with senior schools, particularly in order to enhance our internal skills, get in touch with young people across the country and promote the company's image.

Training and knowledge management

Telecom Italia training activities are guided by the desire:

- to strengthen leadership styles in order to provide managerial skills that can support the strategic development of the company in the coming years;
- to enhance the individual and collective skills needed to compete in the new business scenarios, paying particular attention to the specialised skills needed in the sector;
- to provide people with the capacity to cope with everyday challenges;
- to accompany and support the transformation of organisational identity and culture.

All the Group's training programmes aim to provide tools for professional growth that will then remain as part of the employee's personal baggage both within and outside the company[1].

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[1] At present the Group does not have any courses running for career-end management, also because the need has never been highlighted by workers or their trade union representatives.

In Italy, the main training programmes implemented in 2014 fell into five main groups:

- Management education, involving 1,250 Group managers between 2014 and 2015. The programme was set up to support the Business Plan by disseminating and strengthening agreed forms of leadership behaviour;
- Induction training, a programme designed for new employees, with the aim of speeding up professional growth and consolidation of skills through a gradual inclusion route;
- Space for growth, a programme offering many of the company's workforce support by strengthening specific behavioural areas, including communication, change, team work, problem solving and focus on results:
- Post skill assessment training, which includes training aiming to update competences and develop new skills;
- Talent in action, a development and training project intended for those chosen following the "talent in action" survey, seeking to define individual action plans.

Extensive training plans have also been developed on topics of compliance and safety, intended for the whole of the company workforce. An on-line course on Human Rights is currently being prepared, ready for delivery in 2015 to all Domestic Business Unit employees.

In Brazil all new recruits are required to attend training courses on company-wide issues, such as ethics and sustainability. In 2014, basic training and refresher courses were also carried out dedicated to Sales and Call Centre staff.

In 2014, more than 2.8 million hours of training were carried out in the Group costing over 6.1 million euros in total. 95.5% of personnel participated in at least one training session. Summary data of the training provided by the Telecom Italia Group is shown below, by professional category.

professional category	Hours				
	Total hours (no.)	**Hours per head** (no.)	**Participations** (*) (no.)	**Participants** (no.)	**Coverage** (%) (**)
TOTAL	**2,837,986**	**42.99**	**453,968**	**63,023**	**95.5%**
Senior Managers	23,966	27.61	4,238	800	92.2%
Middle Managers	133,036	28.23	17,293	4,284	90.9%
Office Staff/Workers	2,680,983	44.36	432,437	57,939	95.9%

(*) Shows the overall number of participations in the various forms of training (classroom, *online*, *on-the-job training*).

(**) *Coverage* refers to the percentage of participants compared to the total, i.e. the % of human resources who took part in at least one training session compared to the total number of human resources in each individual category (senior managers, middle managers, office workers).

Internal communication

In a complex organisation, unilateral communication is no longer sufficient to encourage involvement and develop thought. For this reason, there is a gradual “conversion” of the traditional communication channels to more innovative ways of favouring two-way communication inspired by web 2.0 logic, promoting the exchange of ideas, dialogue and discussion between members of the corporate community.

In this respect, the Intranet and the company portal are fundamental tools as they allow everyone to get involved, provide information and implement formal and informal forms of "listening", such as climate surveys, blogs and open virtual communities. In this way, discussion and debate are encouraged on internal issues linked to the business and more general current topics, including environmental and social issues, making structured channels available for the purpose of collecting contributions and proposals.

"2.0" communication initiatives have been added alongside the more traditional forms of relationships that in any case continue to be important. Below is a list of the main traditional and other communication activities carried out during the year:

- the format of a road show held throughout Italy was particularly innovative, with 50 editions involving more than 8,000 people to present the People Strategy programme;
- as usual, awards were given for the "Archimede" project, which every year rewards the best innovative ideas to optimise the processes and services supplied, gathering proposals from the people directly involved in operational processes;
- in two editions of the Parli@mone format, broadcast via video-streaming to the whole company, the company management pursued dialogue with people;
- a new internal communication events system has been launched, which on a cascade basis will involve the whole Company, with a structured system for monitoring participation and results;
- meetings were organised for around 4,000 field engineers, designers, on-line technicians and managers, as well as members of the Caring Services Division;
- in the context of the School of Industrial Relations programme, which involves significant networking activities with social partners, the academic world, the media and Group managers, a meeting and interview were held with Raffaele Bonanni, in January 2014, general secretary of CISL trade union;
- as regards the company Intranet, the move has been made to a new social platform that allows exchanges, sharing, the creation of working groups and direct interaction on the network, ensuring people's active involvement;
- *Sincronizzando* is the Telecom Italia newsletter that evolved in 2014 into a webzine. The webzine allows contributions from managers, colleagues and external colleagues to be included and promotes online interaction between the editorial office and the readers. All the articles have associated wikis, tag clouds and online sharing methods allowing readers to make direct comments;
- the ninth edition of the climate survey was carried out in Italy and Brazil, involving around 66,000 people. The 2014 form included a specific section dedicated to identity. The results have been analysed and the process for disseminating them and assigning responsibility for action plans, established according to the results recorded, is underway.

Brazil

In Brazil, 2014 saw numerous internal communication initiatives taken in order to promote integration between people in the workplace, bring them into line with the company's strategic objectives and improve psychological and physical well-being. For example, the *Diversidade Tim* campaign aimed to promote diversity and proper, prejudice-free integration, whilst the *Campanha de segurança* disseminated the key notions of health and safety in the workplace within the company.

Health and Safety

Telecom Italia S.p.A.

In Telecom Italia S.p.A., working activities have been classified as low and medium risk, in line with the definitions provided by the reference legislation, in accordance with the ATECO classification of the National Statistics Institute. There are no high-risk activities present in the company. No significant numbers of cases have been recorded for any occupational disease. Nor indeed are there any high-risk activities carried out in the other Group associates.

In terms of risk assessment, special care was taken over evaluating work-related stress: in May, the "Accompagniamo il cambiamento" [Accompanying change] project that had been carried out in 2013 and 2014, drew to a close; its aim had been not only to assess the individual work-related stress factors but also to define the impact of the constant organisational changes on the psychological and physical health of some customer care and technical workers. Both during analysis and when identifying improvement measures, the company was monitored by a research team consisting of the Occupational Medicine Section of the "Tor Vergata" University of Rome and an expert partner; the project saw the active involvement of all managers of the departments concerned.

The project was designed and developed to analyse the organisational context and investigate workers' experiences, with the ultimate aim of conceiving and proposing possible instruments by which to manage, communicate and monitor the effects of company change, so as to provide a valid aid both to the managerial line and the working population involved. To this end, it was necessary to directly involve a very large sample of employees (approximately 2,300), who collaborated not only towards identifying the most critical areas, but also in proposing interventions to make improvements. Moreover, the analysis and assessment also saw the active participation, alongside the research team, of a group numbering 12 employees with relevant experience and competence, from different areas of the company. The group received specific training on the analysis and management of work-related stress and worked alongside consultants in on-field activities. Telecom Italia thus sought to constitute its very own in-house basin of experts who can provide a permanent supervision of future activities regarding the assessment of the stress risk and, more generally, of psychological-social work-related risks, in support of all and any initiatives taken relating to psychological and physical well-being.

At the end of the investigation, the critical areas (organisation, training, communication, optimisation of human capital) in which action is required and the specific improvements to be made, launched as from the second half of 2014, were identified. For each action, the timescales for implementation and the efficacy indicators were defined. The plan of action was shared with the trade union representatives and was thereafter published on the company intranet, so as to enable all workers concerned to view and monitor its progress.

The path undertaken has been considered a best practice by sector experts and institutions on a national and international level. In this respect, Telecom Italia has become a partner of the 2014-2015 "Healthy Workplaces Manage Stress" campaign promoted by the European Agency for Safety and Health at Work. The partnership means becoming part of an international network of businesses in order to pool experiences and projects on the matter and thereby help ensure greater awareness.

As regards prevention and with the aim of identifying any critical areas in which to intervene with improvements, as from 2013, an analysis and investigation method has been defined based on the preparation of information documents in the case of accidents at work with a large number of days' absence initially forecast or with particular dynamics. The activities carried out last year on the scope of on-field technicians made it possible to intervene in the risk assessment update process, identifying and introducing further protection and control measures. In 2014, the analysis was extended to cover the whole company, providing further elements of assessment and ideas for improvement under the scope of the operational organisation.

In 2014, the Company continued with its significant commitment to providing safety training. The programmes involving the workers were differentiated according to whether the tasks at hand were classified as low or medium risk and envisaged four hours of on-line training for everyone as well as 1,206 classroom sessions, each of four or eight hours that, in 2014 alone, involved approximately 44,000 employees.

As regards the management, July saw the launch of the path organised over two training days aimed at further investigating the company's current organisational structure as regards safety and the managerial role played in prevention. The project involves approximately 1,400 senior and middle managers in positions of responsibility; it will draw to a close in June 2015.

Finally, as each year, on road and off road safe driving courses were held for approximately 650 personnel using company cars.

In terms of discussion, the benchmarking activities promoted by Telecom Italia with the involvement of the main companies of the Italian networks (Enel, Poste Italiane, Ferrovie dello Stato, Terna, Anas, Autostrade per l'Italia, Vodafone, etc.) continued, with regular meetings to discuss matters of health and safety and workshops, organised on a rotation basis by each company, with the participation of sector experts and institutional entities. The meetings and workshops aim to share the best practices adopted by the companies adhering to the working party and identify shared solutions to problems common to the networked companies.

Brazil

At TIM Brasil, all newly hired employees receive training on health and safety in the Company. Controls are also regularly run to identify the risks and related control measures, the results of which are given in the document entitled "Environmental Risk Prevention Programme". This document, which is prepared for each TIM site, is updated once a year, as established by the law.
Each year, the Internal Accident Prevention Week is held, during which employees are informed on the risks relating to the workplace and the related control measures.

TIM sites with more than 50 employees set up internal committees for the prevention of accidents at work (Cipas). There are 10 of these committees across the country. These committees are made up of employees, 50% of whom are elected by employees in roles of responsibility and the remaining 50% by employees without roles of responsibility. In company sites with fewer than 50 employees, one employee is specifically trained to follow these activities.

Industrial relations

Telecom Italia S.p.A.

The Telecom Italia S.p.A. system of relationships has evolved according to a well-established participatory system. Participation is perceived as a value to be sought in all kinds of discussion, not only in negotiations. In 2014, information sessions and discussions with the unions were intensified (particularly through specific permanent or *ad hoc* joint committees), with the task of carrying out a detailed examination of issues identified by the national coordination office for Unitary Workplace Union Structures (RSU) including work shifts, telework, new forms of work and geolocation of field engineer vehicles.

The search for constant dialogue and constructive discussion with the unions led to major agreements being reached with the unions and the national coordination office for Unitary Workplace Union Structures (RSU) aimed at reconciling the needs of the business with those of the people who work in the Company.

One example of collaboration between the Company and the trade union representatives to achieve solutions sustainable for both parties is the agreement signed between the Company and the union representatives of the Group's senior management.
The agreement provides for executives to contribute, in various ways, to the charges borne by employees subject to solidarity contracts, charges which have actually increased as a result of the reduction in the wage subsidy introduced by the Stability Law in 2014[1]. The application of this agreement will provide financial resources estimated at around 4 million euros, which will be added to an additional 4 million euros made available by the Company as a result of productivity gains. The full amount will go towards paying the contributions owed by employees registered with the closed complementary welfare funds. Non-registered colleagues will receive equivalent one-off amounts in their pay packets.

The business transformation plan for the re-launch of the retail sales channel was also fully explained to the trade unions and, during intensive discussions, an agreement was reached on the process for implementing it, with the common goal of identifying sustainable solutions for people, particularly in order to safeguard their professional status.

The Company and the unions have also identified agreed solutions for the introduction of new work shifts for people working in the Caring Services 191 service, which will contribute to manning the service more intensively and fulfilling the needs of the relevant customers. In this context, a series of tools has

1 Solidarity Contracts are agreements that provide for working hours to be reduced in order to avoid downsizing. For the workers to whom the contract will be applied, provision is made for INPS [social security] to make up part of the remuneration not received due to the reduction in working hours.

been provided to guarantee a better work-life balance for people, such as accepting requests from mothers with children of pre-school age to transfer to part-time work and introducing a specific electronic notice board to make it easier for operators to swap shifts.

As a tangible measure taken to support internal employment levels, the company has developed a significant plan for insourcing activities of added value, agreed with the Trade Union Organisations. This has led to the opportunity to access professional requalification paths, accompanied by significant, specific training programmes, thereby assuring a "second working life" for hundreds of people affected by the change. The optimisation of use of the resources, together with the increased productivity qualified by the union agreements mentioned above, has allowed Telecom Italia to successfully insource during the two-year period 2013-2014 for approximately 2,860 full-time equivalents, thereby exceeding the envisaged target.

Brazil

Meetings to discuss changes to the collective agreement - ACT 2014/2016 began in August and ended in November. Negotiations took place with the two national Federations (FENATTEL and FITTEL), which together represent the country's 27 trade unions. The meetings with workers for the new collective agreement were held in November throughout the country and, on a national level, the conditions proposed and voted in these meetings were then approved. In addition to some changes of an economic nature, the agreements related to the inclusion of 23 new corporate clauses, including the transformation of the days of December 24 and 31 into holidays, recognition of *de facto* couples (both homosexual and heterosexual) and their children (including adopted) and the right to permits for female workers who were victim to domestic violence.

Remuneration policy

The Group remuneration policy is established in such a way as to guarantee the necessary levels of competitiveness of the company on the employment market. Competitiveness translates into supporting the strategic objectives, pursuing sustainability of results in the long-term and striking a correct balance between the unitary needs of the Group and the differentiation of the various reference markets. What follows is a remuneration structure that by way of priority seeks to guarantee a correct balance of the fixed and variable components and the short and long-term aspects, alongside benefit systems and other instruments such as the Employee's Share Ownership Plan.

More specifically, the fixed component reflects the breadth and strategic nature of the role performed, measured against the market, and appraises the distinctive subjective characteristics and strategic skills of the employee. The short term variable remuneration (MBO) on the other hand aims to establish a transparent link between pay and the degree of fulfilment of annual targets. To this end, the targets are fixed according to qualitative and quantitative indicators that represent and are consistent with the strategic priorities and business plan, measured according to pre-established and objective criteria. Furthermore, in order to make the management incentive scheme more challenging, in 2014 a "gate" mechanism was introduced, i.e. a threshold for access to company objectives only: in the event of a failure to achieve the "gate" objective, this mechanism prevents the bonus associated with the achievement of other business objectives being awarded.

The long-term variable component aimed at achieving consistency between the interests of management and those of shareholders, by sharing in the business risk, with positive effects expected in terms of growth in the value of the company's shares. To this end, on June 26, 2014 the 2014-2016 Stock Option Plan was launched, involving the Managing Director, the Top Management and a selected number of other managers.

It should also be stressed that the 2014 meritocratic policy was included within a broader overview of Total Rewarding, whereby the more classic compensation instruments (fixed and variable remuneration and benefits) were accompanied and integrated by not directly monetary components (development and training).

Finally, possible instruments of the remuneration policy include the Employee's Share Ownership Plan or PAD (*Piano di Azionariato Diffuso*), aimed at supporting employee motivation and reinforcing a sense of belonging. In June 2014, the company launched a new PAD under which all permanent employees of Telecom Italia S.p.A and its subsidiaries with registered office in Italy could buy shares with a 10% discount on the market price. Compared to the similar initiative launched in 2010, the new PAD included a few innovations: increase in the maximum investment (3,000 to 5,000 euros) and the option to pay by using the employee severance indemnity.
Furthermore, if the shares were held and the owner remained in employment, one free share (bonus share) was awarded for every three shares bought.
The operation was highly successful: approximately 18,000 employees subscribed to it (twice the 2010 figure) and more than 96 million shares were requested for subscription (as compared with the 54 million available).

SHAREHOLDERS

Financial communication

In the course of 2014, the Company organised quarterly conference calls, road shows and meetings abroad in the Group's corporate headquarters (reverse road shows) as well as attending industry conferences. During these events, the Company met over 600 investors. In addition to these there are the direct contacts and telephone conversations that the Investor Relations team has on a daily basis. Furthermore, in order to improve communication with the stakeholders, considering the growing importance of this issue over the last 12 months, Telecom Italia organised meetings and detailed discussions on corporate governance matters.
The responses given by the Group to the financial market are based on criteria of relevance, information sensitivity, consistency and topicality in respect of the Group's structure and the actions undertaken to achieve the targets of the strategic plan.
Financial communication also considers the needs of investors linked to Socially Responsible Investing (SRI), which favour in their investment choices companies that pay attention to ethical, social and environmental factors as well as financial ones. Interaction with this category of investors is developed through individual contact and conference calls.
As regards relations with individual (retail) shareholders - more than 400,000 holders of ordinary shares - Telecom Italia's strategy aims to strengthen communication channels in order to respond quickly and effectively to queries regarding the performance of shares and the Group strategy as a whole. The messages and ideas that emerge from dialogue with *retail* investors are collected and reported to *Top Management*.
In this respect, the “TI Alw@ys ON” (telecomitaliaclub.it) Shareholders' Club was launched in 2006 as a virtual meeting place between the Company and its individual investors. Access to the Club is not exclusive. Non-shareholders can also simply register to receive the same services provided to shareholders. Both registration and delivery of the services are completely free of charge. The following services are currently available:

- sms alert, which provides a daily report of the closing price and percentage variations of Telecom Italia’s ordinary and savings shares compared to the previous day, as well as the daily percentage variations in the FTSE/Mib index;
- weekly stock market report, sent every Monday morning, which summarises performance in the week ending the previous Friday, with a focus on the Italian index, the European TLC industry and global stock markets, providing a weekly update on changes in the advice given by analysts on ordinary shares;
- Quarterly *newsletter*: available on the website, contains the main messages drawn from the press releases published when the Group's results are released.

With regard to on line financial communication, the telecomitalia.com website is constantly updated and innovated.

In 2014, Telecom Italia achieved third place in Italy and Europe in the Webranking by Comprend (previously known as KW Digital), Comprend is an international agency specialised in corporate digital communication which is part of the Halvarsson&Hallvarsson group. The ranking evaluates and rewards listed companies for the best corporate and financial communication on the Web.

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TELECOM ITALIA GROUP CONSOLIDATED FINANCIAL STATEMENTS

Contents

TELECOM ITALIA GROUP CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Assets

(millions of euros)		note	12/31/2014	of which related parties	12/31/2013	of which related parties
Non-current assets						
Intangible assets						
Goodwill		5)	29,943		29,932	
Other intangible assets		6)	6,827		6,280	
			36,770		**36,212**	
Tangible assets		7)				
Property, plant and equipment owned			12,544		12,299	
Assets held under finance leases			843		920	
			13,387		**13,219**	
Other non-current assets						
Investments in associates and joint ventures accounted for using the equity method		8)	36		65	
Other investments		8)	43		42	
Non-current financial assets		9)	2,445	*374*	1,256	*122*
Miscellaneous receivables and other non-current assets		10)	1,571		1,607	
Deferred tax assets		11)	1,118		1,039	
			5,213		**4,009**	
Total Non-current assets	**(a)**		**55,370**		**53,440**	
Current assets						
Inventories		12)	313		365	
Trade and miscellaneous receivables and other current assets		13)	5,615	*152*	5,389	*217*
Current income tax receivables		11)	101		123	
Current financial assets		9)				
Securities other than investments, financial receivables and other current financial assets			*1,611*	*66*	*1,631*	*50*
Cash and cash equivalents			*4,812*	*174*	*5,744*	*48*
			6,423	*240*	7,375	*98*
Current assets sub-total			**12,452**		**13,252**	
Discontinued operations/Non-current assets held for sale		14)				
of a financial nature			165		657	
of a non-financial nature			3,564	*19*	2,871	*27*
			3,729		**3,528**	
Total Current assets	**(b)**		**16,181**		**16,780**	
Total Assets	**(a+b)**		**71,551**		**70,220**	

Equity and Liabilities

(millions of euros)	note	12/31/2014	of which related parties	12/31/2013	of which related parties
Equity	15)				
Share capital issued		10,723		10,693	
less: Treasury shares		(89)		(89)	
Share capital		**10,634**		**10,604**	
Paid-in capital		1,725		1,704	
Other reserves and retained earnings (accumulated losses), including profit (loss) for the year		5,786		4,753	
Equity attributable to owners of the Parent		**18,145**		**17,061**	
Non-controlling interests		3,554		3,125	
Total Equity	**(c)**	**21,699**		**20,186**	
Non-current liabilities					
Non-current financial liabilities	16)	32,325	*469*	31,084	*206*
Employee benefits	21)	1,056		889	
Deferred tax liabilities	11)	438		234	
Provisions	22)	720		699	
Miscellaneous payables and other non-current liabilities	23)	697	*1*	779	*2*
Total Non-current liabilities	**(d)**	**35,236**		**33,685**	
Current liabilities					
Current financial liabilities	16)	4,686	*107*	6,119	*386*
Trade and miscellaneous payables and other current liabilities	24)	8,376	*213*	8,649	*251*
Current income tax payables	11)	36		20	
Current liabilities sub-total		**13,098**		**14,788**	
Liabilities directly associated with Discontinued operations/Non-current assets held for sale	14)				
of a financial nature		43		27	
of a non-financial nature		1,475	*16*	1,534	*48*
		1,518		**1,561**	
Total Current Liabilities	**(e)**	**14,616**		**16,349**	
Total Liabilities	**(f=d+e)**	**49,852**		**50,034**	
Total Equity and Liabilities	**(c+f)**	**71,551**		**70,220**	

SEPARATE CONSOLIDATED INCOME STATEMENTS

(millions of euros)	note	Year 2014	of which related parties	Year 2013	of which related parties
Revenues	26)	**21,573**	*544*	**23,407**	*706*
Other income	27)	401	*10*	324	*24*
Total operating revenues and other income		**21,974**		**23,731**	
Acquisition of goods and services	28)	(9,430)	*(352)*	(10,377)	*(510)*
Employee benefits expenses	29)	(3,119)	*(107)*	(3,087)	*(107)*
Other operating expenses	30)	(1,175)	*(1)*	(1,318)	*(1)*
Change in inventories		(52)		48	
Internally generated assets	31)	588		543	
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)		**8,786**		**9,540**	
of which: impact of non-recurring items	42)	*72*		*(99)*	
Depreciation and amortization	32)	(4,284)		(4,553)	
Gains (losses) on disposals of non-current assets	33)	29		(82)	
Impairment reversals (losses) on non-current assets	34)	(1)		(2,187)	
Operating profit (loss) (EBIT)		**4,530**		**2,718**	
of which: impact of non-recurring items		*110*		*(2,383)*	
Share of profits (losses) of associates and joint ventures accounted for using the equity method	8)	(5)		–	
Other income (expenses) from investments	35)	16		(3)	
Finance income	36)	2,400	*102*	2,003	*63*
Finance expenses	36)	(4,594)	*(159)*	(4,186)	*(100)*
Profit (loss) before tax from continuing operations		**2,347**		**532**	
of which: impact of non-recurring items	42)	*123*		*(2,383)*	
Income tax expense	11)	(928)		(1,111)	
Profit (loss) from continuing operations		**1,419**		**(579)**	
Profit (loss) from Discontinued operations/Non-current assets held for sale	14)	541	*70*	341	*67*
Profit (loss) for the year	37)	**1,960**		**(238)**	
of which: impact of non-recurring items	42)	*107*		*(2,402)*	
Attributable to:					
Owners of the Parent		**1,350**		**(674)**	
Non-controlling interests		610		436	

(euros)		Year 2014	Year 2013
Earnings per share:			
Basic and Diluted Earnings Per Share (EPS)(*):	38)		
Ordinary Share		0.07	(0.03)
Savings Share		0.08	(0.03)
of which:			
from Continuing operations			
Ordinary share		0.05	(0.05)
Savings share		0.06	(0.05)
from Discontinued operations/Non-current assets held for sale			
Ordinary share		0.02	0.02
Savings share		0.02	0.02

(*) Basic EPS is equal to Diluted EPS.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Note 15

(millions of euros)		Year 2014	Year 2013
Profit (loss) for the year	**(a)**	**1,960**	**(238)**
Other components of the Consolidated Statement of Comprehensive Income			
Other components that will not be reclassified subsequently to Separate Consolidated Income Statements			
Remeasurements of employee defined benefit plans (IAS 19):			
Actuarial gains (losses)		(209)	(29)
Income tax effect		53	7
	(b)	**(156)**	**(22)**
Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method:			
Profit (loss)		–	–
Income tax effect		–	–
	(c)	**–**	**–**
Total other components that will not be reclassified subsequently to Separate Consolidated Income Statement	**(d=b+c)**	**(156)**	**(22)**
Other components that will be reclassified subsequently to Separate Consolidated Income Statement			
Available-for-sale financial assets:			
Profit (loss) from fair value adjustments		74	3
Loss (profit) transferred to the Separate Consolidated Income Statements		(23)	(11)
Income tax effect		(15)	4
	(e)	**36**	**(4)**
Hedging instruments:			
Profit (loss) from fair value adjustments		767	(563)
Loss (profit) transferred to Separate Consolidated Income Statements		(871)	314
Income tax effect		28	71
	(f)	**(76)**	**(178)**
Exchange differences on translating foreign operations:			
Profit (loss) on translating foreign operations		(225)	(1,747)
Loss (profit) on translating foreign operations transferred to Separate Consolidated Income Statements		–	–
Income tax effect		–	–
	(g)	**(225)**	**(1,747)**
Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method:			
Profit (loss)		–	1
Loss (profit) transferred to Separate Consolidated Income Statements		–	–
Income tax effect		–	–
	(h)	**–**	**1**
Total other components that will be reclassified subsequently to Separate Consolidated Income Statements	**(i=e+f+g+h)**	**(265)**	**(1,928)**
Total other components of the Consolidated Statements of Comprehensive Income	**(k=d+i)**	**(421)**	**(1,950)**
Total comprehensive income (loss) for the year	**(a+k)**	**1,539**	**(2,188)**
Attributable to:			
Owners of the Parent		**1,123**	**(1,758)**
Non-controlling interests		416	(430)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Changes in Equity from January 1 to December 31, 2013

	Equity attributable to owners of the Parent										
(millions of euros)	Share capital	Paid-in capital	Reserve for available-for-sale financial assets	Reserve for cash flow hedges	Reserve for exchange differences on translating foreign operations	Reserve for remeasurements of employee defined benefit plans (IAS 19)	Share of other profits (losses) of associates and joint ventures accounted for using the equity method	Other reserves and retained earnings (accumulated losses), including profit (loss) for the year	**Total**	**Non-controlling interests**	**Total equity**
Balance at December 31, 2012	**10,604**	**1,704**	**43**	**(383)**	**504**	**154**	**(1)**	**6,753**	**19,378**	**3,634**	**23,012**
Changes in equity during the year:											
Dividends approved								(452)	**(452)**	(183)	**(635)**
Total comprehensive income (loss) for the year			(4)	(178)	(881)	(22)	1	(674)	**(1,758)**	(430)	**(2,188)**
Effect of equity transactions of TI Media								(25)	**(25)**	25	**–**
Effect of equity transactions of the Sofora – Telecom Argentina group								(67)	**(67)**	71	**4**
Grant of equity instruments								1	**1**	–	**1**
Other changes								(16)	**(16)**	8	**(8)**
Balance at December 31, 2013	**10,604**	**1,704**	**39**	**(561)**	**(377)**	**132**	**–**	**5,520**	**17,061**	**3,125**	**20,186**

Changes in Equity from January 1 to December 31, 2014 Note 15

	Equity attributable to owners of the Parent										
(millions of euros)	Share capital	Paid-in capital	Reserve for available-for-sale financial assets	Reserve for cash flow hedges	Reserve for exchange differences on translating foreign operations	Reserve for remeasurements of employee defined benefit plans (IAS 19)	Share of other profits (losses) of associates and joint ventures accounted for using the equity method	Other reserves and retained earnings (accumulated losses), including profit (loss) for the year	**Total**	**Non-controlling interests**	**Total equity**
Balance at December 31, 2013	**10,604**	**1,704**	**39**	**(561)**	**(377)**	**132**	**–**	**5,520**	**17,061**	**3,125**	**20,186**
Changes in equity during the year:											
Dividends approved								(166)	**(166)**	(177)	**(343)**
Total comprehensive income (loss) for the year			36	(76)	(31)	(156)		1,350	**1,123**	416	**1,539**
Effect of acquisition of Rete A									**–**	40	**40**
Effect of equity transactions of the Sofora – Telecom Argentina group					58			10	**68**	92	**160**
Grant of equity instruments	30	21						13	**64**		**64**
Other changes						(72)		67	**(5)**	58	**53**
Balance at December 31, 2014	**10,634**	**1,725**	**75**	**(637)**	**(350)**	**(96)**	**–**	**6,794**	**18,145**	**3,554**	**21,699**

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of euros)		note	Year 2014	Year 2013
Cash flows from operating activities:				
Profit (loss) from continuing operations			1,419	(579)
Adjustments for:				
Depreciation and amortization			4,284	4,553
Impairment losses (reversals) on non-current assets (including investments)			13	2,197
Net change in deferred tax assets and liabilities			187	347
Losses (gains) realized on disposals of non-current assets (including investments)			(29)	82
Share of losses (profits) of associates and joint ventures accounted for using the equity method			5	–
Change in provisions for employee benefits			(59)	(49)
Change in inventories			55	(23)
Change in trade receivables and net amounts due from customers on construction contracts			(125)	1,074
Change in trade payables			(325)	(489)
Net change in current income tax receivables/payables			355	(104)
Net change in miscellaneous receivables/payables and other assets/liabilities			(583)	(268)
Cash flows from (used in) operating activities	**(a)**		**5,197**	**6,741**
Cash flows from investing activities:				
Purchase of intangible assets on an accrual basis		6)	*(2,422)*	*(1,895)*
Purchase of tangible assets on an accrual basis		7)	*(2,562)*	*(2,505)*
Total purchase of intangible and tangible assets on an accrual basis (*)			(4,984)	(4,400)
Change in amounts due to fixed asset suppliers			*325*	*9*
Total purchase of intangible and tangible assets on a cash basis			(4,659)	(4,391)
Acquisition of control of companies or other businesses, net of cash acquired			(9)	(8)
Acquisitions/disposals of other investments			(2)	–
Change in financial receivables and other financial assets			(1,118)	604
Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of			–	(104)
Proceeds from sale/repayment of intangible, tangible and other non-current assets			78	88
Cash flows from (used in) investing activities	**(b)**		**(5,710)**	**(3,811)**
Cash flows from financing activities:				
Change in current financial liabilities and other			1,305	(1,785)
Proceeds from non-current financial liabilities (including current portion)			4,377	4,153
Repayments of non-current financial liabilities (including current portion)			(5,877)	(5,551)
Share capital proceeds/reimbursements (including subsidiaries)			14	9
Dividends paid (*)			(252)	(537)
Changes in ownership interests in consolidated subsidiaries			160	79
Cash flows from (used in) financing activities	**(c)**		**(273)**	**(3,632)**
Cash flows from (used in) Discontinued operations/Non-current assets held for sale	**(d)**	14)	**(499)**	**127**
Aggregate cash flows	**(e=a+b+c+d)**		**(1,285)**	**(575)**
Net cash and cash equivalents at beginning of the year	**(f)**		**6,296**	**7,397**
Net foreign exchange differences on net cash and cash equivalents	**(g)**		**(101)**	**(526)**
Net cash and cash equivalents at end of the year	**(h=e+f+g)**		**4,910**	**6,296**
(*) of which related parties:				
Total purchase of intangible and tangible assets on an accrual basis			186	164
Dividends paid			–	62

Additional Cash Flow Information

(millions of euros)	Year 2014	Year 2013
Income taxes (paid) received	(427)	(863)
Interest expense paid	(4,985)	(4,456)
Interest income received	3,301	2,729
Dividends received	5	2

Analysis of Net Cash and Cash Equivalents

(millions of euros)	Year 2014	Year 2013
Net cash and cash equivalents at beginning of the year		
Cash and cash equivalents - from continuing operations	5,744	6,947
Bank overdrafts repayable on demand – from continuing operations	(64)	(39)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale	616	489
Bank overdrafts repayable on demand – from Discontinued operations/Non-current assets held for sale	–	–
	6,296	**7,397**
Net cash and cash equivalents at end of the year		
Cash and cash equivalents - from continuing operations	4,812	5,744
Bank overdrafts repayable on demand – from continuing operations	(19)	(64)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale	117	616
Bank overdrafts repayable on demand – from Discontinued operations/Non-current assets held for sale	–	–
	4,910	**6,296**

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 Via Gaetano Negri 1, 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, 2014 have been prepared on a going concern basis (for further details see Note "Accounting policies") and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (designated as "IFRS"), as well as the laws and regulations in force in Italy (particularly the measures enacted implementing art. 9 of Legislative Decree 38 of February 28, 2005).
In 2014, 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 since January 1, 2014 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 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, 2014 was approved by resolution of the Board of Directors' meeting held on March 19, 2015.

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 the "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.
  In addition to EBIT or Operating profit (loss), the separate consolidated income statement includes the alternative performance measure of EBITDA or Operating profit (loss) before depreciation and amortization, Capital gains (losses) and Impairment reversals (losses) on non-current assets.
  In particular, besides EBIT, EBITDA is used by Telecom Italia as the financial target in internal presentations (business plans) and in external presentations (to analysts and investors). It represents a useful unit of measurement for the evaluation of the operating performance of the Group (as a whole and at the Business Unit level). EBIT and EBITDA are calculated as follows:

Profit (loss) before tax from continuing operations	
+	Finance expenses
-	Finance income
+/-	Other expenses (income) from investments
+/-	Share of losses (profits) of associates and joint ventures accounted for using the equity method
EBIT- Operating profit (loss)	
+/-	Impairment losses (reversals) on non-current assets
+/-	Losses (gains) on disposals of non-current assets
+	Depreciation and amortization expense
EBITDA- Operating profit (loss) before depreciation and amortization, Capital gains (losses) and Impairment reversals (losses) on non-current assets	

- 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*).

Furthermore, as required by Consob Resolution 15519 of July 27, 2006, in the separate consolidated income statement, income and expenses relating to non-recurring transactions or events have been specifically identified and their relative impact has been shown separately at the main intermediate result levels. Non-recurring events and transactions have been identified mainly according to the nature of the transactions. Specifically, non-recurring income (expenses) include events or transactions which by their very nature do not occur continuously during the normal course of business operations, for instance: income/expenses arising from the sale of properties, business segments and investments included under non-current assets; income/expenses stemming from corporate-related reorganizations; income/expenses arising from fines levied by regulatory agencies and impairment losses on goodwill.

Also in reference to the above Consob resolution, the amounts of the balances or transactions with related parties have been shown separately in the consolidated financial statements.

SEGMENT REPORTING

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 for 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), the operations of the Olivetti group (products and services for Information Technology) as well as the related support activities. Since 2014, the operations of Olivetti group have been consolidated under the Domestic Business Unit. This different presentation reflects the commercial and business placement of the Olivetti group and the process of integrating its products and services with those offered by Telecom Italia in the domestic market. Accordingly, the figures for the previous years have been reclassified on a consistent basis**;**
- **Brazil**: includes mobile (TIM Celular) and fixed (TIM Celular and Intelig) telecommunications operations in Brazil;
- **Media**: operates in the management of Digital Multiplexes through Persidera S.p.A. (formerly Telecom Italia Media Broadcasting S.r.l.);
- **Other Operations**: includes finance companies and other minor companies not strictly related to the core business of the Telecom Italia Group.

NOTE 2
ACCOUNTING POLICIES

GOING CONCERN

The consolidated financial statements for the year ended December 31, 2014 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);
- 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 items, 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 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:

- derecognizes:
  - the assets (including any goodwill) and liabilities of the subsidiary;
  - the carrying amount of any non-controlling interests in the former subsidiary;
- recognizes:
  - 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 recognized at cost, and the carrying amount is increased or decreased to recognize 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 recognized 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 recognized 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 recognizing its share of further losses. After the investor's interest is reduced to zero, additional losses are provided for, and a liability is recognized, 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 recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.
Gains and losses resulting from "upstream" and "downstream" transactions between an investor (including its consolidated subsidiaries) and its associate or joint venture are recognized 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.

INTANGIBLE ASSETS

Goodwill

Under IFRS 3 (*Business Combinations*), goodwill is recognized as of the date of acquisition 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, after having been tested for impairment.

Other intangible assets with an indefinite useful life

Other 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 for new products and services.
Capitalized development costs are amortized systematically over the estimated product or service life so that the amortization method reflects the way which the asset's future economic benefits are expected to be consumed by the entity.

Other intangible assets with a finite useful life

Other purchased or internally-generated intangible 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 prospectively in the separate consolidated income statement. For a small portion of mobile and broadband offerings, the Group capitalizes directly attributable subscriber acquisition costs, currently mainly consisting of commissions for the sales network, 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 prospectively in the separate consolidated income statement.
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.
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 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.
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.

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 write-down 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.

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:

- at the inception of the hedge, the hedging relationship is formally designated and documented;
- the hedge is expected to be highly effective;
- its effectiveness can be reliably measured;
- 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 cash flow hedges). 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 and rewards of ownership of the receivables to third parties, therefore meeting the requirements of IFRS 39 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 from other assets and liabilities in the consolidated statement of financial position. The corresponding amounts for the previous year are not reclassified in the consolidated statement of financial position but are instead shown separately in a specific column in the changes in 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.
As required by IFRS 5 (*Non-current assets held for sale and discontinued operations*), an entity shall not depreciate (or amortize) a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale.
The finance expenses and other expenses attributable to the liabilities of a disposal group classified as held for sale must continue to be 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.
The remeasurements of actuarial gains and losses 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 gave 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.

REVENUES

Revenues are the gross inflows of economic benefits during the period arising in the course of the ordinary activities of an entity. 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.
  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 (in Italy 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 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.

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 carry-forwards 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.
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.

USE OF ESTIMATES

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 assumptions 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 period. 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 detailed below:

Financial statement 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.
Provision for bad debts	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.
Income tax expense	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 carry-forwards 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 ENDORSED BY EU IN FORCE FROM JANUARY 1, 2014

As required by IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*), the following is a brief description of the IFRS in force from January 1, 2014.

- Amendments to IAS 36 (Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets)
  On December 19, 2013, Regulation EU no. 1374-2013 was issued, applying several amendments to IAS 36 governing the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal. The amendments are effective retrospectively starting from January 1, 2014.
  The adoption of these amendments had no impact on these consolidated financial statements at December 31, 2014.

- Amendments to IAS 39 (Financial instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting)
  On December 19, 2013 Regulation EU no. 1375-2013 was issued, applying an amendment to IAS 39, allowing hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. Similar relief has also been included in IFRS 9 Financial Instruments. The amendments are effective retrospectively starting from January 1, 2014.
  The adoption of these amendments had no impact on these consolidated financial statements at December 31, 2014.

- Amendments to IAS 32 (Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities)
  On December 13, 2012, Regulation EU no. 1256-2012 was issued, applying within the EU several amendments made by the IASB to IAS 32 in order to clarify the application of certain offsetting criteria for financial assets and financial liabilities in IAS 32. These amendments shall be applied retrospectively starting from January 1, 2014.
  The adoption of these amendments had no impact on these consolidated financial statements at December 31, 2014.

- IFRIC 21: Levies
  On June 13, 2014, the EU issued Regulation no. 634-2014 that endorsed in the EU the IFRIC Interpretation 21 Levies, an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, on the accounting for levies imposed by governments other than income taxes.
  This interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy and includes guidance illustrating how it should be applied. The interpretation is effective retrospectively starting from January 1, 2014.
  The adoption of these amendments had no impact on these consolidated financial statements at December 31, 2014.

NEW STANDARDS AND INTERPRETATIONS ISSUED BY IASB NOT YET IN FORCE

New Standards and Interpretations issued by IASB not yet in force are listed below.

- Improvements to the IFRS (2011-2013 cycle)
  On December 18, 2014, Regulation EC no. 1361-2014 was issued, applying several improvements to the IFRS for the period 2011 -2013, at EU level.
  The improvements to the IFRS specifically concern the following aspects:
  - “Amendment to IFRS 3 – *Business combinations*”; the amendment clarifies that IFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself (IFRS 11);
  - “Amendment to IFRS 13 – *Fair value measurement*”; the amendment clarifies that the exception from the principle of measuring assets and liabilities based on net portfolio exposure also applies to all contracts that come under the scope of IAS 39/IFRS 9 even if they do not meet the requirements established by IAS 32 to be classified as financial assets/liabilities;
  - “Amendment to IAS 40 – *Investment property*”.

  These amendments – which will take effect from January 1, 2015 – are not expected to have a significant effect on the consolidated financial statements of the Group.

- **Improvements to the IFRS (2010–2012 cycle)**
  On December 17, 2014, Regulation EC no. 28-2015 was issued, applying several improvements to the IFRS for the period 2010 -2012, at EU level. These amendments included in particular:
  - "Amendment to IFRS 2 – *Share-based payment*": the amendment consists of clarifications of the characteristics of some of the vesting conditions;
  - "Amendment to IFRS 3 – *Business combinations*": the amendments clarify the accounting for *contingent consideration* in a business combination;
  - "Amendment to IFRS 8 – Operating segments": the amendment introduces an additional disclosure to be presented in the financial statements regarding the methods of aggregating operating segments;
  - "Amendment to IAS 16 – *Property, plant and equipment* (Revaluation method – proportionate restatement of accumulated depreciation and amortization);
  - "Amendment to IAS 24 - *Related Party disclosures"* (Key management personnel);
  - "Amendment to IAS 38 – Intangible assets" (Revaluation method - proportionate restatement of accumulated amortization).

  These amendments – which will be applied from January 1, 2015 – are not expected to have a significant effect on the consolidated financial statements of the Group.

- **Amendments to IAS 19 (*Employee Benefits*): Defined Benefit Plans - Employee Contributions**
  On December 17, 2014, Regulation EC no. 29-2015 was issued, applying some amendments to IAS 19 at EU level. These amendments are aimed at clarifying the accounting for employee contributions under a defined benefit plan.
  These amendments – which will be applied from January 1, 2015 – are not expected to have a significant effect on the consolidated financial statements of the Group.

NEW STANDARDS AND INTERPRETATIONS ISSUED BY IASB BUT NOT YET ENDORSED BY THE EU

At the date of preparation of these consolidated financial statements, the following new standards and interpretations had been issued by IASB but not yet endorsed by the EU.

	Mandatory application starting from
IFRS 14 (Regulatory Deferral Accounts)	1/1/2016
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11 – *Joint Arrangements*)	1/1/2016
Amendments to IAS 16 (*Property, Plant and Equipment*) and IAS 38 (*Intangible Assets*) - Clarification of acceptable methods of depreciation and amortization	1/1/2016
Amendments to IFRS 10 *(Consolidated Financial Statements)* and to IAS 28 *(Investments in Associates and Joint Ventures):* Sale or contribution of assets between an investor and its associate/joint venture	1/1/2016
Improvements to the IFRS (2012-2014 cycle)	1/1/2016
Amendments to IFRS 12, IFRS 10 and IAS 28 (*Investment entities - Exception to consolidation*)	1/1/2016
Amendments to IAS 1 (*Disclosure initiative*)	1/1/2016
IFRS 15 (*Revenue from Contracts with Customers*)	1/1/2017
IFRS 9 (*Financial Instruments*)	1/1/2018

The potential impacts on the consolidated financial statements from application of these amendments 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 Telecom Italia Group”.

SCOPE OF CONSOLIDATION

The changes in the scope of consolidation at December 31, 2014 compared to December 31, 2013 are listed below.
These changes did not have any significant impacts on the Consolidated Financial Statements of the Telecom Italia Group at December 31, 2014.

Continuing operations:

Entry/merger of subsidiaries into the scope of consolidation:

Company		Business Unit	Month
Entry:			
Trentino NGN S.r.l.	Acquisition of control	Domestic	February 2014
TIMB 2 S.r.l.	New company	Media	May 2014
Rete A S.p.A. subsequently merged into Persidera S.p.A.	New acquisition	Media	June 2014
Telecom Italia Ventures S.r.l.	New company	Domestic	July 2014
Merger:			
Flagship Store Bologna 1 S.r.l.	Merged into 4G Retail S.r.l.	Domestic	July 2014
Flagship Store Bolzano 1 S.r.l.	Merged into 4G Retail S.r.l.	Domestic	July 2014
Flagship Store Catania 1 S.r.l.	Merged into 4G Retail S.r.l.	Domestic	July 2014
Flagship Store Firenze 1 S.r.l.	Merged into 4G Retail S.r.l.	Domestic	July 2014
Flagship Store Milano 1 S.r.l.	Merged into 4G Retail S.r.l.	Domestic	July 2014
Flagship Store Milano 2 S.r.l.	Merged into 4G Retail S.r.l.	Domestic	July 2014
Flagship Store Modena 1 S.r.l.	Merged into 4G Retail S.r.l.	Domestic	July 2014
Flagship Store Roma 1 S.r.l.	Merged into 4G Retail S.r.l.	Domestic	July 2014
Flagship Store Roma 2 S.r.l.	Merged into 4G Retail S.r.l.	Domestic	July 2014
Flagship Store Sanremo 1 S.r.l.	Merged into 4G Retail S.r.l.	Domestic	July 2014
Flagship Store Taranto 1 S.r.l.	Merged into 4G Retail S.r.l.	Domestic	July 2014
Flagship Store Torino 1 S.r.l.	Merged into 4G Retail S.r.l.	Domestic	July 2014
Flagship Store Verona 1 S.r.l.	Merged into 4G Retail S.r.l.	Domestic	July 2014
Flagship Store Vicenza 1 S.r.l.	Merged into 4G Retail S.r.l.	Domestic	July 2014
TLC Commercial services S.r.l.	Merged into 4G Retail S.r.l.	Domestic	July 2014
Advalso S.p.A.	Merged into Olivetti S.p.A.	Domestic	July 2014
Med 1 Netherlands BV	Merged into Med 1 Italy S.r.l.	Domestic	December 2014
Med 1 Italy S.r.l.	Merged into Med Nautilus Italy S.p.A.	Domestic	December 2014

Discontinued operations/Non-current assets held for sale

Subsidiaries entering/exiting the scope of consolidation

Company		Business Unit	Month
Entry:			
Personal Envìos S.A.	New company	Argentina	December 2014
Exit:			
Springville S.A.	Sold	Argentina	February 2014

The breakdown by number of Telecom Italia Group subsidiaries, associates and joint ventures at December 31, 2014 and December 31, 2013 is as follows:

	12/31/2013		
Companies:	**Italy**	**Outside Italy**	**Total**
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
Total companies	**52**	**62**	**114**

(*) Including subsidiaries posted under Discontinued operations/Non-current assets held for sale.

	12/31/2014		
Companies:	**Italy**	**Outside Italy**	**Total**
subsidiaries consolidated line-by-line(*)	24	61	85
joint ventures accounted for using the equity method	-	-	-
associates accounted for using the equity method	16	-	16
Total companies	**40**	**61**	**101**

(*) Including subsidiaries posted under Discontinued operations/Non-current assets held for sale.

Further details are provided in the Note “List of companies of the Telecom Italia Group”.

SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

At December 31, 2014, 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 before the netting and elimination of intragroup accounts, have been prepared in accordance with IFRS and reflect 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.

Tim Brasil group – Brazil Business Unit

Non-controlling interests held at December 31, 2014 amounted to 33.4% 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.

Financial Position Data Tim Brasil group

(millions of euros)	12/31/2014	12/31/2013
Non-current assets	7,666	6,373
Current assets	3,484	3,343
Total Assets	**11,150**	**9,716**
Non-current liabilities	2,305	1,701
Current liabilities	3,010	2,420
Total Liabilities	**5,315**	**4,121**
Equity	**5,835**	**5,595**
of which Non-controlling interests	*1,622*	*1,540*

Income statement Data Tim Brasil group

(millions of euros)	2014	2013
Revenues	6,244	6,945
Profit (loss) for the year	**497**	**531**
of which Non-controlling interests	*166*	*177*

Financial Data Tim Brasil group

In 2014, aggregate cash flows generated was a negative 12 million euros (in the presence of a positive exchange difference of 4 million euros) and reflected, among other things, the outlay for the acquisition of the 700 MHz license (around 540 million euros). In 2013 this item was a negative 12 million euros, 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.

Lastly, again with reference to the Tim Brasil group and in line with the information given in the Report on Operations – Main risks and uncertainties Section, the main risk factors that could, even significantly, restrict 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;
- Regulatory and Compliance risks.

NOTE 4
BUSINESS COMBINATIONS

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

On June 30, 2014, after having received the authorizations required by the applicable regulations, the business combination was completed of the digital terrestrial network operator for TV transmission businesses controlled by Persidera S.p.A., formerly Telecom Italia Media Broadcasting S.r.l., and Rete A S.p.A. (Rete A), respectively. Rete A was merged into Persidera S.p.A. on December 1, 2014.
Telecom Italia Media and Gruppo Editoriale L'Espresso hold 70% and 30% of the shares of Persidera respectively.
Persidera is an independent network operator in Italy, with five digital multiplexes and nationwide high-coverage infrastructure, based on next generation technologies. It will be the primary supplier for the leading non-integrated national and foreign television content providers operating on the Italian market. The transaction will also enable industrial synergies.

The accounting effects of the business combination may be summarized as follows:

- the valuation of the consideration is 40 million euros and corresponds to the value of the capital increase of Persidera to the seller Gruppo Editoriale L'Espresso on June 30, 2014;
- all the Assets acquired and Liabilities assumed of the acquired company have been measured at fair value for their recognition. In addition to the value of the Assets acquired and the Liabilities assumed, goodwill has been recognized, amounting to 8 million euros, calculated as detailed in the following table:

(millions of euros)		Fair Value Amounts
Valuation of consideration	**(a)**	**40**
Value of assets acquired	**(b)**	71
Value of liabilities assumed	**(c)**	(39)
Goodwill	**(a–b-c)**	**8**

Rete A – values at the acquisition date

(millions of euros)		Fair Value Amounts	Carrying Amounts
Goodwill		8	-
Other non-current assets		64	45
Current assets		7	7
of which Cash and cash equivalents		-	-
Total assets	**(a)**	**79**	**52**
Total non-current liabilities		12	6
of which Non-current financial liabilities		-	-
Total current liabilities		27	27
of which Current financial liabilities		21	21
Total liabilities	**(b)**	**39**	**33**
Net assets	**(a-b)**	**40**	**19**

If the acquisition had been completed on January 1, 2014, the consolidated financial statements at December 31, 2014 of the Telecom Italia Group would have reported higher Revenues of around 10 million euros and higher Operating profit (loss) (EBIT) of around 1 million euros.

Acquisition of control of Trentino NGN S.r.L.

On February 28, 2014, Telecom Italia S.p.A. acquired control of Trentino NGN S.r.l., of which it already held 41.07%. The price paid was 17 million euros, bringing the stake in Trentino NGN S.r.l. up to 97.4%.
The ownership interest held before the acquisition of control, previously measured using the equity method, was remeasured at fair value at the date of acquisition of control and amounted to approximately 36 million euros.
The fair value of net assets acquired corresponded to the carrying amount of the assets and the acquisition of control did not result in the recognition of any goodwill.
In the second half of 2014, the percentage ownership further increased to 99.3%.

(millions of euros)		Fair Value Amounts
Valuation of consideration	**(a)**	17
Fair value of the ownership interest held before the acquisition of control	**(b)**	36
Total	**(c= a+b)**	**53**
Net value of assets acquired	**(d)**	**53**
Goodwill	**(c-d)**	**-**

Trentino NGN – values at the date of acquisition of control

(millions of euros)		Current amounts at fair value	Carrying Amounts
Goodwill		-	-
Other non-current assets		36	36
Current assets		17	17
of which Cash and cash equivalents		8	8
Total assets	**(a)**	**53**	**53**
Total non-current liabilities		-	-
Total current liabilities		-	-
Total liabilities	**(b)**	-	-
Net assets	**(a-b)**	**53**	**53**

If the acquisition had been completed on January 1, 2014, the consolidated financial statements at December 31, 2014 of the Telecom Italia Group would not have reported any change in Revenues and Operating profit (loss) (EBIT) with respect to those presented in this Annual Financial Report.

NOTE 5
GOODWILL

Goodwill shows the following breakdown and changes during 2013 and 2014:

(millions of euros)	12/31/2012	Discontinued operations	Increase	Decrease	Impairments	Exchange differences	12/31/2013
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
Argentina	–	–					–
Media	21						21
Other Operations	–						–
Total	**32,410**	**–**	**–**	**–**	**(2,187)**	**(291)**	**29,932**

(millions of euros)	12/31/2013	Increase	Decrease	Impairments	Exchange differences	12/31/2014
Domestic	28,443					28,443
Core Domestic	28,028	3				28,031
International Wholesale	415		(3)			412
Brazil	1,468				3	1,471
Media	21	8				29
Other Operations	–					–
Total	**29,932**	**8**	**–**	**–**	**3**	**29,943**

The increase of 11 million euros recognized in 2014 was attributable to:

- 8 million euros relating to the Media Business Unit following the recognition of goodwill resulting from the acquisition of control and consequent consolidation of Rete A S.p.A. (then merged into Persidera S.p.A.), and 3 million euros due to the exchange differences relating to the goodwill of the Brazil Business Unit;
- the increases and decreases, relating respectively to Core Domestic and International Wholesale, are connected to the assignment of a portion of goodwill following the transfer by Telecom Italia Sparkle S.p.A. to Telecom Italia S.p.A. of the entire investment held in Telecom Italia San Marino.

With effect from the consolidated financial statements at December 31, 2013, the interest held 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, 2014 and 2013 can be summarized as follows:

(millions of euros)	12/31/2014			12/31/2013		
	Gross carrying amount	**Accumulated impairment losses**	**Net carrying amount**	**Gross carrying amount**	**Accumulated impairment losses**	**Net carrying amount**
Domestic	42,251	(13,808)	**28,443**	42,251	(13,808)	**28,443**
Core Domestic	41,833	(13,802)	**28,031**	41,830	(13,802)	**28,028**
International Wholesale	412	–	**412**	415	–	**415**
Olivetti	6	(6)	–	6	(6)	–
Brazil	1,478	(7)	**1,471**	1,475	(7)	**1,468**
Media	189	(160)	**29**	181	(160)	**21**
Other Operations	–	–	–	–	–	–
Total	**43,918**	**(13,975)**	**29,943**	**43,907**	**(13,975)**	**29,932**

Following its classification as Discontinued Operations, the Sofora – Telecom Argentina group is no longer a Business Unit, therefore, the relative amounts are no longer stated (goodwill allocated to the unit, totaling 979 million Argentine pesos, was written down completely in 2012).

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.
The impairment test at December 31, 2014 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:

Segment	**Cash Generating Units (or groups of units)**
Domestic	Core Domestic
	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, 2014, with continuity of method, did not reveal any impairment loss, as the estimate of the recoverable amount of all the CGUs examined was higher than their carrying amount. With regard in particular to the amount of goodwill allocated to the Core Domestic CGU this amount includes the goodwill directly attributable to the copper access network of 10.6 billion euros. This amount derives from the difference between the value of the copper access network reconstructed on the basis of resolution 747/13/CONS (of 14.9 billion euros) and its net carrying amount (of 4.3 billion euros).

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:

Core Domestic	International Wholesale
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 (capex/revenues)	Capital expenditures rate (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 (2015-2017) extended to cover a time period of five years (2015-2019).
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 was also based on an explicit time period of five years, consisting of the forecasts of the 2015-2017 industrial plan extended for an additional two years (covering the period 2015-2019), in line with the approach adopted for the Core Domestic CGU.

The nominal growth rates used to estimate the terminal value are the following:

Core Domestic	International Wholesale
+0.0%	+0.0%

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 (even though they are lower than the median of the analysts' forecasts that can be gathered from reports published after the presentation of the industrial plan).
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 19.06%) was used.

The cost of capital was estimated by considering the following:

- the criterion applied was the Capital Asset Pricing Model – CAPM estimate (the criterion used by the Group to estimate the value in use 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;
- 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 = 1.15; International Wholesale CGU Beta coefficient = 0.80 (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:

	Core Domestic %	International Wholesale %
WACC post tax	7.00	6.90
WACC post tax – g	7.00	6.90
WACC pre tax	9.99	10.08
WACC pre tax – g	9.99	10.08

The differences between the value in use and the carrying amounts before impairment test at December 31, 2014 for the two CGUs considered amounted to:

(millions of euros)	Core Domestic	International Wholesale
Difference between values in use and carrying amounts	+2,136	+ 122

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 '14-'19 Core Domestic; CAGR '14-'19 International Wholesale) and capital expenditures in proportion to revenues (capex/revenues). The following tables show the values of the key variables used in estimating the value in use and the changes in those 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

	Core Domestic %	International Wholesale %
Pre-tax discount rate	9.99	10.08
Long-term growth rate (g)	0	0
Compound Annual Growth Rate (CAGR) of EBITDA	1.41	-12.21
Capital expenditures rate (Capex/Revenues)	from 19.16 to 25.04	from 4.30 to 6.78

CHANGES IN KEY VARIABLES NEEDED TO RENDER THE RECOVERABLE AMOUNT EQUAL TO THE CARRYING AMOUNT

	Core Domestic %	International Wholesale %
Pre-tax discount rate	+0.49	+1.46
Long-term growth rate (g)	- 0.72	- 2.30
Compound Annual Growth Rate (CAGR) of EBITDA	- 1.04	- 3.28
Capital expenditures rate (Capex/Revenues)	+1.55	+1.15

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 were recorded at this additional level of testing.

NOTE 6
OTHER INTANGIBLE ASSETS

Other intangible assets increased by 547 million euros compared to December 31, 2013. Details of the breakdown and movements are as follows:

(millions of euros)	12/31/2012	Discontinued operations	Additions	Amortization	Impairment (losses) / reversals	Disposals	Exchange differences	Other changes	12/31/2013
Industrial patents and intellectual property rights	**2,335**		1,262	(1,392)	–	(1)	(159)	287	**2,332**
Concessions, licenses, trademarks and similar rights	**3,170**	(664)	236	(369)			(132)	1,153	**3,394**
of which Licenses with an indefinite useful life	**378**	(378)					–		**–**
Other intangible assets with a finite useful life	**795**	(565)	281	(251)			(4)	1	**257**
Work in progress and advance payments	**1,627**		116			(4)	(2)	(1,440)	**297**
Total	**7,927**	**(1,229)**	**1,895**	**(2,012)**	**–**	**(5)**	**(297)**	**1**	**6,280**

(millions of euros)	12/31/2013	Additions	Amortization	Impairment (losses) / reversals	Disposals	Exchange differences	Capitalized borrowing costs	Other changes	12/31/2014
Industrial patents and intellectual property rights	**2,332**	991	(1,297)			(2)		199	**2,223**
Concessions, licenses, trademarks and similar rights	**3,394**	90	(370)		(60)	26		40	**3,120**
of which Licenses with an indefinite useful life	**–**								**–**
Other intangible assets with a finite useful life	**257**	63	(187)			1			**134**
Work in progress and advance payments	**297**	1,278			(1)	(30)	5	(199)	**1,350**
Total	**6,280**	**2,422**	**(1,854)**	**–**	**(61)**	**(5)**	**5**	**40**	**6,827**

Additions in 2014 included 310 million euros of internally generated assets (307 million euros in 2013). Further details are provided in the Note "Internally generated assets".
Other net changes were essentially attributable to the effects of the acquisition of control of Rete A now merged into Persidera S.p.A. (Media Business Unit) on June 30, 2014.

Industrial patents and intellectual property rights at December 31, 2014 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. (1,251 million euros) and to the Brazil Business Unit (938 million euros).

Concessions, licenses, trademarks and similar rights at December 31, 2014 mainly related to:
- the remaining cost of telephone licenses and similar rights (2,130 million euros for Telecom Italia S.p.A. and 427 million euros for the Brazil Business Unit);
- Indefeasible Rights of Use - IRU (275 million euros) mainly relating to companies of the Telecom Italia Sparkle group (International Wholesale);
- the television frequencies of the Media Business Unit (134 million euros) which include the effects of the recent acquisition of Rete A whose frequencies measured at fair value amounted to approximately 38 million euros. The expiry of the user licenses for the frequencies used for digital terrestrial transmission held by Persidera S.p.A. was rescheduled as a result of their definitive

assignment up to 2032. Accordingly, the amortization period will end in that year instead of in 2028, without significant impacts on either the current or future periods.

The net carrying amount of telephone licenses and similar rights, totaling 2,557 million euros, and their useful lives are detailed below:

Type	Net carrying amount at 12/31/2014 (millions of euros)	Amortization period in years	Amortization charge for 2014 (millions of euros)
Telecom Italia S.p.A.:			
UMTS	940	18	134
UMTS 2100 MHz	52	12	7
Wireless Local Loop	2	15	1
WiMax	8	15	1
LTE 1800 MHz	129	18	9
LTE 800 MHz	900	17	60
LTE 2600 MHz	99	17	7
Tim Brasil group:			
GSM and 3G (UMTS)	330	8-15	97
4G (LTE)	97	15	10

Other intangible assets with a finite useful life at December 31, 2014 essentially consisted of 114 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).
In this regard, from this year, Telecom Italia S.p.A. new market strategy is aimed at gradually ending the subsidizing of handsets in "bundle deals". The decision to use subsidies as a purchasing incentive was part of a market scenario where the prices of next generation handsets were very high. It was therefore crucial, in order to aid penetration and spread of services, for deals to be combined with the subsidized sale of next generation devices. The market has evolved, with ever-increasing development and use of cutting edge handsets providing access to new services at more affordable prices. Accordingly, a plan has been formulated for the gradual reduction in subsidies, effectively eliminating them in offers targeted at segments that provide lower contributions in terms of ARPU. In 2013 the capitalized handset subsidies amounted to 188 million euros.

Work in progress and advance payments, showed an increase of 1,053 million euros mainly due to the recognition of the value of the user right for the 700 MHz frequencies awarded to the Tim Brasil group at the end of 2014, which will enable it to offer fourth Generation technology mobile services (4G). The assignment of the license also resulted in the assumption of the obligation to participate in the consortium that will carry out the cleaning up of the 700 MHz spectrum, currently used by television broadcasters. The investment for the two components is around 929 million euros (in addition to the transaction costs of around 7 million euros).
Since the assets require a period of more than 12 months to be ready for use, borrowing costs of 5 million euros have been capitalized, as they are directly attributable to the acquisition. The rate used for the capitalization of borrowing costs is 11.36%.
Capitalized borrowing costs have been recorded as a direct reduction of the item "interest expenses to banks".

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, 2014 and 2013 can be summarized as follows:

(millions of euros)	12/31/2013			
	Gross carrying amount	**Accumulated impairment losses**	**Accumulated amortization**	**Net carrying amount**
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
Total intangible assets with a finite useful life	**20,066**	**(244)**	**(13,542)**	**6,280**
Total Other intangible assets	**20,066**	**(244)**	**(13,542)**	**6,280**

(millions of euros)	12/31/2014			
	Gross carrying amount	**Accumulated impairment losses**	**Accumulated amortization**	**Net carrying amount**
Industrial patents and intellectual property rights	12,831	(7)	(10,601)	2,223
Concessions, licenses, trademarks and similar rights	6,498	(266)	(3,112)	3,120
Other intangible assets with a finite useful life	668	–	(534)	134
Work in progress and advance payments	1,352	(2)		1,350
Total intangible assets with a finite useful life	**21,349**	**(275)**	**(14,247)**	**6,827**
Total Other intangible assets	**21,349**	**(275)**	**(14,247)**	**6,827**

Impairment losses on “Concessions, licenses, trademarks and similar rights,” relating mainly to reporting periods prior to 2004, refer to the Indefeasible Rights of Use (IRU) for the transmission capacity and cables for international connections acquired by the LanMed group. The change shown is essentially due to the translation into euros of accounts denominated in U.S. dollars.

The item “Other intangible assets with a finite useful life”, includes gross disposals of 177 million euros of Telecom Italia S.p.A. connected with Subscriber Acquisition Costs (SAC) that have been fully amortized.

NOTE 7
TANGIBLE ASSETS (OWNED AND UNDER FINANCE LEASES)

PROPERTY, PLANT AND EQUIPMENT OWNED

Property, plant and equipment owned increased by 245 million euros compared to December 31, 2013. The breakdown and movements are as follows:

(millions of euros)	12/31/2012	Discontinued operations	Additions	Depreciation	Impairment (losses) / reversals	Disposals	Exchange differences	Other changes	12/31/2013
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 advance payments	**982**	(236)	296		–	(1)	(43)	(303)	**695**
Total	**14,465**	**(1,681)**	**2,463**	**(2,418)**	**–**	**(22)**	**(494)**	**(14)**	**12,299**

(millions of euros)	12/31/2013	Additions	Depreciation	Impairment (losses) / reversals	Disposals	Exchange differences	Other changes	12/31/2014
Land	**135**			(1)	(3)			**131**
Buildings (civil and industrial)	**380**	8	(41)		(34)	1	6	**320**
Plant and equipment	**10,594**	1,913	(2,075)		(10)	9	481	**10,912**
Manufacturing and distribution equipment	**41**	13	(14)					**40**
Other	**454**	91	(176)		(3)		74	**440**
Construction in progress and advance payments	**695**	501			(1)	3	(497)	**701**
Total	**12,299**	**2,526**	**(2,306)**	**(1)**	**(51)**	**13**	**64**	**12,544**

Land comprises both built-up land and available land and is not subject to depreciation. The balance at December 31, 2014 mainly related to Telecom Italia S.p.A. (112 million euros).

Buildings (civil and industrial) almost exclusively includes buildings for industrial use hosting telephone exchanges or for office use, and light constructions. The figure at the end of 2014 was mainly attributable to Telecom Italia S.p.A. (267 million euros). Disposals, of 34 million euros, mainly related to the sale of a property located in Milan.

Plant and equipment includes the aggregate of all the structures used for the functioning of voice and data telephone traffic. The figure at December 31, 2014 was mainly attributable to Telecom Italia S.p.A. (8,156 million euros) and to companies of the Brazil Business Unit (2,362 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 primarily related to Telecom Italia S.p.A..

The Media Business Unit, also as a result of the merger by absorption of Rete A S.p.A. into Persidera S.p.A., has re-estimated the useful life of the transceivers (mainly set at 6 years) bringing it to 10 years.

This change resulted in a reduction in the amortization charge for the year 2014 of 10 million euros, with an expected reduction in 2015 and 2016 of 7 and 4 million euros respectively.

The item **Other** mainly consists 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.

Additions in 2014 included 278 million euros of internally generated assets (236 million euros in 2013). 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 2014 and 2013 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, 2014 and 2013 can be summarized as follows:

	12/31/2013			
(millions of euros)	**Gross carrying amount**	**Accumulated impairment losses**	**Accumulated depreciation**	**Net carrying amount**
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
Total	**70,767**	**(58)**	**(58,410)**	**12,299**

	12/31/2014			
(millions of euros)	**Gross carrying amount**	**Accumulated impairment losses**	**Accumulated depreciation**	**Net carrying amount**
Land	132	(1)		131
Buildings (civil and industrial)	1,388	(2)	(1,066)	320
Plant and equipment	65,911	(58)	(54,941)	10,912
Manufacturing and distribution equipment	283	(1)	(242)	40
Other	3,999	(2)	(3,557)	440
Construction in progress and advance payments	702	(1)		701
Total	**72,415**	**(65)**	**(59,806)**	**12,544**

With regard to the gross carrying amounts of tangible assets, in 2014 Telecom Italia S.p.A. carried out disposals for a gross carrying amount of 845 million euros mainly in relation to fully depreciated assets. Disposals mainly involved plant and equipment (779 million euros), including, in particular, disposals for the replacement of mobile network transmission systems (275 million euros); disposals of subscriber connection units (63 million euros); and disposals of fixed-line/mobile switching systems (150 million euros).

ASSETS HELD UNDER FINANCE LEASES

Assets held under finance leases decreased by 77 million euros compared to December 31, 2013. The breakdown and movements are as follows:

(millions of euros)	12/31/2012	Discontinued operations	Additions	Depreciation	Other changes	12/31/2013
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**
Total	**1,014**	**(8)**	**42**	**(123)**	**(5)**	**920**

(millions of euros)	12/31/2013	Additions	Depreciation	Other changes	12/31/2014
Buildings (civil and industrial)	**883**	19	(120)	31	**813**
Other	**5**	1	(4)		**2**
Construction in progress and advance payments	**32**	16		(20)	**28**
Total	**920**	**36**	**(124)**	**11**	**843**

The item **Buildings (civil and industrial)** includes buildings under long rent contracts and related building adaptations, almost exclusively attributable to Telecom Italia S.p.A.. With regard to the latter, the other changes include the positive amount of 21 million euros resulting from the revision of lease contracts.

Other essentially 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, 2014 and 2013 can be summarized as follows:

	12/31/2013			
(millions of euros)	**Gross carrying amount**	**Accumulated impairment losses**	**Accumulated depreciation**	**Net carrying amount**
Buildings (civil and industrial)	2,106	(27)	(1,196)	883
Other	90	–	(85)	5
Construction in progress and advance payments	32	–	–	32
Total	**2,228**	**(27)**	**(1,281)**	**920**

	12/31/2014			
(millions of euros)	**Gross carrying amount**	**Accumulated impairment losses**	**Accumulated depreciation**	**Net carrying amount**
Buildings (civil and industrial)	2,141	(27)	(1,301)	813
Other	91		(89)	2
Construction in progress and advance payments	28			28
Total	**2,260**	**(27)**	**(1,390)**	**843**

At December 31, 2014 and 2013, finance lease payments due in future years and their present value are as follows:

(millions of euros)	12/31/2014		12/31/2013	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within 1 year	216	191	215	194
From 2 to 5 years	879	566	882	582
Beyond 5 years	560	249	741	379
Total	**1,655**	**1,006**	**1,838**	**1,155**

(millions of euros)	12/31/2014	12/31/2013
Future net minimum lease payments	1,655	1,838
Interest portion	(649)	(683)
Present value of lease payments	**1,006**	**1,155**
Finance lease liabilities	1,153	1,293
Financial receivables for lease contracts	(147)	(138)
Total net finance lease liabilities	**1,006**	**1,155**

At December 31, 2014, the inflation adjustment to finance lease payments was 38 million euros (35 million euros at December 31, 2013) and related to Telecom Italia S.p.A..

NOTE 8
INVESTMENTS

Investments accounted for using the equity method consisted exclusively of **investments in associates**. They amounted to 36 million euros (65 million euros at December 31, 2013) and were broken down as follows:

(millions of euros)	12/31/2012	Additions	Disposals and reimbursements of capital	Valuation using equity method	Other changes	12/31/2013
Trentino NGN S.r.l.	25					25
Tiglio I	15			(1)		14
Tiglio II	1					1
Other	24			1		25
Total	**65**	**–**	**–**	**–**	**–**	**65**

(millions of euros)	12/31/2013	Additions	Disposals and reimbursements of capital	Valuation using equity method	Other changes	12/31/2014
Trentino NGN S.r.l.	25				(25)	–
Tiglio I	14			(6)		8
Tiglio II	1					1
Other	25	1		1		27
Total	**65**	**1**	**–**	**(5)**	**(25)**	**36**

As a result of the acquisition of control of the interest in Trentino NGN, on February 28, 2014, the company is now consolidated on a line-by-line basis.
The amount held prior to acquisition of control has been remeasured at fair value at the acquisition date, resulting in a positive impact of 11 million euros on the separate consolidated income statement for the period.

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 either individually or in aggregate form.

Investments in structured entities

Telecom Italia Group does not hold investments in structured entities.

Other investments

Other investments refer to the following:

(millions of euros)	12/31/2012	Additions	Disposals and reimbursements of capital	Valuation at fair value	Other changes	12/31/2013
Assicurazioni Generali	**3**			–		**3**
Fin.Priv.	**10**			4		**14**
Sia	**11**					**11**
Other	**15**				(1)	**14**
Total	**39**	**–**	**–**	**4**	**(1)**	**42**

(millions of euros)	12/31/2013	Additions	Disposals and reimbursements of capital	Valuation at fair value	Other changes	12/31/2014
Assicurazioni Generali	**3**			–		**3**
Fin.Priv.	**14**			1		**15**
Sia	**11**					**11**
Other	**14**					**14**
Total	**42**	**–**	**–**	**1**	**–**	**43**

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”.

NOTE 9
FINANCIAL ASSETS (NON-CURRENT AND CURRENT)

Financial assets (non-current and current) were broken down as follows:

(millions of euros)		12/31/2014	12/31/2013
Non-current financial assets			
Securities, financial receivables and other non-current financial assets			
Securities other than investments		6	6
Financial receivables for lease contracts		92	58
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature		2,163	1,018
Receivables from employees		30	31
Non-hedging derivatives		149	137
Other financial receivables		5	6
Total non-current financial assets	**(a)**	**2,445**	**1,256**
Current financial assets			
Securities other than investments			
Held for trading		–	–
Held-to-maturity		–	–
Available-for-sale		1,300	1,348
		1,300	**1,348**
Financial receivables and other current financial assets			
Liquid assets with banks, financial institutions and post offices (with maturity over 3 months)		–	–
Receivables from employees		12	12
Financial receivables for lease contracts		55	80
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature		223	173
Non-hedging derivatives		18	7
Other short-term financial receivables		3	11
		311	**283**
Cash and cash equivalents		**4,812**	**5,744**
Total current financial assets	**(b)**	**6,423**	**7,375**
Financial assets relating to Discontinued operations/Non-current assets held for sale	**(c)**	**165**	**657**
Total non-current and current financial assets	**(a+b+c)**	**9,033**	**9,288**

Further details on Financial Instruments are provided in the Note "Supplementary disclosure on financial instruments".

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;
- the portion of rental contracts, with the rendering of accessory services under the "full rent" formula;
- finance leases on rights of use (Brazil Business Unit).

"Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature" refer mainly to the mark-to-market component of the hedging derivatives, whereas "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".

Securities other than investments (included in current assets) relate to listed securities, classified as available-for-sale due beyond three months. They consist of 254 million euros of Italian treasury bonds purchased by Telecom Italia S.p.A. and 656 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 385 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 the above government 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 since August 2012, in replacement of the previous policies in force.

Cash and cash equivalents decreased by 932 million euros compared to December 31, 2013 and were broken down as follows:

(millions of euros)	12/31/2014	12/31/2013
Liquid assets with banks, financial institutions and post offices	3,224	4,131
Checks, cash and other receivables and deposits for cash flexibility	1	1
Securities other than investments (due within 3 months)	1,587	1,612
Total	**4,812**	**5,744**

Cash and cash equivalents at December 31, 2014 do not include amounts relating to the Sofora - Telecom Argentina group (classified as Discontinued operations), totaling 130 million euros (616 million euros at December 31, 2013).

The different technical forms of investing available cash at December 31, 2014 can be analyzed as follows:

- maturities: all deposits have a maximum maturity date of three months;
- counterparty risk: 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 1,585 million euros (1,610 million euros at December 31, 2013) 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 decreased by 36 million euros compared to December 31, 2013. They included:

(millions of euros)	12/31/2014	*Of which IAS 39 Financial Instruments*	12/31/2013	*Of which IAS 39 Financial Instruments*
Miscellaneous receivables and other non-current assets:				
Miscellaneous receivables	584	*338*	782	*248*
Medium/long-term prepaid expenses	987		825	
Total	**1,571**	**338**	**1,607**	**248**

Miscellaneous receivables and other non-current assets amounted to 1,571 million euros (1,607 million euros at December 31, 2013) and included Income tax receivables of 63 million euros (363 million euros at December 31, 2013).
Miscellaneous receivables mainly relate to the Brazil Business Unit (512 million euros) including receivables for court deposits of 310 million euros.
In August 2014, IRES tax receivables, previously recognized under “Miscellaneous receivables” were sold to Mediocredito Italiano for 303 million euros. More details are provided in the Note “Income tax expense”.

Medium/long-term prepaid expenses totaled 987 million euros (825 million euros at December 31, 2013) 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, 2014 amounted to 164 million euros (486 million euros at December 31, 2013).
Specifically, they consisted of:

- non-current receivables of 63 million euros (363 million euros at December 31, 2013). The figure at December 31, 2013 included 352 million euros for the Domestic Business Unit for the taxes and interest resulting from the recognized deductibility from IRES tax of the IRAP tax calculated on labor costs, relating to years prior to 2012, following the entry into force of Decree Law 16/2012. In August 2014, part of this receivable was sold to Mediocredito Italiano for 303 million euros and generated net proceeds of 231 million euros. A total of 53 million euros continue to be recognized, which include the receivables for the interest component – amounting to 35 million euros – accrued on the receivable sold. These interest receivables were transferred to Mediocredito Italiano through a recourse clause, but without any financial advance. As a result the counterparty risk remains with the Telecom Italia Group;
- current income tax receivables of 101 million euros (123 million euros at December 31, 2013) mainly relating to receivables of the Domestic Business Unit companies (83 million euros) and the Brazil Business Unit companies (17 million euros).

DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The net balance of 680 million euros at December 31, 2014 (805 million euros at December 31, 2013) was broken down as follows.

(millions of euros)	12/31/2014	12/31/2013
Deferred tax assets	1,118	1,039
Deferred tax liabilities	(438)	(234)
Total	**680**	**805**

Deferred tax assets mainly consisted of 778 million euros for the Domestic Business Unit (617 million euros at December 31, 2013) and 276 million euros for the Brazil Business Unit (330 million euros at December 31, 2013).
Deferred tax liabilities mainly consisted of 149 million euros for the Brazil Business Unit (105 million euros at December 31, 2013) and 225 million euros for Telecom Italia Capital (74 million euros 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:

(millions of euros)	12/31/2014	12/31/2013
Deferred tax assets	1,402	1,334
Deferred tax liabilities	(722)	(529)
Total	**680**	**805**

The temporary differences which made up this line item at December 31, 2014 and 2013, as well as the movements during 2014 were as follows:

(millions of euros)	12/31/2013	Recognized in profit or loss	Recognized in equity	Change in scope of consolidation and other changes	12/31/2014
Deferred tax assets:					
Tax loss carryforwards	278	(95)		3	186
Derivatives	484	4	193		681
Provision for bad debts	213	(26)		8	195
Provisions	141	(26)		3	118
Provisions for pension fund integration Law 58/92	10	(2)			8
Capital grants	4	(1)			3
Taxed depreciation and amortization	138	(21)			117
Other deferred tax assets	66	16	16	(4)	94
Total	**1,334**	**(151)**	**209**	**10**	**1,402**
Deferred tax liabilities:					
Derivatives	(299)	(26)	(171)		(496)
Business combinations - for step-up of net assets in excess of tax basis	(105)	(18)		1	(122)
Deferred gains	(19)	(7)	5		(21)
Accelerated depreciation	(36)	6			(30)
Discounting of provision for employee severance indemnities	(30)	1	29		–
Other deferred tax liabilities	(40)	1	(6)	(8)	(53)
Total	**(529)**	**(43)**	**(143)**	**(7)**	**(722)**
Total Net deferred tax assets (liabilities)	**805**	**(194)**	**66**	**3**	**680**

The expirations of deferred tax assets and deferred tax liabilities at December 31, 2014 were as follows:

(millions of euros)	Within 1 year	Beyond 1 year	Total at 12/31/2014
Deferred tax assets	393	1,009	1,402
Deferred tax liabilities	(36)	(686)	(722)
Total Net deferred tax assets (liabilities)	**357**	**323**	**680**

At December 31, 2014, the Telecom Italia Group had unused tax loss carryforwards of 3,186 million euros, mainly relating to the Brazil Business Unit and the companies Telecom Italia Finance and Telecom Italia International, with the following expiration dates:

Year of expiration	(millions of euros)
2015	–
2016	1
2017	2
2018	1
2019	3
Expiration after 2019	148
Without expiration	3,031
Total unused tax loss carryforwards	**3,186**

Tax loss carryforwards considered in the calculation of deferred tax assets amounted to 557 million euros at December 31, 2014 (869 million euros at December 31, 2013) and mainly referred to the

Brazil Business Unit. Deferred tax assets are recognized when it is considered probable that taxable income will be available in the future against which the tax losses can be utilized.
On the other hand, deferred tax assets of 802 million euros (803 million euros at December 31, 2013) have not been recognized on 2,629 million euros of tax loss carryforwards since, at this time, their recoverability is not considered probable.
At December 31, 2014, deferred tax liabilities have not been recognized on approximately 1 billion euros of tax-suspended reserves and undistributed earnings of subsidiaries, because the Telecom Italia Group is in a position to control the timing of the distribution of those reserves and it is probable that those accumulated earnings will not be distributed in the foreseeable future. The contingent liabilities relating to taxes that should be recognized when these reserves are distributed are in any case not significant.

INCOME TAX PAYABLES

Income tax payables amounted to 95 million euros (75 million euros at December 31, 2013). They were broken down as follows:

(millions of euros)	12/31/2014	12/31/2013
Income tax payables:		
non-current	59	55
current	36	20
Total	**95**	**75**

Specifically, the non-current portion, amounting to 59 million euros, related entirely to the Brazil Business Unit, while the current portion, amounting to 36 million euros, related primarily to the Brazil Business Unit (23 million euros).

INCOME TAX EXPENSE

Income tax expense amounted to 1,218 million euros, also including income taxes on Discontinued operations, and decreased by 118 million euros compared to 2013 (1,336 million euros).

Details are as follows:

(millions of euros)		2014	2013
Current taxes for the year		802	925
Net difference in prior years estimates		(68)	(93)
Total current taxes		**734**	**832**
Deferred taxes		194	279
Total taxes on continuing operations	**(a)**	**928**	**1,111**
Total taxes on Discontinued operations/Non-current assets held for sale	**(b)**	**290**	**225**
Total income tax expense for the year	**(a+b)**	**1,218**	**1,336**

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, 2014 and 2013 is the following:

(millions of euros)	2014	2013
Profit (loss) before tax		
From continuing operations	2,347	532
From Discontinued operations/Non-current assets held for sale	831	566
Total profit (loss) before tax	**3,178**	**1,098**
Theoretical income tax	**874**	**302**
Income tax effect on increases (decreases) in variations:		
Tax losses of the year not considered recoverable	11	17
Tax losses from prior years not recoverable (recoverable) in future years	(2)	(10)
Non-deductible costs	69	60
Non-deductible goodwill impairment charge	–	601
Other net differences	30	95
Effective income tax recognized in income statement, excluding IRAP tax	**982**	**1,065**
IRAP tax	236	271
Total effective income tax recognized in income statement	**1,218**	**1,336**

The impact of IRAP tax is not taken into consideration in order to avoid any distorting effect, since such tax only applies to Italian companies and is calculated on a tax base other than pre-tax profit.

NOTE 12
INVENTORIES

Inventories decreased by 52 million euros compared to December 31, 2013 and consisted of the following:

(millions of euros)	12/31/2014	12/31/2013
Raw materials and supplies	1	2
Work in progress and semifinished products	4	3
Finished goods	308	360
Total	**313**	**365**

Inventories mainly consisted of 231 million euros for the Domestic Business Unit (273 million euros at December 31, 2013) and 82 million euros for the companies of the Brazil Business Unit (92 million euros at December 31, 2013).
Within the Domestic Business Unit the following is noted in particular: 111 million euros for Telecom Italia S.p.A. (154 million euros at December 31, 2013), 88 million euros for Olivetti S.p.A. (74 million euros at December 31, 2013). The inventories mainly consist of equipment, handsets and relative fixed and mobile telecommunications accessories, as well as office products, specialized printers and gaming terminals.
In 2014, inventories were written down by 7 million euros (6 million euros in 2013), 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 increased by 226 million euros compared to December 31, 2013 and are composed of the following:

(millions of euros)	12/31/2014	*of which IAS 39 Financial Instruments*	12/31/2013	*of which IAS 39 Financial Instruments*
Amounts due on construction contracts	**58**		**45**	
Trade receivables:				
Receivables from customers	3,300	*3,300*	3,269	*3,269*
Receivables from other telecommunications operators	774	*774*	675	*675*
	4,074	**4,074**	**3,944**	**3,944**
Miscellaneous receivables and other current assets:				
Other receivables	911	*183*	898	*201*
Trade and miscellaneous prepaid expenses	572		502	
	1,483	**183**	**1,400**	**201**
Total	**5,615**	**4,257**	**5,389**	**4,145**

Further details on Financial Instruments are provided in the Note "Supplementary disclosure on financial instruments".

The aging of financial instruments included in "Trade and miscellaneous receivables and other current assets" at December 31, 2014 and December 31, 2013 was as follows:

(millions of euros)	12/31/2014	Total current	Total overdue	overdue: 0-90 days	91-180 days	181-365 days	More than 365 days
Trade and miscellaneous receivables and other current assets	**4,257**	3,330	927	309	151	184	283

(millions of euros)	12/31/2013	Total current	Total overdue	overdue: 0-90 days	91-180 days	181-365 days	More than 365 days
Trade and miscellaneous receivables and other current assets	**4,145**	3,141	1,004	332	174	217	281

The change in current receivables compared to December 31, 2013 (+189 million euros) essentially related to Telecom Italia S.p.A. and were mainly due to the lower amount of sales of receivables due from other operators.

"Overdue" receivables decreased by 77 million euros compared to December 31, 2013, as a result of the reduction in receivables due within 365 days. This performance was influenced by the improvement in collection capability and the performance of sales, together with additional write-offs.
Trade receivables amounted to 4,074 million euros (3,944 million euros at December 31, 2013) and were net of the provision for bad debts of 685 million euros (776 million euros at December 31, 2013).

They included 114 million euros (99 million euros at December 31, 2013) of medium/long-term receivables from customers, principally in respect of agreements for the sale of Indefeasible Rights of Use (IRU).
Trade receivables mainly related to Telecom Italia S.p.A. (2,515 million euros) and the Brazil Business Unit (1,107 million euros).

Movements in the provision for bad debts were as follows:

(millions of euros)	12/31/2014	12/31/2013
At January 1	**776**	**910**
Provision charges to the income statement	272	272
Utilization and decreases	(364)	(344)
Discontinued operations	–	(32)
Exchange differences and other changes	1	(30)
At December 31	**685**	**776**

The provision for bad debts consists of write-downs of specific receivables of 308 million euros (359 million euros at December 31, 2013) and write-downs made on the basis of average uncollectibility of 377 million euros (418 million euros at December 31, 2013).
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.

Other receivables amounted to 911 million euros (898 million euros at December 31, 2013) and were net of a provision for bad debts of 101 million euros (98 million euros at December 31, 2013). Details are as follows:

(millions of euros)	12/31/2014	12/31/2013
Advances to suppliers	65	50
Receivables from employees	24	23
Tax receivables	529	435
Sundry receivables	293	390
Total	**911**	**898**

Tax receivables included 495 million euros relating to the Brazil Business Unit, largely with reference to local indirect taxes, and 34 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 135 million euros, of which 61 million euros from Mediocredito Italiano (an Intesa Sanpaolo group company) and 74 million euros from other factoring companies;
- receivables from social security and assistance agencies for Telecom Italia S.p.A. of 69 million euros;
- receivables for the Italian Universal Service (1 million euros). This is a regulated contribution in relation to the costs arising from Telecom Italia S.p.A. 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 (11 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 (48 million euros).

Trade and miscellaneous prepaid expenses mainly related to building leases, rent and maintenance payments, as well as the deferral of costs related to contracts for the activation of telecommunications services. In particular, trade prepaid expenses mainly referring to the Parent (325 million euros for the deferral of costs attributable to the activation of new contracts, 68 million euros for building leases, 30 million euros for rent and maintenance payments, and 8 million euros for insurance premiums).

NOTE 14
DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE

Starting from 2013 the Sofora - Telecom Argentina group has been classified under discontinued operations. Accordingly, the related figures are classified in the consolidated statement of financial position under "Discontinued operations/Non-current assets held for sale" and "Liabilities directly associated with Discontinued operations/Non-current assets held for sale".
At December 31, 2014, the Sofora - Telecom Argentina group's classification as a disposal group was confirmed, despite the extension by over a year of the period required for completion of the sale.
The Telecom Italia Group, in signing the amendment agreements described below, has confirmed its intention to implement the program for the disposal of the interest in Sofora.
These agreements have substantially confirmed the purchasing counterparty's obligation to complete or to ensure the completion of the transaction. The postponement of the date envisaged for the completion of the sale has been caused by, and is still dependent on, conditions outside the Company's control, which could not be reasonably foreseen at the date of signature of the original sale agreement. It is also noted that, up to the date of completion of the sale of the controlling interest in Sofora, no substantial change is expected in the governance of the Argentinian companies, and therefore Telecom Italia, also through its subsidiaries, will continue to have: i) ability to direct the relevant activities of the investee; ii) the right to the variable results and iii) the ability to use its power over the investee to affect the amount of the investor's returns.

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 N.V. and Tierra Argentea S.A., for a total amount of 960 USD 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 108.7 USD million. As a result, the Telecom Italia Group's economic interest in Telecom Argentina fell to 19.30%.
The sale of the Sofora shares held by Telecom Italia S.p.A. and its subsidiary Telecom Italia International, on the other hand, is subject to the condition precedent of obtaining the necessary authorizations.
On October 24, 2014, Telecom Italia signed the amendment agreements of the contract for the sale of the interest in the Sofora - Telecom Argentina group to Fintech. In particular:

- the first closing took place on October 29, 2014 and, as a result, 17% of the capital of Sofora was sold. A consideration was received for this closing – also including other related assets – totaling 215.7 USD million. As a result, the Telecom Italia Group's economic interest in Telecom Argentina has now equal to 14.47%;
- the sale of the controlling interest of 51% in the capital of Sofora to Fintech is due to take place within the following two and a half years, subject to approval by the Argentinian regulatory authority;
- the guarantees of performance by Fintech are secured by a pledge made on October 29, 2014 in favor of Telecom Italia and Telecom Italia International, on a debt security for the amount of 600.6 USD million issued by Telecom Italia International and purchased by Fintech.

More specifically,

- If the sale of 51% of Sofora is not completed within two and a half years from the date of completion of the sale to Fintech of the 17% ownership interest in Sofora (which took place on October 29 this year), Telecom Italia may elect to terminate the agreement with Fintech and receive a six-month call option to purchase (or designate a Telecom Italia Group company to purchase) from Fintech the 17%

ownership interest previously sold, at a price corresponding to the fair market value for that ownership interest, calculated 5 business days prior to the completion of the repurchase based on the formula contained in the sale agreement signed with Fintech, applied pro-rata to the ownership interest in question.
Specifically, the fair market value of Sofora will be calculated as follows, based on the market value of the underlying asset, Telecom Argentina:
- based on the average market capitalization of Telecom Argentina on the NYSE (New York Stock Exchange) in the 90 days preceding the date of calculation, the value of the ownership interest held by Nortel in Telecom Argentina shall be calculated applying this percentage to the market capitalization;
- the resulting value, minus any net financial debt of Nortel, shall give the value of the equity of Nortel;
- the value of the 100% of the equity of Sofora is then obtained by calculating the value of a share of 62% of Nortel (which corresponds to an ownership interest representing Sofora's economic rights in Nortel (51%) adjusted to take account of the voting rights attached to the Nortel shares held by Sofora (100% of the votes) and then deducting the net financial debt of Sofora. These calculation assumptions are in line with the similar calculation formula for fair market value contained in the current Sofora shareholder agreements.

- As an alternative to the above, if the sale to Fintech of 51% of Sofora is not completed within two and a half years, Telecom Italia may elect to pursue a sale (subject to the applicable regulatory approval) of the remaining controlling interest to a third party buyer. Upon completion of the sale of 51% of Sofora to a third party buyer, any difference between the price paid by the third party and Fintech's guarantee of an overall minimum consideration for Telecom Italia of at least 630.6 million USD will be allocated as follows:
  - if the price paid by the third party buyer is lower than the minimum amount agreed with Fintech of 630.6 million USD (plus reasonable and documented costs incurred by the Company as part of the sale to the third party buyer), Fintech shall pay Telecom Italia that difference;
  - if, on the other hand, the price paid by the third party buyer is higher than the minimum amount agreed with Fintech of 630.6 million USD (plus reasonable and documented costs incurred by the Company as part of the sale to the third party buyer), Telecom Italia shall pay Fintech an amount equal to:
    - two thirds of the difference between the price paid by the third party buyer and the minimum amount agreed with Fintech of 630.6 million USD (plus reasonable and documented costs incurred by the Company as part of the sale to the third party buyer), up to a maximum price paid by the third party buyer of 750 million USD;
    - half of the difference between the price paid by the third party buyer and 750 million USD, in addition to the amount provided for above, if the price paid by the third party buyer is higher than 750 million USD.

- If Telecom Italia is unable to complete a sale to a third party buyer within a further two and a half years, Telecom Italia and Fintech may elect to terminate the agreement at any time and at that time Telecom Italia will receive a six-month call option to purchase (or designate a Telecom Italia Group company to purchase) from Fintech the 17% non-controlling interest in Sofora previously sold, under the same terms and conditions as described in the point above. Fintech will also pay Telecom Italia an amount of USD 175 million.

- As noted above, under the agreements, Telecom Italia International N.V. has issued and Fintech has fully subscribed a security with a value of 600.6 million USD, a term of 6 years and a fixed coupon of 4.325% per year, payable annually.
  When the note was issued, it was also pledged in favor of Telecom Italia International N.V. and Telecom Italia S.p.A., as a guarantee of Fintech's future obligations to those companies under the sale agreement for the Argentinian assets.
  As a result, Telecom Italia has obtained a loan at prevailing market conditions, given the currency of the issue and its duration, as well as a guarantee regarding future performance by Fintech.

The security will be redeemed in full at maturity or upon occurrence of a series of agreed contractual events that remove the need for the guarantee (for example, the completion of the sale of the remaining 51% of Sofora). Telecom Italia International may elect to deduct the value of any payment obligations not fulfilled by Fintech from the redemption amount.
Telecom Italia International may also elect at any time, at its absolute discretion, to redeem the security in advance in whole or in part, subject to a brief notice period.

At the end of July 2014, the Argentinian Government was in default due to having failed to honor certain commitments relating to its debt contracted in foreign currency. Although this situation is the consequence of impediments of a technical and legal nature, and the main market indicators are not any showing signs of other problem issues, this event may nevertheless aggravate the adverse trends in the Argentinian macroeconomic environment with repercussions on the exchange rate for the local currency and the level of inflation.

However, the price for the sale of Sofora - Telecom Argentina group was set in US dollars and consequently in this transaction the Telecom Italia Group is not subject to the risk of changes in the exchange rate for Argentinian Pesos.

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The breakdown of the assets and liabilities of the Sofora - Telecom Argentina group is provided below:

(millions of euros)		12/31/2014	12/31/2013
Discontinued operations/Non-current assets held for sale			
of a financial nature		165	657
of a non-financial nature		3,564	2,871
Total	**(a)**	**3,729**	**3,528**
Liabilities directly associated with Discontinued operations/Non-current assets held for sale			
of a financial nature		43	27
of a non-financial nature		1,475	1,534
Total	**(b)**	**1,518**	**1,561**
Net value of the assets related to the disposal group	**(a-b)**	**2,211**	**1,967**
of which amounts accumulated through the Comprehensive Income Statement		*(1,257)*	*(1,019)*
Net value of the assets related to the disposal group attributable to the Owners of the Parent		307	367
of which amounts accumulated through the Comprehensive Income Statement		*(157)*	*(170)*
Net value of the assets related to the disposal group attributable to Non-controlling interests		1,904	1,600
of which amounts accumulated through the Comprehensive Income Statement		*(1,100)*	*(849)*

The amounts accumulated in Equity through the Comprehensive income statement relate to the "Reserve for exchange differences on translating foreign operations", and total -1,257 million euros (-1,019 million euros at December 31, 2013).

The **assets of a financial nature** are broken down as follows:

(millions of euros)	12/31/2014	12/31/2013
Non-current financial assets	30	27
Current financial assets	135	630
Total	**165**	**657**

The **assets of a non-financial nature** are broken down as follows:

(millions of euros)	12/31/2014	12/31/2013
Non-current assets	2,962	2,322
Intangible assets	*1,176*	*825*
Tangible assets	*1,766*	*1,473*
Other non-current assets	*20*	*24*
Current assets	602	549
Total	**3,564**	**2,871**

The **liabilities of a financial nature** are broken down as follows:

(millions of euros)	12/31/2014	12/31/2013
Non-current financial liabilities	25	25
Current financial liabilities	18	2
Total	**43**	**27**

The **liabilities of a non-financial nature** are broken down as follows:

(millions of euros)	12/31/2014	12/31/2013
Non-current liabilities	579	491
Current liabilities	896	1,043
Total	**1,475**	**1,534**

The items relating to “Profit (loss) from Discontinued operations/Non-current assets held for sale” within the separate consolidated income statements are shown below:

(millions of euros)		2014	2013
Income statement effects from Discontinued operations/Non-current assets held for sale:			
Revenues		**3,097**	**3,749**
Other income		4	9
Operating expenses		(2,296)	(2,721)
Depreciation and amortization, gains/losses on disposal of non-current assets		1	(495)
Net impairment losses on goodwill and other non-current assets		(2)	(24)
Operating profit (loss) (EBIT)		**804**	**518**
Finance income (expenses), net		30	73
Profit (loss) before tax from Discontinued operations/Non-current assets held for sale		**834**	**591**
Income tax expense		(290)	(213)
Profit (loss) after tax from Discontinued operations/Non-current assets held for sale	**(a)**	**544**	**378**
Other income statement impacts:			
Deferred taxes connected to the sale of Sofora - Telecom Argentina group	(b)	–	(12)
Incidental costs and other minor entries connected to the sale of the Sofora - Telecom Argentina group	(c)	(2)	(6)
Other income/(expenses) connected to sales in previous years	(d)	(1)	(19)
Profit (loss) from Discontinued operations/Non-current assets held for sale	**(a+b+c+d)**	**541**	**341**

As required by IFRS 5, the calculation of the depreciation and amortization for the Sofora – Telecom Argentina group was suspended with effect from its date of classification as a discontinued operation.

The income statement effects relate in particular to:

(millions of euros)	2014	2013
Sofora - Telecom Argentina group	542	360
Other discontinued operations	(1)	(19)
Total	**541**	**341**

The Profit (loss) from Discontinued operations/Non-current assets held for sale consisted of 98 million euros (47 million euros in 2013) attributable to the Owners of the Parent Telecom Italia S.p.A. and 443 million euros (294 million euros in 2013) to Non-controlling interests.

Also, the consolidated statements of comprehensive income include translation of foreign operations losses of the Sofora - Telecom Argentina group, of 238 million euros in 2014 (676 million euros in 2013). Consequently, the overall result from Discontinued operations/Non-current assets held for sale was a positive 303 million euros in 2014 (negative 335 million euros in 2013).

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:

(millions of euros) **Discontinued operations/Non-current assets held for sale**	**2014**	**2013**
Cash flows from (used in) operating activities	467	895
Cash flows from (used in) investing activities	(872)	(603)
Cash flows from (used in) financing activities	(94)	(165)
Total	**(499)**	**127**

NOTE 15
EQUITY

Equity consisted of:

(millions of euros)	12/31/2014	12/31/2013
Equity attributable to owners of the Parent	18,145	17,061
Non-controlling interests	3,554	3,125
Total	**21,699**	**20,186**

The composition of **Equity attributable to owners of the Parent** is the following:

(millions of euros)	12/31/2014		12/31/2013	
Share capital		10,634		10,604
Paid-in capital		1,725		1,704
Other reserves and retained earnings (accumulated losses), including profit (loss) for the year		5,786		4,753
Reserve for available-for-sale financial assets	75		39	
Reserve for cash flow hedges	(637)		(561)	
Reserve for exchange differences on translating foreign operations	(350)		(377)	
Reserve for remeasurements of employee defined benefit plans (IAS 19)	(96)		132	
Share of other profits (losses) of associates and joint ventures accounted for using the equity method	–		–	
Sundry reserves and retained earnings (accumulated losses), including profit (loss) for the year	6,794		5,520	
Total		**18,145**		**17,061**

Movements in **Share capital** during 2014, amounting to 10,634 million euros, are shown in the tables below:

Reconciliation between the number of shares outstanding at December 31, 2013 and December 31, 2014

(number of shares)		at 12/31/2013	Share issues	at 12/31/2014	% of share capital
Ordinary shares issued	(a)	13,417,043,525	53,911,926	13,470,955,451	69.09%
less: treasury shares	(b)	(162,216,387)	–	(162,216,387)	
Ordinary shares outstanding	(c)	13,254,827,138	53,911,926	13,308,739,064	
Savings shares issued and outstanding	(d)	6,026,120,661	–	6,026,120,661	30.91%
Total Telecom Italia S.p.A. shares issued	**(a+d)**	**19,443,164,186**	**53,911,926**	**19,497,076,112**	**100.00%**
Total Telecom Italia S.p.A. shares outstanding	**(c+d)**	**19,280,947,799**	**53,911,926**	**19,334,859,725**	

Reconciliation between the value of outstanding shares at December 31, 2013 and December 31, 2014

(millions of euros)		Share capital at 12/31/2013	Change in share capital	Share capital at 12/31/2014
Ordinary shares issued	(a)	7,379	30	**7,409**
less: treasury shares	(b)	(89)	–	**(89)**
Ordinary shares outstanding	(c)	7,290	30	**7,320**
Savings shares issued and outstanding	(d)	3,314	–	**3,314**
Total Telecom Italia S.p.A. shares capital issued	**(a+d)**	**10,693**	**30**	**10,723**
Total Telecom Italia S.p.A. shares capital outstanding	**(c+d)**	**10,604**	**30**	**10,634**

Share capital increased by 30 million euros as a result of the issuance of ordinary shares as part of the first stage of the "Broad-Based Share Ownership Plan 2014", approved by the shareholders' meeting of Telecom Italia S.p.A. of April 17, 2013 and initiated in June 2014. For further details see the description provided in the Note "Equity compensation plans".

The total amount of ordinary treasury shares at December 31, 2014 was 508 million euros and was recorded as follows: the part relating to par value (89 million euros) was 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.

It is noted that, with effect from January 22, 2014, 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.

SHARE CAPITAL INFORMATION

The Telecom Italia S.p.A. ordinary and savings shares are listed respectively in Italy (FTSE index) and 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 equity, 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;
- 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 1,725 million euros, increased by 21 million euros over December 31, 2013, as a result of the capital increase to service the first stage of the "Broad-Based Share Ownership Plan 2014", approved by the shareholders' meeting of Telecom Italia S.p.A. of April 17, 2013.

Other reserves and retained earnings (accumulated losses), including profit (loss) for the year comprised:

- The **Reserve for available-for-sale financial assets**, which had a positive balance of 75 million euros at December 31, 2014, representing an increase of 36 million euros compared to December 31, 2013. The increase includes unrealized gains on the investments in Assicurazioni Generali and Fin.Priv. (1 million euros) of the Parent, Telecom Italia, as well as the unrealized losses on the securities portfolio of Telecom Italia Finance (3 million euros) and the positive fair value adjustment of other available-for-sale financial assets held by the Parent, Telecom Italia (38 million euros). This reserve is expressed net of deferred tax liabilities of 29 million euros (at December 31, 2013, it was expressed net of deferred tax liabilities of 14 million euros).
- The **Reserve for cash flow hedges**, had a negative balance of 637 million euros at December 31, 2014, (negative 561 million euros at December 31, 2013). This reserve is expressed net of deferred tax assets of 242 million euros (at December 31, 2013, it was expressed net of deferred tax assets of 214 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 350 million euros at December 31, 2014, (negative 377 million euros at December 31, 2013). This mainly related 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 157 million euros).
- **Reserve for remeasurements of employee defined benefit plans**, showed a negative balance of 96 million euros, down 228 million euros against December 31, 2013, partly as a result of the use of the amount available to cover the losses for 2013, as approved by the Shareholders' Meeting of Telecom Italia S.p.A. of April 16, 2014 (72 million euros). This reserve is expressed net of deferred

tax assets of 27 million euros (at December 31, 2013, it was expressed net of deferred tax liabilities of 53 million euros). In particular, this reserve includes the recognition of changes in actuarial gains (losses).

- The **Share of other profits (losses) of associates and joint ventures accounted for using the equity method**, was nil at December 31, 2014, and at December 31, 2013.
- **Sundry reserves and retained earnings (Accumulated losses), including profit (loss) for the year** amounted to 6,794 million euros, up 1,274 million euros compared to December 31, 2013. The change was mainly due to the sum of the following:

profit for the year attributable to Owners of the Parent of 1,350 million euros (loss for the year of 674 million euros in 2013);

dividends of 166 million euros (452 million euros in 2013).

Equity attributable to Non-controlling interests amounts to 3,554 million euros, mainly relating to the companies of the Brazil Business Unit (1,622 million euros) and the Sofora - Telecom Argentina group (1,904 million euros), up 429 million euros compared to December 31, 2013 and is principally represented by the sum of:

- profit for the year attributable to Non-controlling interests of 610 million euros (436 million euros in 2013);
- dividends of 177 million euros;
- negative change in the "Reserve for exchange differences on translating foreign operations" of 194 million euros;
- the positive effect from the acquisition of Rete A (40 million euros) and the positive effect resulting from the sale of 17% of Sofora (92 million euros).

The exchange rates differences on translating foreign operations mainly related to the Brazil Business Unit (negative by 171 million euros) and the Sofora - Telecom Argentina group (negative by 1,100 million euros).

POTENTIAL FUTURE CHANGES IN SHARE CAPITAL

Details of "Future potential changes in share capital" are presented in the Note "Earnings per share".

NOTE 16
FINANCIAL LIABILITIES (NON-CURRENT AND CURRENT)

Non-current and current financial liabilities (gross financial debt) were broken down as follows:

(millions of euros)		12/31/2014	12/31/2013
Financial payables (medium/long-term):			
Bonds		22,039	22,060
Convertible bonds		1,401	1,454
Amounts due to banks		4,812	4,087
Other financial payables		920	356
		29,172	**27,957**
Finance lease liabilities (medium/long-term)		**984**	**1,100**
Other financial liabilities (medium/long-term):			
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature		2,058	2,026
Non-hedging derivatives		111	–
Other liabilities		–	1
		2,169	**2,027**
Total non-current financial liabilities	**(a)**	**32,325**	**31,084**
Financial payables (short-term):			
Bonds		2,635	2,503
Convertible bonds		10	10
Amounts due to banks		1,274	2,790
Other financial payables		353	400
		4,272	**5,703**
Finance lease liabilities (short-term)		**169**	**193**
Other financial liabilities (short-term):			
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature		224	207
Non-hedging derivatives		21	16
Other liabilities		–	–
		245	**223**
Total current financial liabilities	**(b)**	**4,686**	**6,119**
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale	**(c)**	**43**	**27**
Total Financial liabilities (Gross financial debt)	**(a+b+c)**	**37,054**	**37,230**

Further details on Financial Instruments are provided in the Note “Supplementary disclosure on financial instruments”.

Gross financial debt according to the original currency of the transaction is as follows:

	12/31/2014		12/31/2013	
	(millions of foreign currency)	(millions of euros)	(millions of foreign currency)	(millions of euros)
USD	9,924	8,174	8,925	6,472
GBP	2,539	3,260	2,536	3,043
BRL	4,799	1,488	3,258	1,008
JPY	19,919	137	19,873	137
ARS			64	7
EURO		23,952		26,536
Total excluding Discontinued Operations		**37,011**		**37,203**
Discontinued operations		43		27
Total		**37,054**		**37,230**

The breakdown of gross financial debt by effective interest rate bracket, excluding the effect of any hedging instruments, is provided below:

(millions of euros)	12/31/2014	12/31/2013
Up to 2.5%	4,904	5,578
From 2.5% to 5%	6,545	6,042
From 5% to 7.5%	16,678	16,936
From 7.5% to 10%	4,491	4,503
Over 10%	569	468
Accruals/deferrals, MTM and derivatives	3,824	3,676
Total excluding Discontinued Operations	**37,011**	**37,203**
Discontinued operations	43	27
Total	**37,054**	**37,230**

Following the use of derivative hedging instruments, on the other hand, the gross financial debt by nominal interest rate bracket is:

(millions of euros)	12/31/2014	12/31/2013
Up to 2.5%	6,238	6,452
From 2.5% to 5%	10,273	9,051
From 5% to 7.5%	12,364	13,465
From 7.5% to 10%	2,715	4,022
Over 10%	1,597	537
Accruals/deferrals, MTM and derivatives	3,824	3,676
Total excluding Discontinued Operations	**37,011**	**37,203**
Discontinued operations	43	27
Total	**37,054**	**37,230**

The maturities of financial liabilities according to the expected nominal repayment amount, as defined by contract, are the following:

Details of the maturities of financial liabilities – at nominal repayment amount:

(millions of euros)	maturing by 12/31 of the year: 2015	2016	2017	2018	2019	After 2019	Total
Bonds (*)	1,970	1,879	2,963	2,324	3,165	11,313	23,614
Loans and other financial liabilities	1,248	830	966	976	1,481	1,192	6,693
Finance lease liabilities	156	145	138	136	136	425	1,136
Total	**3,374**	**2,854**	**4,067**	**3,436**	**4,782**	**12,930**	**31,443**
Current financial liabilities	454						454
Total excluding Discontinued Operations	**3,828**	**2,854**	**4,067**	**3,436**	**4,782**	**12,930**	**31,897**
Discontinued operations	42						42
Total	**3,870**	**2,854**	**4,067**	**3,436**	**4,782**	**12,930**	**31,939**

(*) With regard to the Mandatory Convertible Bond due 2016, classified under "Convertible bonds", the cash repayment has not been considered because its settlement will take place together with the mandatory conversion into Telecom Italia S.p.A. ordinary shares.

The main components of financial liabilities are commented below.

Bonds are broken down as follows:

(millions of euros)	12/31/2014	12/31/2013
Non-current portion	22,039	22,060
Current portion	2,635	2,503
Total carrying amount	**24,674**	**24,563**
Fair value adjustment and measurements at amortized cost	(1,060)	(978)
Total nominal repayment amount	**23,614**	**23,585**

Convertible bonds related entirely to the Mandatory Convertible Bond maturing in 2016 (fixed-income equity-linked subordinated bond, 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) and were broken down as follows.

(millions of euros)	12/31/2014	12/31/2013
Non-current portion	1,401	1,454
Current portion	10	10
Total carrying amount	**1,411**	**1,464**
Fair value adjustment and measurements at amortized cost	(111)	(164)
Total nominal repayment amount (*)	**1,300**	**1,300**

(*) 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 24,914 million euros, up 29 million euros compared to December 31, 2013 (24,885 million euros) as a result of the new issues, repayments and buybacks in 2014.

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 at 12/31/14** (%)	**Market value at 12/31/14** (millions of euros)
Bonds issued by Telecom Italia S.p.A.								
Euro	577.7	577.7	4.625%	6/15/12	6/15/15	99.685	101.730	588
Euro	120	120	3 month Euribor + 0.66%	11/23/04	11/23/15	100	99.688	120
GBP	500	641.9	5.625%	6/29/05	12/29/15	99.878	103.476	664
Euro	771.6	771.6	5.125%	1/25/11	1/25/16	99.686	104.276	805
Euro	708	708	8.250%	3/19/09	3/21/16	99.740	108.560	769
Euro	400	400	3 month Euribor + 0.79%	6/7/07	6/7/16	100	99.858	399
Euro	1,000	1,000	7.000%	10/20/11	1/20/17	(a) 100.185	111.056	1,111
Euro	1,000	1,000	4.500%	9/20/12	9/20/17	99.693	107.444	1,074
GBP	750	962.9	7.375%	5/26/09	12/15/17	99.608	112.133	1,080
Euro	750	750	4.750%	5/25/11	5/25/18	99.889	109.399	820
Euro	750	750	6.125%	6/15/12	12/14/18	99.737	114.790	861
Euro	1,250	1,250	5.375%	1/29/04	1/29/19	99.070	111.781	1,397
GBP	850	1,091.3	6.375%	6/24/04	6/24/19	98.850	110.022	1,201
Euro	1,000	1,000	4.000%	12/21/12	1/21/20	99.184	106.761	1,068
Euro	1,000	1,000	4.875%	9/25/13	9/25/20	98.966	111.029	1,110
Euro	1,000	1,000	4.500%	1/23/14	1/25/21	99.447	109.475	1,095
Euro	(b) 196.4	196.4	6 month Euribor (base 365)	1/1/02	1/1/22	100	100	196
Euro	1,250	1,250	5.250%	2/10/10	2/10/22	99.295	114.012	1,425
GBP	400	513.5	5.875%	5/19/06	5/19/23	99.622	108.799	559
USD	1,500	1,235.5	5.303%	5/30/14	5/30/24	100	102.044	1,261
Euro	670	670	5.250%	3/17/05	3/17/55	99.667	100.525	674
Subtotal		16,888.8						18,277
Bonds issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A.								
Euro	(c) 1,300	1,300	6.125%	11/15/13	11/15/16	100	117.618	1,529
JPY	20,000	137.7	3.550%	4/22/02	5/14/32	99.250	100.625	139
Euro	1,015	1,015	7.750%	1/24/03	1/24/33	(a) 109.646	132.985	1,350
Subtotal		2,452.7						3,018
Bonds issued by Telecom Italia Capital S.A. and guaranteed by Telecom Italia S.p.A.								
USD	(d) 765.2	630.3	5.250%	9/28/05	10/1/15	99.370	102.564	646
USD	1,000	823.65	6.999%	6/4/08	6/4/18	100	110.961	914
USD	1,000	823.65	7.175%	6/18/09	6/18/19	100	114.902	946
USD	1,000	823.65	6.375%	10/29/03	11/15/33	99.558	103.534	853
USD	1,000	823.65	6.000%	10/6/04	9/30/34	99.081	100.439	827
USD	1,000	823.65	7.200%	7/18/06	7/18/36	99.440	108.212	891
USD	1,000	823.65	7.721%	6/4/08	6/4/38	100	112.794	929
Subtotal		5,572.2						6,006
Total		24,913.7						27,301

(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.

The following table lists the changes in bonds during 2014:

New issues

(millions of original currency)	Currency	Amount	Issue date
Telecom Italia S.p.A. 1,000 million euros 4.500% maturing 1/25/2021	Euro	1,000	1/23/2014
Telecom Italia S.p.A. 1,500 million USD 5.303% maturing 5/30/2024	USD	1,500	5/30/2014

Repayments

(millions of original currency)	Currency	Amount	Repayment date
Telecom Italia S.p.A. 284 million euros 7.875% (1)	Euro	284	1/22/2014
Telecom Italia S.p.A. 750 million euros 7.750% (2)	Euro	750	3/3/2014
Telecom Italia S.p.A. 501 million euros 4.750% (3)	Euro	501	5/19/2014
Telecom Italia Capital S.A. 779 million USD 6.175% (4)	USD	779	6/18/2014
Telecom Italia Capital S.A. 528 million USD 4.950% (5)	USD	528	9/30/2014

(1) Net of buybacks by the Company for 216 million euros during 2012.
(2) Telecom Italia decided to use the right to early redemption 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 securities.
(3) Net of buybacks by the Company of 249 million euros during 2008, 2012 and 2014.
(4) Net of buybacks by Telecom Italia S.p.A. of USD 221 million during 2013.
(5) Net of buybacks by Telecom Italia S.p.A. of USD 722 million during 2013.

Buybacks

On March 18, 2014 Telecom Italia S.p.A. successfully concluded the buyback offer on four bond issues of Telecom Italia S.p.A. maturing between May 2014 and March 2016, buying back a total nominal amount of 599 million euros.
Details of the bond issues bought back are provided below:

Bond Name	Outstanding nominal amount prior to the purchase offer (euros)	Repurchased nominal amount (euros)	Buyback price
Telecom Italia S.p.A. 750 million euros, due May 2014, coupon rate 4.75%	556,800,000	56,150,000	100.700%
Telecom Italia S.p.A. 750 million euros, maturing June 2015, coupon 4.625%	750,000,000	172,299,000	104.370%
Telecom Italia S.p.A. 1 billion euros, due January 2016, coupon rate 5.125%	1,000,000,000	228,450,000	106.587%
Telecom Italia S.p.A. 850 million euros, due March 2016, coupon rate 8.25%	850,000,000	142,020,000	112.913%

Medium/long-term **amounts due to banks** of 4,812 million euros (4,087 million euros at December 31, 2013) increased by 725 million euros. Short-term amounts due to banks totaled 1,274 million euros, decreasing 1,516 million euros (2,790 million euros at December 31, 2013) following the repayment of

the draw down of the Revolving Credit Facility expired in August 2014. Short-term amounts due to banks included 1,059 million euros for the current portion of medium/long-term amount due to banks.
Medium/long-term **other financial payables** amounted to 920 million euros (356 million euros at December 31, 2013) and increased by 564 million euros. They included

– 91 million euros 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;
– 150 million euros of loan from Cassa Depositi e Prestiti taken out by Telecom Italia S.p.A. expiring October 2019;
– 140 million euros of Telecom Italia Finance S.A.'s loan of 20,000 million Japanese yen expiring in 2029 and
– 600.6 million USD (equivalent to 495 million euros) expiring October 2020 following the issuance by Telecom Italia International N.V. of a Note in favor of the Fintech group for the completion of the sale of ownership interests held by Telecom Italia Group in Telecom Argentina. The Note was pledged in favor of Telecom Italia S.p.A. and Telecom Italia International N.V., as guarantee of performance of the agreement with the Fintech group.

Short-term other financial payables amounted to 353 million euros (400 million euros at December 31, 2013), down 47 million euros. They included 112 million euros of the current portion of the medium/long-term other financial payables, of which 93 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 frequencies.
Medium/long-term **finance lease liabilities** totaled 984 million euros (1,100 million euros at December 31, 2013) 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 169 million euros (193 million euros at December 31, 2013).
Hedging derivatives relating to items classified as non-current liabilities of a financial nature amounted to 2,058 million euros (2,026 million euros at December 31, 2013). Hedging derivatives relating to items classified as current liabilities of a financial nature totaled 224 million euros (207 million euros at December 31, 2013).
Non-hedging derivatives relating to items classified as non-current liabilities of a financial nature amounted to 111 million euros at December 31,2014 (zero at December 31, 2013) and consisted of the value of the option embedded in the mandatory convertible bond of 1.3 billion euros issued by Telecom Italia Finance S.A. ("Guaranteed Subordinated Mandatory Convertible Bonds due 2016 convertible into ordinary shares of Telecom Italia S.p.A."). At December 31, 2013, the value of the option was a positive 63 million euros, and thus it was classified as "Non-current financial assets – Non-hedging derivatives". At December 31, 2014 the measurement of the option resulted in the recognition in the income statement of an expense of 174 million euros (expense of 124 million euros at December 31, 2013).
Non-hedging derivatives relating to items classified as current liabilities of a financial nature amounted to 21 million euros (16 million euros at December 31, 2013). 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.

"COVENANTS", "NEGATIVE PLEDGES" AND OTHER CONTRACT CLAUSES IN EFFECT AT DECEMBER 31, 2014

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"), following the downgrade by Moody's of Telecom Italia to Ba1 on October 8, 2013 and the downgrade by Standard & Poor's to BB+ on November 14, 2013, an agreement with the EIB was signed on March 25, 2014 which resulted in the following: (i) on the loans maturing in 2018 and 2019 totaling 600 million euros, a reduction in the cost of funding from the EIB in exchange for Telecom Italia setting up new guarantees - given by banks and parties approved by the EIB - applying the related charges; (ii) on the 200 million euros in loans backed by SACE, no increases in costs were requested; and (iii) on the remaining loans, totaling 1,700 million euros, an increase in costs. Furthermore, a new clause was added to loans of 300 million euros with the direct risk of Telecom Italia S.p.A., maturing in 2017, stating that if Telecom Italia's rating from at least two rating agencies drops below BB+/Ba1 and the residual life of the loan exceeds one year, the Company must set up additional guarantees in favor of the EIB.
The estimated impacts of the new agreement with the EIB have been quantified overall as an increase in average annual finance expenses of approximately 7.5 million euros.
After the agreement, in April 2014 the new guarantees requested were set up and a new fully-secured loan for 100 million euros was signed. In July 2014, a new 350 million euro loan was signed, 300 million euros of which at direct risk (disbursed on September 30, 2014), and 50 million euros, guaranteed by the bank and disbursed on October 7, 2014.
As at December 31, 2014, the nominal amount of outstanding loans amounted to 2,600 million euros, of which 600 million euros at direct risk and 2,000 million euros secured.

EIB loans not secured by bank guarantees for a nominal amount equal to 600 million euros only need to apply the following covenant:

- 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).

EIB loans secured by banks or entities approved by the EIB for a nominal amount of 2,000 million euros and the last loan of 300 million euros, signed on July 30, 2014 (direct risk), must apply the following covenants:

- "Inclusion clause", covering a total of 1.15 billion euros of loans – and in particular, provided for in the agreement signed on August 5, 2011 for an amount of 100 million euros, in the three agreements signed on September 26, 2011 for a total amount of 200 million euros, in the two agreements signed on February 7, 2013 for an amount of 400 million euros, in the agreement signed on April 8, 2014 for an amount of 100 million euros, and in the agreements signed on July 30, 2014 for an amount of 350 million euros – under which, in the event Telecom Italia commits to uphold financial covenants in other loan contracts that are not present in or are stricter than those granted to the EIB, the EIB will have the right to request the provision of guarantees or the modification of the loan contract in order to establish 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;
- "Network Event", covering a total of 850 million euros of loans – and in particular, provided for in the 300 million euro loan and in the 100 million euro loan guaranteed by SACE, both dated February 7, 2013, in the 100 million euro loan dated April 8, 2014, and in the 350 million euro loans dated July 30, 2014 – according to which, in the event of 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 the event of disposal of the controlling interest in the company in which the network or a substantial part of it has previously been transferred, Telecom Italia must immediately inform EIB, which shall

have the option of requiring the establishment of guarantees or amendment of the loan contract or an alternative solution.

The loan agreements 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.
The loan agreements contain 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.
For the syndicated bank credit lines only, mechanisms have been established for adjusting the cost of funding in relation to Telecom Italia's credit rating.

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**:**

- *Loan agreements*:
  In the event of a change in control, Telecom Italia must provide notification of such within five business days to the agent – where present – or to the lending bank, which shall negotiate in good faith on 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 with the bank, the latter may request repayment of the amount disbursed and elimination of 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 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 2.6 billion euros:
  - The contracts signed by Telecom Italia with the EIB, for an amount of 1.45 billion euros, carry the obligation of promptly informing the EIB 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 EIB's reasonable opinion, this fact could

cause a detriment to the bank or could compromise the execution of the loan project, the EIB 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, 2013 and in 2014, for an amount of 1,150 million euros, carry the obligation of promptly informing the EIB 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 EIB has the right to ask for the early repayment of the loan;

- *Loan Agreements*: the outstanding loans generally contain a commitment by Telecom Italia, whose breach is an Event of Default, not to implement 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, which 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, provided for the repayment of the loan in 2016. As a result of a First Prepayment and Waiver Agreement dated March 6, 2013, a Second Prepayment and Waiver Agreement dated January 15, 2014, a Third Prepayment and Waiver Agreement dated February 28, 2014, and a Final Prepayment and Waiver Agreement dated March 31, 2014, the loan was fully repaid on March 31, 2014 and there are no guarantees or contractual covenants of any type bearing on the Telecom Italia Group.

Furthermore, 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, 2014, 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, 2014:

(billions of euros)	12/31/2014		12/31/2013	
	Agreed	Drawn down	Agreed	Drawn down
Revolving Credit Facility – expiring August 2014	-	-	8.0	1.5
Revolving Credit Facility – expiring May 2017	4.0	-	-	-
Revolving Credit Facility – expiring March 2018	3.0	-	-	-
Total	**7.0**	**-**	**8.0**	**1.5**

On August 1, 2014, i.e. the date of expiry of the 8 billion euro committed Revolving Credit Facility, the amount drawn down of 1.5 billion euros was repaid.
On the same date, the two RCFs became available for draw down by a total of 7 billion euros. On May 24, 2012 and on March 25, 2013, Telecom Italia S.p.A. had extended the Revolving Credit Facility amounting to 8 billion euros and expiring in August 2014 ("2014 RCF") by 4 and 3 billion euros respectively, through two Forward Start Facilities that would come into force at the end of the 2014 RCF.
Telecom Italia also has a bilateral term loan expiring August 3, 2016, for 100 million euros from Banca Regionale Europea, drawn down for the full amount.
On October 20, 2014, a bilateral term loan was signed with Cassa Depositi e Prestiti for an amount of 150 million euros with a 5-year expiry, drawn down for the full amount.
On November 10, 2014, a bilateral term loan was signed with Mediobanca for an amount of 200 million euros with a 5-year expiry, drawn down for the full amount.

TELECOM ITALIA RATING AT DECEMBER 31, 2014

At December 31, 2014, the three rating agencies — Standard & Poor's, Moody's and Fitch Ratings — rated Telecom Italia as follows:

	Rating	Outlook
STANDARD & POOR'S	BB+	Stable
MOODY'S	Ba1	Negative
FITCH RATINGS	BBB-	Negative

NOTE 17
NET FINANCIAL DEBT

The following table shows the net financial debt at December 31, 2014 and December 31, 2013, calculated in accordance with the criteria indicated in the "Recommendations for the Consistent Implementation of the European Commission Regulation on Prospectuses", issued on February 10, 2005 by the European Securities & Markets Authority (ESMA), formerly the Committee of European Securities Regulators (CESR), and adopted by Consob.
For the purpose of determining such figure, the amount of financial liabilities has been adjusted by the effect of the relative hedging derivatives recorded in assets and the receivables arising from financial subleasing.
This table also shows the reconciliation of net financial debt determined according to the criteria indicated by ESMA and net financial debt calculated according to the criteria of the Telecom Italia Group.

(millions of euros)		12/31/2014	12/31/2013
Non-current financial liabilities		**32,325**	**31,084**
Current financial liabilities		**4,686**	**6,119**
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale		**43**	**27**
Total Gross financial debt	**(a)**	**37,054**	**37,230**
Non-current financial assets (°)			
Non-current financial receivables for lease contract		(92)	(58)
Non-current hedging derivatives		(2,163)	(1,018)
	(b)	**(2,255)**	**(1,076)**
Current financial assets			
Securities other than investments		(1,300)	(1,348)
Financial receivables and other current financial assets		(311)	(283)
Cash and cash equivalents		(4,812)	(5,744)
Financial assets relating to Discontinued operations/Non-current assets held for sale		(165)	(657)
	(c)	**(6,588)**	**(8,032)**
Net financial debt as per Consob communication DEM/6064293/2006	**(d=a+b+c)**	**28,211**	**28,122**
Non-current financial assets (°)			
Securities other than investments		(6)	(6)
Other financial receivables and other non-current financial assets		(184)	(174)
	(e)	**(190)**	**(180)**
Net financial debt(*)	**(f=d+e)**	**28,021**	**27,942**
Reversal of fair value measurement of derivatives and related financial assets/liabilities	(g)	(1,370)	(1,135)
Adjusted net financial debt	**(f+g)**	**26,651**	**26,807**

(°) At December 31, 2014 and at December 31, 2013, "Non-current financial assets" (b+e) amounted to 2,445 million euros and 1,256 million euros, respectively.
(*) For details of the effects of related party transactions on net financial debt, see the specific table in the Note "Related party transactions".

NOTE 18
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 non-fulfillment of obligations undertaken by the counterparty 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 establishment, at central level, of guidelines for directing operations;
- the work of an internal committee that monitors the level of exposure to market risks in accordance with preestablished general objectives;
- the identification of the most suitable financial instruments, including derivatives, to reach preestablished 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 ANALYSIS

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 sets an optimum composition for the fixed-rate and variable-rate debt structure and uses derivative financial instruments to achieve that set composition. In consideration of the Group's operating activities, the optimum combination of medium/long-term non-current financial liabilities has been set, 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 has adopted Guidelines on "Management and control of financial risk" 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, both fixed and 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 US dollars and British pounds – to the functional currencies of the operating companies.

Derivative financial instruments are designated as fair value hedges for managing exchange rate risk on instruments denominated in currencies other than euro and for managing interest rate risk on fixed-rate loans. Derivative financial instruments are designated as cash flow hedges when the objective is to pre-set the exchange rate of future transactions and the interest rate.

All derivative financial instruments are entered into with banking and financial counterparties with at least a “BBB-” rating from Standard & Poor’s or an 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 annual consolidated financial statements at December 31, 2014;
- 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, 2014, if the ordinary shares of Telecom Italia S.p.A., with other valuation factors remaining equal, increased by 10%, the value of the embedded option would suffer a negative change of 135 million euros, whereas for a decrease of 10%, the change would be positive by 107 million euros.

Exchange rate risk – Sensitivity analysis

At December 31, 2014 (and also at December 31, 2013), 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. Accordingly, a sensitivity analysis was not performed on 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 line 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 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, 2014 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 57 million euros (47 million euros at December 31, 2013).

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), has been considered in the category of variable rate.

Total Financial liabilities (at the nominal repayment amount)

(millions of euros)	12/31/2014			12/31/2013		
	Fixed rate	Variable rate	Total	Fixed rate	Variable rate	Total
Bonds	18,437	6,477	24,914	17,677	7,208	24,885
Loans and other financial liabilities	3,276	4,553	7,829	5,160	3,992	9,152
Total non-current financial liabilities (including the current portion of medium/long-term financial liabilities)	**21,713**	**11,030**	**32,743**	**22,837**	**11,200**	**34,037**
Total current financial liabilities (*)	**39**	**415**	**454**	**74**	**392**	**466**
Total excluding Discontinued Operations	**21,752**	**11,445**	**33,197**	**22,911**	**11,592**	**34,503**
Discontinued operations	42	-	42	26	-	26
Total	**21,794**	**11,445**	**33,239**	**22,937**	**11,592**	**34,529**

(*) At December 31, 2014, variable-rate current liabilities included 179 million euros of payables to other lenders for installments paid in advance which are classified in this line item even though they are not correlated to a definite rate parameter (218 million euros at December 31, 2013).

Total Financial assets (at the nominal investment amount)

(millions of euros)	12/31/2014			12/31/2013		
	Fixed rate	Variable rate	Total	Fixed rate	Variable rate	Total
Cash and cash equivalents	-	3,225	3,225	-	4,131	4,131
Securities	884	1,988	2,872	1,002	1,943	2,945
Other receivables	831	444	1,275	344	192	536
Total excluding Discontinued Operations	**1,715**	**5,657**	**7,372**	**1,346**	**6,266**	**7,612**
Discontinued operations	51	113	164	50	602	652
Total	**1,766**	**5,770**	**7,536**	**1,396**	**6,868**	**8,264**

With regard to variable-rate financial instruments, the contracts provide for revisions of the relative parameters to take place within the subsequent 12 months.

Effective interest rate

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

(millions of euros)	12/31/2014 Adjusted carrying amount	12/31/2014 Effective interest rate (%)	12/31/2013 Adjusted carrying amount	12/31/2013 Effective interest rate (%)
Bonds	24,742	5.89	24,673	5.99
Loans and other financial liabilities	8,823	3.86	8,854	3.45
Total (*)	**33,565**	**5.36**	**33,527**	**5.32**

(*) Does not include Liabilities directly associated with Discontinued operations/Non-current assets held for sale of a financial nature.

Total Financial assets

(millions of euros)	12/31/2014 Adjusted carrying amount	12/31/2014 Effective interest rate (%)	12/31/2013 Adjusted carrying amount	12/31/2013 Effective interest rate (%)
Cash and cash equivalents	3,225	0.22	4,131	0.33
Securities	2,872	7.08	2,945	6.61
Other receivables	193	7.19	193	5.69
Total (*)	**6,290**	**3.56**	**7,269**	**3.01**

(*) 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 counterparties 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 customer scoring and analysis systems. For specific categories of trade receivables the Group also makes use of factoring, mainly on a “non-recourse” basis. 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;
- bond portfolio management: the investment of a permanent level of liquidity and the investment of that part of medium term liquidity, 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 counterparty, 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 counterparties. 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 have been carried out in compliance with the Guidelines on "Financial risk management and control" adopted by the Group in August 2012 (as amended), which replaced previous policies.
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 counterparties. Consequently, there are no significant positions with any one single counterparty.

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.
12% of gross financial debt at December 31, 2014 (nominal repayment amount) will become due in the next 12 months.
Current financial assets at December 31, 2014, together with unused committed bank lines, ensure complete coverage of debt repayment obligations also beyond the next 24 months.
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, 2014. 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

(millions of euros)		2015	2016	2017	2018	2019	After 2019	Total
		maturing by 12/31 of the year:						
Bonds (*)	Principal	1,970	1,879	2,963	2,324	3,165	11,313	23,614
	Interest portion	1,432	1,310	1,131	919	784	6,569	12,145
Loans and other financial liabilities	Principal	1,248	830	966	976	1,481	1,192	6,693
	Interest portion	211	241	32	57	39	(341)	239
Finance lease liabilities	Principal	156	145	138	136	136	425	1,136
	Interest portion	87	78	69	59	48	227	568
Non-current financial liabilities (**)	**Principal**	**3,374**	**2,854**	**4,067**	**3,436**	**4,782**	**12,930**	**31,443**
	Interest portion	**1,730**	**1,629**	**1,232**	**1,035**	**871**	**6,455**	**12,952**
Current financial liabilities	**Principal**	**454**						**454**
	Interest portion	**5**						**5**
Total Financial liabilities	**Principal**	**3,828**	**2,854**	**4,067**	**3,436**	**4,782**	**12,930**	**31,897**
	Interest portion	**1,735**	**1,629**	**1,232**	**1,035**	**871**	**6,455**	**12,957**

(*) 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

(millions of euros)	2015	2016	2017	2018	2019	After 2019	Total
	maturing by 12/31 of the year:						
Disbursements	579	521	505	446	359	3,495	5,905
Receipts	(720)	(644)	(643)	(531)	(470)	(4,099)	(7,107)
Hedging derivatives – net (receipts) disbursements	**(141)**	**(123)**	**(138)**	**(85)**	**(111)**	**(604)**	**(1,202)**
Disbursements	151	325	98	49	107	45	775
Receipts	(40)	(138)	(37)	(16)	(47)	(21)	(299)
Non-Hedging derivatives – net (receipts) disbursements	**111**	**187**	**61**	**33**	**60**	**24**	**476**
Total net receipts (disbursements)	**(30)**	**64**	**(77)**	**(52)**	**(51)**	**(580)**	**(726)**

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 the present value discounting of 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.
The market value of CCIRSs, on the other hand, 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 involve 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, risk-free rate of return, current price, volatility and any cash flows (e.g. dividend) of the underlying instrument, and exercise price.

NOTE 19
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 in place at December 31, 2014 are principally used to manage debt positions. They include interest rate swaps (IRSs) to reduce interest rate exposure on fixed-rate and variable-rate bank loans and bonds, as well as cross currency and interest rate swaps (CCIRSs), and currency forwards to convert the loans/receivables secured in currencies different from the functional currencies of the various Group companies.
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 tables show the derivative financial instruments of the Telecom Italia Group at December 31, 2014 and at December 31, 2013, by type:

Type (millions of euros)	**Hedged risk**	**Notional amount at 12/31/2014**	**Notional amount at 12/31/2013**	**Spot (*) Mark-to-Market (Clean Price) at 12/31/2014**	**Spot (*) Mark-to-Market (Clean Price) at 12/31/2014**
Interest rate swaps	Interest rate risk	4,800	5,250	159	(16)
Cross Currency and Interest Rate Swaps	Interest rate risk and currency exchange rate risk	1,644	2,071	169	2
Total Fair Value Hedge Derivatives **		**6,444**	**7,321**	**328**	**(14)**
Interest rate swaps	Interest rate risk	520	2,370	(31)	(92)
Cross Currency and Interest Rate Swaps	Interest rate risk and currency exchange rate risk	9,654	8,628	(516)	(1,154)
Commodity Swap and Options	Commodity risk (energy)	-	9	-	1
Forward and FX Options	Currency exchange rate risk	-	577	-	7
Total Cash Flow Hedge Derivatives **		**10,174**	**11,584**	**(547)**	**(1,238)**
Total Non-Hedge Accounting Derivatives		**2,122**	**2,816**	**45**	**136**
Total Telecom Italia Group Derivatives		**18,740**	**21,721**	**(174)**	**(1,116)**

** Spot Mark-to-market above represents the market measurement of the derivative net of the accrued portion of the flow in progress.*
*** 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.*

The category Non-Hedge Accounting Derivatives also includes the embedded option of the mandatory convertible bond issued by the subsidiary Telecom Italia Finance S.A. amounting to 1.3 billion euros. This component, embedded in the financial instrument, has a notional amount equal to the amount of the loan.

The hedging of cash flows by derivatives designated as cash flow hedges was considered highly effective and at December 31, 2014 led to:
- recognition in equity of unrealized charges of 104 million euros;
- reversal from equity to the income statement of net income from exchange rate adjustments of 868 million euros.

Furthermore, at December 31, 2014, the total loss of the hedging instruments still recognized in equity amounted to approximately zero due to the effect of transactions early terminated over the years. The positive impact reversed to the income statement during 2014 is 5 million euros.

The transactions hedged by cash flow hedges will generate cash flows and produce economic effects in the income statement in the periods indicated in the following table:

Currency of denomination	**Notional amount in currency of denomination** (millions)	**Start of period**	**End of period**	**Rate applied**	**Interest period**
Euro	120	Jan-15	Nov-15	3 month Euribor + 0.66%	Quarterly
GBP	500	Jan-15	Dec-15	5.625%	Annually
GBP	850	Jan-15	Jun-19	6.375%	Annually
GBP	400	Jan-15	May-23	5.875%	Annually
USD	186	Jan-15	Oct-29	5.45%	Semiannually
USD	1,000	Jan-15	Nov-33	6.375%	Semiannually
USD	1,000	Jan-15	July-36	7.20%	Semiannually
USD	1,000	Jan-15	Jun-18	6.999%	Semiannually
USD	1,000	Jan-15	Jun-38	7.721%	Semiannually
Euro	400	Jan-15	Jun-16	3 month Euribor + 0.79%	Quarterly
GBP	750	Jan-15	Dec-17	3.72755%	Annually
USD	1,000	Jan-15	Jun-19	7.175%	Semiannually
USD	1,000	Jan-15	Sept-34	6%	Semiannually
USD	1,500	Jan-15	May-24	5.303%	Semiannually
USD	186	Jan-15	Oct-29	0.75%	Semiannually
USD	186	Jan-15	Oct-17	1.00%	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 essence, the portfolio risk must be significantly less than the risk of the hedged item.
The ineffective portion recognized in the income statement from designated cash flow hedge derivatives during 2014 was negative by 2 million euros (without considering the effects due to the application of Credit Value Adjustment/Debt Value Adjustment - CVA/DVA).

NOTE 20
SUPPLEMENTARY DISCLOSURES ON FINANCIAL INSTRUMENTS

MEASUREMENT AT FAIR VALUE

For the purposes of the comparative information between the carrying amounts and fair value of financial instruments, required by IFRS 7, the majority of the non-current financial liabilities of the Telecom Italia Group consists of bonds, whose fair value is directly observable in the financial markets, as they are financial instruments that due to their size and diffusion among investors, are commonly traded on the relevant markets (see the Note "Financial assets (non-current and current)"). For other types of financing, however, the following assumptions have been made in determining fair value:

- for variable-rate loans: the nominal repayment amount has been assumed;
- for fixed-rate loans: fair value has been assumed to be the present value of future cash flows using market interest rates at December 31, 2014;
- for some types of loans granted by government institutions for social development purposes, for which fair value cannot be reliably calculated, the carrying amount has been used.

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 fair value measurement 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, 2014 and December 31, 2013 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

	Acronym
Loans and Receivables	LaR
Financial assets Held-to-Maturity	HtM
Available-for-Sale financial assets	AfS
Financial Assets/Liabilities Held for Trading	FAHfT and FLHfT
Financial Liabilities at Amortized Cost	FLAC
Hedging Derivatives	HD
Not applicable	n.a.

Carrying amount for each class of financial asset/liability at 12/31/2014

(millions of euros)	IAS 39 Categories	note	Carrying amount in financial statements at 12/31/2014	Amounts recognized in financial statements according to IAS 39: Amortized cost	Cost	Fair value taken to equity	Fair value recognized in the income statement	Amounts recognized in financial statements according to IAS 17
ASSETS								
Non-current assets								
Other investments	AfS	8)	*43*		25	18		
Securities, financial receivables and other non-current financial assets								
of which loans and receivables	LaR	9)	*35*	35				
of which securities	AfS	9)	*6*			6		
of which hedging derivatives	HD	9)	*2,163*			1,742	421	
of which non-hedging derivatives	FAHfT	9)	*149*				149	
of which financial receivables for lease contracts	n.a.	9)	*92*					92
Miscellaneous receivables and other non-current assets (*)								
of which loans and receivables	LaR	10)	*338*	334	4			
		(a)	2,826	369	29	1,766	570	92
Current assets								
Trade and miscellaneous receivables and other current assets (*)								
of which loans and receivables	LaR	13)	*4,257*	4,257				
Securities								
of which available-for-sale financial assets	AfS	9)	*1,300*			1,300		
Financial receivables and other current financial assets								
of which loans and receivables	LaR	9)	*15*	15				
of which hedging derivatives	HD	9)	*223*			152	71	
of which non-hedging derivatives	FAHfT	9)	*18*				18	
of which financial receivables for lease contracts	n.a.	9)	*55*					55
Cash and cash equivalents	LaR	9)	*4,812*	4,812				
		(b)	10,680	9,084	–	1,452	89	55
Total		(a+b)	13,506	9,453	29	3,218	659	147
LIABILITIES								
Non-current liabilities								
of which liabilities at amortized cost(**)	FLAC/HD	16)	*29,172*	29,172				
of which hedging derivatives	HD	16)	*2,058*			2,058	–	
of which non-hedging derivatives	FLHfT	16)	*111*				111	
of which finance lease liabilities	n.a.	16)	*984*					984
		(c)	32,325	29,172	–	2,058	111	984
Current liabilities								
of which liabilities at amortized cost(**)	FLAC/HD	16)	*4,272*	4,272				
of which hedging derivatives	HD	16)	*224*			216	8	
of which non-hedging derivatives	FLHfT	16)	*21*				21	
of which finance lease liabilities	n.a.	16)	*169*					169
Trade and miscellaneous payables and other current liabilities (*)								
of which liabilities at amortized cost	FLAC	24)	*5,839*	5,839				
		(d)	10,525	10,111	–	216	29	169
Total		(c+d)	42,850	39,283	–	2,274	140	1,153

(*) Part of assets or liabilities falling under application of IFRS 7.
(**) They also include the liabilities at adjusted amortized cost that qualify for hedge accounting.

Comparison between carrying amount and fair value for each class of financial asset/liability at 12/31/2014

(millions of euros)	IAS 39 Categories	Carrying amount in financial statements at 12/31/2014	Amounts recognized in financial statements according to IAS 39				Amounts recognized in financial statements according to IAS 17	Fair Value at 12/31/2014
			Amortized cost	Cost	Fair value taken to equity	Fair value recognized in the income statement		
ASSETS								
Loans and Receivables	LaR	*9,457*	9,453	4				**9,457**
Available-for-Sale financial assets	AfS	*1,349*		25	1,324			**1,349**
Financial assets at fair value through profit or loss held for trading	FAHfT	*167*				167		**167**
of which non-hedging derivatives	FAHfT	*167*				167		167
Hedging Derivatives	HD	*2,386*			1,894	492		**2,386**
Assets measured according to IAS 17	n.a.	*147*					147	**147**
Total		**13,506**	**9,453**	**29**	**3,218**	**659**	**147**	**13,506**
LIABILITIES								
Financial liabilities at amortized cost (*)	FLAC/HD	*39,283*	39,283					**41,446**
Financial liabilities at fair value through profit or loss held for trading	FLHfT	*132*				132		**132**
of which non-hedging derivatives	FLHfT	*132*				132		132
Hedging Derivatives	HD	*2,282*			2,274	8		**2,282**
Liabilities measured according to IAS 17	n.a.	*1,153*					1,153	**1,479**
Total		**42,850**	**39,283**	**–**	**2,274**	**140**	**1,153**	**45,339**

(*) They also include the liabilities at adjusted amortized cost that qualify for hedge accounting.

Fair value hierarchy level for each class of financial asset/liability at 12/31/2014

(millions of euros)	IAS 39 Categories	note	Carrying amount in financial statements at 12/31/2014	Hierarchy Levels		
				Level 1 (*)	Level 2 (*)	Level 3 (*)
ASSETS						
Non-current assets						
Other investments	AfS	8)	*43*	3	15	
Securities, financial receivables and other non-current financial assets						
of which securities	AfS	9)	*6*	6		
of which hedging derivatives	HD	9)	*2,163*		2,163	
of which non-hedging derivatives	FAHfT	9)	*149*		149	
(a)			**2,361**	**9**	**2,327**	**–**
Current assets						
Securities						
of which available-for-sale financial assets	AfS	9)	*1,300*	1,300		
Financial receivables and other current financial assets						
of which hedging derivatives	HD	9)	*223*		223	
of which non-hedging derivatives	FAHfT	9)	*18*		18	
(b)			**1,541**	**1,300**	**241**	**–**
Total (a+b)			**3,902**	**1,309**	**2,568**	**–**
LIABILITIES						
Non-current liabilities						
of which hedging derivatives	HD	16)	*2,058*		2,058	
of which non-hedging derivatives	FLHfT	16)	*111*		111	
(c)			**2,169**	**–**	**2,169**	**–**
Current liabilities						
of which hedging derivatives	HD	16)	*224*		224	
of which non-hedging derivatives	FLHfT	16)	*21*		21	
(d)			**245**	**–**	**245**	**–**
Total (c+d)			**2,414**	**–**	**2,414**	**–**

(*) 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 AT DECEMBER 31, 2014 OF THE MANDATORY CONVERTIBLE BOND EMBEDDED OPTION

The accounting of the “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 in the accounts of the option embedded in the financial instruments, distinctly from the debt liability itself.
The 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 corresponding to the maximum conversion ratio at maturity into Telecom Italia S.p.A. ordinary shares; 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;
- 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.

From November 16, 2014 – as a result of the availability of market data in terms of options quoted on the Telecom Italia shares with a duration comparable to that of the remaining option on the Mandatory Convertible Bond (2 years) – the figure for volatility is taken directly from the market. Accordingly, it is no longer considered an "unobservable" input figure. As a result, the measurement of the embedded option, which previously was considered level 3, has come under level 2 of the fair value hierarchy from November 2014, as it is based on observable market data. Further details on the measurement of derivative instruments are provided in the Note "Financial risk management".

The following table shows the income statement and financial statement effects of that measurement:

(millions of euros)	Fair value hierarchy Levels	
	Level 3:	Level 2:
Asset value at December 31, 2013	**63**	–
Transfers out from Level 3	(63)	–
Transfers into Level 2	–	63
Profit (loss) recognized in the Consolidated Separate Income Statement	–	(174)
Asset value at December 31, 2014	–	**(111)**

The loss from the fair value adjustment at December 31, 2014 has been recognized under finance expenses.

Specifically, during 2013, volatility was 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 was, therefore, an assumption based on the volatility implied by the price of the financial instrument, as negotiated at the issue stage, and market volatility for the nearest time horizon.

The following table shows the income statement and financial statement effects of that measurement:

(millions of euros)	Level 3 of the fair value hierarchy
Asset value at December 31, 2012	-
Valuation at the issue date of the financial instrument	187
Profit (loss) recognized in the Consolidated Separate Income Statement	(124)
Asset value at December 31, 2013	**63**

The loss from the fair value adjustment at December 31, 2013 has been recognized under finance expenses.

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".

Carrying amount for each class of financial asset/liability at 12/31/2013

(millions of euros)	IAS 39 Categories	note	Carrying amount in financial statements at 12/31/2013	Amounts recognized in financial statements according to IAS 39				Amounts recognized in financial statements according to IAS 17
				Amortized cost	Cost	Fair value taken to equity	Fair value recognized in the income statement	
ASSETS								
Non-current assets								
Other investments	AfS	8)	*42*		25	17		
Securities, financial receivables and other non-current financial assets								
of which loans and receivables	LaR	9)	*37*	37				
of which securities	AfS	9)	*6*			6		
of which hedging derivatives	HD	9)	*1,018*			823	195	
of which non-hedging derivatives	FAHfT	9)	*137*				137	
of which financial receivables for lease contracts	n.a.	9)	*58*					58
Miscellaneous receivables and other non-current								
of which loans and receivables	LaR	10)	*248*	243	5			
		(a)	**1,546**	**280**	**30**	**846**	**332**	58
Current assets								
Trade and miscellaneous receivables and other								
of which loans and receivables	LaR	13)	*4,145*	4,145				
Securities								
of which available-for-sale financial assets	AfS	9)	*1,348*			1,348		
Financial receivables and other current financial								
of which loans and receivables	LaR	9)	*23*	23				
of which hedging derivatives	HD	9)	*173*			119	54	
of which non-hedging derivatives	FAHfT	9)	*7*				7	
of which financial receivables for lease contracts	n.a.	9)	*80*					80
Cash and cash equivalents	LaR	9)	*5,744*	5,744				
		(b)	**11,520**	**9,912**	**–**	**1,467**	**61**	80
Total		**(a+b)**	**13,066**	**10,192**	**30**	**2,313**	**393**	138
LIABILITIES								
Non-current liabilities								
of which liabilities at amortized cost(**)	FLAC/HD	16)	*27,958*	27,958				
of which hedging derivatives	HD	16)	*2,026*			1,943	83	
of which non-hedging derivatives	FLHfT	16)	*–*				–	
of which finance lease liabilities	n.a.	16)	*1,100*					1,100
		(c)	**31,084**	**27,958**	**–**	**1,943**	**83**	1,100
Current liabilities								
of which liabilities at amortized cost(**)	FLAC/HD	16)	*5,703*	5,703				
of which hedging derivatives	HD	16)	*207*			151	56	
of which non-hedging derivatives	FLHfT	16)	*16*				16	
of which finance lease liabilities	n.a.	16)	*193*					193
Trade and miscellaneous payables and other current								
of which liabilities at amortized cost	FLAC	24)	*5,720*	5,720				
		(d)	**11,839**	**11,423**	**–**	**151**	**72**	193
Total		**(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 the liabilities at adjusted amortized cost that qualify for hedge accounting.

Comparison between carrying amount and fair value for each class of financial asset/liability at 12/31/2013

(millions of euros)	IAS 39 Categories	Carrying amount in financial statements at 12/31/2013	Amounts recognized in financial statements according to IAS 39				Amounts recognized in financial statements according to IAS 17	Fair Value at 12/31/2013
			Amortized cost	Cost	Fair value taken to equity	Fair value recognized in the income statement		
ASSETS								
Loans and Receivables	LaR	*10,197*	10,192	5				**10,197**
Available-for-Sale financial assets	AfS	*1,396*		25	1,371			**1,396**
Financial assets at fair value through profit or loss held for trading	FAHfT	*144*				144		**144**
of which non-hedging derivatives	FAHfT	*144*				144		144
Hedging Derivatives	HD	*1,191*			942	249		**1,191**
Assets measured according to IAS 17	n.a.	*138*					138	**138**
Total		**13,066**	**10,192**	**30**	**2,313**	**393**	**138**	**13,066**
LIABILITIES								
Financial liabilities at amortized cost (*)	FLAC/HD	*39,381*	39,381					**40,011**
Financial liabilities at fair value through profit or loss held for trading	FLHfT	*16*				16		**16**
of which non-hedging derivatives	FLHfT	*16*				16		16
Hedging Derivatives	HD	*2,233*			2,094	139		**2,233**
Liabilities measured according to IAS 17	n.a.	*1,293*					1,293	**1,611**
Total		**42,923**	**39,381**	**–**	**2,094**	**155**	**1,293**	**43,871**

(*) They also include the liabilities at adjusted amortized cost that qualify for hedge accounting.

Fair value hierarchy level for each class of financial asset/liability at 12/31/2013

(millions of euros)		IAS 39 Categories	note	Carrying amount in financial statements at 12/31/2013	Hierarchy Levels Level 1 (*)	Level 2 (*)	Level 3 (*)
ASSETS							
Non-current assets							
Other investments		AfS	8)	*42*	3	14	
Securities, financial receivables and other non-current financial assets							
of which securities		AfS	9)	*6*	6		
of which hedging derivatives		HD	9)	*1,018*		1,018	
of which non-hedging derivatives		FAHfT	9)	*137*		74	63
	(a)			**1,203**	**9**	**1,106**	**63**
Current financial assets							
Securities							
of which available-for-sale financial assets		AfS	9)	*1,348*	1,348		
Financial receivables and other current financial assets							
of which hedging derivatives		HD	9)	*173*		173	
of which non-hedging derivatives		FAHfT	9)	*7*		7	
	(b)			**1,528**	**1,348**	**180**	**–**
Total	**(a+b)**			**2,731**	**1,357**	**1,286**	**63**
LIABILITIES							
Non-current liabilities							
of which hedging derivatives		HD	16)	*2,026*		2,026	
of which non-hedging derivatives		FLHfT	16)	*–*		–	
	(c)			**2,026**	**–**	**2,026**	**–**
Current liabilities							
of which hedging derivatives		HD	16)	*207*		207	
of which non-hedging derivatives		FLHfT	16)	*16*		16	
	(d)			**223**	**–**	**223**	**–**
Total	**(c+d)**			**2,249**	**–**	**2,249**	**–**

(*) 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.

Gains and losses by IAS 39 category - Year 2014

(millions of euros)	IAS 39 Categories	Net gains/(losses) 2014 (1)	of which interest
Loans and Receivables	LaR	(398)	109
Available-for-Sale financial assets	AfS	52	
Financial Assets/Liabilities Held for Trading	FAHfT and FLHfT	(222)	
Financial Liabilities at Amortized Cost	FLAC	(1,828)	(1,659)
Total		**(2,396)**	**(1,550)**

(1) Of which 1 million euros related 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.

Gains and losses by IAS 39 category - Year 2013

(millions of euros)	IAS 39 Categories	Net gains/(losses) 2013 (1)	of which interest
Loans and Receivables	LaR	(334)	97
Available-for-Sale financial assets	AfS	27	
Financial Assets/Liabilities Held for Trading	FAHfT and FLHfT	(59)	
Financial Liabilities at Amortized Cost	FLAC	(1,844)	(1,731)
Total		**(2,210)**	**(1,634)**

(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.

NOTE 21
EMPLOYEE BENEFITS

Employee benefits increased by 146 million euros compared to December 31, 2013 and were broken down as follows:

(millions of euros)		12/31/2012	Discontinued operations	Increases/ Present value	Decrease	Exchange differences and other changes	12/31/2013
Provision for employee severance indemnities	**(a)**	**835**		**66**	**(30)**	**(8)**	**863**
Provision for pension plans		23		2	(2)	(1)	22
Provision for termination benefit incentives		58	(8)	10	(30)		30
Total other provisions for employee benefits	**(b)**	**81**	**(8)**	**12**	**(32)**	**(1)**	**52**
Total	**(a+b)**	**916**	**(8)**	**78**	**(62)**	**(9)**	**915**
of which:							
non-current portion		**872**					**889**
current portion (*)		**44**					**26**

(*) The current portion refers only to Other provisions for employee benefits.

(millions of euros)		12/31/2013	Increases/ Present value	Decrease	Exchange differences and other changes	12/31/2014
Provision for employee severance indemnities	**(a)**	**863**	**241**	**(76)**	**3**	**1,031**
Provision for pension plans		22	5	(2)	-	25
Provision for termination benefit incentives		30	1	(24)	(2)	5
Total other provisions for employee benefits	**(b)**	**52**	**6**	**(26)**	**(2)**	**30**
Total	**(a+b)**	**915**	**247**	**(102)**	**1**	**1,061**
of which:						
non-current portion		**889**				**1,056**
current portion (*)		**26**				**5**

(*) 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 168 million euros. The reduction of 76 million euros under "Decreases" relates to indemnities paid during the year to employees who terminated employment, in addition to ordinary advances and advances requested by employees for the purchase of Telecom Italia S.p.A. shares under the Broad-Based Share Ownership Plan. Other changes related, among other things, to the change in the scope of consolidation, following the acquisition of control of the company Rete A.. The increase of 241 million euros in the column "Increases/Present value" is broken down as follows:

(millions of euros)	2014	2013
Current service cost (*)	-	-
Finance expenses	32	37
Net actuarial (gains) losses for the year	209	29
Total	**241**	**66**
Effective return on plan assets	there are no assets servicing the plan	

(*) 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 still be used only for the accruals of companies with less than 50 employees, amounting to 0.4 million euros in 2014 (essentially unchanged compared to 2013).

The net actuarial losses recognized at December 31, 2014, totaling 209 million euros (29 million euros in 2013), are essentially the result of the change in the discount rate of 1.89% applied, from the 4.11% of December 31, 2013. To take account of the expected future progressive increase in the inflation rate, which is currently particularly low, the rate has been differentiated over the individual years for the actuarial calculation, as described in the following.
According to national law, the amount of provision for employee severance indemnities 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-set interest. The liability is not associated with any vesting condition or period or any funding obligation; accordingly, 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".
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".
In application of IAS 19, the employee severance indemnities have been calculated using the "Projected Unit Credit Method" 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 actually has to be 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:

FINANCIAL ASSUMPTIONS	Executives	Non-executives
Inflation rate		
2015	0.60% per annum	0.60% per annum
2016	1.20% per annum	1.20% per annum
2017-2018	1.50% per annum	1.50% per annum
2019 onwards	2.00% per annum	2.00% per annum
Discount rate	**1.89% per annum**	**1.89% per annum**
Employee severance indemnities annual increase rate		
2015	1.950% per annum	1.950% per annum
2016	2.400% per annum	2.400% per annum
2017-2018	2.625% per annum	2.625% per annum
2019 onwards	3.000% per annum	3.000% 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

DEMOGRAPHIC ASSUMPTIONS	Executives	Non-executives
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 Obligatory General Insurance updated on the basis of 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

The adoption of the above assumptions resulted in a liability for employee severance indemnities at December 31, 2014 of 1,031 million euros (863 million euros at the end of 2013).

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 assumption that were reasonably possible at that date, stated in amounts.
The weighted average duration of the obligation is 12.5 years.

CHANGES IN ASSUMPTIONS	Amounts (millions of euros)
Turnover rate:	
+0.25 p.p.	(2)
- 0.25 p.p.	2
Annual inflation rate:	
+0.25 p.p.	23
- 0.25 p.p.	(22)
Annual discount rate:	
+0.25 p.p.	(30)
- 0.25 p.p.	31

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 25 million euros, essentially due to the mobility expenses under Law 223/91 posted in previous years by the Parent, by Telecom Italia Information Technology, by Telecom Italia Sparkle and by Olivetti I-Jet.

NOTE 22
PROVISIONS

Provisions decreased by 157 million euros compared to December 31, 2013 and were broken down as follows:

(millions of euros)	12/31/2013	Increase	Used through income statement	Used directly	Exchange differences and other changes	12/31/2014
Provision for taxation and tax risks	**110**	25	(5)	(9)	5	**126**
Provision for restoration costs	**442**	12	–	(8)	1	**447**
Provision for legal disputes	**209**	91	(15)	(130)	–	**155**
Provision for commercial risks	**134**	5	(5)	(3)	–	**131**
Provision for risks and charges on investments and corporate-related transactions	**105**	–	(2)	(33)	–	**70**
Other provisions	**124**	5	(89)	(3)	1	**38**
Total	**1,124**	**138**	**(116)**	**(186)**	**7**	**967**
of which:						
non-current portion	699					720
current portion	425					247

Provision for taxation and tax risks was essentially unchanged compared to 2013. The figure at December 31, 2014 mainly related to companies in the Domestic Business Unit (64 million euros) and companies in the Brazil Business Unit (61 million euros).

Provision for restoration costs related 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 (358 million euros) and to the Brazil Business Unit (89 million euros).

Provision for legal disputes included the provision for litigation with employees, social security entities and third parties.
The figure at December 31, 2014, mainly consisted of 88 million euros for the Domestic Business Unit and 66 million euros for the Brazil Business Unit.

Provision for commercial risks, which showed no substantial change compared to the end of 2013, included provisions 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 showed a net decrease of 35 million euros, essentially relating to the uses made in connection with the settlement of disputes regarding the disposal of an investment in previous years. See the Note “Contingent liabilities, other information, commitments and guarantees”, Greece – DELAN, for more details.

Other provisions fell by a total of 86 million euros compared to the end of 2013.
This reduction was attributable to the full release of the remaining provisions, made in the 2009 consolidated financial statements for the Telecom Italia Sparkle affair (86 million euros). Further details are provided in the Note “Contingent liabilities, other information, commitments and guarantees”.

NOTE 23
MISCELLANEOUS PAYABLES AND OTHER NON-CURRENT LIABILITIES

Miscellaneous payables and other non-current liabilities decreased by 82 million euros compared to December 31, 2013 and were broken down as follows:

(millions of euros)	12/31/2014	12/31/2013
Payables to social security agencies	22	28
Capital grants	19	23
Deferred income	574	647
Income tax payables (*)	59	55
Other	23	26
Total	**697**	**779**

(*) Analyzed in the Note "Income tax expense".

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:

(millions of euros)	12/31/2014	12/31/2013
Non-current payables:		
Due from 2 to 5 years after the end of the reporting period	10	15
Due beyond 5 years after the end of the reporting period	12	13
	22	**28**
Current payables	**8**	**9**
Total	**30**	**37**

Deferred income included 293 million euros (324 million euros at December 31, 2013) for the deferral of revenues from the activation of Telecom Italia S.p.A. telephone services and 238 million euros (281 million euros at December 31, 2013) for the deferral of revenues from the sale of transmission capacity, relating to future years.

NOTE 24
TRADE AND MISCELLANEOUS PAYABLES AND OTHER CURRENT LIABILITIES

Trade and miscellaneous payables and other current liabilities decreased by 273 million euros compared to December 31, 2013 and were broken down as follows:

(millions of euros)		12/31/2014	*Of which IAS 39 Financial Instruments*	12/31/2013	*Of which IAS 39 Financial Instruments*
Payables on construction work	**(a)**	**35**		**30**	
Trade payables					
Payables to suppliers		4,622	*4,622*	4,526	*4,526*
Payables to other telecommunication operators		419	*419*	444	*444*
	(b)	**5,041**	**5,041**	**4,970**	**4,970**
Tax payables	**(c)**	**458**		**480**	
Miscellaneous payables and other current liabilities					
Payables for employee compensation		336	*336*	321	*321*
Payables to social security agencies		180		167	
Trade and miscellaneous deferred income		791		799	
Advances received		40		25	
Customer-related items		847	*211*	912	*232*
Payables for TLC operating fee		20		23	
Dividends approved, but not yet paid to shareholders		59	*59*	55	*55*
Other current liabilities		317	*192*	416	*142*
Employee benefits (except for employee severance indemnities) for the current portion expected to be settled within 1 year		5		26	
Provisions for risks and charges for the current portion expected to be settled within 1 year		247		425	
	(d)	**2,842**	**798**	**3,169**	**750**
Total	**(a+b+c+d)**	**8,376**	**5,839**	**8,649**	**5,720**

Further details on Financial Instruments are provided in the Note "Supplementary disclosure on financial instruments".

Trade payables, which were substantially unchanged compared to 2013, amounted to 5,041 million euros (4,970 million euros at December 31, 2013) and mainly related to Telecom Italia S.p.A. (2,376 million euros) and to companies belonging to the Brazil Business Unit (2,070 million euros).

At December 31, 2014 trade payables due in over 12 months amounted to 253 million euros (zero at December 31, 2013) and consists entirely of the payable of the Brazil Business Unit for the clean-up of the 700 MHz spectrum contained in the license acquired in the final quarter of the year.

Tax payables related in particular to Telecom Italia S.p.A. for the VAT payable (93 million euros), for the government concession tax (36 million euros), and for the withholding tax payables to the tax authorities as withholding agent (73 million euros). They also included other tax payables of the Brazil Business Unit of 217 million euros.

NOTE 25
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 31 December 2014, as well as those that came to an end during the financial year.
The Telecom Italia Group has posted liabilities totalling 123 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 August 2014, the Rome Court filed its grounds for the judgement, the ruling of which was pronounced in October 2013. The Court fully acquitted three former managers of Telecom Italia Sparkle from the charges of transnational conspiracy for the purpose of tax evasion and false declaration by the use of invoices or other documents for non-existent transactions. A further 18 defendants were found guilty, with sentences of 20 months to 15 years. The grounds for the judgement acknowledged that the former managers of Telecom Italia Sparkle were completely uninvolved in the "carousel fraud" and the correctness of their actions.
The non-guilty verdict was, however, appealed by the Rome Public Prosecutor's Office, also in relation to the standing of the Telecom Italia Sparkle employees, and the date of the hearing before the Court of Appeal has not yet been set.
Telecom Italia Sparkle is still formally being investigated for the administrative offence pursuant to Legislative Decree 231/2001, with the predicate offence of conspiracy and translational money laundering.
Following the outcome of the immediate trial, the Company in any event requested and obtained from the Judicial Authority, with an order in June 2014, the release and return of the whole sum of the 72,234,003 euro surety issued in the past in favour of the Judicial Authority to guarantee any obligations deriving from the application of Legislative Decree 231/2001, and the restitution of the sum of 8,451,00 euros; the sum of 1,549,000 euros, corresponding to the maximum fine payable for the administrative offence, remains under seizure.
It is pointed out that in view of the provisions made in the 2009 consolidated financial statements following the Telecom Italia Sparkle affair, risk provisions for a total of 86 million euros (72 million euros of which referred to the risk pursuant to Legislative Decree 231/2001) were still recorded in the financial statements and were fully released in the profit and loss account during 2014.
As for risks of a fiscal nature, you are reminded that in February 2014 the *Agenzia delle Entrate* (Lazio Regional Office) served 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. The amount of the fines – 25% of the "crime related costs" unduly deducted – total 280 million euros. In this respect the Company has filed an appeal to the Provincial Tax Commission in April 2014 and is still waiting for a hearing date to be set. In light of the investigations carried out, and considering the favourable outcome of the associated criminal proceedings, the risk is believed to be only potential, so no provisions were made in the financial statements.

International tax and regulatory disputes

On March 22, 2011 Tim Celular was served notice of a tax assessment issued by the Federal Tax Authorities of Brazil for a total sum of 1,265 million reais (approximately 550 million euros) as of the date of the notification, including fines and interest, as a result of the completion of a tax investigation of 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 progressively incorporated into Tim Celular with the aim of rationalising the corporate structure in Brazil.
The assessment notice includes various adjustments; the main claims may be summarised as follows:

- non-recognition of the fiscal effects of the merger of Tim Nordeste Telecomunicações S.A. and Maxitel S.A.;
- non-recognition of the fiscal deductibility of the write-down of goodwill relating to the purchase of Tele Nordeste Celular Participações S.A. ("TNC").

The adjustments included in the assessment notice were challenged by Tim Celular, before the administrative court, with the submission 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 promptly filed an appeal against this decision on May 21, 2012.
The Management, as confirmed by fitting legal opinions, believes it is unlikely that the company could suffer any negative consequences in relation to these matters.
Again with regard to Tim Participações' subsidiary Brazilian companies, other cases of tax disputes are present including for significant amounts but with a risk of losing deemed improbable (for the aforementioned companies), on the basis of the legal opinions issued to the companies.
The most relevant cases relate to the fiscal deductibility of the write-down of goodwill, indirect taxation and contributions to the local regulatory authority (ANATEL). Of the main disputes concerning indirect taxation, several disputes regarding lowering the tax base on the basis of discounts granted to customers may be noted; the regulatory authority however alleges that the company did not pay sufficient contributions to the FUST/FUNTTEL funds.
Finally, note that in December 2013 Tim Celular received a tax assessment served by the Brazilian Federal District Finance Secretariat equal to approximately 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 Court declaring that a state tax incentive was unconstitutional. The Company promptly filed an initial defence statement, in administrative proceedings, in January 2014. On the basis of specific legal advice in particular, Tim Celular does not consider an unfavourable outcome to be likely.

Investigation by the Public Prosecutor's Office of Monza

Criminal proceedings in their preliminary investigation phase are currently pending before the Public Prosecutor's Office of Monza relative to a number of supply under lease and/or sale of goods transactions which allegedly involve various offences committed to the detriment, amongst others, of Telecom Italia, which filed a charge against persons unknown in 2011.
The preliminary investigation judge filed separate proceedings initiated, amongst others, against three employees/former employees of the Company. A former employee of the Company, amongst others, is apparently still being investigated as part of the main criminal proceedings.

Irregularities concerning transactions for the leasing/rental of assets

In relation to the irregularities detected with regard to some leasing and rental transactions, which in some cases led to disputes relating to Direct Taxes and VAT, the Company arranged in previous years and in the current year to make provision for risks; the actual amount of the risk provision is around 9.6 million euros.

Administrative offence charge pursuant to Legislative Decree 231/2001 for the Telecom Italia Security Affair.

In December 2008 Telecom Italia received notification of the application for its committal for trial for the administrative offence specified in articles 21 and 25, subsections 2 and 4, of legislative decree no. 231/2001 in relation to the affairs that involved several former employees of the Security function and former collaborators of the Company charged – among other things – with offences involving corruption of public officials, with the object of acquiring information from confidential files. In May 2010 Telecom Italia was definitively no longer a defendant in the criminal trial, the Judge for the Preliminary Hearing having approved the motion for settlement of the proceedings (plea bargaining) presented by the Company.

In the hearing before Section One of the Milan Court of Assizes, Telecom Italia acted in the dual role of civil party and civilly liable party. In fact, on the one hand it was admitted as civil party against all the defendants for all charges, and on the other it 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 and 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 the lengthy evidence hearings – which lasted more than a year – 22 civil parties filed claims for compensation, also 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 summarised its conclusions against the defendants, requesting that they be found liable for all the damages suffered as a result of the facts of the case.

In February 2013, Section 1 of the Milan Court of Assizes issued the first instance judgement, sentencing the defendants to terms of imprisonment of between 7 years and 6 months and one year. The Court also recognised that there had been non-pecuniary damage to some of the civil parties as a consequence of the alleged facts, and sentenced the defendants, jointly and severally with civilly liable party Telecom Italia, to compensate said damages, totalling 270,000 euros (of which 170,000 euros jointly and severally with Pirelli); at the same time it also sentenced the defendants to pay compensation for pecuniary and non-pecuniary damages incurred by the Company, granting it a provisional sum of 10 million euros. The judgement also recognised the existence of non-pecuniary damage to the companies Telecom Italia Latam and Telecom Italia Audit & Compliance Services, sentencing the defendants to pay compensation for damages on an equitable basis of 20,000 euros for each company.

In November 2013 the grounds for the judgement in the court of first instance were published (and for its part, the Company decided not to appeal).

To date no date has been set for the appeal hearing.

Antitrust Case A428

At the conclusion of case A428, the Italian antitrust authority - AGCM imposed on May 10, 2013 two administrative sanctions of 88,182,000 euros and 15,612,000 euros on Telecom Italia for abuse of its dominant position. The Company allegedly (i) hindered or delayed activation of access services requested by OLOs through unjustified and spurious refusals; (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 the Country where disaggregated access services to the local network are available, and hence where other operators can compete more effectively with the Company. The liabilities already allocated in the consolidated Financial Statements at December 31, 2013 cover the entire amount of the sanctions and the interest accrued on that date.
Telecom Italia appealed against the decision before the Administrative Court (TAR) for Lazio, applying for payment of the fine to be suspended. In particular, it alleged: infringement of its rights to defend itself in the proceedings, the circumstance that the organisational choices challenged by AGCM and allegedly at the base of the abuse of the OLO provisioning processes had been the subject of specific rulings made by the sector Authority (AGCom), the circumstance that the comparative examination of the internal/external provisioning processes had in fact 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 the second abuse) 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.
In May 2014, the judgement of the Lazio TAR was published, rejecting Telecom Italia's appeal and confirming in full the fines imposed in the original order challenged. In September 2014 the Company appealed against this decision to the Consiglio di Stato (Italian Council of State).
In the meantime the company proceeded to pay the fines and the accrued interest.

It should be noted that for the disputes described below, on the basis of the information available at the closing date of the present document and with particular reference to the complexity of the proceedings, to their progress, and to elements of uncertainty of a technical-trial nature, it was not possible to make a reliable estimate of the size and/or times of possible payments, if any. Moreover, in the case in which the disclosure of information relative to the dispute could seriously jeopardise the position of Telecom Italia or its subsidiaries, only the general nature of the dispute is described.

Antitrust Case I757

On September 12, 2012, 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 new operator BIP Mobile S.r.l.
BIP Mobile, which intended to present itself as the first “low cost” virtual operator, did not have its own sales network, since it accesses the market using the so-called multibrand distribution channel. According to the complaint it submitted to AGCM, the company has been faced with cancellations by retailers that distribute mobile telephony services of various operators, allegedly induced by pressures that were supposedly “the fruit of a concerted strategy between Telecom Italia, Vodafone and Wind.
On December 20, 2013, AGCM decided to extend the investigation to examine the conduct of Telecom Italia and Wind in terms of potential vertical restrictions in violation of article 101 of the Treaty on the Functioning of the European Union arising from supplementary commercial agreements signed by each of them with a number of multibrand dealers, as they provide extra incentives to the dealer while reserving the right to terminate the relationship if the dealer markets the products or services of operators other than those already marketed at the time the agreement is signed.
On April 9, 2014 Telecom Italia presented a proposal of undertakings. AGCM, having assessed that the undertakings presented did not appear to be manifestly groundless, published them on April 22,,2014 for the purposes of the so-called market test.
Upon completion of the investigation the Authority, on December 11, 2014, issued two separate rulings. With the first it ascertained that the horizontal agreement originally contested does not exist; with the second it accepted the undertakings proposed by Telecom Italia with reference to the vertical profiles object of the extension of the investigation, without any offences having been found to have taken place.

Antitrust Case I761

With a ruling issued on July 10, 2013, the AGCM extended to Telecom Italia the investigation started in March of the same year into some enterprises active in the fixed network maintenance sector to Telecom Italia. The investigation aims to establish if an agreement exists that is prohibited pursuant to article 101 of the Treaty on the Functioning of the European Union. The proceedings were initiated after Wind filed two complaints in which the AGCM was informed 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 alleged 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 these proceedings before the Administrative Court (TAR), sustaining that the Antitrust Authority does not have competence in this matter.
On July 7, 2014, the AGCM notified the objective extension of the proceedings to check if the Company, abusing its dominant position, put in place initiatives that might influence the conditions of the offer of accessory technical services when the offers of the maintenance businesses to Wind and Fastweb were being formulated. With the extension provision, the Authority has also extended the deadline for closing the proceedings from the original date of July 31, 2014 to July 31, 2015. This extension was also challenged before the Administrative Court (TAR) of Lazio sustaining that the Italian Competition Authority does not have competence in this matter.
In November 2014, for reasons of procedural economy and also convinced that it was acting legitimately, Telecom Italia presented to the Authority a proposal of undertakings in order to resolve the competition concerns subject of the investigation. In its resolution of December 19, 2014 the AGCM assessed that these undertakings were not manifestly groundless and later arranged their publication for the purposes of the market test. Unless extended, the procedure will be completed by the end of March 2015.

Dispute relative to "Adjustments on license 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 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 against turnover not received due to bad debts. Telecom Italia lodged an appeal.
With two further recent judgements the Administrative Court (TAR) for Lazio, reiterating all the grounds expressed previously, rejected the appeal in which TIM challenged the requests for payment of outstanding balances of licence fees for the years 1995 to 1998, in the amount of approximately 46 million euros. Telecom Italia will appeal these judgements too to the Council of State.

FASTWEB

In April 2014 Fastweb and Telecom Italia reached a technical-procedural agreement to waive the arbitration started by Fastweb in January 2011 by virtue of which the competitor requested compensation for presumed damages totalling 146 million euros incurred following alleged non-compliance with the provisions contained in the contract for the supply of the LLU service. The agreement reached did not define the respective damages claimed inferred in arbitration, which will continue in the proceedings already pending before the Milan Civil Court, described below. It should be pointed out that in arbitration Fastweb complained 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 filed an appearance, submitting a counterclaim.

In December 2013, Fastweb served a writ of summons at 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 in 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 squeeze" practices). Based on the content of the Antitrust Authority's well-known decision A428, Fastweb has quantified this claim to be in the order of 1,744 million euros.
The Company filed an appearance challenging the claims made by the other party regarding the matter and the amount and making a counterclaim.

VODAFONE

In August 2013, Vodafone, as incorporating company of operator Teletu, submitted to the Milan Court a huge claim for damages for presumed abusive and anticompetitive behaviour (founded principally on AGCM case A428) which Telecom Italia allegedly implemented in the period 2008 - 2013. The pecuniary claim was quantified by Vodafone as an estimated sum of between 876 millions euros and 1,029 millions euros.
In particular, Vodafone alleged technical boycotting activities, with refusal to activate lines requested for Teletu customers (in the period from 2008 to the month of June 2013), together with the adoption of allegedly abusive price policies for wholesale network access services (period from 2008 to the month of June 2013). Furthermore, the other party complained of the presumed application of discounts to business customers greater than those envisaged ("margin squeezing") and the carrying out of presumed illegal and anticompetitive win back practices (in the period from the second half of 2012 to the month of June 2013).
Telecom Italia filed an appearance, challenging the claims made by the other party regarding the matter and the amount and making a counterclaim.

TISCALI

With a writ issued before the Milan Court, served in January 2015, Tiscali has claimed damages of 285 million euros for alleged abusive behaviours of Telecom Italia in the years 2009-2014, through technical boycott activities and by making economic offers to its business clients, in areas open to LLU service, which their competitors were not capable of replicating due to the alleged excessive squeezing of their discount margins. Tiscali's claim is based on the content of the known proceedings A428 of the Italian Competition Authority. Telecom Italia will file an appearance challenging the claims of the other party.

WIND

In October 2014 the following cases pending before the Milan Court brought by the operator Wind were settled by mediation:

- judgement initiated with a writ of summons dated January 2012 for the compensation for alleged damages (quantified at around 85 million euros), deriving from alleged acts of unfair competition caused by the refusal to activate customers in the period July 2009 - October 2010, as well as through personalized offers and discounts for customers interested in Wind's commercial offers (these actions were, at the time of the writ of summons, subject to antitrust proceedings A428, referred to in the records);
- judgement brought with a writ of summons dated May 2013, referring to the antitrust decision A428, for the compensation of alleged damages (quantified at over 247 million euros, of which around 37 million euros for reputation damage) resulting from the refusal to activate 80,159 potential customers in the period July 2011 – October 2012.

EUTELIA and VOICEPLUS

In June 2009, Eutelia and Voiceplus asked that alleged acts of abuse by Telecom Italia of its dominant position in the premium services market (based on the public offer of services provided through so-called Non Geographic Numbers) be investigated. The complainants quantified their damages at a total of approximately 730 million euros.
The case follows a precautionary procedure in which the Milan Appeal Court prohibited certain behaviours of the Company relating to the management of some financial relations with Eutelia and Voiceplus concerning the Non Geographic Numbers, for which Telecom Italia managed the payments from the end customers, on behalf of such OLOs and in the light of regulatory requirements.
After the ruling with 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 Court. The first hearing took place in the month of March 2014. Telecom Italia filed an appearance challenging the claims of the other parties.

TELEUNIT

With a writ issued in October 2009 before the Milan Appeal Court, Teleunit asked for alleged acts of abuse by Telecom Italia of its dominant position in the premium services market to be investigated. The complainant quantified its damages at a total of approximately 362 million euros. Telecom Italia filed an appearance, contesting the claims of the other party.
After the ruling of January 2014 with which the Court of Appeal declared that it was not competent in this matter and referred the case to the Court, Teleunit reinstated the case before the Milan Court the following April.
Telecom Italia filed an appearance in the reinstated proceedings challenging the claims of the other parties.

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 with a search warrant issued by the Public Prosecutor' s Office of Forlì in the context of proceedings in which the defendants included one subsequently suspended employee and three former employees of the Company.
In September 2013, the notice of completion of the preliminary investigations was filed. The offences proceeded with are conspiracy for the purpose of committing crimes of "false declaration through the use of invoices or other documents for non-existent transactions" and the "issuing of invoices or other documents for non-existent transactions" and the respective target offences. The company employees have also been accused of the offence of "preventing public supervisory authorities from performing their functions", "*for having prevented CONSOB from learning promptly of the involvement of Telecom 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*".
Regarding the latter charge, the Forlì Prosecutor's Office has transmitted the case papers to the Milan Public Prosecutor's Office, deemed to be territorially competent.
This matter was the subject of an audit and of the Greenfield Project at the time. In this regard, note that, as a result of what emerged from these activities, the Company took steps to independently regularise some invoices for which the fiscal obligations laid down had not been fully discharged.

POSTE

There are some pending actions brought 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 established an outcome that was 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 had 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 quashed and remanded the decision of the Appeal Court on which the order was based, the Rome Court declared that the matter of 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.

Elinet S.p.A. Bankruptcy

The receivers of bankrupt company Elinet S.p.A. appealed the judgement in which the Rome Court rejected the applications for compensation filed by the receivers of the Elinet-Elitel group (for a total of 350 million euros) resubmitting their own claim for approximately 58 million euros.
The claims made to the Company regard the alleged performance of management and coordination activities of the plaintiff, and with it the Elitel Group (alternative operator in which Telecom Italia has never had any type of interest), allegedly enacted by playing the card of trade receivables management.
Telecom Italia filed an appearance, challenging the claims of the other party.

Greece – DELAN

On February 22, 2014, Telecom Italia International and Wind Hellas (the new name of TIM Hellas, a Greek subsidiary sold by the Telecom Italia Group in 2005) signed a settlement agreement by which, against the payment to the latter of a total of 31.8 million euros, the arbitration started by Wind Hellas before the International Chamber of Commerce was concluded. Really, during 2012, the court of first instance of Athens awarded the company Carothers Ltd, as the successor of Delan Cellular Services S.A. (Delan), damages for a total of around 85 million euros against Wind Hellas. The judgement was appealed by Wind Hellas which, in turn, summoned Telecom Italia International to appear before an Arbitration Court, on the basis of the indemnification obligations contained in the contract for the sale of the shareholding. Wind Hellas sought a declaration of its right to be held harmless for any possible negative outcome deriving from the outcome of the judgement.
Moreover Wind Hellas asked Telecom Italia International to assume the defence of another ordinary legal dispute in Greece, again by virtue of the obligations deriving from the contract of sale.
The settlement agreement definitely stopped any claim by Wind Hellas against the Group.

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 Brasil group as guarantee ("*Alienaçao Fiduciaria*") 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, 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, for an amount not yet specified and to be paid during the proceedings. After the Arbitration Board 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 October 2013, in order to preserve the status quo until the arbitration decision is made, the Court of Arbitration ordered that the guarantee represented by the aforementioned Tim Participações shares could not be enforced and that they would remain in "Alienaçao Fiduciaria" in the custody of Banco Bradesco. The voting rights connected to the Shares are "frozen" and future dividends must be paid into an escrow account.
In December 2013, Docas and JVCO filed their Statement of Claim. In March 2014, the counterclaim by Tim Brasil, Tim Participações and Intelig was filed, and the discovery phase started. In February 2015 the Statements of Defence of all the parties were filed, in view of the examination hearing scheduled for September 2015.

Brazil - JVCO Dispute

In the month of September 2013, the Company was served notice of judicial proceedings started 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., which asked for their control of Tim Participações S.A. (Tim Participações) to be declared abusive, and for compensation to be awarded for the damages caused by the exercise of this power of control, the amount of which should be determined during the proceedings.
In February 2014 the statements of rejoinder were filed, objecting to the lack of jurisdiction of the court addressed, and in August the Court of Rio de Janeiro ruled in favour of Telecom Italia, Telecom Italia International and Tim Brasil, rejecting JVCO's claim. The latter appealed the judgement before a judge of the first instance, motion which was refused by the judge in September 2014
In November 2014, JVCO appealed against the judgement of the court of first instance. On December 10, 2014 Telecom Italia, Telecom Italia International e Tim Participações filed both their respective responses to this appeal and their own appeal against the costs awarded to them in the judgement of the court of the first instance, deemed to be too low.

Brazil - Opportunity Arbitration

In 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 signed in 2005. Based on claimant’s allegations, such damages would be related to matters emerged in the framework of the criminal proceedings pending before the Court of Milan regarding, among others, unlawful activities of former employees of Telecom Italia.
The investigatory phase having been completed, the hearing for oral discussion took place in November 2014, after which the parties filed their concluding arguments in preparation for the decision on the case.

Formal Notice of Assessments against Telecom Italia International N.V.

In June 2014, at the end of a tax investigation which lasted over a year, the Milan Guardia di Finanza served Telecom Italia International N.V., a subsidiary company with offices in the Netherlands, with a formal notice of assessments relative to the tax periods from 2005 to 2012, with which it formalized findings on the alleged tax residence in Italy of the aforementioned subsidiary company, due to considerations essentially linked to the presumed actual administration office in Italy.
On the basis of the aforementioned formal notice of assessments the Milan Agenzia delle Entrate, last December, notified the Dutch company of assessment notices for the purposes of corporation tax (IRES)

and regional tax on production activities (IRAP) relative to the tax periods 2005, 2006 and 2007. With the aforementioned assessment notices the Agenzia delle Entrate confirmed the essence of the objections raised by the Guardia di Finanza. The overall amount due for taxes, penalties and interest deriving from the aforementioned notices amounts to around 148 million euros.
The company claims, supported by the opinion of established professionals, that the charge is unfounded and is examining the most appropriate defence methods to adopt. The possibility of reaching an agreement with the Agenzia delle Entrate in the pre-trial phase is not excluded.

B) OTHER INFORMATION

Mobile telephony - criminal proceedings

In March 2012 Telecom Italia was served notice of the conclusion of the preliminary enquiries, which showed that the Company was being investigated by the Public Prosecutor of Milan pursuant to the Legislative Decree n. 231/2001, for the offences of handling stolen goods (Art. 648 of the Criminal Code) and counterfeiting committed, according to the alleged allegations, by fourteen employees of the so-called "ethnic channel", with the participation of a number of dealers, for the purpose of obtaining 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, 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 in the interest of the civil party were filed, reaffirming Telecom Italia's total lack of involvement in the offences claimed.
At the end of the preliminary hearing, which took place in March 2014, the Judge for the Preliminary Hearings committed for trial all the defendants (including Telecom Italia) who did not ask for the definition of their position with alternative procedures, on the grounds that "the examination hearing is necessary". Currently the proceedings are in the phase of dealing with the matters preliminary to the trial before the Court sitting as a judicial panel.

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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 Preliminary Hearing Judge 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 Rome Public Prosecutor therefore proposed an appeal to the Court of Cassation, which declared this inadmissible in May 2014.

Dispute concerning the license fees for 1998

Telecom Italia has issued civil proceedings against the Presidenza del Consiglio dei Ministri (the office of the Prime Minister) for compensation of the damage caused by the Italian State through appeal judgement no.7506/09 by the Consiglio di Stato that, in the view of the Company, violates the principles of current European community law.
The main claim which the proceedings are founded on is based on community jurisprudence that recognises the right to assert the responsibility of the State in relation to violation of rights recognised in community law and injured by a judgement that has become definitive, in respect of which no other

remedy may be applied. The judgement of the Council of State definitively denied the right of Telecom Italia to restitution of the concession charge for 1998 (totalling 386 million euros for Telecom Italia and 143 million euros for Tim, plus interest), already rejected by the Lazio regional administrative court despite the favourable and binding opinion of the European Court of Justice on February 23, 2008 concerning the conflict between EC Directive 97/13 on general authorisations and individual licences in the telecommunications services industry, and the national regulations that had deferred, for 1998, the obligation to pay the fee payable by telecommunications concession holders, despite the intervening deregulation process. The Company then proposed an alternative compensation claim, within the sphere of the same proceedings, for tort pursuant to art. 2043 of the Italian Civil Code. The compensation claimed has been quantified as approximately 529 million euros, plus legal interest and revaluation. The Avvocatura di Stato filed an appearance and submitted a counterclaim for the same sum. The case is subject to eligibility analysis by the Court, which declared the inadmissibility of Telecom Italia's main claim (case for damages for manifest breach of community law pursuant to law 117/88). However, this decision was amended in favor of the Company on appeal. Subsequently, the Court of Rome issued the first-instance judgment declaring the Company's application inadmissible. Telecom Italia will file an appeal against the decision".

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 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 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".

In September 2014 CONSOB closed the preliminary investigation phase of its audit, opening the sanctioning proceeding with a charge against the Company concerning some administrative infringements of the Consolidated Law on Financial Intermediation (TUF).

The Company, confident in the solidity of its arguments, and in acceptance of the explanations provided, has already filed its own arguments. The possible sanctions, in any case subject to appeal, would not result in a material impact on the Company.

Olivetti – Asbestos exposure

In September 2014 the Ivrea Public Prosecutor's Office closed the investigation on the presumed exposure to asbestos of 15 former workers from the companies "Ing. C. Olivetti S.p.A." (now Telecom Italia S.p.A.), "Olivetti Controllo Numerico S.p.A", "Olivetti Peripheral Equipment S.p.A.", "Sixtel S.p.A." and "Olteco S.p.A" and served notice that the investigations had been concluded on the 39 people investigated (who include former Directors of the aforementioned companies).
On December 19, 2014 the Ivrea Public Prosecutor's Office formulated a request for 33 of the 39 people originally investigated to be committed for trial, and at the same time asked that 6 investigations be archived. The preliminary hearing will start in April 2015.
The Company does not currently play any role in the criminal proceedings.

Telecom Argentina

On June 3, 2013, four trade union organisations issued proceedings against Telecom Argentina to obtain the issue 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 against the decision and the appeal is still pending. The proceedings have, moreover, been suspended for verification of the plaintiffs' entitlement to act on this matter, after a claim on this point was made by Telecom Argentina.
Based on the assessments made by its external counsel, the management of Telecom Argentina believes the opposing party's claim to be unfounded.

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.
In connection with these contingent liabilities, totaling about 1,000 million euros, only for those cases in which an outflow of resources is considered probable, an amount of 67 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.
The guarantees provided by third parties to Group companies, amounting to 5,985 million euros, consisted of guarantees for loans received (2,599 million euros) and of performance under outstanding contracts (3,386 million euros).
The guarantees provided by third parties for Telecom Italia S.p.A. obligations include 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 274 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).
In March 2014, the Interior Ministry issued a bank guarantee of 26 million euros to Fastweb, as a jointly obliged party with Telecom Italia, following the judgment from the *Consiglio di Stato* – which suspended the effects, on appeal by Fastweb, of the ruling of the Lazio Administrative Court that had declared the invalidity of the “Master Agreement” for the supply of all the electronic communication services – ordering the issue of a bank guarantee (or other equivalent guarantee) equal to 5% of the financial value of the Agreement. This guarantee covers the potential payment of the amounts that the *Consiglio di Stato* could award to Fastweb in the appeal proceedings.
The Interior Ministry and Telecom Italia are obliged, jointly, to provide the security (or establish another form of guarantee), on the understanding that the fulfillment of this obligation by one of the parties will exempt the other from having to establish a second identical guarantee and that if the guarantee is enforced against the main obliged party, that party shall retain the possibility of acting by way of recourse against the other party.
Details of the main guarantees received for EIB financing at December 31, 2014 are as follows:

Issuer

(millions of euros)	**Amount[1]**
BBVA - Banco Bilbao Vizcaya Argentaria	373
Intesa Sanpaolo	376
SACE	368
Bank of Tokyo - Mitsubishi UFJ	273
Barclays Bank	180
Cassa Depositi e Prestiti	158
Sumitomo	109
Ing	105
Natixis	92
Commerzbank	57
Banco Santander	52
Citibank	27

(1) Relative to loans issued by the EIB for the Telecom Italia Banda Larga, Telecom Italia Ricerca & Sviluppo, and Telecom Italia Digital Divide Projects.

There are also surety bonds on the telecommunication services in Brazil for 1,047 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 1,241 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 26
REVENUES

Revenues decreased by 1,834 million euros compared to 2013. The breakdown is as follows:

(millions of euros)	2014	2013
Equipment sales	1,970	2,101
Services	19,588	21,323
Revenues on construction contracts	15	(17)
Total	**21,573**	**23,407**

Revenues from telecommunications services are presented gross of amounts due to other TLC operators, of 2,009 million euros (2,520 million euros in 2013, -20.28%), 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 27
OTHER INCOME

Other income increased by 77 million euros compared to 2013 and was broken down as follows:

(millions of euros)	2014	2013
Late payment fees charged for telephone services	64	63
Recovery of employee benefit expenses, purchases and services rendered	27	28
Capital and operating grants	26	27
Damage compensation, penalties and sundry recoveries	36	64
Other income	248	142
Total	**401**	**324**

The increase mainly related to the full release of the remaining risk provisions, for an amount of 84 million euros, already allocated in the 2009 consolidated financial statements, with respect to the Telecom Italia Sparkle affair; the interest element (a further 2 million euros) had been released to finance income. More details are provided in the Note "Contingent liabilities, other information" of the Consolidated Financial Statements at December 31, 2014 of the Telecom Italia Group.

NOTE 28
ACQUISITION OF GOODS AND SERVICES

Acquisition of goods and services decreased by 947 million euros compared to 2013. The breakdown is as follows:

(millions of euros)		2014	2013
Acquisition of raw materials and merchandise	**(a)**	**2,231**	**2,358**
Costs of services:			
Revenues due to other TLC operators		2,009	2,520
Interconnection costs		31	30
Commissions, sales commissions and other selling expenses		1,037	1,089
Advertising and promotion expenses		436	476
Professional and consulting services		330	390
Utilities		480	492
Maintenance		374	364
Outsourcing costs for other services		482	497
Mailing and delivery expenses for telephone bills, directories and other materials to customers		76	92
Other service expenses		643	715
	(b)	**5,898**	**6,665**
Lease and rental costs:			
Rent and leases		742	755
TLC circuit lease rents and rents for use of satellite systems		363	399
Other lease and rental costs		196	200
	(c)	**1,301**	**1,354**
Total	**(a+b+c)**	**9,430**	**10,377**

NOTE 29
EMPLOYEE BENEFITS EXPENSES

Employee benefits expenses amount to 3,119 million euros, an increase of 32 million euros, and consist of the following:

(millions of euros)		2014	2013
Employee benefits expenses			
Wages and salaries		2,202	2,183
Social security expenses		801	788
Other employee benefits		76	66
	(a)	**3,079**	**3,037**
Costs and provisions for temp work	**(b)**	**-**	**2**
Miscellaneous expenses for personnel and other labor-related services rendered			
Remuneration of personnel other than employees		2	3
Charges for termination benefit incentives		26	27
Corporate restructuring expenses		12	19
Other		-	(1)
	(c)	**40**	**48**
Total	**(a+b+c)**	**3,119**	**3,087**

Employee benefits expenses mainly consisted of 2,730 million euros for the Domestic Business Unit (2,711 million euros in 2013) and 379 million euros for the Brasil Business Unit (349 million euros for 2013).
In particular, restructuring expenses for 2014 mainly consisted of 5 million euros for Telecom Italia S.p.A. and 7 million euros for the Olivetti group. In 2013 these expenses mainly related to the Parent Telecom Italia S.p.A. (15 million euros).

The average salaried workforce, including those with temp work contracts, was 59,285 in 2014 (59,527 in 2013). A breakdown by category is as follows:

(number)	2014	2013
Executives	892	914
Middle Management	4,238	4,317
White collars	54,110	54,225
Blue collars	36	51
Employees on payroll	**59,276**	**59,507**
Employees with temp work contracts	9	20
Total average salaried workforce	**59,285**	**59,527**

Headcount in service at December 31, 2014, including those with temp work contracts, was 66,025 (65,623 at December 31, 2013) with a net increase of 402 employees.

NOTE 30
OTHER OPERATING EXPENSES

Other operating expenses decreased by 143 million euros compared to 2013. The breakdown is as follows:

(millions of euros)	2014	2013
Write-downs and expenses in connection with credit management	375	380
Provision charges	84	100
TLC operating fees and charges	449	482
Indirect duties and taxes	118	128
Penalties, settlement compensation and administrative fines	68	72
Association dues and fees, donations, scholarships and traineeships	18	22
Sundry expenses	63	134
Total	**1,175**	**1,318**
of which, included in the supplementary disclosure on financial instruments	*375*	*380*

Further details on Financial Instruments are provided in the Note "Supplementary disclosure on financial instruments".

In 2013, the item sundry expenses included an amount of 84 million euros recognized as the estimate of the costs related to the fine imposed by the Italian Antitrust Authority (AGCM) at the end of the A428 proceedings.

NOTE 31
INTERNALLY GENERATED ASSETS

Internally generated assets increased by 45 million euros compared to 2013 and was broken down as follows:

(millions of euros)	2014	2013
Intangible assets with a finite useful life	310	307
Tangible assets owned	278	236
Total	**588**	**543**

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 32
DEPRECIATION AND AMORTIZATION

Depreciation and amortization decreased by 269 million euros compared to 2013. The breakdown is as follows:

(millions of euros)		2014	2013
Amortization of intangible assets with a finite useful life:			
Industrial patents and intellectual property rights		1,297	1,392
Concessions, licenses, trademarks and similar rights		370	369
Other intangible assets		187	251
	(a)	**1,854**	**2,012**
Depreciation of tangible assets owned:			
Buildings (civil and industrial)		41	44
Plant and equipment		2,075	2,166
Manufacturing and distribution equipment		14	14
Other		176	194
	(b)	**2,306**	**2,418**
Depreciation of tangible assets held under finance leases:			
Buildings (civil and industrial)		120	117
Other		4	6
	(c)	**124**	**123**
Total	**(a+b+c)**	**4,284**	**4,553**

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 33
GAINS/(LOSSES) ON DISPOSALS OF NON-CURRENT ASSETS

Details are as follows:

(millions of euros)		2014	2013
Gains on disposals of non-current assets:			
Gains on the retirement/disposal of intangible and tangible assets		40	26
Gains on the disposal of investments in subsidiaries			4
	(a)	**40**	**30**
Losses on disposals of non-current assets:			
Losses on the retirement/disposal of intangible and tangible assets		11	11
Losses on the disposal of investments in subsidiaries			101
	(b)	**11**	**112**
Total	**(a-b)**	**29**	**(82)**

In 2014 the item gains (losses) on disposals of non-current assets showed gains of 29 million euros: a gain of approximately 38 million euros, on the sale by Telecom Italia S.p.A. of a property located in Milan, for a price of 75 million euros, was offset by net losses of 11 million euros, mainly relating to the disposal of tangible assets by the Domestic Business Unit.

In 2013, this item showed a loss of 82 million euros, mainly relating to the realized loss, including transaction costs, of 100 million euros from the sale of La7 S.r.l. to the Cairo Communication group on April 30, 2013. This charge was offset by net capital gains on non-current assets totaling 18 million euros, mainly relating to the sale of a property (around 17 million euros), and the sale of the entire controlling interest (51%) held in MTV Italia S.r.l. (3 million euros).

NOTE 34
IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS

Details are as follows:

(millions of euros)		2014	2013
Reversals of impairment losses on non-current assets:			
on intangible assets		–	–
on tangible assets		–	–
	(a)	**–**	**–**
Impairment losses on non-current assets:			
on intangible assets		–	2,187
on tangible assets		1	-
	(b)	**1**	**2,187**
Total	**(a-b)**	**(1)**	**(2,187)**

In 2014 impairment losses on non-current assets amounted to 1 million euros.
In preparing the 2014 Annual Report, the Group performed the goodwill impairment test. The results of that testing, carried out in accordance with the specific procedure adopted by the Group, confirmed the amount of the goodwill allocated to the Group's individual Cash Generating Units.
In 2013, this item amounted to 2,187 million euros and essentially related to the impairment loss on goodwill allocated to the Core Domestic Cash-Generating Unit (CGU) in the Domestic Business Unit.

See also the Note “Goodwill”.

NOTE 35
OTHER INCOME (EXPENSES) FROM INVESTMENTS

Details are as follows:

(millions of euros)	2014	2013
Dividends from Other investments	5	2
Fair value measurement of the investment in Trentino NGN S.r.l.	11	-
Loss and impairment losses on Other investments	–	(5)
Total	**16**	**(3)**
of which, included in the supplementary disclosure on financial instruments	*5*	*(3)*

In 2014 these essentially related to the remeasurement at fair value of the 41.07% interest already held in Trentino NGN S.r.l., carried out pursuant to IFRS 3, following the acquisition of control of the company by Telecom Italia S.p.A., on February 28, 2014.

NOTE 36
FINANCE INCOME AND EXPENSES

FINANCE INCOME

Finance income increased by 397 million euros compared to 2013 and was broken down as follows:

(millions of euros)		2014	2013
Interest income and other finance income:			
Income from financial receivables, recorded in Non-current assets		–	–
Income from securities other than investments, recorded in Non-current assets		–	–
Income from securities other than investments, recorded in Current assets		31	34
Income other than the above:			
Interest income		223	147
Exchange gains		785	492
Income from fair value hedge derivatives		133	152
Reversal of the Reserve for cash flow hedge derivatives to the income statement (interest rate component)		613	643
Income from non-hedging derivatives		24	23
Miscellaneous finance income		58	101
	(a)	**1,867**	**1,592**
Positive fair value adjustments to:			
Fair value hedge derivatives		387	40
Underlying financial assets and liabilities of fair value hedge derivatives		27	254
Non-hedging derivatives		119	117
	(b)	**533**	**411**
Reversal of impairment loss on financial assets other than investments	**(c)**	**–**	**–**
Total	**(a+b+c)**	**2,400**	**2,003**
of which, included in the supplementary disclosure on financial instruments		*409*	*432*

Finance expenses

Finance expenses increased by 408 million euros compared to 2013 and was broken down as follows:

(millions of euros)		2014	2013
Interest expenses and other finance expenses:			
Interest expenses and other costs relating to bonds		1,438	1,443
Interest expenses to banks		220	217
Interest expenses to others		187	216
		1,845	**1,876**
Commissions		147	131
Exchange losses		857	535
Charges from fair value hedge derivatives		35	50
Reversal of the Reserve for cash flow hedge derivatives to the income statement (interest rate component)		610	753
Charges from non-hedging derivatives		72	55
Miscellaneous finance expenses		311	327
	(a)	**3,877**	**3,727**
Negative fair value adjustments to:			
Fair value hedge derivatives		72	234
Underlying financial assets and liabilities of fair value hedge derivatives		366	35
Non-hedging derivatives		279	190
	(b)	**717**	**459**
Impairment losses on financial assets other than investments	**(c)**	**–**	**–**
Total	**(a+b+c)**	**4,594**	**4,186**
of which, included in the supplementary disclosure on financial instruments		*2,435*	*2,259*

For greater clarity of presentation, the net effects relating to derivative financial instruments are summarized in the following table:

(millions of euros)		2014	2013
Exchange gains		785	492
Exchange losses		(857)	(535)
Net exchange gains and losses		**(72)**	**(43)**
Income from fair value hedge derivatives		133	152
Charges from fair value hedge derivatives		(35)	(50)
Net result from fair value hedge derivatives	(a)	**98**	**102**
Positive effect of the reversal of the Reserve of cash flow hedge derivatives to the income statement (interest rate component)		613	643
Negative effect of the reversal of the Reserve of cash flow hedge derivatives to the income statement (interest rate component)		(610)	(753)
Net effect of the Reversal of the Reserve of cash flow hedge derivatives to the income statement (interest rate component)	(b)	**3**	**(110)**
Income from non-hedging derivatives		24	23
Charges from non-hedging derivatives		(72)	(55)
Net result from non-hedging derivatives	(c)	**(48)**	**(32)**
Net result from derivatives	**(a+b+c)**	**53**	**(40)**
Positive fair value adjustments to fair value hedge derivatives		387	40
Negative fair value adjustments to Underlying financial assets and liabilities of fair value hedge derivatives		(366)	(35)
Net fair value adjustments	**(d)**	**21**	**5**
Positive fair value adjustments to Underlying financial assets and liabilities of fair value hedge derivatives		27	254
Negative fair value adjustments to fair value hedge derivatives		(72)	(234)
Net fair value adjustments	(e)	**(45)**	**20**
Net fair value adjustments to fair value hedge derivatives and underlyings	**(d+e)**	**(24)**	**25**
Positive fair value to non-hedging derivatives	(f)	119	117
Negative fair value adjustments to non-hedging derivatives	(g)	(279)	(190)
Net fair value adjustments to non-hedging derivatives	**(f+g)**	**(160)**	**(73)**

NOTE 37
PROFIT (LOSS) FOR THE YEAR

Profit for the year increased by 2,198 million euros compared to 2013 and may be broken down as follows:

(millions of euros)	2014	2013
Profit (loss) for the year	**1,960**	**(238)**
Attributable to:		
Owners of the Parent:		
Profit (loss) from continuing operations	1,252	(721)
Profit (loss) from Discontinued operations/Non-current assets held for sale	98	47
Profit (loss) for the year attributable to owners of the Parent	**1,350**	**(674)**
Non-controlling interests:		
Profit (loss) from continuing operations	167	142
Profit (loss) from Discontinued operations/Non-current assets held for sale	443	294
Profit (loss) for the year attributable to Non-controlling interests	**610**	**436**

NOTE 38
EARNINGS PER SHARE

For the purposes of calculating diluted earnings per share, account was only taken of the potential ordinary shares relating to the equity compensation plans of the employees for whom, at December 31, 2014, the market and non-market performance conditions were satisfied.

		2014	2013
Basic and diluted earnings per share			
Profit (loss) for the year attributable to owners of the Parent (*)		1,550	(547)
Less: additional dividends for the savings shares (0.011 euros per share)		(66)	–
	(millions of euros)	1,484	(547)
Average number of ordinary and savings shares	(millions)	20,878	19,598
Basic and diluted earnings per share – Ordinary shares		0.07	(0.03)
Plus: additional dividends per savings share		0.01	–
Basic and diluted earnings per share – Savings shares	(euros)	0.08	(0.03)
Basic and diluted earnings per share from continuing operations			
Profit (loss) from continuing operations		1,009	(888)
Less: additional dividends for the savings shares		(66)	–
	(millions of euros)	943	(888)
Average number of ordinary and savings shares	(millions)	20,878	19,598
Basic and diluted earnings per share from continuing operations — Ordinary shares		0.05	(0.05)
Plus: additional dividends per savings share		0.01	–
Basic and diluted earnings per share from continuing operations — Savings shares	(euros)	0.06	(0.05)
Basic and diluted earnings per share from Discontinued operations/Non-current assets held for sale			
Profit (loss) from Discontinued operations/Non-current assets held for sale	(millions of euros)	541	341
Average number of ordinary and savings shares	(millions)	20,878	19,598
Basic and diluted earnings per share from Discontinued operations/Non-current assets held for sale - Ordinary shares	(euros)	0.02	0.02
Basic and diluted earnings per share from Discontinued operations/Non-current assets held for sale - Savings shares	(euros)	0.02	0.02

	2014	2013
Average number of ordinary shares (*)	14,851,386,060	13,571,392,501
Average number of savings shares	6,026,120,661	6,026,120,661
Total	**20,877,506,721**	**19,597,513,162**

(*) 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 an estimate of the theoretical number of shares that could be issued upon conversion of the mandatory convertible bond (without considering any deferred interest portion). The "Profit (loss) for the year attributable to owners of the Parent" has also been adjusted to reflect the impact, after tax, from conversion of the mandatory convertible bond (+200 million euros in 2014 and +127 million euros in 2013).

Future potential changes in share capital

The table below shows future potential changes in share capital, based on the issuance by Telecom Italia Finance S.A. in November 2013 of the "Guaranteed Subordinated Mandatory Convertible Bonds due 2016, convertible into ordinary shares of Telecom Italia S.p.A.", on the authorizations to increase the share capital in place at December 31, 2014, and on the options and rights granted under equity compensation plans, still outstanding at December 31, 2014.

	Number of maximum shares issuable	Share capital (thousands of euros) (*)	Paid-in capital (thousands of euros)	Subscription price per share (euros)
Additional capital increases not yet approved (ordinary shares)				
"Long Term Incentive Plan 2010-2015" (bonus capital increase)	180,716	99	-	-
2014 Broad-Based Employee Share Ownership Plan (free capital increase)	17,970,642	9,884	-	-
2014-2016 Stock Option Plan	196,000,000	107,800	n.a.	0.94
Total additional capital increases not yet approved (ordinary shares)		**117,783**		
2013 Guaranteed Subordinated Mandatory Convertible Bonds (ordinary shares)				
– principal	n.a.	1,300,000	n.a.	n.a.
– interest portion	n.a.	159,250	n.a.	n.a.
2013 Guaranteed Subordinated Mandatory Convertible Bonds (ordinary shares)		**1,459,250**		
Total		**1,577,033**		

(*) Amounts stated for capital increases connected with equity compensation 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, where applicable, of any premiums.

Further information is provided in the Notes "Financial liabilities (non-current and current)" and "Equity compensation plans".

NOTE 39
SEGMENT REPORTING

A) REPORTING BY OPERATING SEGMENT

As carried out in the consolidated financial statements for 2013, following the inclusion of Sofora – Telecom Argentina group under Discontinued operations/Non-current assets held for sale, the Argentina Business Unit is no longer shown.

Moreover, since 2014 the operations of the Olivetti group have been consolidated under the Domestic Business Unit. This different presentation reflects the commercial and business placement of the Olivetti group and the process of integrating its products and services with those offered by Telecom Italia in the domestic market. The disclosure by operating segment for the periods under comparison has been duly restated.

Segment reporting is based on the following operating segments:

- Domestic
- Brazil
- Media
- Other Operations

Separate Consolidated Income Statements by Operating Segment

(millions of euros)	Domestic		Brazil		Media		Other Operations		Adjustments and eliminations		Consolidated Total	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Third-party revenues	15,263	16,347	6,239	6,937	71	123	–	–	–	–	21,573	23,407
Intragroup revenues	40	41	5	8	–	1	–	–	(45)	(50)	–	–
Revenues by operating segment	**15,303**	**16,388**	**6,244**	**6,945**	**71**	**124**	**–**	**–**	**(45)**	**(50)**	**21,573**	**23,407**
Other income	382	299	18	21	1	4	–	1	–	(1)	401	324
Total operating revenues and other income	**15,685**	**16,687**	**6,262**	**6,966**	**72**	**128**	**–**	**1**	**(45)**	**(51)**	**21,974**	**23,731**
Acquisition of goods and services	(5,831)	(6,054)	(3,593)	(4,263)	(35)	(95)	(6)	(9)	35	44	(9,430)	(10,377)
Employee benefits expenses	(2,730)	(2,711)	(379)	(349)	(8)	(26)	(3)	(2)	1	1	(3,119)	(3,087)
of which: accruals to employee severance indemnities	–	–	–	–	–	–	–	–	–	–	–	–
Other operating expenses	(570)	(670)	(598)	(632)	(4)	(11)	(3)	(5)	–	–	(1,175)	(1,318)
of which: write-downs and expenses in connection with credit management and provision charges	(301)	(307)	(154)	(165)	(3)	(8)	(1)	–	–	–	(459)	(480)
Change in inventories	(41)	37	(11)	10	–	2	–	–	–	(1)	(52)	48
Internally generated assets	485	452	93	80	–	–	–	–	10	11	588	543
EBITDA	**6,998**	**7,741**	**1,774**	**1,812**	**25**	**(2)**	**(12)**	**(15)**	**1**	**4**	**8,786**	**9,540**
Depreciation and amortization	(3,290)	(3,568)	(977)	(954)	(19)	(33)	–	–	2	2	(4,284)	(4,553)
Gains (losses) on disposals of non-current assets	31	(1)	(2)	–	–	(97)	–	16	–	–	29	(82)
Impairment reversals (losses) on non-current assets	(1)	(2,187)	–	–	–	–	–	–	–	–	(1)	(2,187)
EBIT	**3,738**	**1,985**	**795**	**858**	**6**	**(132)**	**(12)**	**1**	**3**	**6**	**4,530**	**2,718**
Share of losses (profits) of associates and joint ventures accounted for using the equity method	(5)	–	–	–	–	–	–	–	–	–	(5)	–
Other income (expenses) from investments											16	(3)
Finance income											2,400	2,003
Finance expenses											(4,594)	(4,186)
Profit (loss) before tax from continuing operations											**2,347**	**532**
Income tax expense											(928)	(1,111)
Profit (loss) from continuing operations											**1,419**	**(579)**
Profit (loss) from Discontinued operations/Non-current assets held for sale											541	341
Profit (loss) for the year											**1,960**	**(238)**
Attributable to:												
Owners of the Parent											**1,350**	**(674)**
Non-controlling interests											610	436

Revenues by Operating Segment

(millions of euros)	Domestic		Brazil		Media		Other Operations		Adjustments and eliminations		Consolidated Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Revenues from equipment sales - third party	954	979	1,016	1,122	–	–	–	–	–	–	1,970	2,101
Revenues from equipment sales - intragroup	–	–	–	1	–	–	–	–	–	(1)	–	–
Total revenues from equipment sales	**954**	**979**	**1,016**	**1,123**	**–**	**–**	**–**	**–**	**–**	**(1)**	**1,970**	**2,101**
Revenues from services - third party	14,294	15,385	5,223	5,815	71	123	–	–	–	–	19,588	21,323
Revenues from services - intragroup	40	41	5	7	–	1	–	–	(45)	(49)	–	–
Total revenues from services	**14,334**	**15,426**	**5,228**	**5,822**	**71**	**124**	**–**	**–**	**(45)**	**(49)**	**19,588**	**21,323**
Revenues on construction contracts - third party	15	(17)	–	–	–	–	–	–	–	–	15	(17)
Revenues on construction contracts-intragroup	–	–	–	–	–	–	–	–	–	–	–	–
Total revenues on construction contracts	**15**	**(17)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**15**	**(17)**
Total third-party revenues	15,263	16,347	6,239	6,937	71	123	–	–	–	–	21,573	23,407
Total intragroup revenues	40	41	5	8	–	1	–	–	(45)	(50)	–	–
Total revenues by operating segment	**15,303**	**16,388**	**6,244**	**6,945**	**71**	**124**	**–**	**–**	**(45)**	**(50)**	**21,573**	**23,407**

Capital Expenditures by Operating Segment

(millions of euros)	Domestic		Brazil		Media		Other Operations		Adjustments and eliminations		Consolidated Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Purchase of intangible assets	1,001	1,299	1,421	583	–	13	–	–	–	–	2,422	1,895
Purchase of tangible assets	1,782	1,732	774	766	6	7	–	–	–	–	2,562	2,505
Total capital expenditures	**2,783**	**3,031**	**2,195**	**1,349**	**6**	**20**	**–**	**–**	**–**	**–**	**4,984**	**4,400**

Headcount by Operating Segment

(number)	Domestic		Brazil		Media		Other Operations		Consolidated Total	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013	12/31/2014	12/31/2013	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Headcount (*)	**53,076**	**53,377**	**12,841**	**12,140**	**89**	**84**	**19**	**22**	**66,025**	**65,623**

(*) The number of personnel at period-end does not include the headcount relating to Discontinued operations/Non-current assets held for sale.

Assets and liabilities by operating segment

(millions of euros)	Domestic		Brazil		Media		Other Operations		Adjustments and eliminations		Consolidated Total	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013	12/31/2014	12/31/2013	12/31/2014	12/31/2013	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Non-current operating assets	44,292	44,878	7,186	5,971	264	207	5	7	(19)	(25)	51,728	51,038
Current operating assets	4,085	4,070	1,825	1,681	34	17	8	12	(24)	(26)	5,928	5,754
Total operating assets	48,377	48,948	9,011	7,652	298	224	13	19	(43)	(51)	57,656	56,792
Investments accounted for using the equity method	36	65	–	–	–	–	–	–	–	–	36	65
Discontinued operations/Non-current assets held for sale											3,729	3,528
Unallocated assets											10,130	9,835
Total Assets											**71,551**	**70,220**
Total operating liabilities	7,902	8,532	2,905	2,423	42	36	13	23	(46)	(48)	10,816	10,966
Liabilities directly associated with Discontinued operations/Non-current assets held for sale											1,518	1,561
Unallocated liabilities											37,518	37,507
Equity											21,699	20,186
Total Equity and Liabilities											**71,551**	**70,220**

B) REPORTING BY GEOGRAPHICAL AREA

(millions of euros)		Revenues				Non-current operating assets	
		Breakdown by location of operations		Breakdown by location of customers		Breakdown by location of operations	
		2014	2013	2014	2013	12/31/2014	12/31/2013
Italy	(a)	15,016	16,152	14,056	15,162	44,110	44,670
Outside Italy	(b)	6,557	7,255	7,517	8,245	7,618	6,368
Total	**(a+b)**	**21,573**	**23,407**	**21,573**	**23,407**	**51,728**	**51,038**

C) INFORMATION ABOUT MAJOR CUSTOMERS

None of the Telecom Italia Group's customers exceeds 10% of consolidated revenues.

NOTE 40
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 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, 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, from the 2013 consolidated financial statements, the investment has been classified as Discontinued Operations (Discontinued operations/Non-current assets held for sale).

The effects on the individual line items of the Group's separate consolidated income statements for the years 2014 and 2013 are as follows:

SEPARATE CONSOLIDATED INCOME STATEMENT LINE ITEMS 2014

(millions of euros)	Total	Related Parties							
		Associates, companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	Key managers	**Total related parties**	Transactions of Discontinued Operations	**Total related parties net of Disc.Op.**	% of financial statement item
	(a)							**(b)**	(b/a)
Revenues	21,573	8	703			**711**	(167)	**544**	2.5
Other income	401		10			**10**		**10**	2.5
Acquisition of goods and services	9,430	26	415			**441**	(89)	**352**	3.7
Employee benefits expenses	3,119		11	89	15	**115**	(8)	**107**	3.4
Other operating expenses	1,175		1			**1**		**1**	0.1
Finance income	2,400		102			**102**		**102**	4.3
Finance expenses	4,594	8	151			**159**		**159**	3.5
Profit (loss) from Discontinued operations/Non-current assets held for sale	541	(6)	76			**70**			

(*) Other related parties both through directors, statutory auditors and key managers and as participants in shareholder agreements pursuant to Article 122 of the Consolidated Law on Finance.

SEPARATE CONSOLIDATED INCOME STATEMENT LINE ITEMS 2013

(millions of euros)	**Total**	Related Parties							
		Associates, companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	Key managers	**Total related parties**	Transactions of Discontinued Operations	**Total related parties net of Disc.Op.**	% of financial statement item
	(a)							(b)	(b/a)
Revenues	**23,407**	11	904			**915**	(209)	**706**	3.0
Other income	**324**		24			**24**		**24**	7.4
Acquisition of goods and services	**10,377**	37	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 shareholder agreements pursuant to Article 122 of the Consolidated Law on Finance.

The effects on the individual line items of the consolidated statements of financial position at December 31, 2014 and at December 31, 2013 are as follows:

CONSOLIDATED STATEMENT OF FINANCIAL POSITION LINE ITEMS AT 12/31/2014

(millions of euros)	Total	Related Parties						
		Associates, companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	**Total related parties**	Transactions of Discontinued Operations	**Total related parties net of Disc.Op.**	% of financial statement item
	(a)						(b)	(b/a)
Net financial debt								
Non-current financial assets	(2,445)	**(5)**	**(369)**		**(374)**		**(374)**	15.3
Securities other than investments (current assets)	(1,300)		(52)		**(52)**		**(52)**	4.0
Financial receivables and other current financial assets	(311)		(14)		**(14)**		**(14)**	4.5
Cash and cash equivalents	(4,812)		(174)		**(174)**		**(174)**	3.6
Current financial assets	(6,423)		**(240)**		**(240)**		**(240)**	3.7
Discontinued operations/Non-current assets held for sale of a financial nature	(165)							
Non-current financial liabilities	32,325	**25**	**444**		**469**		**469**	1.5
Current financial liabilities	4,686	**43**	**64**		**107**		**107**	2.3
Liabilities directly associated with Discontinued operations/Non-current assets held for sale of a financial nature	43							
Total net financial debt	28,021	**63**	**(101)**		**(38)**		**(38)**	(0.1)
Other statement of financial position line items								
Trade and miscellaneous receivables and other current assets	5,615	3	168		**171**	(19)	**152**	2.7
Discontinued operations/Non-current assets held for sale of a non-financial nature	3,564		19		**19**			
Miscellaneous payables and other non-current liabilities	697		1		**1**		**1**	0.1
Trade and miscellaneous payables and other current liabilities	8,376	35	163	31	**229**	(16)	**213**	2.5
Liabilities directly associated with Discontinued operations/Non-current assets held for sale of a non-financial nature	1,475	6	10		**16**			

(*) Other related parties both through directors, statutory auditors and key managers and as participants in shareholder agreements pursuant to Article 122 of the Consolidated Law on Finance.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION LINE ITEMS AT 12/31/2013

(millions of euros)	Total	Related Parties						
		Associates, companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	**Total related parties**	Transactions of Discontinued Operations	**Total related parties net of Disc.Op.**	% of financial statement item
	(a)						(b)	(b/a)
Net financial debt								
Non-current financial assets	**(1,256)**	**(6)**	**(116)**		**(122)**		**(122)**	9.7
Securities other than investments (current assets)	**(1,348)**		(39)		**(39)**		**(39)**	2.9
Financial receivables and other current financial assets	**(283)**		(11)		**(11)**		**(11)**	3.9
Cash and cash equivalents	**(5,744)**		(48)		**(48)**		**(48)**	0.8
Current financial assets	**(7,375)**		**(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**	0.7
Current financial liabilities	**6,119**	**70**	**316**		**386**		**386**	6.3
Liabilities directly associated with Discontinued operations/Non-current assets held for sale of a financial nature	**27**							
Total net financial debt	**27,942**	**120**	**252**		**372**		**372**	1.3
Other statement of financial position line items								
Trade and miscellaneous receivables and other current assets	**5,389**	6	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**	0.3
Trade and miscellaneous payables and other current liabilities	**8,649**	61	214	24	**299**	(48)	**251**	2.9
Liabilities directly associated with Discontinued operations/Non-current assets held for sale of a non-financial nature	**1,534**	20	28		**48**			

(*) Other related parties both through directors, statutory auditors and key managers and as participants in shareholder 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 2014 and 2013 are as follows:

CONSOLIDATED STATEMENT OF CASH FLOWS LINE ITEMS 2014

(millions of euros)	Total	Related Parties						
		Associates, companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	**Total related parties**	Transactions of Discontinued Operations	**Total related parties net of Disc.Op.**	% of financial statement item
	(a)						(b)	(b/a)
Purchase of intangible and tangible assets on an accrual basis	**4,984**	170	16		**186**		**186**	3.7

(*) Other related parties both through directors, statutory auditors and key managers and as participants in shareholder agreements pursuant to Article 122 of the Consolidated Law on Finance.

CONSOLIDATED STATEMENT OF CASH FLOWS LINE ITEMS 2013

(millions of euros)	Total	Related Parties						
		Associates, companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	**Total related parties**	Transactions of Discontinued Operations	**Total related parties net of Disc.Op.**	% of financial statement item
	(a)						(b)	(b/a)
Purchase of intangible and tangible assets on an accrual basis	**4,400**	147	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 shareholder agreements pursuant to Article 122 of the Consolidated Law on Finance.

Associates, companies controlled by associates and joint ventures

The economic, financial and equity relations with Italtel Group S.p.A. and Italtel S.p.A. and its subsidiaries (Italtel group) are included below.
The most significant amounts are summarized as follows:

SEPARATE CONSOLIDATED INCOME STATEMENT LINE ITEMS

(millions of euros)	2014	2013	TYPE OF CONTRACT
Revenues			
Italtel group	1	2	Provision of equipment rental, fixed and mobile telephone and outsourced communication services.
NordCom S.p.A.	2	2	Fixed and mobile voice services, data network connections and outsourced ICT products and services.
Teleleasing S.p.A. (in liquidation)	4	5	Equipment sale and maintenance services.
TM Holding News S.p.A.		1	Fixed and mobile telephony services and property leasing.
Other minor companies	1	1	
Total revenues	**8**	**11**	
Acquisition of goods and services			
Italtel group	21	29	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.
Movenda S.p.A.	2	2	Supply and specialist support for the development of SIM cards, functional development of IT platforms, and software development.
NordCom S.p.A.	1	2	Supply and development of IT solutions, provision of customized services as part of Telecom Italia offerings to end customers, and rental expense for radio base station housing.
Teleleasing S.p.A. (in liquidation)	1	2	Purchase of goods assigned under leasing arrangements with Telecom Italia customers.
TM Holding News S.p.A.	1	2	Supply of information content for the TimSpot service, services and photos for intranet, supply of journalistic information.
Total acquisition of goods and services	**26**	**37**	
Finance expenses			
Aree Urbane S.r.l. (in liquidation)		6	Write-down of financial receivable and provision for guarantees given.
Teleleasing S.p.A. (in liquidation)	8	12	Interest expenses for finance leases of equipment and finance leases.
Total finance expenses	**8**	**18**	

CONSOLIDATED STATEMENT OF FINANCIAL POSITION LINE ITEMS

(millions of euros)	12/31/2014	12/31/2013	TYPE OF CONTRACT
Net financial debt			
Non-current financial assets	**5**	**6**	Interest bearing loan with the Italtel group.
Non-current financial liabilities	**25**	**56**	Finance leases of equipment and finance leases with Teleleasing S.p.A. (in liquidation).
Current financial liabilities	**43**	**70**	Finance leases of equipment and finance leases with Teleleasing S.p.A. (in liquidation).
Other statement of financial position line items			
Trade and miscellaneous receivables and other current assets			
Italtel group	1	2	Provision of equipment rental, fixed and mobile telephone and outsourced communication services.
Teleleasing S.p.A. (in liquidation)	1	2	Equipment sale and maintenance services.
TM Holding News S.p.A.		1	Fixed and mobile telephony services and property leasing.
Other minor companies	1	1	
Total trade and miscellaneous receivables and other current assets	**3**	**6**	
Trade and miscellaneous payables and other current liabilities			
Italtel group	31	53	Supply transactions connected with investment and operations activities.
Movenda S.p.A.	2	2	Supply and specialist support for the development of SIM cards, functional development of IT platforms, and software development.
Nord.Com S.p.A.	-	1	Supply and development of IT solutions, provision of customized services as part of Telecom Italia offerings to end customers, and rental expense for radio base station housing.
Teleleasing S.p.A. (in liquidation)	1	3	Purchase of goods assigned under leasing arrangements with Telecom Italia customers.
TM Holding News S.p.A.		1	Supply of information content for the TimSpot service, services and photos for intranet, supply of journalistic information.
Other minor companies	1	1	
Total trade and miscellaneous payables and other current liabilities	**35**	**61**	

CONSOLIDATED STATEMENT OF CASH FLOWS LINE ITEMS

(millions of euros)	2014	2013	TYPE OF CONTRACT
Purchase of intangible and tangible assets on an accrual basis			
Italtel group	169	145	Purchases of telecommunications equipment.
Movenda S.p.A.	1	2	Information technology services.
Total purchase of intangible and tangible assets on an accrual basis	**170**	**147**	

Transactions with other related parties (both through directors, statutory auditors and key managers, and as participants in shareholder 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 shareholder agreements 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.

With the renewal of the board of directors at the shareholders’ meeting of April 16, 2014 the companies headed by the new directors Francesca Cornelli, Laura Cioli, Luca Marzotto and Giorgio Valerio shall also be considered as related parties.

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 those companies are no longer considered related parties.

The most significant amounts are summarized as follows:

SEPARATE CONSOLIDATED INCOME STATEMENT LINE ITEMS

(millions of euros)	2014	2013	TYPE OF CONTRACT
Revenues			
Generali group	91	84	Supply of telephone and data transmission services, peripheral data networks, connections, storage, and telecommunications products and services.
Intesa Sanpaolo group	56	68	Telephone services, MPLS data and international network, ICT services and Microsoft licenses, Internet connectivity and high-speed connections.
Mediobanca group	6	7	Telephone and MPLS data network services and marketing of data devices and sale of equipment for fixed and mobile networks.
Telefónica group	549	745	Interconnection services, roaming, broadband access fees, supply of "IRU" transmission capacity and software.
Other minor companies	1		
Total revenues	**703**	**904**	
Other income			
Generali group	9	23	Damage compensation.
Other	1	1	Other income from the Intesa SanPaolo group and Telefónica.
Total other income	**10**	**24**	
Acquisition of goods and services			
Cartasì group	5		Commissions on collections and top-up services for prepaid mobile users.
Generali group	32	37	Insurance premiums and property leases.
Intesa Sanpaolo group	13	11	Factoring fees, fees for smart card top-ups/activation and commissions for payment of telephone bills by direct debit and collections via credit cards.
Mediobanca group	1	2	Credit recovery activities.
Telefónica group	364	556	Interconnection and roaming services, site sharing, co-billing agreements, broadband linesharing and unbundling.
Total acquisition of goods and services	**415**	**606**	
Employee benefits expenses	**11**	**13**	Non-obligatory employee insurance taken out with the Generali group.
Other operating expenses	**1**	**1**	Expenses for penalties and contractual breaches towards the Intesa Sanpaolo group.
Finance income			
Intesa Sanpaolo group	80	50	Bank accounts, deposits and hedging and non-hedging derivatives.
Mediobanca group	11	13	Bank accounts, deposits and hedging and non-hedging derivatives.
Telefonica group	11		Finance lease.
Total finance income	**102**	**63**	
Finance expenses			
Intesa Sanpaolo group	131	69	Term Loan Facility, hedging and non-hedging derivatives, loans and current accounts.
Mediobanca group	20	13	Term Loan Facility and hedging and non-hedging derivatives.
Total finance expenses	**151**	**82**	

CONSOLIDATED STATEMENT OF FINANCIAL POSITION LINE ITEMS

(millions of euros)	12/31/2014	12/31/2013	TYPE OF CONTRACT
Net financial debt			
Non-current financial assets			
Intesa Sanpaolo group	274	101	Hedging derivatives.
Mediobanca group	35	15	Hedging derivatives.
Telefonica group	60		Finance lease.
Total non-current financial assets	**369**	**116**	
Securities other than investments (current assets)			
Generali group		4	Bonds.
Intesa Sanpaolo group	24	12	Bonds.
Mediobanca group	15	14	Bonds.
Telefonica group	13	9	Bonds.
Securities other than investments (current assets)	**52**	**39**	
Financial receivables and other current financial assets			
Intesa Sanpaolo group	13	10	Hedging derivatives.
Mediobanca group	1	1	Hedging derivatives.
Total financial receivables and other current financial assets	**14**	**11**	
Cash and cash equivalents	**174**	**48**	Bank accounts and deposits with Intesa Sanpaolo group.
Non-current financial liabilities			
Intesa Sanpaolo group	199	136	Hedging derivatives and loans.
Mediobanca group	245	14	Hedging derivatives.
Total non-current financial liabilities	**444**	**150**	
Current financial liabilities			
Intesa Sanpaolo group	62	253	Current accounts, hedging derivatives and payables to other lenders.
Mediobanca group	2	63	Hedging derivatives.
Total current financial liabilities	**64**	**316**	

(millions of euros)	12/31/2014	12/31/2013	TYPE OF CONTRACT
Other statement of financial position line items			
Trade and miscellaneous receivables and other current assets			
Generali group	30	24	Supply of telephone and data transmission services, peripheral data networks, connections, storage, applications services, and supply of telecommunications products and services.
Intesa Sanpaolo group	83	112	Factoring services, supply of telephone, MPLS and international data network services, ICT services, Microsoft licenses, Internet connectivity and high-speed connections.
Mediobanca group	2	2	Telephone and MPLS data network services and marketing of data devices and sale of equipment for fixed and mobile networks.
Telefonica group	53	100	Interconnection services, roaming, broadband access fees, supply of "IRU" transmission capacity and software.
Total trade and miscellaneous receivables and other current assets	**168**	**238**	
Miscellaneous payables and other non-current liabilities	**1**	**2**	Deferred income relating to the supply of "IRU" transmission capacity to the Telefónica group.
Trade and miscellaneous payables and other current liabilities			
Cartasì group	2		Commissions on top-up services for prepaid mobile users.
Generali group	7	5	Deferred income relating to outsourcing of data networks and centralized and peripheral telephony systems.
Intesa Sanpaolo group	123	135	Factoring fees, fees for smart card top-ups/activation and commissions for payment of telephone bills by direct debit and collections via credit cards.
Mediobanca group	1	1	Credit recovery activities.
Telefónica group	29	73	Interconnection and roaming services, site sharing, co-billing agreements, broadband line sharing and unbundling.
Other minor companies	1		
Total trade and miscellaneous payables and other current liabilities	**163**	**214**	

CONSOLIDATED STATEMENTS OF CASH FLOW LINE ITEMS

(millions of euros)	2014	2013	TYPE OF CONTRACT
Purchase of intangible and tangible assets on an accrual basis	**16**	**17**	Acquisition of transmission capacity with the Telefónica group.
Dividends paid			
Telco		60	
Other minor companies		2	
Total dividends paid		**62**	

Transactions with pension funds

The most significant amounts are summarized as follows:

SEPARATE CONSOLIDATED INCOME STATEMENT LINE ITEMS

(millions of euros)	2014	2013	TYPE OF CONTRACT
Employee benefits expenses			Contributions to pension funds.
Fontedir	11	11	
Telemaco	73	67	
Other pension funds	5	3	
Total employee benefits expenses	**89**	**81**	

CONSOLIDATED STATEMENT OF FINANCIAL POSITION LINE ITEMS

(millions of euros)	12/31/2014	12/31/2013	TYPE OF CONTRACT
Trade and miscellaneous payables and other current liabilities			Payables for contributions to pension funds.
Fontedir	4	4	
Telemaco	27	20	
Trade and miscellaneous payables and other current liabilities	**31**	**24**	

Remuneration to Key Managers

In 2014, 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 14.8 million euros (22.4 million euros in 2013), broken down as follows:

(millions of euros)	2014		2013	
Short-term remuneration	9.5	(1)	11.6	(3)
Long-term remuneration			(0.1)	(4)
Employment termination benefit incentives	1.5		10.8	
Share-based payments (*)	3.8	(2)	0.1	(5)
	14.8		**22.4**	

(*) 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 (SOP Plans 2014).

(1) of which 1.4 million euros recorded by the Latin American subsidiaries.

(2) of which 0.3 million euros recorded by the Latin American subsidiaries.

(3) of which 1.8 million euros recorded by the Latin American subsidiaries.

(4) of which 0.16 million euros recorded by the Latin American subsidiaries.

(5) of which 0.16 million euros recorded by the Latin American subsidiaries.

The amounts shown in the table for 2014 do not include the effects of the cancellation of the verifications pertaining to the LTI 2011 and LTI 2012 Plans carried out due to the failure to achieve the three-year performance targets. These are broken down below:

LTI 2011 – verifications in the years 2011, 2012 and 2013:

- Long-term remuneration of -1.4 million euros
- Share-based payments of -1.2 million euros

LTI 2012 – verifications in the years 2012 and 2013:

- Long-term remuneration of - 0.5 million euros
- Share-based payments of - 0.4 million euros

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 2014, 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 208,000 euros (803,000 euros in 2013).

In 2014, "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:		
Giuseppe Recchi	(1)	Chairman of Telecom Italia S.p.A.
Marco Patuano		Managing Director and Chief Executive Officer of Telecom Italia S.p.A.
Managers:		
Rodrigo Modesto de Abreu		Diretor Presidente Tim Participações S.A.
Simone Battiferri		Head of Business
Franco Brescia		Head of Public & Regulatory Affairs
Antonino Cusimano		Head of Legal Affairs
Mario Di Loreto		Head of People Value
Giuseppe Roberto Opilio	(5)	Head of Operations
Piergiorgio Peluso		Head of Administration, Finance and Control
Luca Rossetto	(2)	Head of Consumer
Stefano De Angelis	(3)	Head of Consumer
Alessandro Talotta	(4)	Head of National Wholesale Services
Stefano Ciurli	(5)	Head of National Wholesale Services
Paolo Vantellini		Head of Business Support Office

(1) from April 16, 2014;

(2) to August 12, 2014;

3) from August 13, 2014;

(4) to December 21, 2014;

5) from December 22, 2014.

NOTE 41
EQUITY COMPENSATION PLANS

The equity compensation plans in force at December 31, 2014 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, 2014; for further details on the plans already in place at December 31, 2013, please refer to the consolidated financial statements of the Telecom Italia Group at that date.

DESCRIPTION OF STOCK OPTION PLANS

Telecom Italia S.p.A. Stock Option Plan

Telecom Italia S.p.A. Top 2008 Stock Option Plan

The option rights to Telecom Italia ordinary shares at a price of 1.95 euros were granted during the year 2008 to the then Chairman and Chief Executive Officer. The options totaled 8,550,000.
The exercise period ended on April 15, 2014 and all the options lapsed.

Telecom Italia S.p.A. Top 2014-2016 Stock Option Plan

The Stock Option Plan 2014-2016 was approved by the Shareholders' Meeting of Telecom Italia S.p.A of April 16, 2014 and was initiated following the resolution of the Board of Directors of June 26, 2014.
The Plan is aimed at encouraging Management, who hold organizational positions that are crucial to the company business, to focus on the medium/long-term growth in value of the company shares.

The beneficiaries of the Plan include the Chief Executive Officer, Top Management (including Key Officers) and a selected part of the Management for a total of 160 employees of the Telecom Italia Group.

The Plan covers the three-year period 2014-2016, with a maximum limit of 196,000,000 shares available for issue. Beneficiaries identified off to the plan is launched will receive an allocation of options based on the actual number of years of incentivization.

The number of options allocated is commensurate to the fixed component of the remuneration of the beneficiaries. Each beneficiary, upon achieving the target level of their performance objectives, is awarded a number of exercisable options, for an amount *calculated as a percentage of their annual gross remuneration based on the strategic level of the role held* and the value at the time of allocation.

The option rights become exercisable after achievement of the performance conditions for the 2014-2016 three-year period has been verified by the Board of Directors of the company called to approve financial statements at December 31, 2016. Once they have vested, the rights can be exercised for a period of three years (exercise period).
The performance conditions are described below:

- Total Shareholder Return of Telecom Italia which determines 50% of the options. This parameter measures the positioning of Telecom Italia's TSR in the TSR ranking of the Benchmark Panel consisting of: AT&T, Verizon, Telefonica, Deutsche TeleKom, Orange (France Telecom), Telekom Austria, Telecom Portugal, KPN, Swisscom, British Telecom, Vodafone, and Telecom Italia itself.

The objective includes different levels of achievement based on the Telecom Italia TSR's positioning in the ranking, which corresponds to a different exercisable percentage of the Options associated to it:

- 150% of the target level for positioning in first place (maximum level);
- 100% of the target level for positioning in fifth place (target level);
- 40% of the target level for positioning in eighth place (minimum level);
- no options for positioning below the minimum level.

- **Cumulated Free Cash Flow** consolidated in the 2014-2016 three-year period determines the exercisability of the remaining 50% of the allocated options. The parameter measures the Free Cash Flow available for the payment of dividends and repaying the debt, and will be calculated as a cumulative value for the 2014-2016 period.
  The Options associated with the Cumulated Free Cash Flow objective will become exercisable according to the level of performance achieved over the three years:
  - 150% of the target options for over performance of 110% (o more) than the value established in the Plan;
  - 100% of the options for achievement of the plan objective 2014-2016 (target level);
  - 80% of the target options for achievement of the minimum value, set at 93% of the Cumulated Free Cash Flow value established in the plan (minimum level);
  - no options for positioning below the minimum level.

The number of Exercisable Options for intermediate performance levels of the Objectives with respect to those listed above will be calculated by linear interpolation.

The exercise price was set, by the Board of Directors meeting that initiated the plan, at 0.94 euros per option (strike price) and is in line with the market price of the shares at the time of allocation of the options, calculated as the average of the official market price of the shares on Borsa Italiana S.p.A. in the month prior to the board resolution. If allocations are made at a later stage, the strike price will be the higher of the price established upon initial allocation in the price resulting from the application of the above criteria at the time of allocation of the options.

Tim Participações S.A. Stock Option Plan

2011-2013 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:

- absolute performance: increase in the value of Tim shares;
- relative performance: performance of Tim shares against a benchmark index mainly composed of companies in the Telecommunications, Information Technology, and Media sector.

The vesting period is 3 years (a third per year), the 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. Performance targets refer to the three years period 2011-2014, measured in July of each year.

- **2011**
  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 considered 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, 2014, 1,532,132 options had been exercised. No further options are exercisable.

- **2012**

  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.
  On the grant date, the exercise value of the options granted was calculated using the average weighted price of the shares of Tim Participações S.A.. This average considered the traded volume and the trading price of the shares of the company during the period July 1, to August 31, 2012.
  The grantees of the options were granted the right to purchase a total of 2,661,752 shares.
  At December 31, 2014, all the 896,479 options relating to the 2012 allocation had been exercised.

- **2013**

  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.
  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 considered the traded volume and the trading price of the shares of the company during the period of 30 days prior 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.
  A third of the options allocated in 2013 could be exercised by the end of July 2014;
  at December 31, 2014, a total of 971,221 options had been exercised.

2014-2016 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 April 10, 2014.
The exercise of the options is not subject to the achievement of specific performance objectives, but the exercise price is revised upwards or downwards in relation to the performance of Tim shares in a Total Shareholder Return ranking, which, during every year of validity of the plan, has included companies from the Telecommunications, Information Technology and Media sector. If, in the 30 days prior to 29 September of each year, the performance of the Tim shares is in last place in that ranking, the participant will lose the right to 25% of the options being vested at that time.
The vesting period is 3 years (a third per year), the 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.

- **2014**

  On the grant date of September 29, 2014, 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 prior period of 30 days.
  For the options granted in 2014, the performance conditions relate to the 2015-2017 three-year period, with measurement performed in the 30 days prior to 29 September of each year (as established by the Board of Directors).
  The grantees of the options were granted the right to purchase a total of 1,456,353 shares. At December 31, 2014, no options could be considered as vested.

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 such 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, 2014.

- **Long Term Incentive Plan 2010-2015 (LTI Plan 2010-2015)**
  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, 2014 the maximum number of matching shares issuable was 180,716 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.

- **Long Term Incentive Plan 2012 (LTI Plan 2012)**
  The LTI Plan 2012-2014 provides for the allocation to Top Management and a selected part of management (not the Executive Directors) of a bonus in cash and/or in equity on the basis of parameters linked, on one hand, to company performance measured by the cumulative Free Cash Flow in the three years 2012-2014 (so-called absolute performance: 35% weighted), and on the other hand, to the growth of value relative to a group of peers (measured by the Total Shareholder Return (so-called relative performance: 65% weighted). In particular, 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 a 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 February 5, 2015, the Board of Directors of Telecom Italia S.p.A. acknowledged that the levels for the incentive targets had not been reached. As a result, the rights relating to the LTI Plan 2012 were forfeited.

- **2014 Broad-Based Share Ownership Plan**
  The Broad-Based Share Ownership Plan was commenced, in implementation of the resolutions passed on April 17, 2013 by the Extraordinary Shareholders' Meeting, on March 6, 2014 by the Board of Directors of Telecom Italia S.p.A..

The 2014 Plan consists of an offer to subscribe to ordinary shares of the Company, for cash, at a discounted price compared to the market price, reserved for employees of the Company or its Italy-based subsidiaries. The Plan also provides for the free allocation of ordinary shares, subject to the shares subscribed being retained for one year and continuation of employment with companies in the Telecom Italia Group. Three methods of payment were established for subscription of the shares: payment in cash, advance of the Employee Severance Indemnity or company loan.

The Subscribers who retain the Subscribed Shares uninterruptedly for one year and maintain the status of Employee will be allocated the Bonus Shares in the ratio of one Bonus Share for every three Subscribed Shares.

The offer of the shares took place from June 26, to July 10; the shares were subscribed at a unit price of 0.84 euros, corresponding to the average official price recorded from May 25, 2014 to June 25, 2014, discounted by 10%.

On July 31, 2014, a total of 53,911,926 Telecom Italia ordinary shares were issued, corresponding to 0.40% of the capital for the class.

The Plan has been accounted for according to IFRS 2 (*Share-based payment*). Specifically: the unit value of the discount applied for the subscription of the shares has been calculated as the difference between the market price and the subscription price, defined as follows:

- subscription price: 0.84 euros
- market price: official price of the Telecom Italia S.p.A. ordinary shares recorded on the electronic market of Borsa Italiana S.p.A. on July 31, 2014.

CALCULATION OF FAIR VALUE MEASUREMENT OF THE GRANTED OPTIONS AND RIGHTS

The fair value of the options relating to the 2014 - 2016 Stock Option Plan was calculated using the "Monte Carlo method" according to the calculation parameters reported in the following table.
For the 2010-2015 LTI plan, the following was measured:

- the debt component, determined as follows:
  - 65%, linked to reaching Total Shareholder Return targets, was calculated as the average of the levels of expected bonus weighted by the probability of occurrence of the related scenarios; such probability is measured using the Monte Carlo method;
  - 35%, linked to reaching Free Cash Flow targets, was calculated as the bonus level according to the best estimate of expected Free Cash Flow with 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 (36 months for the 2014-2016 Stock Option Plan) on the Telecom Italia ordinary shares, starting in three years.

Parameters used to determine fair value – Telecom Italia S.p.A.

Plans/Parameters	Exercise price (euro)	Current price/ Spot (euro) (1)	Volatility (2)	Period	Expected dividends (euro) (3)	Risk-free interest rate (4)
LTI Plan 2010-2015 equity component	-	0.9219	33.4281%	5 years	0.055 first year 0.06 second year	1.89% at 5 years
2014 Broad-Based Share Ownership Plan		0.94	40.36%	1 year	0.02	0.239%
2014-2016 Stock Option Plan	0.94	0.931	36.95%	3 years	0.02	1.135%

(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) The dividends are estimated based on data from Bloomberg.
(4) For the 2010-2015 LTI Plan, the interest rate is based on the rate of government securities of the Federal Republic of Germany (the market benchmark for transactions in euro) with expirations commensurate with the reference period. For the 2014 Broad-Based Share Ownership Plan, the rate is equal to the 1-year yield on Italian securities; For the 2014–2016 Stock Option Plan, it consists of a 3-year forward zero coupon rate.

Parameters used to determine fair value – Tim Participações S.A.

Plans/Parameters	Exercise price (reais)	Current price/ Spot (reais)	Volatility	Period	Expected dividends (reais)	Risk-free interest rate
Stock option plan 2011	8.84	8.31	51.73%	6 years	–	11.94% per annum
Stock option plan 2012	8.96	8.96	50.46%	6 years	–	8.89% per annum
Stock option plan 2013	8.13	8.13	48.45%	6 years	–	10.66% per annum
Stock option plan 2014	13.42	13.42	44.6%	6 years	–	10.66% per annum

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". 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.
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 at December 31, 2014.

NOTE 42
SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

The effect of non-recurring events and transactions on equity, profit, net financial debt and cash flows of the Telecom Italia Group is set out below in accordance with Consob Communication DEM/6064293 of July 28, 2006.
The impact of non-recurring events and transactions at December 31, 2014 was as follows:

(millions of euros)		Equity	Profit (loss) for the year	Net financial debt carrying amount	Cash flows (*)
Amount – financial statements	**(a)**	**21,699**	**1,960**	**28,021**	**(1,285)**
Other income		87	87	–	–
Other operating expenses		(4)	(4)	107	(107)
Restructuring expenses – Employee benefits expenses		(9)	(9)	22	(22)
Gains on disposals of non-current assets		26	26	(71)	71
Fair value measurement of the investment in Trentino NGN S.r.l.		6	6	–	–
Interest expenses and other finance expenses in disputes		–	–	1	(1)
Other miscellaneous financial income		2	2	–	–
IRES tax recovery for IRAP tax on cost of labor (Decree Law 16/2012)		–	–	(231)	231
Total impact – (excluding Discontinued operations)	**(b)**	**108**	**108**	**(172)**	**172**
Income/(Expenses) relating to Discontinued operations		(1)	(1)	32	(32)
Income/(Expenses) relating to Discontinued operations	**(c)**	**(1)**	**(1)**	**32**	**(32)**
Figurative amount – financial statements	**(a-b-c)**	**21,592**	**1,853**	**28,161**	**(1,425)**

(*) Cash flows refer to the increase (decrease) in Cash and Cash equivalents during the year.

The impact of non-recurring items on the separate consolidated income statement line items is as follows:

(millions of euros)	2014	2013
Operating revenues and other income:		
Other income	88	6
Employee benefits expenses:		
Restructuring expenses	(12)	(19)
Other operating expenses:		
Sundry expenses	(4)	(86)
Impact on Operating profit (loss) before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	**72**	**(99)**
Gains (losses) on non-current assets:		
Gains on disposals of non-current assets	38	4
Losses on disposals of non-current assets	–	(101)
Impairment reversals (losses) on non-current assets:		
Impairment loss on Core Domestic goodwill	–	(2,187)
Impact on EBIT – Operating profit (loss)	**110**	**(2,383)**
Other income (expenses) from investments:		
Fair value measurement of the investment in Trentino NGN S.r.l.	11	–
Finance income:		
Other miscellaneous financial income	2	–
Impact on profit (loss) before tax from continuing operations	**123**	**(2,383)**
Effect on income taxes on non-recurring items	(15)	3
Income/(Expenses) relating to Discontinued operations	(1)	(22)
Impact on profit (loss) for the year	**107**	**(2,402)**

NOTE 43
POSITIONS OR TRANSACTIONS RESULTING FROM ATYPICAL AND/OR UNUSUAL OPERATIONS

In accordance with Consob Communication DEM/6064293 of July 28, 2006, a statement is made to the effect that in 2014 the Telecom Italia Group has not put into place any atypical and/or unusual transactions, as defined by that Communication.

NOTE 44
OTHER INFORMATION

A) EXCHANGE RATES USED TO TRANSLATE THE FINANCIAL STATEMENTS OF FOREIGN OPERATIONS(*)

		Year-end exchange rates (statements of financial position)		Average exchange rates for the year (income statements and statements of cash flows)	
(local currency against 1 euro)		12/31/2014	12/31/2013	2014	2013
Europe					
BGN	Bulgarian Lev	1.95580	1.95580	1.95580	1.95580
CZK	Czech koruna	27.73500	27.42700	27.53672	25.98584
HUF	Hungarian forint	315.54000	297.04000	308.70632	296.94046
CHF	Swiss franc	1.20240	1.22760	1.21462	1.23083
TRY	Turkish lira	2.83200	2.96050	2.90668	2.53316
GBP	Pound sterling	0.77890	0.83370	0.80628	0.84097
RON	Romanian leu	4.48280	4.47100	4.44414	4.41917
North America					
USD	U.S. dollar	1.21410	1.37910	1.32853	1.32792
Latin America					
VEF	Venezuelan bolivar	14.56920	8.67744	14.83317	7.99942
BOB	Bolivian boliviano	8.38943	9.52958	9.18015	9.21071
PEN	Peruvian nuevo sol	3.63265	3.85865	3.76818	3.59026
ARS	Argentine peso	10.27550	8.98914	10.76605	7.27875
CLP	Chilean peso	737.29700	724.76900	756.92568	658.22602
COP	Colombian peso	2,892.26000	2,664.42000	2,654.42017	2,482.57593
MXN	Mexican peso	17.86790	18.07310	17.66469	16.95900
BRL	Brazilian real	3.22489	3.23068	3.12280	2.86830
PYG	Paraguayan guarani	5,620.07000	6,323.17000	5,920.22584	5,712.77427
UYU	Uruguayan peso	29.58640	29.54580	30.83479	27.21395
Other countries					
ILS	Israeli shekel	4.72000	4.78800	4.74603	4.79372

(*) 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:

(millions of euros)	2014	2013
Research and development costs expensed during the year	55	41
Development costs capitalized	1,063	936
Total research and development costs (expensed and capitalized)	**1,118**	**977**

The increase for 2014 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 2014, amortization charges are recorded for development costs, capitalized during the period and in prior years, for an amount of 668 million euros.
Research and development activities conducted by the Telecom Italia Group are detailed in the Report on Operations (Sustainability Section).

C) OPERATING LEASES

Revenue related

The Group has entered into agreements for line lease and hosting which cannot be canceled. At December 31, 2014 the amount of lease installments receivable is as follows:

(millions of euros)	12/31/2014	12/31/2013
Within 1 year	105	71
From 2 to 5 years	172	152
Beyond 5 years	9	11
Total	**286**	**234**

Expense related

The Group has entered into agreements for lease of properties, vehicle rental and hosting which cannot be canceled. At December 31, 2014 the amount of lease installments receivable is as follows:

(millions of euros)	12/31/2014	12/31/2013
Within 1 year	180	239
From 2 to 5 years	439	432
Beyond 5 years	108	98
Total	**727**	**769**

D) DIRECTORS' AND STATUTORY AUDITORS' REMUNERATION

The total compensation due for the year 2014 to the directors and statutory auditors of Telecom Italia S.p.A. for carrying out such functions in the Parent and in other consolidated companies amounts to 4 million euros for the directors and to 0.6 million euros for the statutory auditors. In reference to the compensation to which the directors are entitled, it should be noted that the amount is calculated by considering only compensation for corporate offices (in primis those under ex art. 2389, paragraphs 1 and 3 of the Italian Civil Code) thus excluding the amounts relating to any employment relationship with the companies of the Group and any non-monetary fringe benefits; for a complete and detailed description of the compensation paid to the directors, reference should be made to the Compensation Report, available at the Company's headquarters and on the corporate website at the following address: www.telecomitalia.com/shareholders.

E) SUMMARY SCHEDULE OF FEES DUE TO THE AUDIT FIRM AND OTHER FIRMS IN ITS NETWORK

The following table reports the fees due to PricewaterhouseCoopers S.p.A. ("PwC") and to the other firms in the PwC network for the audit of the 2014 financial statements and the fees referring to the year 2014 for other audit and review services, for tax consulting services and for other services besides audit rendered to the companies of the Telecom Italia Group (including the companies of the Sofora - Telecom Argentina group) by PwC and other firms in the PwC network. Out-of-pocket expenses incurred in 2014 for such services are also included herein.

	PricewaterhouseCoopers S.p.A.			**Other firms in the PricewaterhouseCoopers network**			
(euros)	Telecom Italia S.p.A.	Subsidiaries	Telecom Italia Group	Telecom Italia S.p.A.	Subsidiaries	Telecom Italia Group	Total PwC network
Audit services	3,291,280	1,427,187	4,718,467	128,098	3,205,071	3,333,169	8,051,636
Verification services with issue of certification	236,100	11,500	247,600	-	249,607	249,607	497,207
Tax consulting services	-	-	-	-	94,661	94,661	94,661
Other services:							
agreed procedures on regulatory accounting areas	124,000	-	124,000	-	107,276	107,276	231,276
Total 2014 fees due for audit and other services to the PwC network	**3,651,380**	**1,438,687**	**5,090,067**	**128,098**	**3,656,615**	**3,784,713**	**8,874,780**
Out-of-pocket							395,550
Total							**9,270,330**

NOTE 45
EVENTS SUBSEQUENT TO DECEMBER 31, 2014

AGREEMENT FOR THE TRANSFER OF 170 THOUSAND NOVERCA CONSUMER CUSTOMERS TO TIM

On January 9, 2015, Telecom Italia S.p.A. and Noverca Italia S.r.l., a subsidiary of Acotel Group S.p.A, signed an agreement for the transfer of around 170,000 Noverca consumer customers to TIM.
The agreement allows Noverca customers, starting in February and ending in May 2015, to switch their mobile phone number to TIM with mobile number portability, while maintaining their price plans substantially unchanged.
Noverca will receive a consideration that will vary according to the numbers and types of customer who migrate: if all customers migrate to TIM, the consideration will total 3.9 million euros.

BOND ISSUE

On January 12, 2015, Telecom Italia S.p.A. successfully completed the launch of a fixed-rate bond issue for 1 billion euros, maturing January 2023, aimed at institutional investors. The yield on the issue is 3.33%.

BUYBACK OF TELECOM ITALIA S.p.A. BONDS

On January 21, 2015, the public buyback offer made by Telecom Italia S.p.A. on its own bonds for a total nominal amount of 810.3 million euros was successfully completed. Details of the four bond issues bought back are provided below:

Bond Name	Outstanding nominal amount prior to the purchase offer (euros)	Repurchased nominal amount (euros)	Buyback price	Outstanding nominal amount remaining (euros)
Buybacks				
Telecom Italia S.p.A. - 750 million euros, maturing June 2015, coupon 4.625% (1)	577,701,000	63,830,000	101.650%	513,871,000
Telecom Italia S.p.A. - 1 billion euros, maturing January 2016, coupon 5.125% (2)	771,550,000	108,200,000	104.661%	663,350,000
Telecom Italia S.p.A. - 1 billion euros, maturing January 2017, coupon 7.00%	1,000,000,000	374,308,000	111.759%	625,692,000
Telecom Italia S.p.A. - 1 billion euros, maturing September 2017, coupon 4.50%	1,000,000,000	263,974,000	108.420%	736,026,000

(1) Net of buybacks by the Company of 172 million euros during 2014.

(2) Net of buybacks by the Company of 228 million euros during 2014.

MERGER BY INCORPORATION OF TI MEDIA S.p.A. INTO TELECOM ITALIA S.p.A. APPROVED

On March 19, 2015, the Boards of Directors of Telecom Italia S.p.A. and Telecom Italia Media S.p.A. (a company controlled and subject to the direction and coordination of Telecom Italia, which holds, directly and indirectly, 77.71% of the ordinary share capital and 0.95% of the savings share capital) confirmed the integration process already announced on February 19, 2015, approving the plan for the merger by absorption of Telecom Italia Media into Telecom Italia.
The Board of Directors of the two companies, with the aid of their respective advisors, each independently confirmed the exchange ratio, already preliminarily approved on February 19, 2015.

The transaction was approved on the following basis:

- rationalization and simplification of the group structure;
- elimination of the Telecom Italia Media listing costs, no longer justified by the company's business, mainly consisting of the holding and management of the investment in Persidera S.p.A.;
- solution to the structural equity, financial and liquidity issues and net losses of Telecom Italia Media;
- possibility of managing the value generation process for Persidera S.p.A. more efficiently, also by seizing medium/long-term opportunities;
- ability to provide a treatment to the minority shareholders of Telecom Italia Media allowing them to obtain liquid securities of the same category (but with much higher trading volumes and value, also due to the significant concentration of institutional investors) or, if they elect, the opportunity to exercise withdrawal rights at market prices, as described further below.

The exchange rate has therefore been set as follows:

- 0.66 new ordinary shares of Telecom Italia with the same dividend entitlement as the existing Telecom Italia ordinary shares as of the date of effect of the Merger, for each ordinary share of Telecom Italia Media;
- 0.47 new savings shares of Telecom Italia with the same dividend entitlement as the existing Telecom Italia savings shares as of the date of effect of the Merger, for each savings share of Telecom Italia Media.

No cash adjustments are envisaged.

The financial appropriateness of the exchange ratio was certified by specific fairness opinions.

The merger plan will be submitted for approval by the Meetings of the Ordinary Shareholders of Telecom Italia Media and Telecom Italia already called for the approval of the financial statements, on April 30, 2015 and May 20, 2015 respectively.

The merger will not be subject to approval by the special meeting of savings shareholders of the two companies, because the rights granted by the respective bylaws to these shareholder categories are not adversely affected by the transaction.

Holders of ordinary shares in Telecom Italia Media who do not vote in favor of the transaction and holders of savings shares in Telecom Italia Media shall have a right of withdrawal as established under Italian law, as a consequence of the change to Telecom Italia Media's corporate purpose as a result of the merger.

The exit price for duly withdrawn shares will be 1.055 euros for each ordinary share and 0.6032 euros for each savings share. In accordance with the Italian Civil Code, this value corresponds to the arithmetic mean of the closing price of the shares for the 6 months prior to the publication of the notice convening the Shareholders' Meeting of Telecom Italia Media called to approve the transaction. The effectiveness of the withdrawal right will be subject, in any event, to the effectiveness of the merger.
Telecom Italia intends to exercise its option and pre-emption rights over the entire holding of ordinary and savings shares of Telecom Italia Media for which the right of withdrawal has been exercised and that is not otherwise subscribed on completion of the offer envisaged by applicable regulations. Please note that the maximum theoretical cost of withdrawal, assuming all minority shareholders of Telecom Italia Media exercise this right, is greater than the value of their shares which has been used for the determination of the exchange ratio, but this difference is more than compensated for, in quantitative terms, by the value of the cost synergies the management has identified as a result of the merger.

The merger will have only marginal effects on the ownership structure of Telecom Italia, as the maximum dilution following the issue of new shares to service the exchange for minority shareholders of Telecom Italia Media (the shares of the company to be absorbed in the Telecom Italia portfolio when the merger takes effect will be canceled without exchange), is approximately 0.114% of the current ordinary share capital and approximately 0.042% of the current savings share capital.

INFRASTRUTTURE WIRELESS ITALIANE S.p.A. (INWIT) HAS SUBMITTED AN APPLICATION FOR ADMISSION TO LISTING AND HAS FILED THE RELATED PUBLIC OFFERING PROSPECTUS

On March 13, 2015, Infrastrutture Wireless Italiane S.p.A. (“Inwit”), a company of the Telecom Italia Group, announced that it had submitted an application to Borsa Italiana for admission to listing of its ordinary shares on the Electronic Stock Exchange organized and managed by Borsa Italiana S.p.A. and had also submitted an application to Consob (Italian stock exchange commission) for the approval of the information prospectus for the public offering for sale and admission to listing of Inwit's ordinary shares.
Inwit is a newly-established company that will receive the transfer, from Telecom Italia, of the business unit that includes around 11,500 sites, currently operated by Telecom Italia, which house the radio transmission equipment for Telecom Italia's mobile telephone networks and the radio equipment for other operators. Telecom Italia, as the offerer, owns the entire share capital of Inwit and intends to hold a majority of its share capital upon completion of the Initial Public Offering.

ISSUE OF A TELECOM ITALIA S.p.A. CONVERTIBLE BOND WITH A VALUE OF 2 BILLION EUROS

On March 19, 2015, the Board of Directors of Telecom Italia S.p.A. announced the launch of an unsecured equity-linked bond maturing March 26, 2022 (7 years).
The institutional bookbuilding period was started immediately and ended on 20 March 2015 for a nominal value of 2 billion euros.
The offer was aimed exclusively at qualified institutional investors, outside the United States of America, with the exclusion of U.S. Persons (pursuant to *Regulation* S).
Telecom Italia S.p.A. will convene an Extraordinary Shareholders' Meeting to be held no later than June 30, 2015 to seek shareholders' approval in respect of an increase in share capital, with the exclusion of preferential subscription rights pursuant to Article 2441.5 of the Italian Civil Code, to enable the issue of Telecom Italia S.p.A. ordinary shares to be reserved exclusively to service the conversion of the abovementioned Bonds. The agenda for the Shareholders' Meeting of May 20, 2015 will be supplemented with the proposal for a capital increase through the issue of new ordinary shares, reserved to service the conversion, and, therefore, with the exclusion of preferential subscription rights.

Up to the time when Telecom Italia S.p.A. has notified subscribers of the approval of the capital increase, the Bonds may redeemed in cash, upon request for conversion by the bondholders, at the cash alternative amount, as defined in the terms and conditions of the issue. From the time when Telecom Italia S.p.A. has made this notification, the Bonds will be convertible into fully paid ordinary shares. If the Extraordinary Shareholders' Meeting does not approve the capital Increase by June 30, 2015, Telecom Italia S.p.A. may, by giving notice no later than 10 dealing days after that date, elect to redeem all the Bonds in cash, at the greater of:

- 102% of the nominal amount of the Bonds, plus accrued interest and
- 102% of the total fair market value of the Bonds, plus accrued interest.

The Bonds, which are in registered form in accordance with the law governing securities issues, for a unit nominal amount of 100,000 euro each, have been issued at par and will be redeemed at their nominal amount at maturity on March 26, 2022 (7 years). The Bonds will pay a fixed coupon of 1.125% per annum, payable semi-annually in arrears on 26 September and 26 March of each year, beginning on September 26, 2015.

The initial conversion price has been set at 1.8476 euro.

Telecom Italia S.p.A. will have the option to redeem all, and not solely part, of the Bonds at their nominal value, plus interest accrued and not paid, from April 16, 2019 when:

- the volume-weighted average price (VWAP) of the Telecom Italia S.p.A. shares, for a number of consecutive days, as specified in the terms and conditions of the issue, is equal to or greater than 130% of the applicable conversion price, or
- if the conversion or early redemption rights have been exercised – or the Bonds have been repurchased or canceled – at a percentage equal to or greater than 85% of the initial overall value of the Bonds.

Upon redemption of the Bonds at maturity, Telecom Italia S.p.A., under certain conditions, will have the option to deliver cash, shares or a combination thereof.

Settlement of the Bonds took place on March 26, 2015.
The net proceeds of the Bonds will be used to fund the capital expenditures announced upon presentation of the 2015–2017 Plan.
Telecom Italia S.p.A. has agreed a lock-up period for this bond issue of 90 days from the pricing date of the Bonds of March 20, 2015, for the issue of shares and convertible bonds, with the customary exceptions.
Telecom Italia S.p.A. will submit an application for admission to listing of the Bonds on an internationally recognized and regularly operating market or an multilateral trading facility within 30 days from March 26, 2015.

NOTE 46
LIST OF COMPANIES OF THE TELECOM ITALIA GROUP

In accordance with Consob Communication DEM/6064293 dated July 28, 2006, the list of companies is provided herein.

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 ownership 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.

Name	Head office	Currency	Share capital	% Ownership	% of voting rights	Held by
PARENT COMPANY						
TELECOM ITALIA S.p.A.	MILAN (ITALY)	EUR	10,723,391,862			
SUBSIDIARIES CONSOLIDATED LINE-BY-LINE						
DOMESTIC BU						
4G RETAIL S.r.l. (marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices)	MILANO (ITALY)	EUR	2,402,241	100.0000		TELECOM ITALIA S.p.A.
ADVANCED CARING CENTER S.r.l. (telemarketing's activities and development, market research and surveys)	ROME (ITALY)	EUR	2,540,100	100.0000		TELECONTACT CENTER S.p.A.
H.R. SERVICES S.r.l. (planning, development and supply of training services)	L'AQUILA (ITALY)	EUR	500,000	100.0000		TELECOM ITALIA S.p.A.
LAN MED NAUTILUS Ltd (telecommunications services, installation and maintenance of submarine cable systems, manged bandwidth services)	DUBLIN (IRELAND)	USD	1,000,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
LATIN AMERICAN NAUTILUS ARGENTINA S.A. ("managed bandwidth")	BUENOS AIRES (ARGENTINA)	ARS	9,998,000	95.0000 5.0000		LAN MED NAUTILUS Ltd TELECOM ITALIA SPARKLE S.p.A.
LATIN AMERICAN NAUTILUS BOLIVIA SrL (managed bandwidth)	LA PAZ (BOLIVIA)	BOB	1,747,600	99.9999 0.0001		TELECOM ITALIA SPARKLE S.p.A. LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS BRASIL Ltda ("managed bandwidth")	RIO DE JANEIRO (BRAZIL)	BRL	6,850,598	99.9999 0.0001		LATIN AMERICAN NAUTILUS BRASIL PARTICIPAÇÕES Ltda LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS BRASIL PARTICIPAÇÕES Ltda (holding company)	RIO DE JANEIRO (BRAZIL)	BRL	8,844,866	99.9999 0.0001		LAN MED NAUTILUS Ltd TELECOM ITALIA SPARKLE S.p.A.
LATIN AMERICAN NAUTILUS CHILE S.A. ("managed bandwidth")	SANTIAGO (CHILE)	CLP	5,852,430,960	100.0000		LAN MED NAUTILUS Ltd
LATIN AMERICAN NAUTILUS COLOMBIA Ltda ("managed bandwidth")	BOGOTA' (COLOMBIA)	COP	240,225,000	99.9999 0.0001		LAN MED NAUTILUS Ltd LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS PANAMA S.A. ("managed bandwidth")	PANAMA	USD	10,000	100.0000		LAN MED NAUTILUS Ltd
LATIN AMERICAN NAUTILUS PERU' S.A. ("managed bandwidth")	LIMA (PERU)	PEN	16,109,788	100.0000		LAN MED NAUTILUS Ltd
LATIN AMERICAN NAUTILUS PUERTO RICO LLC ("managed bandwidth")	SAN JUAN (PUERTO RICO)	USD	50,000	100.0000		LAN MED NAUTILUS Ltd
LATIN AMERICAN NAUTILUS St. Croix LLC ("managed bandwidth")	VIRGIN ISLAND (UNITED STATES)	USD	10,000	100.0000		LAN MED NAUTILUS Ltd
LATIN AMERICAN NAUTILUS USA Inc. ("managed bandwidth")	MIAMI (UNITED STATES)	USD	10,000	100.0000		LAN MED NAUTILUS Ltd
LATIN AMERICAN NAUTILUS VENEZUELA C.A. ("managed bandwidth")	CARACAS (VENEZUELA)	VEF	981,457	100.0000		LAN MED NAUTILUS Ltd
MED 1 SUBMARINE CABLES Ltd (construction and maintenance of submarine cable lev1)	RAMAT GAN (ISRAEL)	ILS	55,886,866	100.0000		TELECOM ITALIA SPARKLE S.p.A.
MEDITERRANEAN NAUTILUS BULGARIA EOOD (telecommunications services)	SOFIA (BULGARIA)	BGN	100,000	100.0000		LAN MED NAUTILUS Ltd
MEDITERRANEAN NAUTILUS GREECE S.A. (telecommunication services)	ATHENS (GREECE)	EUR	368,760	100.0000		LAN MED NAUTILUS Ltd
MEDITERRANEAN NAUTILUS ISRAEL Ltd (international wholesale telecommunication services)	RAMAT GAN (ISRAEL)	ILS	1,000	100.0000		LAN MED NAUTILUS Ltd
MEDITERRANEAN NAUTILUS ITALY S.p.A. (property and maintenance of submarine cable systems)	ROME (ITALY)	EUR	3,100,000	100.0000		LAN MED NAUTILUS Ltd
MEDITERRANEAN NAUTILUS TELEKOMÜNIKASYON HIZMETLERI TICARET ANONIM SIRKETI (telecommunication services)	TAKSIM, ISTANBUL (TURKEY)	TRY	5,639,065	100.0000		LAN MED NAUTILUS Ltd
OLIVETTI DEUTSCHLAND GmbH (sale of office equipment)	NURNBERG (GERMANY)	EUR	25,600,000	100.0000		OLIVETTI S.p.A.
OLIVETTI ENGINEERING S.A.(in liquidation) (product research and development based on ink-jet technology)	YVERDON LES BAINS (SWITZERLAND)	CHF	100,000	100.0000		OLIVETTI I-JET S.p.A.(in liquidation)
OLIVETTI ESPANA S.A. (sale and maintenance of office equipment, consulting and telematic network management)	BARCELONA (SPAIN)	EUR	1,229,309	100.0000		OLIVETTI S.p.A.
OLIVETTI FRANCE S.A.S. (sale of office equipment)	COLOMBES (FRANCE)	EUR	2,200,000	100.0000		OLIVETTI S.p.A.
OLIVETTI I-JET S.p.A.(in liquidation) (manufacture and sale of products and accessories for office equipment)	ARNAD (AOSTA) (ITALY)	EUR	31,000,000	100.0000		OLIVETTI S.p.A.

Name	Head office	Currency	Share capital	% Ownership	% of voting rights	Held by
OLIVETTI MULTISERVICES S.p.A. (real estate management)	MILAN (ITALY)	EUR	20,337,161	100.0000		TELECOM ITALIA S.p.A.
OLIVETTI S.p.A. (manufacture and sale of products and services for information technology)	IVREA (TURIN) (ITALY)	EUR	13,200,000	100.0000		TELECOM ITALIA S.p.A.
OLIVETTI UK Ltd. (sale of office equipment)	MILTON KEYNES (UNITED KINGDOM)	GBP	6,295,712	100.0000		OLIVETTI S.p.A.
TELECOM ITALIA DIGITAL SOLUTIONS S.p.A. (networking systems and telecommunications)	ROME (ITALY)	EUR	7,224,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA INFORMATION TECHNOLOGY S.r.l. (planning, design, installation running of computer services)	ROME (ITALY)	EUR	3,400,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA NETHERLANDS B.V. (telecommunication services)	AMSTERDAM (NETHERLANDS)	EUR	18,200	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA SAN MARINO S.p.A. (telecommunications services in San Marino)	ROVERETA-FALCIANO (SAN MARINO)	EUR	1,808,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA SPAIN SL UNIPERSONAL (telecommunication services)	MADRID (SPAIN)	EUR	2,003,096	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA SPARKLE CZECH S.R.O. (telecommunication services)	PRAGUE (CZECH REPUBLIC)	CZK	6,720,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA SPARKLE EST S.R.L. (telecommunication services)	BUCHAREST (ROMANIA)	RON	3,021,560	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA SPARKLE HUNGARY K.F.T. (in liquidation) (telecommunications services)	BUDAPEST (HUNGARY)	HUF	2,870,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA SPARKLE OF NORTH AMERICA, INC. (telecommunications and promotional services)	NEW YORK (UNITED STATES)	USD	15,550,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA SPARKLE S.p.A. (public and private telecommunications services management)	ROME (ITALY)	EUR	200,000,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA SPARKLE SINGAPORE PTE. Ltd (telecommunication services)	SINGAPORE	USD	5,121,120	99.9999 0.0001		TELECOM ITALIA SPARKLE S.p.A. TELECOM ITALIA SPARKLE OF NORTH AMERICA, INC.
TELECOM ITALIA SPARKLE SLOVAKIA S.R.O. (telecommunication services)	BRATISLAVA (SLOVAKIA)	EUR	300,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA TRUST TECHNOLOGIES S.r.l (ex I.T. TELECOM S.r.l.) (software development and software consulting)	POMEZIA (ROME) (ITALY)	EUR	7,000,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA VENTURES S.r.l. (investment holding company)	MILAN (ITALY)	EUR	10,000	100.0000		TELECOM ITALIA S.p.A.
TELECONTACT CENTER S.p.A. (telemarketing services)	NAPLES (ITALY)	EUR	3,000,000	100.0000		TELECOM ITALIA S.p.A.
TELEFONIA MOBILE SAMMARINESE S.p.A. (mobile telecommunication services)	BORGO MAGGIORE (SAN MARINO)	EUR	78,000	51.0000		TELECOM ITALIA SAN MARINO S.p.A.
TELENERGIA S.r.l. (import, export, purchase, sale and exchange of electrical energy)	ROME (ITALY)	EUR	50,000	100.0000		TELECOM ITALIA S.p.A.
TELSY ELETTRONICA E TELECOMUNICAZIONI S.p.A. (manufacturing and sale of systems for encrypted telecommunications)	TURIN (ITALY)	EUR	390,000	100.0000		TELECOM ITALIA S.p.A.
TI BELGIUM S.P.R.L. - B.V.B.A (telecommunication services)	BRUSSELS (BELGIUM)	EUR	2,200,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI GERMANY GmbH (telecommunication services)	FRANKFURT (GERMANY)	EUR	25,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SWITZERLAND GmbH (telecommunication services)	ZURICH (SWITZERLAND)	CHF	2,000,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI TELECOM ITALIA (AUSTRIA) TELEKOMMUNIKATIONDIENSTE GmbH (telecommunication services)	VIENNA (AUSTRIA)	EUR	2,735,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TIESSE S.c.p.A. (installation and assistance for electronic, computer, telematic and telecommunication equipment)	TURIN (ITALY)	EUR	103,292	61.0000		OLIVETTI S.p.A.
TIS FRANCE S.A.S. (installation and maintenance of telecommunications services for fixed network and relating activities)	PARIS (FRANCE)	EUR	18,295,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TMI - TELEMEDIA INTERNATIONAL Ltd (value added and networking services)	LONDON (UNITED KINGDOM)	EUR	3,983,254	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TMI TELEMEDIA INTERNATIONAL DO BRASIL Ltda (telecommunications services and promotional services)	SAO PAULO (BRAZIL)	BRL	8,909,639	100.0000		TMI - TELEMEDIA INTERNATIONAL Ltd
TRENTINO NGN S.r.l. (design, construction and maintenance supply of optical access network operators, securities, reale estate, commercial and financial transactions)	TRENTO (ITALY)	EUR	55,918,000	99.3294		TELECOM ITALIA S.p.A.
BRASIL BU						
INTELIG TELECOMUNICAÇÕES Ltda (telecommunications services)	RIO DE JANEIRO (BRAZIL)	BRL	4,041,956,045	99.9999 0.0001		TIM PARTICIPAÇÕES S.A. TIM CELULAR S.A.
TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A. (holding company)	RIO DE JANEIRO (BRAZIL)	BRL	7,169,029,859	100.0000		TELECOM ITALIA INTERNATIONAL N.V.
TIM CELULAR S.A. (telecommunications services)	SAO PAULO (BRAZIL)	BRL	9,434,215,720	100.0000		TIM PARTICIPAÇÕES S.A.
TIM PARTICIPAÇÕES S.A. (holding company)	RIO DE JANEIRO (BRAZIL)	BRL	9,913,414,422	66.5819 0.0329		TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A. TIM PARTICIPAÇÕES S.A.
MEDIA BU						
BEIGUA S.r.l. (purchase, sale, management and maintenance of installations for the repair and distribution of radio and tv broadcasting)	ROME (ITALY)	EUR	51,480	51.0004		PERSIDERA S.p.A. (ex TELECOM ITALIA MEDIA BROADCASTING S.r.l.)
PERSIDERA S.p.A. (ex TELECOM ITALIA MEDIA BROADCASTING S.r.l.) (purchase, sale, management and maintenance of installations for the repair and distribution of radio and tv broadcasting)	ROME (ITALY)	EUR	21,428,572	70.0000		TELECOM ITALIA MEDIA S.p.A.
TELECOM ITALIA MEDIA S.p.A. (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 (ITALY)	EUR	15,902,324	71.6909 2.1417	75.4553 2.2557	TELECOM ITALIA S.p.A. TELECOM ITALIA FINANCE S.A.
TIMB2 S.r.l. (management of the right of use of TV frequencies)	ROME (ITALY)	EUR	10,000	99.0000 1.0000		PERSIDERA S.p.A. (ex TELECOM ITALIA MEDIA BROADCASTING S.r.l.) TELECOM ITALIA MEDIA S.p.A.

Name	Head office	Currency	Share capital	% Ownership	% of voting rights	Held by
OTHER OPERATIONS						
EMSA SERVIZI S.p.A. (in liquidation) (real estate services management)	ROME (ITALY)	EUR	5,000,000	100.0000		TELECOM ITALIA S.p.A.
OFI CONSULTING S.r.l. (administrative consulting)	IVREA (TURIN) (ITALY)	EUR	95,000	100.0000		TELECOM ITALIA S.p.A.
OLIVETTI GESTIONI IVREA S.r.l. (real estate services)	IVREA (TURIN) (ITALY)	EUR	100,000	100.0000		TELECOM ITALIA S.p.A.
PURPLE TULIP B.V. (holding company)	AMSTERDAM (NETHERLANDS)	EUR	18,000	100.0000		TELECOM ITALIA INTERNATIONAL N.V.
TELECOM ITALIA CAPITAL S.A. (finance company)	LUXEMBOURG (LUXEMBOURG)	EUR	2,336,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA DEUTSCHLAND HOLDING GmbH (holding company)	FRANKFURT (GERMANY)	EUR	25,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA FINANCE IRELAND Ltd (finance company)	DUBLIN (IRELAND)	EUR	1,360,000,000	100.0000		TELECOM ITALIA FINANCE S.A.
TELECOM ITALIA FINANCE S.A. (finance company)	LUXEMBOURG (LUXEMBOURG)	EUR	542,090,241	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA INTERNATIONAL N.V. (holding company)	AMSTERDAM (NETHERLANDS)	EUR	2,399,483,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA LATAM PARTICIPAÇÕES E GESTÃO ADMINISTRATIVA LTDA (telecommunications and promotional services)	SAO PAULO (BRAZIL)	BRL	118,925,804	100.0000		TELECOM ITALIA S.p.A.
TIAUDIT COMPLIANCE LATAM S.A. (in liquidation) (internal auditing)	RIO DE JANEIRO (BRAZIL)	BRL	1,500,000	69.9996 30.0004		TELECOM ITALIA S.p.A. TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A.
TIERRA ARGENTEA S.A. (investments holding company)	BUENOS AIRES (ARGENTINA)	ARS	20,831,773	83.1225 16.8775		TELECOM ITALIA INTERNATIONAL N.V. TELECOM ITALIA S.p.A.
SUBSIDIARIES HELD FOR SALE						
MICRO SISTEMAS S.A. (telecommunications services)	BUENOS AIRES (ARGENTINA)	ARS	760,000	99.9900 0.0100		TELECOM ARGENTINA S.A. NORTEL INVERSORA S.A.
NORTEL INVERSORA S.A. (holding company)	BUENOS AIRES (ARGENTINA)	ARS	68,008,550	78.3784	100.0000	SOFORA TELECOMUNICACIONES S.A.
NUCLEO S.A. (mobile telephony services)	ASUNCIÓN (PARAGUAY)	PYG	146,400,000,000	67.5000		TELECOM PERSONAL S.A.
PERSONAL ENVIOS S.A. (financial services mobile)	ASUNCIÓN (PARAGUAY)	PYG	3,000,000,000	97.0000 2.0000		NUCLEO S.A. TELECOM PERSONAL S.A.
SOFORA TELECOMUNICACIONES S.A. (holding company)	BUENOS AIRES (ARGENTINA)	ARS	439,702,000	32.5000 18.5000		TELECOM ITALIA S.p.A. TELECOM ITALIA INTERNATIONAL N.V.
TELECOM ARGENTINA S.A. (telecommunications services)	BUENOS AIRES (ARGENTINA)	ARS	984,380,978	54.7417 1.5463		NORTEL INVERSORA S.A. TELECOM ARGENTINA S.A.
TELECOM ARGENTINA USA Inc. (telecommunications services)	DELAWARE (UNITED STATES)	USD	219,973	100.0000		TELECOM ARGENTINA S.A.
TELECOM PERSONAL S.A. (mobile telephony services)	BUENOS AIRES (ARGENTINA)	ARS	1,552,572,405	99.9923 0.0077		TELECOM ARGENTINA S.A. NORTEL INVERSORA S.A.
ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD						
AREE URBANE S.r.l. (in liquidation) (real estate)	MILAN (ITALY)	EUR	100,000	31.6500 0.9700		TELECOM ITALIA S.p.A. TELECOM ITALIA MEDIA S.p.A.
ASSCOM INSURANCE BROKERS S.r.l. (insurance mediation)	MILAN (ITALY)	EUR	100,000	20.0000		TELECOM ITALIA S.p.A.
BALTEA S.r.l. (bankrupt) (manufacture and sale of office equipment and computer and telecommunications services)	IVREA (TURIN) (ITALY)	EUR	100,000	49.0000		OLIVETTI S.p.A.
CONSORZIO ANTENNA COLBUCCARO (installation, management and maintenance of one or more metal towers full of stations of hospitalization apparatuses)	ASCOLI PICENO (ITALY)	EUR	180,000	22.3300		PERSIDERA S.p.A. (ex TELECOM ITALIA MEDIA BROADCASTING S.r.l.)
CONSORZIO E O (in liquidazione) (professional training)	ROME (ITALY)	EUR	30,987	50.0000		TELECOM ITALIA S.p.A.
ECO4CLOUD S.r.l. (development, manufacture and sale of innovative products and services with high technological value)	RENDE (COSENZA) (ITALY)	EUR	19,532	3.5941		TELECOM ITALIA VENTURES S.r.l.
ITALTEL GROUP S.p.A. (holding company)	SETTIMO MILANESE (MILAN) (ITALY)	EUR	825,695	34.6845	19.3733	TELECOM ITALIA FINANCE S.A.
ITALTEL S.p.A. (telecommunication systems)	SETTIMO MILANESE (MILAN) (ITALY)	EUR	2,000,000	(*)		TELECOM ITALIA S.p.A.
MOVENDA S.p.A. (technological platform for the development of mobile internet services)	ROME (ITALY)	EUR	133,333	24.9998		TELECOM ITALIA FINANCE S.A.
NORDCOM S.p.A. (application service provider)	MILAN (ITALY)	EUR	5,000,000	42.0000		TELECOM ITALIA S.p.A.
PEDIUS S.r.l. (delivery of specialized TLC applications, telecommunication services through telephone connections and VoIP services)	ROME (ITALY)	EUR	137	16.7883		TELECOM ITALIA VENTURES S.r.l.
TELELEASING - LEASING DI TELECOMUNICAZIONI E GENERALE S.p.A. (in liquidazione) (financial leasing of real estate and other assets)	MILAN (ITALY)	EUR	9,500,000	20.0000		TELECOM ITALIA S.p.A.
TIGLIO I S.r.l. (real estate management)	MILAN (ITALY)	EUR	5,255,704	45.6991 2.1027		TELECOM ITALIA S.p.A. TELECOM ITALIA MEDIA S.p.A.
TIGLIO II S.r.l. (in liquidation) (real estate management)	MILAN (ITALY)	EUR	10,000	49.4700		TELECOM ITALIA S.p.A.
TM HOLDING NEWS S.p.A. (multimedia journalistic information)	ROME (ITALY)	EUR	1,120,000	40.0000		TELECOM ITALIA MEDIA S.p.A.
WIMAN S.r.l. (dvelopment, management and implementation of platforms for the Wi-Fi authentication on a social base)	MATTINATA (FOGGIA) (ITALY)	EUR	17,281	7.9393		TELECOM ITALIA VENTURES S.r.l.

(*) Associated company over which Telecom Italia S.p.A. has significant influence pursuant to IAS 28 (investments in associates and joint ventures).

Name	Head office	Currency	Share capital	% Ownership	% of voting rights	Held by
OTHER RELEVANT INVESTMENTS PURSUANT TO CONSOB RESOLUTION 11971 DATED MAY 14, 1999, AS AMENDED						
CEFRIEL S.r.l. (professional training)	MILAN (ITALY)	EUR	100,350	11.6000		TELECOM ITALIA S.p.A.
DAHLIA TV S.p.A. (in liquidation) (pay-per-view services)	ROME (ITALY)	EUR	11,318,833	10.0800		TELECOM ITALIA MEDIA S.p.A.
CONSORZIO EMITTENTI RADIOTELEVISIVE (broadcasting activities)	BOLOGNA (ITALY)	EUR	119,309	18.6000		PERSIDERA S.p.A. (ex TELECOM ITALIA MEDIA BROADCASTING S.r.l.)
FIN.PRIV. S.r.l. (finance company)	MILAN (ITALY)	EUR	20,000	14.2900		TELECOM ITALIA S.p.A.
ITALBIZ.COM Inc. (internet services)	DELAWARE (UNITED STATES)	USD	4,720	19.5000		TELECOM ITALIA MEDIA S.p.A.
MIX S.r.l. (internet service provider)	MILAN (ITALY)	EUR	99,000	10.8500		TELECOM ITALIA S.p.A.

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-TER OF THE CONSOB REGULATION 11971 DATED MAY 14, 1999, WITH AMENDMENTS AND ADDITIONS

1. We, the undersigned, Giuseppe Recchi, as chairman, Marco Patuano, as Chief Executive Officer, and Piergiorgio Peluso, as Manager responsible for preparing Telecom Italia S.p.A. financial reports, certify, having also considered the provisions of art. 154-bis, paragraphs 3 and 4, of Legislative Decree 58 of February 24, 1998:
   - the adequacy in relation to the characteristics of the company and
   - the effective application

   of the administrative and accounting procedures used in the preparation of the consolidated financial statements for the 2014 fiscal year.

2. Telecom Italia has adopted the Internal Control – Integrated Framework Model (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission, as its framework for the establishment and assessment of its internal control system, with particular reference to the internal controls for the preparation of the financial statements.

3. The undersigned also certify that:

   3.1 Consolidated Financial Statements at December 31, 2014:

      a) are prepared in conformity with international accounting principles adopted by the European Union pursuant to EC regulation 1606/2002 of the European Parliament and Council of July 19, 2002 (International Financial Reporting Standards – IFRS) as well as the legislative and prescribed provisions in force in Italy also with reference to the measures enacted for the implementation of art. 9 of Legislative Decree 38 of February 28, 2005;

      b) agree with the results of the accounting records and entries;

      c) provide a true and fair view of the financial condition, the results of operations and the cash flows of the Company and its consolidated subsidiaries;

   3.2 the report on operations contains a reliable operating and financial review of the Company and of the Group, as well as a description of the their exposure to the main risks and uncertainties.

March 19, 2015

Chairman	Chief Executive Officer	Manager responsible for preparing the corporate financial reports
/signed/	/signed/	/signed/
Giuseppe Recchi	Marco Patuano	Piergiorgio Peluso

INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE N° 39 OF 27 JANUARY 2010

To the shareholders of
Telecom Italia SpA

1 We have audited the consolidated financial statements of Telecom Italia SpA and its subsidiaries ("Telecom Italia Group") as of and for the year ended 31 December 2014 which comprise the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related notes. The directors of Telecom Italia SpA are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards , as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree No. 38/2005. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for listed Companies and Stock Exchange. Those standards require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free from material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference is made to our report dated 24 March 2014.

3 In our opinion, the consolidated financial statements of Telecom Italia Group as of and for the year ended 31 December 2014 comply with the International Financial Reporting Standards, as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree No. 38/2005; accordingly, they have been prepared clearly and give a true and fair view of the financial position as of 31 December 2014, result of operations and cash flows of Telecom Italia Group for the year then ended.

4 The directors of Telecom Italia SpA are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure published on the corporate website of Telecom Italia SpA, section "About us", menu "Governance system", in

accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the information referred to in paragraph 1, letters c), d), f), l), m), and paragraph 2, letter b), of article 123-bis of Legislative Decree No.58/98 presented in the report on corporate governance and ownership structure, with the financial statements, as required by law. For this purpose, we have performed the procedures required under Italian Auditing Standard 1 issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili) and recommended by Consob. In our opinion, the report on operations and the information referred to in paragraph 1, letters c), d), f), l), m), and paragraph 2, letter b), of article 123-bis of Legislative Decree No.58/98 presented in the report on corporate governance and ownership structure are consistent with the consolidated financial statements of Telecom Italia Group as of and for the year ended 31 December 2014.

Milan, 30 March 2015

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

This report is an English translation of the original audit report, which was issued in Italian. This report has been prepared solely for the convenience of international readers.

03

TELECOM ITALIA S.P.A. SEPARATE FINANCIAL STATEMENTS

CONTENTS

TELECOM ITALIA S.p.A. SEPARATE FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION

Assets

(euros)	note	12/31/2014	of which related parties	12/31/2013	of which related parties
Non-current assets					
Intangible assets					
Goodwill	3)	28,424,444,756		28,424,444,756	
Intangible assets with a finite useful life	4)	4,014,627,650		4,420,271,125	
		32,439,072,406		**32,844,715,881**	
Tangible assets	5)				
Property, plant and equipment owned		9,268,463,987		9,307,611,715	
Assets held under finance leases		842,004,585		918,618,205	
		10,110,468,572		**10,226,229,920**	
Other non-current assets					
Investments	6)	9,242,735,472		9,329,158,150	
Non-current financial assets	7)	1,923,956,210	*558,259,000*	1,370,711,030	*627,731,000*
Miscellaneous receivables and other non-current assets	8)	1,012,505,731	*30,438,000*	1,133,627,025	*19,901,000*
Deferred tax assets	9)	727,500,482		560,261,032	
		12,906,697,895		**12,393,757,237**	
Total Non-current assets	**(a)**	**55,456,238,873**		**55,464,703,038**	
Current assets					
Inventories	10)	111,391,175		153,927,253	
Trade and miscellaneous receivables and other current assets	11)	3,492,161,713	*258,826,000*	3,475,146,878	*321,438,000*
Current income tax receivables	9)	79,158,719		100,651,338	
Current financial assets					
Securities other than investments, financial receivables and other current financial assets		1,104,546,055	*591,454,000*	2,008,960,591	*1,515,241,000*
Cash and cash equivalents		1,305,350,185	*158,006,000*	1,283,725,640	*44,361,000*
	7)	2,409,896,240		3,292,686,231	
Current assets sub-total		**6,092,607,847**		**7,022,411,700**	
Discontinued operations/Non-current assets held for sale	12)	**1,202**		**1,202**	
Total Current assets	**(b)**	**6,092,609,049**		**7,022,412,902**	
Total Assets	**(a+b)**	**61,548,847,922**		**62,487,115,940**	

Equity and Liabilities

(euros)	note	12/31/2014	*of which related parties*	12/31/2013	*of which related parties*
Equity	13)				
Share capital issued		10,723,391,862		10,693,740,302	
less: Treasury shares		(20,719,608)		(20,719,608)	
Share capital		**10,702,672,254**		**10,673,020,694**	
Paid-in capital		**1,725,009,329**		**1,703,983,677**	
Legal reserve		**2,137,749,211**		**2,137,749,211**	
Other reserves					
Revaluation reserve pursuant to Law 413/91		–		1,128,827	
Reserve for remeasurements of employee defined benefit plans (IAS 19)		(77,779,956)		129,439,139	
Other		1,382,369,703		2,433,845,934	
Total Other reserves		**1,304,589,747**		**2,564,413,900**	
Retained earnings (accumulated losses), including profit (loss) for the year		**636,281,666**		**(499,374,035)**	
Total Equity	**(c)**	**16,506,302,207**		**16,579,793,447**	
Non-current liabilities					
Non-current financial liabilities	14)	30,010,250,903	*8,603,643,000*	29,153,302,592	*7,545,253,000*
Employee benefits	19)	910,416,936		762,090,511	
Deferred tax liabilities	9)	2,094,473		2,117,983	
Provisions	19)	483,414,878		469,201,439	
Miscellaneous payables and other non-current liabilities	21)	358,824,078	*24,274,000*	412,034,407	*36,519,000*
Total Non-current liabilities	**(d)**	**31,765,001,268**		**30,798,746,932**	
Current liabilities					
Current financial liabilities	14)	7,746,580,714	*4,629,088,000*	8,882,026,900	*4,714,100,000*
Trade and miscellaneous payables and other current liabilities	22)	5,530,945,021	*676,528,000*	6,226,265,563	*756,893,000*
Current income tax payables	9)	18,712		283,098	
Current liabilities sub-total		**13,277,544,447**		**15,108,575,561**	
Liabilities directly associated with Discontinued operations/Non-current assets held for sale	12)	**–**		**–**	
Total Current Liabilities	**(e)**	**13,277,544,447**		**15,108,575,561**	
Total Liabilities	**(f=d+e)**	**45,042,545,715**		**45,907,322,493**	
Total Equity and liabilities	**(c+f)**	**61,548,847,922**		**62,487,115,940**	

SEPARATE INCOME STATEMENTS

(euros)	note	Year 2014	of which related parties	Year 2013	of which related parties
Revenues	24)	**14,153,377,674**	*393,034,000*	**15,304,164,320**	*433,567,000*
Other income	25)	273,976,447	*21,666,000*	256,066,837	*16,908,000*
Total operating revenues and other income		**14,427,354,121**		**15,560,231,157**	
Acquisition of goods and services	26)	(5,093,686,725)	*(1,000,405,000)*	(5,433,650,932)	*(1,083,432,000)*
Employee benefits expenses	27)	(2,276,877,885)	*(90,954,000)*	(2,250,654,520)	*(91,955,000)*
Other operating expenses	28)	(531,860,350)	*(733,000)*	(624,050,558)	*(1,139,000)*
Change in inventories	29)	(42,536,078)		41,709,772	
Internally generated assets	30)	256,175,572		243,281,832	
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)		**6,738,568,655**		**7,536,866,751**	
of which: impact of non-recurring items	38)	*(8,693,000)*		*(100,317,000)*	
Depreciation and amortization	31)	(3,189,885,664)		(3,469,428,580)	
Gains (losses) on disposals of non-current assets	32)	30,869,196		(1,816,574)	
Impairment reversals (losses) on non-current assets	33)	–		(2,187,208,901)	
Operating profit (loss) (EBIT)		**3,579,552,187**		**1,878,412,696**	
of which: impact of non-recurring items	38)	*29,021,000*		*(2,287,317,000)*	
Income (expenses) from investments	34)	(120,014,559)	*661,000*	(72,609,648)	*103,782,000*
Finance income	35)	2,434,797,620	*810,626,000*	2,458,006,112	*1,484,207,000*
Finance expenses	35)	(4,595,248,199)	*(2,285,466,000)*	(4,445,482,863)	*(1,540,897,000)*
Profit (loss) before tax from continuing operations		**1,299,087,049**		**(181,673,703)**	
of which: impact of non-recurring items	38)	*29,012,000*		*(2,286,547,000)*	
Income tax expense	9)	(669,673,254)		(846,611,074)	
Profit (loss) from continuing operations		**629,413,795**		**(1,028,284,777)**	
of which: impact of non-recurring items	38)	*29,012,000*		*(2,282,505,000)*	
Profit (loss) from Discontinued operations/Non-current assets held for sale	12)	6,867,871		–	
Profit (loss) for the year		**636,281,666**		**(1,028,284,777)**	
of which: impact of non-recurring items	38)	*18,408,000*		*(2,282,505,000)*	

STATEMENTS OF COMPREHENSIVE INCOME

Note 13

(euros)		Year 2014	Year 2013
Profit (loss) for the year	**(a)**	**636,281,666**	**(1,028,284,777)**
Other components of the Statements of Comprehensive Income			
Other components that will not be reclassified subsequently to Separate Income Statements			
Remeasurements of employee defined benefit plans (IAS 19):			
Actuarial gains (losses)		(186,028,304)	(19,264,751)
Income tax effect		51,157,783	5,297,807
		(134,870,520)	**(13,966,945)**
Total other components that will not be reclassified subsequently to Separate Income Statements	**(b)**	**(134,870,520)**	**(13,966,945)**
Other components that will be reclassified subsequently to Separate Income Statements			
Available-for-sale financial assets			
Profit (loss) from fair value adjustments		66,712,046	(26,327,916)
Loss (profit) transferred to the Separate Income Statements			
Income tax effect		(18,136,070)	8,349,493
	(c)	**48,575,976**	**(17,978,423)**
Hedging instruments:			
Profit (loss) from fair value adjustments		(489,125,959)	174,937,469
Loss (profit) transferred to the Separate Income Statements		(233,951,000)	325,878,000
Income tax effect		198,846,164	(137,724,254)
	(d)	**(524,230,795)**	**363,091,215**
Total other components that will be reclassified subsequently to Separate Income Statements	**(e = c+d)**	**(475,654,819)**	**345,112,792**
Total other components of the Statement of Comprehensive Income	**(f= b+e)**	**(610,525,340)**	**331,145,847**
Total comprehensive income (loss) for the year	**(a+f)**	**25,756,326**	**(697,138,930)**

STATEMENTS OF CHANGES IN EQUITY

Changes in Equity from January 1 to December 31, 2013

(euros)	Share capital	Paid-in capital	Reserve for available-for-sale financial assets	Reserve for cash flow hedges	Reserve for remeasurements of employee defined benefit plans (IAS 19)	Other reserves and retained earnings (accumulated losses), including profit (loss) for the year	Total Equity
Balance at December 31, 2012	**10,672,908,411**	**1,703,973,470**	**43,192,102**	**(1,015,496,762)**	**143,406,083**	**6,180,819,834**	**17,728,803,138**
Changes in equity during the year:							
Dividends approved						(454,397,171)	(454,397,171)
Total comprehensive income (loss) for the year			(17,978,423)	363,091,215	(13,966,945)	(1,028,284,777)	(697,138,930)
Grant of equity instruments	112,283	10,208				819,614	942,105
Other changes				-		1,584,305	1,584,305
Balance at December 31, 2013	**10,673,020,694**	**1,703,983,677**	**25,213,679**	**(652,405,547)**	**129,439,138**	**4,700,541,806**	**16,579,793,447**

Changes in Equity from January 1 to December 31, 2014 - Note 13

(euros)	Share capital	Paid-in capital	Reserve for available-for-sale financial assets	Reserve for cash flow hedges	Reserve for remeasurements of employee defined benefit plans (IAS 19)	Other reserves and retained earnings (accumulated losses), including profit (loss) for the year	Total Equity
Balance at December 31, 2013	10,673,020,694	1,703,983,677	25,213,679	(652,405,547)	129,439,138	4,700,541,806	16,579,793,447
Changes in equity during the year:							
Dividends approved						(165,718,318)	(165,718,318)
Total comprehensive income (loss) for the year			48,575,976	(524,230,795)	(134,870,520)	636,281,666	25,756,327
Grant of equity instruments	29,651,559	21,025,651				12,566,646	63,243,856
Other changes					(72,348,574)	75,575,469	3,226,895
Balance at December 31, 2014	10,702,672,253	1,725,009,328	73,789,655	(1,176,636,342)	(77,779,956)	5,259,247,269	16,506,302,207

STATEMENTS OF CASH FLOWS

(thousands of euros)	note	Year 2014	Year 2013
Cash flows from operating activities:			
Profit (loss) from continuing operations		629,414	(1,028,285)
Adjustments for:			
Depreciation and amortization		3,189,886	3,469,429
Impairment losses (reversals) on non-current assets (including investments)		132,640	2,371,223
Net change in deferred tax assets and liabilities		64,605	139,640
Losses (gains) realized on disposals of non-current assets (including investments)		(30,860)	1,046
Change in provisions for employee benefits		(48,221)	(32,801)
Change in inventories		42,535	(35,148)
Change in trade receivables and net amounts due from customers on construction contracts		(103,157)	768,515
Change in trade payables		(111,944)	(387,607)
Net change in current income tax receivables/payables		332,387	(52,741)
Net change in miscellaneous receivables/payables and other assets/liabilities		(396,167)	(666,003)
Cash flows from (used in) operating activities (a)		**3,701,118**	**4,547,268**
Cash flows from investing activities:			
Purchase of intangible assets on an accrual basis	4)	*(970,916)*	*(1,235,256)*
Purchase of tangible assets on an accrual basis	5)	*(1,722,211)*	*(1,680,072)*
Total purchase of intangible and tangible assets on an accrual basis (*)		(2,693,127)	(2,915,328)
Change in amounts due to fixed asset suppliers		*(359,856)*	*(81,718)*
Total purchase of intangible and tangible assets on a cash basis		(3,052,983)	(2,997,046)
Acquisitions/disposals of control of subsidiaries or other businesses, net of cash acquired/disposed of	6)	(563)	5,188
Acquisitions/disposals of other investments		(43,085)	(174,277)
Change in financial receivables and other financial assets		336,515	(107,699)
Proceeds from sale/repayment of intangible, tangible and other non-current assets		86,393	18,373
Cash flows from (used in) investing activities (b)		**(2,673,723)**	**(3,255,461)**
Cash flows from financing activities			
Change in current financial liabilities and other		2,295,341	(193,959)
Proceeds from non-current financial liabilities (including current portion)		4,411,118	2,440,472
Repayments of non-current financial liabilities (including current portion)		(7,518,551)	(3,025,091)
Share capital proceeds/reimbursements (°)		9,062	122
Dividends paid (*)		(165,700)	(453,894)
Cash flows from (used in) financing activities (c)		**(968,730)**	**(1,232,350)**
Cash flows from (used in) Discontinued operations/Non-current assets held for sale (d)		**6,868**	**–**
Aggregate cash flows (e=a+b+c+d)		**65,533**	**59,457**
Net cash and cash equivalents at beginning of the year (f)		**970,511**	**911,054**
Net cash and cash equivalents at end of the year (g=e+f)		**1,036,044**	**970,511**

(°) The amount relates to the issuance of ordinary shares under the 2014 Broad-Based Share Ownership Plan, subscribed by the employees of the companies of the Telecom Italia Group and – solely for portions subscribed by bank transfer or loan – by the employees of Telecom Italia S.p.A., which, for the latter, therefore does not include the effects of the employee severance indemnity advances, totaling 36,224 thousand euros, granted to allow them to subscribe to the Plan.

(*) of which related parties:

(thousands of euros)	2014	2013
Total purchase of intangible and tangible assets on an accrual basis	596,140	631,151
Dividends paid	–	64,245

Additional Cash Flow Information

(thousands of euros)	Year 2014	Year 2013
Income taxes (paid) received	(352,346)	(759,349)
Interest expense paid	(4,928,448)	(4,419,159)
Interest income received	3,230,174	2,708,489
Dividends received	12,030	104,270

Analysis of Net Cash and Cash Equivalents

(thousands of euros)	Year 2014	Year 2013
Net cash and cash equivalents at beginning of the year:		
Cash and cash equivalents	1,283,726	2,146,166
Bank overdrafts repayable on demand	(313,215)	(1,235,112)
	970,511	**911,054**
Net cash and cash equivalents at end of the year:		
Cash and cash equivalents	1,305,350	1,283,726
Bank overdrafts repayable on demand	(269,306)	(313,215)
	1,036,044	**970,511**

NOTE 1
FORM, CONTENT AND OTHER GENERAL INFORMATION

FORM AND CONTENT

Telecom Italia is a joint-stock company (S.p.A.) organized under the laws of the Republic of Italy.
The registered offices of Telecom Italia S.p.A. are located in Milan in 1 Via Gaetano Negri, Italy.
The duration of the company, as stated in the company's Bylaws, extends until December 31, 2100.
Telecom Italia S.p.A. operates in Italy in the fixed and mobile telecommunications sector.
The Telecom Italia S.p.A. separate financial statements for the year ended December 31, 2014 have been prepared on a going concern basis (for further details see Note "Accounting policies") and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (designated as "IFRS"), as well as the laws and regulations in force in Italy (particularly the measures enacted implementing art. 9 of Legislative Decree 38 of February 28, 2005).
In particular, in 2014, Telecom Italia S.p.A. applied the accounting policies on a basis consistent with those of the previous years, except for the new standards and interpretations adopted since January 1, 2014 and described below.
The separate 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 year.
The statements of financial position, the separate income statements, the statements of comprehensive income and the statements of changes in equity are presented in euros (without cents), the statements of cash flows in thousands of euros and the notes to these separate financial statements in millions of euros, unless otherwise indicated.
Publication of the Telecom Italia S.p.A. separate financial statements for the year ended December 31, 2014 was approved by resolution of the Board of Directors' meeting held on March 19, 2015.
However, final approval of the Telecom Italia S.p.A. separate financial statements rests with the shareholders' meeting.

FINANCIAL STATEMENT FORMATS

The financial statement formats adopted are consistent with those indicated in IAS 1. In particular:

- the **separate statement of financial position** has been prepared by classifying assets and liabilities according to "current and non-current" criterion;
- the **separate 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 Company, conforms to internal reporting and is in line with Telecom Italia Group's industrial sector.
  In addition to EBIT or Operating profit (loss), the separate income statement includes the alternative performance measure of EBITDA or Operating profit (loss) before depreciation and amortization, Capital gains (losses) and Impairment reversals (losses) on non-current assets.
  In particular, in addition to EBIT, Telecom Italia uses EBITDA as the financial target in internal presentations (business plans) and in external presentations (to analysts and investors). It represents a useful unit of measurement for the evaluation of the operating performance of Telecom Italia S.p.A.. EBIT and EBITDA are calculated as follows:

Profit (loss) before tax from continuing operations	
+	Finance expenses
-	Finance income
+/-	Income (Expenses) from investments
EBIT - Operating profit (loss)	
+/-	Impairment losses (reversals) on non-current assets
+/-	Losses (gains) on disposals of non-current assets
+	Depreciation and amortization
EBITDA - Operating profit (loss) before depreciation and amortization, Capital gains (losses) and Impairment reversals (losses) on non-current assets	

- the **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 **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).

Furthermore, as required by Consob Resolution 15519 of July 27, 2006, in the separate income statement, income and expenses relating to non-recurring transactions or events have been specifically identified and their relative impact has been shown separately at the main intermediate result levels. Non-recurring events and transactions have been identified mainly according to the nature of the transactions. Specifically, non-recurring income (expenses) include events or transactions which by their very nature do not occur continuously during the normal course of business operations, for instance: income/expenses arising from the sale of properties, business segments and investments included under non-current assets; income/expenses stemming from corporate-related reorganizations; income/expenses arising from fines levied by regulatory agencies and impairment losses on goodwill.
Also in reference to the above Consob resolution, the amounts of the balances or transactions with related parties have been shown separately in the statements of financial position, the separate income statements and the statements of cash flows.

NOTE 2
ACCOUNTING POLICIES

GOING CONCERN

The separate financial statements for the year ended December 31, 2014 have been prepared on a going concern basis as there is the reasonable expectation that Telecom Italia S.p.A. 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 Company'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 Telecom Italia is exposed:
  - changes in the general macroeconomic condition in the Italian market;
  - 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);
- 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".

INTANGIBLE ASSETS

Goodwill

Under IFRS 3 (*Business Combinations*), goodwill is recognized as of the acquisition date (through merger or contribution) of companies or business segments and is measured as the difference between the consideration transferred (measured in accordance with IFRS 3, which is generally recognized on the basis of the acquisition date fair value), and the acquisition date fair value of the identifiable assets acquired net of the identifiable liabilities assumed.
Goodwill is classified in the statement of financial position as an intangible asset with an indefinite useful life whereas any gain from a bargain purchase or negative goodwill is recognized in the separate income statement.
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*".
Upon IFRS first-time adoption, the Company 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.

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 for new products and services 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 entity.

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 Company capitalizes directly attributable subscriber acquisition costs, currently mainly consisting of commissions for the sales network, 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 (24-30 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 when the obligation arises in the statement of financial position under provisions at its present value. 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 Company, 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.
Lease payments are apportioned between interest (recognized in the separate 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*), Telecom Italia S.p.A. 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 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 or market in which the cash-generating unit (or group of cash-generating units) operates.
Future cash flows are estimated by referring to the current operating conditions of the cash generating unit (or of a 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).
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 Company 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 Company 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 Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Impairment losses are recognized in the separate 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

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures are measured at cost adjusted by impairment losses. When there is objective evidence of an impairment, recoverability is verified by comparing the carrying amount of the investment against its recoverable amount consisting of the greater of fair value, net of disposal costs, and value in use.

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 Company'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.

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 write-down 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 Company’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 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 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.

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 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 Company 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:

- at the inception of the hedge, the hedging relationship is formally designated and documented;
- the hedge is expected to be highly effective;
- its effectiveness can be reliably measured;
- 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 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 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 cash flow hedges*). The cumulative gain or loss is removed from equity and recognized in the separate income statement at the same time the hedged transaction affects the separate income statement. The gain or loss associated with the ineffective portion of a hedge is recognized in the separate 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 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 income statement.

SALES OF RECEIVABLES

Telecom Italia S.p.A. 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 and rewards of ownership of the receivables to third parties, meeting IAS 39 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 statement of financial position from other assets and liabilities. The corresponding amounts for the previous period are not reclassified.
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 income statement, net of tax effects. The corresponding values for the previous periods, where present, are reclassified and reported separately in the separate 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 the 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 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 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.
The remeasurements of actuarial gains and losses are recognized in other components of other comprehensive income. The interest expenses related to the "time value" component of the actuarial calculations (the latter classified as Finance expenses), are recognized in the separate income statement under financial expenses.
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 Company'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

Telecom Italia S.p.A. provide additional benefits to certain managers of the Company through equity compensation plans (stock option 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 "Employee benefits expenses", for employees of the Company, and in "Investments", for employees of subsidiaries, 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" or "Investments".
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" for employees of the Company, and in "Investments", for employees of subsidiaries; at the end of each year such liability is measured at fair value.

PROVISIONS

The Company 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 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.

REVENUES

Revenues are the gross inflows of economic benefits during the period arising in the course of the ordinary activities of an entity. 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 only when it is probable that economic benefits will flow to the Company 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.
  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 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, Telecom Italia S.p.A. 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 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 of packages of products and services in the mobile businesses are contracts with a minimum contractual period between 24 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.

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 are recognized in the separate 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 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 Company.
Income taxes are recognized in the separate 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 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 there is a legally enforceable right of offset. Deferred tax assets and liabilities are determined based on enacted tax rates 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".

USE OF ESTIMATES

The preparation of separate 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 period. 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 detailed 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".
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.
Income tax expense	Income taxes (current and deferred) are calculated 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 more details see the Note "Supplementary disclosures on financial instruments".

As required by IAS 8.10 (*Accounting Policies, Changes in Accounting Estimates and Errors*) in the absence of a Standard or an Interpretation that specifically applies to a particular transaction, Management, through careful subjective evaluation techniques, chooses 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 Company, which reflect the economic substance of the transactions, which are neutral, prepared on a prudent basis and complete in all material respects.

NEW STANDARDS AND INTERPRETATIONS ENDORSED BY THE EU AND IN FORCE FROM JANUARY 1, 2014

As required by IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*), the following is a brief description of the IFRS in force from January 1, 2014.

- Amendments to IAS 36 (Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets)

  On December 19, 2013, Regulation EU no. 1374-2013 was issued, applying several amendments to IAS 36 governing the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal. The amendments are effective retrospectively starting from January 1, 2014.

  The adoption of these amendments had no impact on these separate financial statements at December 31, 2014.

- Amendments to IAS 39 (Financial instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting)
  On December 19, 2013 Regulation EU no. 1375-2013 was issued, applying an amendment to IAS 39, allowing hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. Similar relief has also been included in IFRS 9 Financial Instruments. The amendments are effective retrospectively starting from January 1, 2014.
  The adoption of these amendments had no impact on these separate financial statements at December 31, 2014.

- Amendments to IAS 32 (Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities)
  On December 13, 2012, Regulation EU no. 1256-2012 was issued, applying within the EU several amendments made by the IASB to IAS 32 in order to clarify the application of certain offsetting criteria for financial assets and financial liabilities in IAS 32. These amendments shall be applied retrospectively starting from January 1, 2014.
  The adoption of these amendments had no impact on these separate financial statements at December 31, 2014.

- IFRIC 21: Levies
  On June 13, 2014, the EU issued Regulation no. 634-2014 that endorsed in the EU the IFRIC Interpretation 21 Levies, an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, on the accounting for levies imposed by governments other than income taxes.
  This interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy and includes guidance illustrating how it should be applied. The interpretation is effective retrospectively starting from January 1, 2014.
  The adoption of these amendments had no impact on these separate financial statements at December 31, 2014.

NEW STANDARDS AND INTERPRETATIONS ISSUED BY IASB NOT YET IN FORCE

New Standards and Interpretations issued by IASB not yet in force are listed below.

- Improvements to the IFRS (2011-2013 cycle)
  On December 18, 2014, Regulation EC no. 1361-2014 was issued, applying several improvements to the IFRS for the period 2011 -2013, at EU level.
  The improvements to the IFRS specifically concern the following aspects:
  - "Amendment to IFRS 3 – *Business combinations*"; the amendment clarifies that IFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself (IFRS 11);
  - "Amendment to IFRS 13 – *Fair value measurement*"; the amendment clarifies that the exception from the principle of measuring assets and liabilities based on net portfolio exposure also applies to all contracts that come under the scope of IAS 39/IFRS 9 even if they do not meet the requirements established by IAS 32 to be classified as financial assets/liabilities;
  - "Amendment to IAS 40 – *Investment property*".

  These amendments – which will take effect from January 1, 2015 – are not expected to have a significant effect on the separate financial statements.

- Improvements to the IFRS (2010–2012 cycle)
  On December 17, 2014, Regulation EC no. 28-2015 was issued, applying several improvements to the IFRS for the period 2010 -2012, at EU level. These amendments included in particular:

- "Amendment to IFRS 2 – *Share-based payment*": the amendment consists of clarifications of the characteristics of some of the vesting conditions;
- "Amendment to IFRS 3 – *Business combinations*": the amendments clarify the accounting for *contingent consideration* in a business combination;
- "Amendment to IFRS 8 – Operating segments": the amendment introduces an additional disclosure to be presented in the financial statements regarding the methods of aggregating operating segments;
- "Amendment to IAS 16 – *Property, plant and equipment"* (Revaluation method – proportionate restatement of accumulated depreciation and amortization);
- "Amendment to IAS 24 - *Related Party disclosures"* (Key management personnel);
- "Amendment to IAS 38 – Intangible assets" (Revaluation method - proportionate restatement of accumulated amortization).

These amendments – which be applied from January 1, 2015 – are not expected to have a significant effect on the separate financial statements.

- **Amendments to IAS 19 (*Employee Benefits*): Defined Benefit Plans - Employee Contributions**
  On December 17, 2014, Regulation EC no. 29-2015 was issued, applying some amendments to IAS 19 at EU level. These amendments are aimed at clarifying the accounting for employee contributions under a defined benefit plan.
  These amendments – which be applied from January 1, 2015 – are not expected to have a significant effect on the separate financial statements.

NEW STANDARDS AND INTERPRETATIONS ISSUED BY IASB BUT NOT YET ENDORSED BY THE EU

At the date of preparation of these separate financial statements, the following new standards and interpretations had been issued by IASB but not yet endorsed by the EU.

	Mandatory application starting from
IFRS 14 (Regulatory Deferral Accounts)	1/1/2016
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11 – *Joint Arrangements*)	1/1/2016
Amendments to IAS 16 (*Property, Plant and Equipment*) and IAS 38 (*Intangible Assets*) - Clarification of acceptable methods of depreciation and amortization	1/1/2016
Amendments to IAS 27 (*Separate Financial Statements*): Equity method in the Separate Financial Statements	1/1/2016
Amendments to IFRS 10 *(Consolidated Financial Statements)* and to IAS 28 *(Investments in Associates and Joint Ventures):* Sale or contribution of assets between an investor and its associate/joint venture	1/1/2016
Improvements to the IFRS (2012-2014 cycle)	1/1/2016
Amendments to IFRS 12, IFRS 10 and IAS 28 (*Investment entities - Exception to consolidation*)	1/1/2016
Amendments to IAS 1 (*Disclosure initiative*)	1/1/2016
IFRS 15 (*Revenue from Contracts with Customers*)	1/1/2017
IFRS 9 (*Financial Instruments*)	1/1/2018

The potential impacts on the separate financial statements from application of these amendments are currently being assessed.

NOTE 3
GOODWILL

Goodwill at December 31, 2014 amounted to 28,424 million euros (unchanged compared to December 31, 2013) and related to the goodwill included in the domestic segment of Telecom Italia S.p.A.. The amount also included the goodwill allocated to the International Wholesale CGU, in line with the amount recognized in the consolidated financial statements.
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. For purposes of the impairment test, goodwill must be allocated to cash-generating units (CGU) or groups of CGUs according to the maximum aggregation limit which cannot exceed the operating segment identified in accordance with IFRS 8. The allocation of goodwill considers the lowest level at which goodwill is monitored for internal management purposes.
The goodwill impairment test for the separate financial statements of Telecom Italia S.p.A. involved the domestic segment of Telecom Italia S.p.A., which is the CGU to which most of the domestic goodwill is allocated, and International Wholesale. The scope of the impairment test for the domestic segment of Telecom Italia S.p.A. also included the company TI Information Technology, as it is a captive company without independent operational and financial standing. The International Wholesale CGU is composed of the investment in Telecom Italia Sparkle S.p.A. and of the goodwill of 412 million euros, allocated in accordance with the treatment adopted in the consolidated financial statements.
The impairment test consists of comparing the recoverable amount of the CGU that the goodwill is allocated to against the carrying amount of its operating assets. The recoverable amount is the higher of the value in use (present value of expected earnings flows) and the fair value less costs of disposal.
For the domestic segment of Telecom Italia S.p.A. and International Wholesale the recoverable amount was determined with reference to the value in use. This value was calculated based on the parameters used, respectively, for the impairment test of the Core Domestic CGU and the International Wholesale CGU in the consolidated financial statements.
The basic assumptions for the calculation of the value in use are shown in the table below:

Telecom Italia S.p.A. Domestic Segment	**International Wholesale**
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 (capex/revenues)	Capital expenditures rate (capex/revenues)
Cost of capital	Cost of capital
Long-term growth rate	Long-term growth rate

The domestic segment of Telecom Italia S.p.A essentially corresponds to the Core Domestic Cash Generating Unit (CGU) considered for the impairment testing of goodwill in the consolidated financial statements after having excluded the minor subsidiaries within its scope. Accordingly, the value in use of the domestic segment of Telecom Italia S.p.A. corresponds to that of the Core Domestic CGU, net of the value in use of the other subsidiaries of the Core Domestic CGU (except for TI Information Technology, which, as noted above, is considered part of the scope of the domestic segment of Telecom Italia S.p.A. for the purposes of goodwill impairment testing). Specifically, in keeping with the procedure already in place, the estimate of the value in use for the Core Domestic CGU is based on the analytical cash flow forecasts over a time period of five years (2015-2019).
For the estimate of the value in use of the Core Domestic CGU (and of the domestic segment of Telecom Italia S.p.A), the analytical forecasts of EBITDA - Capex flows used over the plan period also consider 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.

International Wholesale corresponds entirely to the CGU of the same name considered for the impairment testing of goodwill in the consolidated financial statements. As a result, the estimate of the value in use is the same and is based on the figures in the 2015-2017 industrial plan and the further extension for a two-year period (extension of analysts forecasts for the five years 2015-2019).
In both cases, the expected flows over the explicit forecast period of five years (2015-2019) have been capitalized in perpetuity.
The earnings flows used to estimate the value in use are cash nopat, equal to (EBITDA – Capex) x (1-Tc).

The nominal growth rate used to estimate the terminal value is the following:

Telecom Italia S.p.A. Domestic Segment	International Wholesale
0%	0%

These values are in line with the range of growth rates applied by the analysts who follow Telecom Italia shares, as can be gathered from the reports published after the presentation of the industrial plan (even though they are lower than the median of the analysts' forecasts shown in valuation models made available to Telecom Italia's investor relations department and in the reports published after the presentation of the industrial plan).
Since the growth rate in the terminal value is in relation to the level of capital expenditures (capex) necessary to sustain such growth, the estimate of the earnings flow to be capitalized considers a level of capital expenditure (capex/revenues) of the Core Domestic CGU in line with the median of the equity analysts' terminal year forecasts (19.06%). The parameter has been adjusted to consider the different scope of the domestic segment of Telecom Italia S.p.A., to obtain a capex/revenues ratio of 19.17% for the calculation of the terminal value.

The cost of capital used for the estimate of the value in use of the domestic segment of Telecom Italia S.p.A. and International Wholesale was estimated by considering the following:

- the criterion applied was the CAPM - Capital Asset Pricing Model estimate (the criterion referred to in Annex A of IAS 36);
- for International Wholesale, a “full equity” financial structure was considered, as it is representative of the normal financial structure of the business, whereas for the domestic segment a target financial structure was assumed in line with the average of the European telephone incumbents, including Telecom Italia itself;
- the Beta coefficient 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 (beta coefficient of the domestic segment = 1.15); International Wholesale beta coefficient = 0.80 (unlevered beta);
- reference was made to the base estimate of weighted average cost of capital (WACC) post-tax, used for the Core Domestic CGU.

On the basis of these elements, the weighted average cost of capital and the capitalization rate (WACC–g) have been estimated for each CGU as follows:

	Telecom Italia S.p.A. Domestic Segment %	**International Wholesale** %
WACC post tax	7.00	6.90
WACC post tax – g	7.00	6.90
WACC pre tax	10.00	10.08
WACC pre tax – g	10.00	10.08

The differences between the values in use and the carrying amounts at December 31, 2014 are as follows:

(millions of euros)	**Telecom Italia S.p.A. Domestic Segment** %	**International Wholesale** %
Difference between values in use and carrying amounts	+2,088	+ 231

With regard to the sensitivity analysis, the results for the domestic segment of Telecom Italia S.p.A. were slightly different than those for the Core Domestic CGU in the consolidated financial statements due to the different scope considered (without the subsidiaries included in the Core Domestic CGU, other than TI Information Technology); whereas, for the International Wholesale CGU, the difference in the results was due to the different carrying amount (since the scope of the CGU is the same for the impairment testing in the consolidated financial statements and the separate financial statements).
The sensitivity analyses consider four main variables: the WACC pre-tax discount rate, the growth rate in the terminal value (g), the compound annual growth rate of EBITDA (CAGR '14-'19), and capital expenditures in proportion to revenues (capex/revenues).
The following tables show the values of the key variables used in estimating the value in use and the changes in those 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

	Telecom Italia S.p.A. Domestic Segment %	**International Wholesale** %
Pre-tax discount rate	10.00	10.08
Long-term growth rate (g)	0	0
Compound Annual Growth Rate (CAGR) of EBITDA	1.45	-12.21
Capital expenditures rate (Capex/Revenues)	from 19.27 to 25.22	from 4.30 to 6.78

Changes in key variables needed to render the recoverable amount equal to the carrying amount

	Telecom Italia S.p.A. Domestic Segment %	**International Wholesale** %
Pre-tax discount rate	+ 0.48	+3.17
Long-term growth rate (g)	- 0.67	- 5.46
Compound Annual Growth Rate (CAGR) of EBITDA	- 1.01	- 5.11
Capital expenditures rate (Capex/Revenues)	+ 1.53	+ 2.17

NOTE 4
INTANGIBLE ASSETS WITH A FINITE USEFUL LIFE

Intangible assets with a finite useful life decreased by 405 million euros compared to December 31, 2013. The breakdown and movements are as follows:

(millions of euros)	12/31/2012	Additions	Amortization	Impairment (losses)/ reversals	Disposals	Other changes	12/31/2013
Industrial patents and intellectual property rights	**1,414**	845	(1,075)		(1)	293	**1,476**
Concessions, licenses, trademarks and similar rights	**1,515**	14	(226)			1,133	**2,436**
Other intangible assets	**193**	281	(242)				**232**
Work in progress and advance payments	**1,604**	95	–		(5)	(1,418)	**276**
Total	**4,726**	**1,235**	**(1,543)**	**–**	**(6)**	**8**	**4,420**

(millions of euros)	12/31/2013	Additions	Amortization	Impairment (losses)/ reversals	Disposals	Other changes	12/31/2014
Industrial patents and intellectual property rights	**1,476**	561	(970)			193	**1,260**
Concessions, licenses, trademarks and similar rights	**2,436**	7	(227)				**2,216**
Other intangible assets	**232**	62	(178)				**116**
Work in progress and advance payments	**276**	341			(1)	(193)	**423**
Total	**4,420**	**971**	**(1,375)**	**–**	**(1)**	**–**	**4,015**

Industrial patents and intellectual property rights mostly consisted of software (divided mainly between application software and plant operation software), purchased outright and under user license. They are amortized over an expected useful life of two/three years, whereas patents are amortized over five years.
This item decreased by 216 million euros compared to December 31, 2013 as a result of the recognition of amortization charges that were higher than the period increments. The other changes consisted of the entry into operation of intangible assets under development.

Concessions, licenses, trademarks and similar rights mainly related to the unamortized cost of licenses for mobile and fixed telecommunications services. These decreased by 220 million euros compared to December 31, 2013. The value of telephone licenses and similar rights, and their useful lives, are detailed below:

Type	Net carrying amount at 12/31/2014 (millions of euros)	Amortization period in years	Amortization charge for 2014 (millions of euros)
UMTS	940	18	134
UMTS 2100 MHz	52	12	7
Wireless Local Loop	2	15	1
WiMax	8	15	1
LTE 1800 MHz	129	18	9
LTE 800 MHz	900	17	60
LTE 2600 MHz	99	17	7

Other intangible assets mainly included capitalized Subscriber Acquisition Costs (SACs) of the Business and Consumer segments in the mobile telephony area. The unamortized cost at December 31, 2014 was 114 million euros (230 million euros at December 31, 2013). The amortization of these remaining subscriber acquisition costs – amounting to 177 million euros – is generally completed in a period of 24 to 30 months, corresponding to the minimum duration of contracts signed with customers.
This item fell by 116 million euros compared to December 31, 2013, mainly as a result of lower capitalization for Subscriber Acquisition Costs (SACs). In this regard, from 2014, Telecom Italia's new market strategy is aimed at gradually ceasing to subsidize handsets in the "bundle deals". The decision to use subsidies as a purchasing incentive was part of a market scenario where the prices of next generation handsets were very high. It was therefore crucial, in order to aid penetration and spread of services, for deals to be combined with the subsidized sale of next generation devices. The market has evolved, with ever-increasing development and use of cutting edge handsets providing access to new services at more affordable prices. Accordingly, a plan has been formulated for the gradual reduction in subsidies, effectively eliminating offers targeted at segments that provide lower contributions in terms of ARPU. In 2013 the capitalized handset subsidies amounted to 188 million euros.

Additions amounted to 971 million euros in 2014 and included 54 million euros of internally generated assets (54 million euros in 2013), mainly relating to engineering, design and deployment of network solutions, applications and innovative services.
Amortization of intangible assets amounted to 1,375 million euros in 2014, a decrease of 168 million euros compared to the amount recognized in 2013 (1,543 million euros). The amortization was essentially the result of the change in amortizable software assets and the already mentioned decrease in Subscriber Acquisition Costs (SACs).
Amortization is recorded in the income statement under the components of the operating result.

Gross carrying amount, accumulated impairment losses and accumulated amortization at December 31, 2014 and December 31, 2013 can be summarized as follows:

(millions of euros)	12/31/2013			
	Gross carrying amount	Accumulated impairment losses	Accumulated amortization	Net carrying amount
Industrial patents and intellectual property rights	9,276	(7)	(7,793)	**1,476**
Concessions, licenses, trademarks and similar rights	3,941		(1,505)	**2,436**
Other intangible assets	567	–	(335)	**232**
Work in progress and advance payments	276			**276**
Total	**14,060**	**(7)**	**(9,633)**	**4,420**

(millions of euros)	12/31/2014			
	Gross carrying amount	Accumulated impairment losses	Accumulated amortization	Net carrying amount
Industrial patents and intellectual property rights	9,076	(7)	(7,809)	**1,260**
Concessions, licenses, trademarks and similar rights	3,948		(1,732)	**2,216**
Other intangible assets	452	–	(336)	**116**
Work in progress and advance payments	423			**423**
Total	**13,899**	**(7)**	**(9,877)**	**4,015**

Patents and intellectual property rights included disposals related to the elimination or rewriting of software (for applications and plant operation) for a gross carrying amount of 954 million euros fully amortized.

Other intangible assets included gross disposals of 177 million euros relating to fully amortized Subscriber Acquisition Costs (SACs).

NOTE 5
TANGIBLE ASSETS
(OWNED AND UNDER FINANCE LEASES)

PROPERTY, PLANT AND EQUIPMENT OWNED

Property, plant and equipment owned decreased by 39 million euros compared to December 31, 2013. The breakdown and movements are as follows:

(millions of euros)	12/31/2012	Additions	Depreciation (*)	Impairment (losses)/ reversals	Disposals	Other changes	12/31/2013
Land	**117**	–			(2)		**115**
Buildings (civil and industrial)	**352**	4	(39)			1	**318**
Plant and equipment	**8,204**	1,317	(1,649)		(13)	251	**8,110**
Manufacturing and distribution equipment	**34**	13	(12)			5	**40**
Other	**293**	43	(101)			42	**277**
Construction in progress and advance payments	**488**	261		–	(1)	(301)	**447**
Total	**9,488**	**1,638**	**(1,801)**	**–**	**(16)**	**(2)**	**9,307**

(*) The depreciation charge does not take into account the adjustments to the Provision for restoration costs for a total amount of 3 million euros.

(millions of euros)	12/31/2013	Additions	Depreciation (*)	Impairment (losses)/ reversals	Disposals	Other changes	12/31/2014
Land	**115**				(3)		**112**
Buildings (civil and industrial)	**318**	6	(36)		(34)	5	**259**
Plant and equipment	**8,110**	1,381	(1,546)		(9)	220	**8,156**
Manufacturing and distribution equipment	**40**	12	(13)			–	**39**
Other	**277**	45	(94)			34	**262**
Construction in progress and advance payments	**447**	241			(1)	(247)	**440**
Total	**9,307**	**1,685**	**(1,689)**	**–**	**(47)**	**12**	**9,268**

(*) The depreciation charge does not take into account the adjustments to the Provision for restoration costs for a total amount of 2 million euros.

Land includes both built-up land (with buildings or light constructions) and other land (on which various building works stand that are not recorded in the land cadastre, such as pylons, building podia, etc.). Land, including land pertaining to buildings, is not depreciated. Disposals of 3 million euros were recorded as a result of the sale – in March 2014 – of the Telecom Italia property located in Milan.

Buildings (civil and industrial) almost exclusively consists of buildings for industrial use hosting telephone exchanges or for office use and light constructions (referring to constructions built with light structures and walls and registered containers). This item also includes some residential property (i.e. classified as residential property in the land registry) for a marginal amount of 1 million euros. This item decreased by 59 million euros compared to December 31, 2013, mainly as result of the sale of the property located in Via Negri, Milan and the consequent disposal for a net amount of 34 million euros.

Plant and equipment includes the aggregate of all the structures used for the functioning of voice and data telephone traffic. They refer to the entire company infrastructure and are divided into macro categories comprising switching, power supply systems, access and carrier networks in copper and fiber, fixed-line and mobile transmission equipment, base transceiver stations and also telephone systems for termination used by the different clientele segments. This item increased 46 million euros essentially due to entry into operation of tangible assets in progress, recognized under other changes. Net disposals mainly included 3 million euros for disposals related to the rental purchase of mobile phones in the multibusiness segment, and 3 million euros for mobile installations.

Manufacturing and distribution equipment consists of instruments and equipment used for the running and maintenance of plant and equipment; this item decreased 1 million euros compared to December 31, 2013.

Other is mostly made up of hardware for the functioning of the Data Centers and for work stations, furniture and fixtures and, to a minimal extent, transport vehicles and office machines; this item decreased 15 million euros compared to December 31, 2013.

Construction in progress and advance payments refers to the internal and external costs incurred for the acquisition and internal production of tangible assets, which are not yet in use; this item decreased 7 million euros, due to a higher amount of assets coming into use compared to additions.

Additions amounted to 1,685 million euros in 2014 and included 202 million euros of internally generated assets (190 million euros in 2013), which increased by 12 million euros mainly due to the construction of infrastructure for ultra-broadband services. Further details are provided in the Note "Internally generated assets".

Depreciation of tangible assets owned amounted to 1,689 million euros in 2014 (1,801 million euros in 2013) representing a decrease of 112 million euros. The decrease in depreciation was mainly due to the decrease in capital expenditure in recent years and was concentrated in the following areas: fixed-line and mobile transmission equipment (-17 million euros), fixed-line/mobile switching systems (-18 million euros), goods rented to customers (-16 million euros in the fixed-line segment and -33 million euros in the mobile segment), and underground cables (-14 million euros).

Depreciation is calculated using the straight-line method over the remaining useful lives of the assets in accordance with the depreciation plan reviewed annually to take account of useful lives by single class of fixed asset. The effects of any changes in the useful life are recognized in the separate income statement prospectively.

Depreciation for the years 2014 and 2013 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%

Gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2014 and December 31, 2013 can be summarized as follows:

(millions of euros)	12/31/2013			
	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	115			**115**
Buildings (civil and industrial)	1,288	(1)	(969)	**318**
Plant and equipment	57,877	(5)	(49,762)	**8,110**
Manufacturing and distribution equipment	225		(185)	**40**
Other	2,597	(2)	(2,318)	**277**
Construction in progress and advance payments	447			**447**
Total	**62,549**	**(8)**	**(53,234)**	**9,307**

(millions of euros)	12/31/2014			
	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	112			**112**
Buildings (civil and industrial)	1,248	(1)	(988)	**259**
Plant and equipment	58,702	(5)	(50,541)	**8,156**
Manufacturing and distribution equipment	237		(198)	**39**
Other	2,667	(2)	(2,403)	**262**
Construction in progress and advance payments	440			**440**
Total	**63,406**	**(8)**	**(54,130)**	**9,268**

With regard to the gross carrying amounts of non-current tangible assets, in 2014 disposals were made for a gross carrying amount of 845 million euros mainly in relation to fully depreciated assets. Disposals mainly involved plant and equipment (779 million euros), including, in particular, disposals for the replacement of mobile network transmission systems (275 million euros); disposals of subscriber connection units (63 million euros); and disposals of fixed-line/mobile switching systems (150 million euros).

Disposals of non-current tangible assets generated gains of 39 million euros (relating to the sale of the company property located in Milan) and losses of 8 million euros recognized in the income statement.

ASSETS HELD UNDER FINANCE LEASES

Assets held under finance leases decreased by 76 million euros compared to December 31, 2013. The breakdown and movements are as follows:

(millions of euros)	12/31/2012	Additions	Depreciation	Impairment (losses)/ reversals	Disposals	Other changes	12/31/2013
Buildings (civil and industrial)	**971**	21	(117)		–	7	**882**
Other	**9**	2	(6)				**5**
Construction in progress and advance payments	**25**	19				(13)	**31**
Total	**1,005**	**42**	**(123)**	**–**	**–**	**(6)**	**918**

(millions of euros)	12/31/2013	Additions	Depreciation	Impairment (losses)/ reversals	Disposals	Other changes	12/31/2014
Buildings (civil and industrial)	**882**	20	(120)		(1)	31	**812**
Other	**5**	1	(4)				**2**
Construction in progress and advance payments	**31**	16				(19)	**28**
Total	**918**	**37**	**(124)**	**–**	**(1)**	**12**	**842**

The item **Buildings (civil and industrial)** includes buildings under long rent contracts and related building adaptations. The other changes in this item included 21 million euros increases following the recontractualization of long rent leases. The disposals amounting to around 1 million euros were due to the early exit from leases.
The item **Other** essentially comprises the capitalization of finance leases of Data Center hardware and Olivetti copiers.
Depreciation and impairment losses are recorded in the income statement as components of the operating result.

Gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2014 and December 31, 2013 can be summarized as follows:

	12/31/2013			
(millions of euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Buildings (civil and industrial)	2,105	(27)	(1,196)	**882**
Other	89		(84)	**5**
Construction in progress and advance payments	31			**31**
Total	**2,225**	**(27)**	**(1,280)**	**918**

	12/31/2014			
(millions of euros)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Buildings (civil and industrial)	2,140	(27)	(1,301)	**812**
Other	91		(89)	**2**
Construction in progress and advance payments	28			**28**
Total	**2,259**	**(27)**	**(1,390)**	**842**

At December 31, 2014, lease payments due in future years and their present value were as follows:

(millions of euros)	12/31/2014		12/31/2013	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within 1 year	216	190	215	191
From 2 to 5 years	879	566	882	582
Beyond 5 years	463	209	645	282
Total	**1,558**	**965**	**1,742**	**1,055**

(millions of euros)	12/31/2014	12/31/2013
Future net minimum lease payments	1,558	1,742
Interest portion	(593)	(687)
Present value of lease payments	**965**	**1,055**
Finance lease liabilities(1)	1,042	1,189
Financial receivables for lease contracts (2)	(77)	(134)
Total net finance lease liabilities	**965**	**1,055**

(1) These include financial payables to Teleleasing of 67 million euros (125 million euros at December 31, 2013) for direct and indirect lease transactions.

(2) These refer to the present value of installments receivable from customers on direct and indirect lease transactions with Teleleasing, net of the relative provision for write-downs.

At December 31, 2014, the lease payments adjustment based on ISTAT price index was 38 million euros (35 million euros at December 31, 2013).

NOTE 6
INVESTMENTS

Investments decreased 86 million euros compared to December 31, 2013 and included:

(millions of euros)	12/31/2014	*Of which IAS 39 Financial Instruments*	12/31/2013	*Of which IAS 39 Financial Instruments*
Subsidiaries	9,191		9,235	
Associates and joint ventures	11	–	55	–
Other investments	41	*41*	39	*39*
Total	**9,243**	*41*	**9,329**	*39*

Further details on Financial Instruments are provided in the Note "Supplementary disclosure on financial instruments".

In 2014 the following transactions with subsidiaries of Telecom Italia S.p.A. took place:

- **Trentino NGN Srl**: on February 28, 2014 Telecom Italia acquired the investment held by the Autonomous Province of Trento and by the minority shareholders, for an outlay of around 17 million euros, thereby acquiring control of the company with 97.4% of the company capital. As a result, the original carrying amount of the investment, of 38.1 million euros, was reclassified from investments in associates and joint ventures to investments in subsidiaries;
- **4G Retail Srl:** on July 1, 2014 TLC Commercial Services Srl and all of its fourteen subsidiary flagship stores were merged into 4G Retail Srl, with retroactive accounting and tax effects from January 1, 2014. As a result of this reverse merger, the carrying amount of the TLC Commercial Services Srl, of 15.1 million euros, was reclassified to the carrying amount of 4G Retail Srl;
- **Advalso S.p.A.:** on July 1, 2014 Advalso S.p.A. merged into Olivetti S.p.A., with retroactive effect from January 1, 2014. As a result of this merger, the carrying amount of the Advalso S.p.A., of 12 thousand euros, was reclassified to the carrying amount of Olivetti S.p.A..

In addition:

- **Telecom Italia Trust Technologies Srl**: with effect from January 1, 2014 the company name of IT Telecom Srl was changed to Telecom Italia Trust Technologies Srl;
- **Persidera S.p.A.**: with effect from July 1, 2014 the company name of Telecom Italia Media Broadcasting Srl was changed to Persidera S.p.A..

Movements during 2014 for each investment and the corresponding amounts at the beginning and end of the year are reported below. The list of investments in subsidiaries, associates and joint ventures at December 31, 2014 is presented in compliance with art. 2427 of the Italian Civil Code and reported in the Note "List of investments in subsidiaries, associates and joint ventures".

Investments

(thousands of euros)	Carrying amount at 12/31/2013	Changes during the year					Carrying amount at 12/31/2014
		Acquisitions/ Subscriptions/ Payments to cover losses	Disposals/Reim-bursements	Impairment losses/Rever-sals/Fair value adjustments	Other changes and reclassifica-tions (*)	Total changes	
Investments in subsidiaries							
4G RETAIL	-				15,104	15,104	15,104
ADVANCED CARING CENTER	-				2	2	2
ADVALSO	12				(12)	(12)	-
EMSA SERVIZI (in liquidation)	5,000					-	5,000
HR SERVICES	521				22	22	543
MEDITERRANEAN NAUTILUS ITALY	3					-	3
OFI CONSULTING	35,109					-	35,109
OLIVETTI GESTIONI IVREA	375					-	375
OLIVETTI I-JET (in liquidation)	68					-	68
OLIVETTI MULTISERVICES	40,406				1	1	40,407
OLIVETTI	20,255	10,000		(30,298)	43	(20,255)	-
PERSIDERA (former TELECOM ITALIA MEDIA BROADCASTING)	3				1	1	4
TELECOM ITALIA CAPITAL	2,388					-	2,388
TELECOM ITALIA DEUTSCHLAND HOLDING	10,820					-	10,820
TELECOM ITALIA INFORMATION TECHNOLOGY	40,893	5,000		(21,250)	976	(15,274)	25,619
TELECOM ITALIA INTERNATIONAL	6,835,705					-	6,835,705
TELECOM ITALIA LATAM PARTICIPAÇÕES E GESTÃO ADMINISTRATIVA	-					-	-
TELECOM ITALIA MEDIA	137,465	-		(62,900)	3	(62,897)	74,568
TELECOM ITALIA SAN MARINO	-	7,565				7,565	7,565
TELECOM ITALIA TRUST TECHNOLOGY (former IT TELECOM)	8,476				11	11	8,487
TELECOM ITALIA VENTURES	-	1,360				1,360	1,360
TELECONTACT CENTER	14,575			(2,149)	83	(2,066)	12,509
TELENERGIA	50					-	50
TELSY	14,517					-	14,517
TIAUDIT COMPLIANCE LATAM (in liquidation)	313					-	313
TI DIGITAL SOLUTIONS	7,812				234	234	8,046
TIERRA ARGENTEA	9,887	1,064	(8,820)	-		(7,756)	2,131
TELECOM ITALIA FINANCE	1,448,390					-	1,448,390
TELECOM ITALIA SPARKLE	586,466				164	164	586,630
TLC COMMERCIAL SERVICES	15,100				(15,100)	(15,100)	-
TRENTINO NGN	-	17,127			38,100	55,227	55,227
	9,234,609	**42,116**	**(8,820)**	**(116,597)**	**39,632**	**(43,669)**	**9,190,940**

(*) The column "Other changes and reclassification" includes:
a) 2 thousand euros as the fair value of expenses relating to the granting of the equity compensation plans to the employees of Telecom Italia Group companies under the "Long Term Incentive Plan" 2010-2015 (LTI);
b) -401 thousand euros as the fair value of expenses relating to the granting of the equity compensation plans to the employees of Telecom Italia Group companies under the "Long Term Incentive Plan" 2011 (LTI);
c) -384 thousand euros as the fair value of expenses relating to the granting of the equity compensation plans to the employees of Telecom Italia Group companies under the "Long Term Incentive Plan" 2012 (LTI);
d) 1,208 thousand euros representing the discount and the fair value of the bonus shares, on Telecom Italia ordinary shares subscribed by the employees of Telecom Italia Group Companies under the "Broad-based Share Ownership Plan" 2014 (PAD);
e) 1,108 thousand euros representing the option rights for the purchase of Telecom Italia ordinary shares at a preestablished price allocated to people holding strategic roles, employed by Telecom Italia Group Companies, under the "Stock Option Plan" 2014 -2016 (PAD).

(thousands of euros)	Carrying amount at 12/31/2013	Changes during the year					Carrying amount at 12/31/2014
		Acquisitions/ Subscriptions/ Payments to cover losses	Disposals/ Reimbursements	Impairment losses/ Reversals/ Fair value adjustments	Other changes and reclassifications	Total changes	
Investments in associates and joint ventures							
AREE URBANE (in liquidation)	-					-	-
ASSCOM INSURANCE BROKERS	20					-	20
IM.SER (in liquidation)	40		(40)			(40)	-
NORDCOM	2,143					-	2,143
TELELEASING (in liquidation)	829					-	829
TIGLIO I (in liquidation)	13,580			(5,763)		(5,763)	7,817
TIGLIO II	489			(45)		(45)	444
TRENTINO NGN	38,100			-	(38,100)	(38,100)	-
Consorzio EO (in liquidation)	-					-	-
	55,201	**-**	**(40)**	**(5,808)**	**(38,100)**	**(43,948)**	**11,253**

(thousands of euros)	Carrying amount at 12/31/2013	Changes during the year					Carrying amount at 12/31/2014
		Acquisitions/ Subscriptions/ Payments to cover losses	Disposals/ Reimbursements	Impairment losses/ Reversals/ Fair value adjustments	Other changes and reclassifications	Total changes	
Investments in other companies							
ASSICURAZIONI GENERALI (**)	3,211	-	-	(11)	-	(11)	3,200
BANCA UBAE	1,898	-	-	-	-	-	1,898
FIN. PRIV.(**)	13,646	-	-	774	-	774	14,420
IST. ENCICLOPEDIA ITALIANA G. TRECCANI	3,832	-	-	-	-	-	3,832
ISTITUTO EUROPEO DI ONCOLOGIA	2,116	-	-	-	-	-	2,116
SIA	11,278	-	-	-	-	-	11,278
Other minor investments	3,367	968	(59)	(478)	-	431	3,798
	39,348	**968**	**(59)**	**285**	**-**	**1,194**	**40,542**
Total Investments	**9,329,158**	**43,084**	**(8,919)**	**(122,120)**	**1,532**	**(86,423)**	**9,242,735**

(**) Investments measured at fair value.

NOTE 7
FINANCIAL ASSETS
(NON-CURRENT AND CURRENT)

Financial assets (non-current and current) were broken down as follows:

(millions of euros)		12/31/2014	12/31/2013
Non-current financial assets			
Financial receivables and other non-current financial assets:			
Financial receivables from subsidiaries		1	6
Financial receivables from associates and joint ventures		–	–
Financial receivables from other related parties		–	–
Financial receivables for lease contracts		25	56
Receivables from employees		26	27
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature		663	356
Non-hedging derivatives		1,209	926
Other financial receivables		–	–
Prepaid expenses		–	–
Total non-current financial assets	**(a)**	**1,924**	**1,371**
Current financial assets			
Securities other than investments			
Held for trading		–	–
Held-to-maturity		–	–
Available-for-sale		802	1,462
		802	**1,462**
Financial receivables and other current financial assets			
Financial receivables for lease contracts		52	78
Receivables from employees		10	10
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature		124	220
Non-hedging derivatives		108	125
Financial receivables from subsidiaries		7	110
Financial receivables from associates and joint ventures			–
Other financial receivables		1	1
Prepaid expenses		1	3
		303	**547**
Cash and cash equivalents		**1,305**	**1,284**
Total current financial assets	**(b)**	**2,410**	**3,293**
Total financial assets	**(c)=(a+b)**	**4,334**	**4,664**

Further details on Financial Instruments are provided in the Note “Supplementary disclosure on financial instruments”.

Financial receivables for lease contracts refer to:

- indirect contracts, that is, lease contracts negotiated directly by Teleleasing with Telecom Italia customers and of which Telecom Italia is the guarantor. In particular:
  - the non-current portion amounted to 22 million euros (51 million euros at December 31, 2013), of which 20 million euros relating to receivables falling due in the next two to five years (47 million euros at December 31, 2013) and 2 million euros due after over five years (4 million euros at December 31, 2013);
  - the current portion amounted to 50 million euros (75 million euros at December 31, 2013);

- direct contracts, that is, lease contracts with the rendering of accessory services under the "full rent" formula. In particular:
  - the non-current portion amounted to 3 million euros (5 million euros at December 31, 2013) relating to loans falling due in the next two to five years;
  - the current portion of these contracts amounted to 2 million euros (3 million euros at December 31, 2013).

Receivables from employees (current and non-current) refer to the remaining amount due on loans granted.

Hedging derivatives amounted to 787 million euros (576 million euros at December 31, 2013) and related to:
- hedged items classified as non-current financial assets/liabilities that pertain to the mark to market component (663 million euros) and include cash flow hedges and fair value hedges entered into with Banca Intesa (31 million euros) and Telecom Italia Finance S.A. (179 million euros);
- hedged items classified as current assets/liabilities of a financial nature (124 million euros), essentially consisting of accrued income on cash flow hedge and fair value hedge derivative contracts.

Non-hedging derivatives amounted to 1,317 million euros (1,051 thousand euros at December 31, 2013) and included the asset value of transactions that Telecom Italia S.p.A. carries out on behalf of companies of the Group as a centralized treasury function. This item is offset by the corresponding item classified in financial liabilities, less a derivative with Telecom Italia Finance S.A. (61 million euros) which has been classified as a hedging instrument at Group level.
At December 31, 2014, non-hedging derivatives consisted of:
- items classified as non-current financial assets (1,209 million euros) and included derivatives entered into with Banca Intesa (232 million euros), Mediobanca group (35 million euros), Telecom Italia Capital S.A. (19 million euros), and Telecom Italia Finance S.A. (61 million euros);
- items classified as current financial assets (108 million euros), essentially consisting of accrued income.

You are reminded that at December 31, 2013, the portion of non-hedging derivatives classified as non-current financial assets included 63 million euros relating to the value of the embedded option in the mandatory convertible bond issued by 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."). At December 31, 2014 the valuation of the derivative was negative and was, therefore, classified under non-current financial liabilities.
Further details are provided in the Note "Derivatives".

Securities other than investments (included in current assets) due beyond three months and recognized at market value consisted of:
  - Italian treasury bonds (254 million euros) and Treasury Credit Certificates (5 million euros assigned to Telecom Italia S.p.A. as the holder of trade receivables, as per Italian Ministry of Economy and Finance Decree of December 3, 2012). The BTPs and CCTs, which, pursuant to Consob Communication DEM/11070007 of August 5, 2011, represent investments in "Sovereign debt securities", have been purchased 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;
  - securities held in portfolio by Telecom Italia S.p.A. for a total nominal amount of USD 635 million, resulting from the buyback offer on bonds of Telecom Italia Capital S.A. completed on June 3, 2013.

Cash and cash equivalents increased 21 million euros compared to December 31, 2013 and were broken down as follows:

(millions of euros)	12/31/2014	12/31/2013
Liquid assets with banks, financial institutions and post offices	1,178	1,265
Checks, cash and other receivables and deposits for cash flexibility	1	1
Receivables from subsidiaries	126	18
Total	**1,305**	**1,284**

The different technical forms of investing available cash at December 31, 2014 can be analyzed as follows:

- maturities: investments have a maximum maturity of three months;
- counterparty risk: investments are made with leading banking and financial institutions with high credit quality and with a rating of at least BBB- according to Standard & Poor's or similar rating agencies;
- country risk: deposits have been made mainly in major European financial markets.

NOTE 8
MISCELLANEOUS RECEIVABLES AND OTHER NON-CURRENT ASSETS

Miscellaneous receivables and other non-current assets decreased by 122 million euros compared to December 31, 2013. They included:

(millions of euros)	**12/31/2014**	*Of which IAS 39 Financial Instruments*	**12/31/2013**	*Of which IAS 39 Financial Instruments*
Miscellaneous receivables and other non-current assets:				
Miscellaneous receivables from subsidiaries	–		–	
Miscellaneous receivables from associates	–	–	–	
Other receivables	52	7	347	3
Medium/long-term prepaid expenses	960		787	
Total	**1,012**	7	**1,134**	3

Further details on Financial Instruments are provided in the Note “Supplementary disclosure on financial instruments”.

Miscellaneous receivables and other non-current assets amounted to 1,012 million euros (1,134 million euros at December 31, 2013) and included income tax receivables of 45 million euros (344 million euros at December 31, 2013).

In August 2014, IRES tax receivables, previously recognized under “Other receivables” were sold to Mediocredito Italiano for 303 million euros. More details are provided in the Note “Income tax expense”.

Lastly, medium/long-term prepaid expenses mainly relate to the deferral of costs in connection with contracts for the activation of telephone services.

NOTE 9
INCOME TAXES

INCOME TAX RECEIVABLES

Non-current income tax receivables amounted to 45 million euros at December 31, 2014 (344 million euros at December 31, 2013).
The figure at December 31, 2013 included 344 million euros of receivables for taxes and interest resulting from the recognized deductibility from IRES tax of the IRAP tax calculated on labor costs, relating to years prior to 2012, following the entry into force of Decree Law 16/2012. In August 2014, part of this receivable was sold to Mediocredito Italiano for 303 million euros and generated net proceeds of 231 million euros. A total of 45 million euros continue to be recognized, which include the receivables for the interest component – amounting to 35 million euros – accrued on the receivable sold. These interest receivables were transferred to Mediocredito Italiano through a recourse clause, but without any financial advance. As a result the counterparty risk remains with Telecom Italia S.p.A..

Current tax receivables amounted to 79 million euros (101 million euros at December 31, 2013) of which: 66 million euros for the IRES tax receivable arising from the national consolidated tax return for 2014 (carried by Telecom Italia S.p.A. as the consolidating entity), and 13 million euros in surplus advance payments for IRAP tax and other minor taxes.

DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The net balance is composed as follows:

(millions of euros)	12/31/2014	12/31/2013
Deferred tax assets	727	560
Deferred tax liabilities	(2)	(2)
Total	**725**	**558**

The presentation of deferred tax assets and liabilities in the financial statements takes account of offsets to the extent that such offsets are legally permitted. The composition of the gross amounts prior to offsetting is presented below:

(millions of euros)	12/31/2014	12/31/2013
Deferred tax assets	827	668
Deferred tax liabilities	(102)	(110)
Total	**725**	**558**

The temporary differences which made up this line item at December 31, 2014 and 2013, as well as the movements during 2014 were as follows:

(millions of euros)	12/31/2013	Recognized in profit or loss	Recognized in equity	Other changes	12/31/2014
Deferred tax assets:					
Provisions for pension fund integration Law 58/92	10	(2)			**8**
Provisions	97	(23)			**74**
Provision for bad debts	160	(14)			**146**
Financial instruments	252		195		**447**
Capital grants	4	(1)			**3**
Taxed depreciation and amortization	137	(21)			**116**
Discounting of provision for employee severance indemnities	-	4	23		**27**
Other deferred tax assets	8	(2)			**6**
Total	**668**	**(59)**	**218**		**827**
Deferred tax liabilities:					
Accelerated depreciation	(24)	5			**(19)**
Deferred gains	(7)	(7)			**(14)**
Discounting of provision for employee severance indemnities	(28)		28		**-**
Financial instruments	(15)		(14)		**(29)**
Other deferred tax liabilities	(36)	(4)			**(40)**
Total	**(110)**	**(6)**	**14**		**(102)**
Total Net deferred tax assets (liabilities)	**558**	**(65)**	**232**		**725**

The expirations of deferred tax assets and deferred tax liabilities at December 31, 2014 were as follows:

(millions of euros)	Within 1 year	Beyond 1 year	Total at 12/31/2014
Deferred tax assets	216	611	**827**
Deferred tax liabilities	(13)	(89)	**(102)**
Total Net deferred tax assets (liabilities)	**203**	**522**	**725**

At December 31, 2014, the Company had tax-suspended equity reserves of 1,835 million euros, subject to taxation in the event of distribution, on which deferred taxes had not been allocated as their distribution is not foreseen.

INCOME TAX EXPENSE

The income tax expense for the years ended December 31, 2014 and 2013 is detailed below.

(millions of euros)	2014	2013
IRAP taxes for current year	236	259
IRES taxes for current year	407	524
Expenses/(income) from tax consolidation	18	19
Current taxes of prior years	(56)	(90)
Total current taxes	**605**	**712**
Deferred income taxes	57	85
Deferred taxes of prior years	8	49
Total deferred taxes	**65**	**134**
Total income tax expense for the year	**670**	**846**

The IRES tax rate is 27.5%, while the IRAP tax rate has been set at 3.9%.
The positive impact of taxes from previous years (48 million euros) came from the improvement (56 million euros) resulting from the actual tax return compared to the estimate made in the 2013 financial statements based on a prudent interpretation of the tax laws in effect at the time, partly offset by the recognition of additional deferred taxes from previous years (8 million euros).

The reconciliation between the theoretical tax charge, calculated on the basis of the IRES tax rate in effect at December 31, 2014 (27.5%), and the effective tax charge in the separate financial statements is as follows:

(millions of euros)	2014	2013
Profit (loss) before tax		
From continuing operations	1,299	(182)
From Discontinued operations/Non-current assets held for sale	7	-
Total profit (loss) before tax	**1,306**	**(182)**
Theoretical income tax	**359**	**(50)**
Income tax effect on increases (decreases) in variations:		
dividends recognized in income	(3)	(28)
non-deductible goodwill impairment charge	-	601
non-deductible impairments and losses on investments	34	49
non-taxable gains on investments and other income	-	-
non-deductible costs	62	33
other taxed items	29	18
IRES taxes for previous years	(34)	(32)
Effective income tax recognized in income statement, excluding IRAP tax	**447**	**591**
IRAP tax	223	255
Total effective income tax recognized in income statement	**670**	**846**

For a better understanding of the above reconciliation, the Regional Income Tax (IRAP tax) has been shown separately so as to avoid any distorting effect arising from the fact that this tax is calculated on a tax basis other than pre-tax profit.

NOTE 10
INVENTORIES

Inventories amounted to 111 million euros at December 31, 2014, decreasing 43 million euros compared to December 31, 2013. They mainly consist of equipment, handsets and the relative accessories for fixed-line and mobile telecommunications.
In 2014, inventories were written down by 7 million euros (4 million euros in 2013), mainly to adjust the carrying amount of fixed and mobile equipment used for marketing to their estimated realizable value.
No inventories are pledged as collateral.

NOTE 11
TRADE AND MISCELLANEOUS RECEIVABLES AND OTHER CURRENT ASSETS

Trade and miscellaneous receivables and other current assets increased 17 million euros compared to December 31, 2013 and were broken down as follows:

(millions of euros)		12/31/2014	*Of which IAS 39 Financial Instruments*	12/31/2013	*Of which IAS 39 Financial Instruments*
Amounts due on construction contracts	**(a)**	**56**		**42**	
Trade receivables					
Receivables from customers		1,877	*1,877*	1,941	*1,941*
Receivables from other telecommunications operators		569	*569*	410	*410*
Receivables from subsidiaries		139	*139*	146	*146*
Receivables from associates and joint ventures		3	*3*	4	*4*
Receivables from other related parties		40	*40*	44	*44*
Customer collections pending credit		22	*22*	16	*16*
	(b)	**2,650**	*2,650*	**2,561**	*2,561*
Miscellaneous receivables and other current assets					
Receivables from subsidiaries		9	–	27	–
Receivables from associates and joint ventures		–	–	–	–
Receivables from other related parties		61	*61*	89	*89*
Other receivables		239	*116*	326	*106*
Trade and miscellaneous prepaid expenses		477		430	–
	(c)	**786**	*177*	**872**	*195*
Total	**(a+b+c)**	**3,492**	*2,827*	**3,475**	*2,756*

Further details on Financial Instruments are provided in the Note "Supplementary disclosure on financial instruments".

The aging of financial instruments included in Trade and miscellaneous receivables and other current assets at December 31, 2014 and December 31, 2013 is as follows:

(millions of euros)	12/31/2014	Total current	Total overdue	*Overdue: 0-90 days*	*91-180 days*	*181-365 days*	*More than 365 days*
Trade and miscellaneous receivables and other current assets	**2,827**	2,196	631	*134*	*90*	*143*	*264*

(millions of euros)	12/31/2013	Total current	Total overdue	*Overdue: 0-90 days*	*91-180 days*	*181-365 days*	*More than 365 days*
Trade and miscellaneous receivables and other current assets	**2,756**	2,062	694	*176*	*118*	*148*	*252*

The change in current receivables compared to December 31, 2013 (+134 million euros) reflected lower amount of sales of receivables due from other operators.

Overdue receivables decreased by 63 million euros against December 31, 2013, mainly due to the decrease in receivables due within 90 days (-42 million euros compared to December 31, 2013) and between 91 and 180 days (-28 million euros). This performance was influenced by the improvement in collection capability and the performance of sales, together with additional write-offs.

Trade receivables amounted to 2,650 million euros (2,561 million euros at December 31, 2013) and were net of the provision for bad debts of 514 million euros (584 million euros at December 31, 2013). Movements in the provision for bad debts were as follows:

(millions of euros)	2014	2013
At January 1	**584**	**642**
Provision charges to the income statement	189	172
Utilization and decreases	(259)	(230)
At December 31	**514**	**584**

The provision for bad debts included specific write-downs of 255 million euros (278 million euros at December 31, 2013) and write-downs made on the basis of average uncollectibility of 259 million euros (306 million euros at December 31, 2013). 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.
The increase in trade receivables of Telecom Italia (89 million euros) compared to December 31, 2013 was mainly due to the changes in the receivables due from other telecommunication operators.
Receivables from customers amounted to 1,877 million euros and decreased by 64 million euros on December 31, 2013, whereas receivables from other telecommunications operators (amounting to 569 million euros) increased (159 million euros) compared to December 31, 2013.
Receivables from subsidiaries amounted to 139 million euros (down 7 million euros compared to December 31, 2013) and mainly related to TLC services provided to 4GRetail (33 million euros), Telecom Italia Sparkle (32 million euros), Telecom Italia Digital Solutions (31 million euros) and Telecom Italia Information Technology (18 million euros).
Receivables from associates and joint ventures, amounting to 3 million euros, mainly related to Teleleasing (2 million euros) for the sale of TLC equipment and services.
Receivables from other related parties, amounting to 40 million euros, related in particular to receivable positions with the Intesa Sanpaolo group and the Generali group.

Miscellaneous receivables and other current assets stood at 786 million euros (872 million euros at December 31, 2013) and were net of a provision for bad debts of 79 million euros. In particular, receivables from subsidiaries consisted of 4 million euros of receivables from Group companies for the tax consolidation, in addition to receivables from Telecom Italia Capital (2 million euros) and Telecom Italia Sparkle (3 million euros).
Receivables from other related parties refer to the Intesa Sanpaolo group, mainly for the sale of dealer receivables and for mobile equipment sales.
Trade and miscellaneous prepaid expenses mainly relate to the deferrals of costs referring to the activation of new contracts (325 million euros), building leases (68 million euros), rent and maintenance (30 million euros) and insurance premiums (8 million euros).

Other receivables amounted to 239 million euros (326 million euros at December 31, 2013) and were broken down as follows:

(millions of euros)	12/31/2014	12/31/2013
Advances to suppliers	2	19
Receivables from employees	22	21
Tax receivables	12	16
Sundry receivables	203	270
Total	**239**	**326**

Tax receivables totaling 12 million euros mostly consisted of credits resulting from tax returns and from other taxes, as well as the VAT receivable on the purchase of cars and related accessories for which refunds were requested under Decree Law 258/2006, converted with amendments by Law 278/2006.
Sundry receivables mainly included:

- receivables from other factoring companies (74 million euros);
- receivables from social security and assistance agencies (69 million euros);
- miscellaneous receivables from OLOs (48 million euros);
- receivables from the Italian State and the European Union (11 million euros) for grants relating to research and training projects;
- receivables for the Universal Service (1 million euros). This is a regulated contribution in relation to the costs arising from Telecom Italia's obligation to provide basic telephone services at a sustainable price or to offer special rates solely to subsidized users.

NOTE 12
DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE

Discontinued operations/Non-current assets held for sale amounted to 1,202 euros. They related to the carrying amount of the company Sofora Telecomunicaciones (32.50% owned by Telecom Italia) that was classified under this line item following the acceptance - on November 13, 2013 - of the purchase offer made by the Fintech Group for the shares held in that company; the transaction is part of a broader project involving the sale of the entire controlling interest in Telecom Argentina, both directly and through the subsidiaries Telecom Italia International, Sofora Telecomunicaciones, Nortel Inversora and Tierra Argentea, for a total amount of USD 960 million.

At December 31, 2014, this classification was confirmed, despite the extension by over a year of the period required for completion of the sale.

Telecom Italia, in signing the amendment agreements described below, has confirmed its intention to implement the program for the disposal of the interest in Sofora.

These agreements have substantially confirmed the purchasing counterparty's obligation to complete or to ensure the completion of the transaction. The postponement of the date envisaged for the completion of the sale has been caused by, and is still dependent on, conditions outside the Company's control, which could not be reasonably foreseen at the date of signature of the original sale agreement

In particular, the amendment agreements signed on October 24, 2014 by Telecom Italia provided for the following:

- the first closing took place on October 29, 2014 and, as a result, 17% of Telecom Italia International's investment in Sofora was sold. A consideration was received for this closing – also including other related assets – totaling USD 215.7 million (around 170 million euros);
- the sale of the controlling interest of 51% in the capital of Sofora (32.50% held by Telecom Italia and 18.50% by Telecom Italia International) is due to take place within the following two and a half years, subject to approval by the Argentinian regulatory authority;
- also under the amendment agreements of the contract for the sale of the interest in the Sofora - Telecom Argentina group, Telecom Italia International issued, and Fintech fully subscribed a debt security with a value of USD 600.6 million, a term of 6 years and a fixed coupon of 4.325% per year, payable annually. The bond was guaranteed by Telecom Italia. In addition, at the time of issue of the bond by Telecom Italia International, the debt security was pledged in favor of Telecom Italia and Telecom Italia International, as a guarantee of Fintech's future obligations to those companies under the sale agreement.

Further details are provided in the Note "Contingent liabilities, other information, commitments and guarantees".

NOTE 13
EQUITY

Equity consisted of:

(millions of euros)	12/31/2014	12/31/2013
Share capital issued	**10,724**	**10,694**
less: Treasury shares	(21)	(21)
Share capital	**10,703**	**10,673**
Paid-in capital	**1,725**	**1,704**
Legal reserve	**2,138**	**2,138**
Other reserves:		
Merger surplus reserve	1,845	2,089
Other	(541)	475
Total other reserves	**1,304**	**2,564**
Retained earnings, including profit (loss) for the year	**636**	**(499)**
Total	16,506	**16,580**

Movements in share capital during 2014 are presented in the following tables:

Reconciliation between the number of shares outstanding at December 31, 2013 and December 31, 2014

(number of shares)		At 12/31/2013	Share issues	at 12/31/2014	% of share capital
Ordinary shares issued	(a)	13,417,043,525	53,911,926	13,470,955,451	69.09
less: treasury shares	(b)	(37,672,014)		(37,672,014)	
Ordinary shares outstanding	(c)	13,379,371,511	53,911,926	13,433,283,437	
Savings shares issued and outstanding	(d)	6,026,120,661		6,026,120,661	30.91
Total shares issued	**(a+d)**	**19,443,164,186**	**53,911,926**	**19,497,076,112**	**100.00**
Total shares outstanding	**(c+d)**	**19,405,492,172**	**53,911,926**	**19,459,404,098**	

Reconciliation between the value of shares outstanding at December 31, 2013 and December 31, 2014

(thousands of euros)		Share capital at 12/31/2013	Change in share capital	Share capital at 12/31/2014
Ordinary shares issued	(a)	7,379,374	29,652	7,409,026
less: treasury shares	(b)	(20,720)		(20,720)
Ordinary shares outstanding	(c)	7,358,654	29,652	7,388,306
Savings shares issued and outstanding	(d)	3,314,366		3,314,366
Total shares capital issued	**(a+d)**	**10,693,740**	**29,652**	**10,723,392**
Total shares capital outstanding	**(c+d)**	**10,673,020**	**29,652**	**10.702.672**

Share capital increased 30 million euros as a result of the issuance of ordinary shares as part of the first stage of the “Broad-Based Share Ownership Plan 2014”, approved by the Shareholders’ Meeting of the Company of April 17, 2013 and commenced in June 2014. For further details see the description provided in the sections below and in the Note “Equity compensation plans”.

Lastly, please note that, with effect from January 22, 2014, 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.

SHARE CAPITAL INFORMATION

Telecom Italia S.p.A. ordinary and savings shares are listed respectively in Italy (FTSE index) and 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.
Telecom Italia S.p.A. 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 equity, 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, Telecom Italia S.p.A. 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 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;
- 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.

Share capital carries a restriction on tax suspension for an amount of 1,191 million euros.

Paid-in capital at December 31, 2014, amounted to 1,725 million euros, and increased by 21 million euros as a result of the issuance of ordinary shares as part of the first stage of the “Broad-Based Share Ownership Plan 2014”, approved by the Shareholders’ Meeting of the Company of April 17, 2013.

The **Legal reserve** totaled 2,138 million euros at December 31, 2014, unchanged compared to December 31, 2013. The legal reserve carries a tax suspension restriction up to the amount of 1,836 million euros.

Other reserves totaled 1,304 million euros at December 31, 2014, decreasing 1,260 million euros compared to December 31, 2013. The various reserves are analyzed as follows:

- Merger surplus reserve (1,845 million euros): this reserve decreased by 244 million euros compared to December 31, 2013, as a result of the coverage of the loss for the year 2013, as approved by the Shareholders’ Meeting of the Company of April 16, 2014 (78 million euros), and of the distribution of the dividends, of 166 million euros, corresponding to 0.0275 euros per savings share, approved by the same Shareholders’ Meeting upon approval of the 2013 Annual Financial Statements;
- Reserve for remeasurements of employee defined benefit plans (negative 78 million euros): this reserve decreased by 207 million euros on December 31, 2013, of which 72 million euros as a result of the coverage of the loss for the year 2013, as approved by the Shareholders’ Meeting of the Company of April 16, 2014, and 135 million euros as a result of the recognition of employee severance indemnity actuarial losses for the year 2014, net of related tax effects;
- Revaluation reserve pursuant to Law 413 of December 30, 1991: this reserve was reduced to nil compared to December 31, 2013 as a result of the coverage of the loss for the year 2013, as approved by the Shareholders’ Meeting of the Company of April 16, 2014;
- Reserve for Plans pursuant to art. 2349 of the Italian Civil Code: this reserve amounted to 10 million euros (a decrease of 8 million euros compared to December 31, 2013) and included 9.9 million euros for the Broad-Based Share Ownership Plan 2014, as approved by the Shareholders’ Meeting of the Company of April 16, 2014, as well as the remaining amounts for the “Long Term Incentive Plan 2010-2015”, as approved by the Shareholders’ Meeting of the Company of April 12, 2011. In 2014 the obligations related to the “Long Term Incentive Plan 2011” (8 million euros) and the “Long Term Incentive Plan 2012” (10 million euros) were eliminated, due to the failure to achieve the performance objectives;
- Reserve for cash flow hedges (a negative 1,176 million euros; a negative 652 million euros at December 31, 2013): this reserve is related to the accounting of cash flow hedge transactions. In particular, it refers to unrealized gains and losses, net of the related tax effect, on the fair value adjustment of a financial instrument designated as a cash flow hedge;
- Reserve for available-for-sale financial assets (74 million euros): this reserve increased 49 million euros compared to December 31, 2013. It included unrealized losses regarding the investments in Fin.Priv (1 million euros) and Assicurazioni Generali (1 million euros), as well as 76 million euros for the net positive fair value adjustment of other available-for-sale financial assets, net of related tax effects;
- Reserve for other equity instruments: this reserve amounted to 18 million euros (an increase of 12 million euros compared to December 31, 2013) and consisted of:
  - the value of the stock options granted under the “Stock Option Plan 2014-2016” (11 million euros);
  - the value of the rights granted to subscribers of the “Broad-Based Employee Share Ownership Plan 2010-2014 “ (6 million euros);
  - the value of the rights granted to subscribers of the “Long Term Incentive Plan 2010-2015” (1 million euros);
- Unavailable reserve originating from the application of art. 7, paragraph 7 of Legislative Decree 38/2005 (521 million euros): unchanged from December 31, 2013;
- Miscellaneous reserves (90 million euros).

Retained earnings (accumulated losses), including profit (loss) for the year, was positive by 636 million euros at December 31, 2014, with an increase of 1,135 million euros compared to December 31, 2013. The change was due to:

- the profit for the year 2014 (636 million euros);
- the coverage of the loss for the year 2013 (1,028 million euros), covered in part by retained earnings of 529 million euros, as approved by the Shareholders' Meeting of the Company of April 16, 2014.

The following statement provides additional disclosure on equity and is prepared pursuant to art. 2427, number 7-bis, showing the items in equity separately according to their source, possibility of utilization and distribution, in addition to their utilization in the three-year period 2012-2014.

Statement according to art. 2427, 7-bis

Nature/Description (millions of euros)	Amount at 12/31/2014	Possibility of utilization	Amount available	Summary of the amounts utilized in the three-year period 2012-2014	
				for absorption of losses	for other reasons
Share capital	**10,703**				
Capital reserves:					
Paid-in capital	1,725	A,B,C	1,725		
Legal reserve	1,953	B	-		
Reserve pursuant to art. 74, Italian Presidential Decree 917/86	-		-	6	
Reserve pursuant to art.1, par. 469, Law 266/2005, and art. 14, Law 342/2000	-		-	316	
Reserve for other equity instruments	18	B	-		
Reserve for capital grants	-		-	538	
Other	68	A,B,C	68		
Reserve for remeasurements of employee defined benefit plans	57	A,B,C	57		
Reserve pursuant to art. 7, paragraph 7, Law Decree 38/2005	521	B	-		
Merger surplus reserve	1,845	A,B,C	1,845		166
Profit reserves					
Legal reserve	185	B	-		
Reserve for capital grants	-		-	65	
Reserve for “Plans pursuant to art. 2349 of the Italian Civil Code”	10	A,B	10		
Revaluation reserve pursuant to Law 413/91	-		-	1	
Other	42	A,B,C	42	348	1
Reserve for cash flow hedges and related underlyings	(1,176)	B	(1,176)		
Reserve for available-for-sale financial assets	74	B	-		
Reserve for remeasurements of employee defined benefit plans	(135)	A,B,C	(135)	72	
Merger surplus reserve	-		-	78	
Retained earnings	-		-	4,997	1,355
Total	**15,890**		**2,436**	**6,421**	**1,522**
Treasury shares			(40)		
Amount not distributable [1]			(17)		
Remaining amount distributable			**2,379**		

Key:
A = for share capital increase;
B = for absorption of losses;
C = for distribution to shareholders
(1) Represents the amount not distributable as a result of the Reserve for “Plans pursuant to art. 2349 of the Italian Civil Code” (10 million euros), as well as the part of the paid-in capital needed to supplement the legal reserve to reach 1/5 of the share capital (7 million euros).

Specifically, the amounts shown in the column “Summary of the amounts utilized in the three-year period 2012-2014 – for other reasons” relate to the distribution of dividends, as well as costs connected to the distribution of the dividends.

It is noted that the Shareholders' Meeting of April 16, 2014, upon approval of the 2013 annual financial statements, resolved to take the dividend, paid to savings shareholders, from the Merger surplus reserve (166 million euros).
For tax purposes, however, the sum paid out was charged on a priority basis, for an amount of 31 million euros, to the remaining Other retained earnings, in application of the presumption established in Article 47.1 of the TUIR.
As a result, in the event of future distributions of reserves to Shareholders, the Other retained earnings in the financial statements must be considered Capital reserves for tax purposes up to the corresponding amount of 31 million euros.

The table below shows the restrictions, pursuant to art. 109, paragraph 4, letter b) of TUIR, relating to off-book deductions effected for income tax purposes in past years:

(millions of euros)

Off-book deductions at December 31, 2013	**55**
Reversal for taxation during the year	(24)
Off-book deductions at December 31, 2014	**31**
Deferred taxes (IRES and IRAP)	(8)
Restriction on equity at December 31, 2014	**23**

This regime imposes a restriction on all equity reserves, without distinction, for an amount equal to the off-book deductions net of the relative deferred taxes provided. This restriction remains until such time as the excess tax deductions and consequent taxation are recovered in the books.
More specifically, compared to December 31, 2013, the deductions decreased by 24 million euros as a result of taxation during the year.
Therefore, taking into account the residual deductions effected in prior years and not covered by the fiscal realignment carried out in accordance with Law 244 dated December 24, 2007, the total restriction on equity in the separate financial statements amounts to 23 million euros.

POTENTIAL FUTURE CHANGES IN SHARE CAPITAL

The table below shows future potential changes in share capital, based on the issuance by Telecom Italia Finance S.A. in November 2013 of the "Guaranteed Subordinated Mandatory Convertible Bonds due 2016, convertible into ordinary shares of Telecom Italia S.p.A.", on the authorizations to increase the share capital in place at December 31, 2014, and on the options and rights granted under equity compensation plans, still outstanding at December 31, 2014.

	Number of maximum shares issuable	Share capital (thousands of euros) (*)	Paid-in capital (thousands of euros)	Subscription price per share (euros)
Additional capital increases not yet approved (ordinary shares)				
"Long Term Incentive Plan 2010-2015" (bonus capital increase)	180,716	99	-	-
2014 Broad-Based Employee Share Ownership Plan (free capital increase)	17,970,642	9,884	-	-
2014-2016 Stock Option Plan	196,000,000	107,800	n.a.	0.94
Total additional capital increases not yet approved (ordinary shares)		**117,783**		
2013 Guaranteed Subordinated Mandatory Convertible Bonds (ordinary shares)				
– principal	n.a.	1,300,000	n.a.	n.a.
– interest portion	n.a.	159,250	n.a.	n.a.
2013 Guaranteed Subordinated Mandatory Convertible Bonds (ordinary shares)		**1,459,250**		
Total		**1,577,033**		

(*) Amounts stated for capital increases connected with equity compensation 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, where applicable, of any premiums.

Further information is provided in the Notes "Financial liabilities (non-current and current)" and "Equity compensation plans".

NOTE 14
FINANCIAL LIABILITIES
(NON-CURRENT AND CURRENT)

Non-current and current financial liabilities (gross financial debt) were broken down as follows:

(millions of euros)		12/31/2014	12/31/2013
Non-current financial liabilities			
Financial payables (medium/long-term)			
Bonds		15,806	15,828
Amounts due to banks		3,091	2,888
Payables to other lenders		266	216
Payables to subsidiaries		6,672	6,683
		25,835	**25,615**
Finance lease liabilities (medium/long-term)			
Payables to subsidiaries		–	–
Payables to associates		25	56
Payables to others		852	945
		877	**1,001**
Other financial liabilities (medium/long-term)			
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature		2,038	1,674
Non-hedging derivatives		1,260	863
Deferred income		–	1
		3,298	**2,538**
Total non-current financial liabilities	**(a)**	**30,010**	**29,154**
Current financial liabilities			
Financial payables (short term)			
Bonds		1,846	1,406
Amounts due to banks		678	2,378
Payables to other lenders		321	394
Payables to subsidiaries		4,411	4,184
Payables to associates		–	–
Other financial payables		–	–
		7,256	**8,362**
Finance lease liabilities (short-term)			
Payables to subsidiaries		–	–
Payables to associates		43	69
Payables to others		122	119
		165	**188**
Other financial liabilities (short-term)			
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature		220	205
Non-hedging derivatives		106	126
Deferred income		–	1
		326	**332**
Total Current financial liabilities	**(b)**	**7,747**	**8,882**
Total financial liabilities (Gross Financial Debt)	**(a+b)**	**37,757**	**38,036**

Further details on Financial Instruments are provided in the Note "Supplementary disclosure on financial instruments".

Gross financial debt according to the original currency of the transaction is as follows:

	12/31/2014 (millions of foreign currency)	12/31/2014 (millions of euros)	12/31/2013 (millions of foreign currency)	12/31/2013 (millions of euros)
USD	2,551	2,101	1,076	780
GBP	2,539	3,260	2,536	3,043
JPY	40,087	276	40,090	277
EURO		32,120		33,936
		37,757		**38,036**

The breakdown of gross financial debt by effective interest rate bracket, excluding the effect of any hedging instruments, is provided below:

(millions of euros)	12/31/2014	12/31/2013
Up to 2.5%	9,679	10,219
From 2.5% to 5%	7,718	7,283
From 5% to 7.5%	11,828	12,653
From 7.5% to 10%	3,588	3,819
Over 10%	304	331
Accruals/deferrals, MTM and derivatives	4,640	3,731
	37,757	**38,036**

Following the use of derivative hedging instruments, on the other hand, the gross financial debt by nominal interest rate bracket is:

(millions of euros)	12/31/2014	12/31/2013
Up to 2.5%	6,743	5,716
From 2.5% to 5%	12,709	11,539
From 5% to 7.5%	10,733	13,187
From 7.5% to 10%	2,628	3,532
Over 10%	304	331
Accruals/deferrals, MTM and derivatives	4,640	3,731
	37,757	**38,036**

The maturities of financial liabilities according to the expected nominal repayment amount, as defined by contract, are the following:

Details of the maturities of financial liabilities – at nominal repayment amount:

	maturing by 12/31 of the year:						
(millions of euros)	**2015**	**2016**	**2017**	**2018**	**2019**	**After 2019**	**Total**
Bonds	1,340	1,880	2,963	1,500	2,341	6,865	16,889
Loans and other financial liabilities	2,019	1,316	1,220	1,028	2,629	3,923	12,135
Finance lease liabilities	153	143	135	135	137	327	1,030
Total	**3,512**	**3,339**	**4,318**	**2,663**	**5,107**	**11,115**	**30,054**
Current financial liabilities	3,388						3,388
Total	**6,900**	**3,339**	**4,318**	**2,663**	**5,107**	**11,115**	**33,442**

The main components of financial liabilities are commented below.

Bonds were broken down as follows:

(thousands of euros)	12/31/2014	12/31/2013
Non-current portion	15,806	15,828
Current portion	1,846	1,406
Total carrying amount	**17,652**	**17,234**
Fair value adjustment and measurement at amortized cost	(763)	(656)
Total nominal repayment amount	**16,889**	**16,578**

The nominal repayment amount totaled 16,889 million euros, increasing 311 million euros compared to December 31, 2013 (16,578 million euros), as a result of the new issues and repayments in 2014.

The following table lists the bonds issued by Telecom Italia S.p.A., 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 at 12/31/14 (%)	Market value at 12/31/14 (millions of euros)
Bonds issued								
Euro	577.7	577.7	4.625%	6/15/12	6/15/15	99.685	101.730	588
Euro	120	120	3 month Euribor + 0.66%	11/23/04	11/23/15	100	99.688	120
GBP	500	641.9	5.625%	6/29/05	12/29/15	99.878	103.476	664
Euro	771.6	771.6	5.125%	1/25/11	1/25/16	99.686	104.276	805
Euro	708	708	8.250%	3/19/09	3/21/16	99.740	108.560	769
Euro	400	400	3 month Euribor + 0.79%	6/7/07	6/7/16	100	99.858	399
Euro	1,000	1,000	7.000%	10/20/11	1/20/17	(a) 100.185	111.056	1,111
Euro	1,000	1,000	4.500%	9/20/12	9/20/17	99.693	107.444	1,074
GBP	750	962.9	7.375%	5/26/09	12/15/17	99.608	112.133	1,080
Euro	750	750	4.750%	5/25/11	5/25/18	99.889	109.399	820
Euro	750	750	6.125%	6/15/12	12/14/18	99.737	114.790	861
Euro	1,250	1,250	5.375%	1/29/04	1/29/19	99.070	111.781	1,397
GBP	850	1,091.3	6.375%	6/24/04	6/24/19	98.850	110.022	1,201
Euro	1,000	1,000	4.000%	21/12/12	1/21/20	99.184	106.761	1,068
Euro	1,000	1,000	4.875%	9/25/13	9/25/20	98.966	111.029	1,110
Euro	1,000	1,000	4.500%	1/23/14	1/25/21	99.447	109.475	1,095
Euro	(b) 196.4	196.4	6 month Euribor (base 365)	1/1/02	1/1/22	100	100	196
Euro	1,250	1,250	5.250%	2/10/10	2/10/22	99.295	114.012	1,425
GBP	400	513.5	5.875%	5/19/06	5/19/23	99.622	108.799	559
USD	1,500	1,235.5	5.303%	5/30/14	5/30/24	100	102.044	1,261
Euro	670	670	5.250%	3/17/05	3/17/55	99.667	100.525	674
Total		**16,888.8**						**18,277**

(a) Weighted average issue price for bonds issued with more than one tranche.
(b) Reserved for employees.

The regulations and/or Offering Circulars relating to the bonds described above are available on the corporate website at the address: www.telecomitalia.com.

The change in bonds during 2014 was as follows:

New issues

(millions of original currency)	Currency	Amount	Issue date
Telecom Italia S.p.A. 1,000 million euros 4.500% maturing 1/25/2021	Euro	1,000	1/23/2014
Telecom Italia S.p.A. 1,500 million USD 5.303% maturing 5/30/2024	Euro	1,500	5/30/2014

Repayments

(millions of original currency)	Currency	Amount	Repayment date
Telecom Italia S.p.A., 284 million euros at 7.875% (1)	Euro	284	1/22/2014
Telecom Italia S.p.A., 750 million euros at 7.750% (2)	Euro	750	3/3/2014
Telecom Italia S.p.A., 501 million euros at 4.750% (3)	Euro	501	5/19/2014

(1) Net of buybacks by the Company for 216 million euros during 2012.
(2) Telecom Italia decided to use the right to early redemption 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 securities.
(3) Net of buybacks by the Company of 249 million euros during 2008, 2012 and 2014.

Buybacks

On March 18, 2014 Telecom Italia S.p.A. successfully concluded the buyback offer on four bond issues of Telecom Italia S.p.A. maturing between May 2014 and March 2016, buying back a total nominal amount of 599 million euros.
Details of the bond issues bought back are provided below:

Bond Name	Outstanding nominal amount prior to the purchase offer (euros)	Repurchased nominal amount (euros)	Buyback price
Telecom Italia S.p.A. 750 million euros, due May 2014, coupon rate 4.75%	556,800,000	56,150,000	100.700%
Telecom Italia S.p.A. 750 million euros, maturing June 2015, coupon 4.625%	750,000,000	172,299,000	104.370%
Telecom Italia S.p.A. 1 billion euros, due January 2016, coupon rate 5.125%	1,000,000,000	228,450,000	106.587%
Telecom Italia S.p.A. 850 million euros, due March 2016, coupon rate 8.25%	850,000,000	142,020,000	112.913%

Medium/long-term **amounts due to banks** of 3,091 million euros (2,888 million euros at December 31, 2013) increased by 203 million euros. Short-term amounts due to banks totaled 678 million euros, decreasing 1,700 million euros (2,378 million euros at December 31, 2013) following the repayment of the amount drawn down of the Revolving Credit Facility expired in August 2014. Short-term amounts due to banks included 660 million euros for the current portion of medium/long-term amount due to banks.
Medium/long-term **payables to other lenders** amounted to 266 million euros (216 million euros at December 31, 2013) and included 91 million euros for the loan taken out with the Ministry of Economic Development for the purchase of the user rights for the 800, 1800 and 2600 MHs frequencies expiring in October 2016 and 150 million euros for the loan from Cassa Depositi e Prestiti expiring in October

2019. Short-term payables to other lenders amounted to 321 million euros (394 million euros at December 31, 2013) and included 106 million euros for the current portion of medium/long-term payables to other lenders (of which 93 million euros relating to the loan to purchase of the user rights for the 800, 1800 and 2600 MHz frequencies).
Medium/long-term **payables to subsidiaries** amounted to 6,672 million euros, decreasing 11 million euros compared to December 31, 2013 (6,683 million euros). They consisted of loans obtained from Telecom Italia Capital S.A. (4,412 million euros) and from Telecom Italia Finance S.A. (2,260 million euros), following the issues of bonds placed by the financial companies of the Group on the United States and Luxembourg markets. Short-term payables to subsidiaries amounted to 4,411 million euros and increased by 227 million euros compared to December 31, 2013 (4,184 million euros). These payables refer to the current portion of medium/long-term loans due to Telecom Italia Capital S.A. (1,164 million euros) and Telecom Italia Finance S.A. (43 million euros), short-term loans payable to Telecom Italia Finance S.A. (2,748 million euros), Telecom Italia Sparkle (170 million euros), and Olivetti Multiservices (22 million euros), in addition to treasury service current account transactions settled at market rates mainly with Telecom Italia Information Technology (83 million euros), Telecom Italia Sparkle (52 million euros), Telenergia (35 million euros), Ofi Consulting (32 million euros), TI Digital Solution (18 million euros), and Telecontact (13 million euros).
Medium/long-term **finance lease liabilities** totaled 877 million euros (1,001 million euros at December 31, 2013) 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 165 million euros (188 million euros at December 31, 2013).
Hedging derivatives relating to hedged items classified as non-current liabilities of a financial nature amounted to 2,038 million euros (1,674 million euros at December 31, 2013). Hedging derivatives relating to hedged items classified as current liabilities of a financial nature amounted to 220 million euros (205 million euros at December 31, 2013). Further details are provided in the Note “Derivatives”.
Medium/long-term **non-hedging derivatives** amounted to 1,260 million euros (863 million euros at December 31, 2013) and included 111 million euros for the option embedded in the mandatory convertible bond of 1.3 billion euros issued by Telecom Italia Finance S.A. (“Guaranteed Subordinated Mandatory Convertible Bonds due 2016 convertible into ordinary shares of Telecom Italia S.p.A.”). At December 31, 2013, the value of the option was a positive 63 million euros and it was, therefore, classified as “Non-current financial assets – Non-hedging derivatives”.
Short-term non-hedging derivatives amounted to 106 million euros (126 million euros at December 31, 2013). These line items include the measurement of transactions which Telecom Italia S.p.A. carries out with banking counterparts to service the companies of the Group in its exclusive role as the centralized treasury function and are offset in full by the corresponding items classified in financial assets. Further details are provided in the Note “Derivatives”.

“COVENANTS”, “NEGATIVE PLEDGES” AND OTHER CONTRACT CLAUSES IN EFFECT AT DECEMBER 31, 2014

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”), following the downgrade by Moody’s of Telecom Italia to Ba1 on October 8,

2013 and the downgrade by Standard & Poor's to BB+ on November 14, 2013, an agreement with the EIB was signed on March 25, 2014 which resulted in the following: (i) on the loans maturing in 2018 and 2019 totaling 600 million euros, a reduction in the cost of funding from the EIB in exchange for Telecom Italia setting up new guarantees - given by banks and parties approved by the EIB - applying the related charges; (ii) on the 200 million euros in loans backed by SACE, no increases in costs were requested; and (iii) on the remaining loans, totaling 1,700 million euros, an increase in costs. Furthermore, a new clause was added to loans of 300 million euros with the direct risk of Telecom Italia S.p.A., maturing in 2017, stating that if Telecom Italia's rating from at least two rating agencies drops below BB+/Ba1 and the residual life of the loan exceeds one year, the Company must set up additional guarantees in favor of the EIB.
The estimated impacts of the new agreement with the EIB have been quantified overall as an increase in average annual finance expenses of approximately 7.5 million euros.
After the agreement, in April 2014 the new guarantees requested were set up and a new fully-secured loan for 100 million euros was signed. In July 2014, a new 350 million euro loan was signed, 300 million euros of which at direct risk (disbursed on September 30, 2014), and 50 million euros, guaranteed by the bank and disbursed on October 7, 2014.
As at December 31, 2014, the nominal amount of outstanding loans amounted to 2,600 million euros, of which 600 million euros at direct risk and 2,000 million euros secured.

EIB loans not secured by bank guarantees for a nominal amount equal to 600 million euros only need to apply the following covenant:

- 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).

EIB loans secured by banks or entities approved by the EIB for a nominal amount of 2,000 million euros and the last loan of 300 million euros, signed on July 30, 2014 (direct risk), must apply the following covenants:

- "Inclusion clause", covering a total of 1.15 billion euros of loans – and in particular, provided for in the agreement signed on August 5, 2011 for an amount of 100 million euros, in the three agreements signed on September 26, 2011 for a total amount of 200 million euros, in the two agreements signed on February 7, 2013 for an amount of 400 million euros, in the agreement signed on April 8, 2014 for an amount of 100 million euros, and in the agreements signed on July 30, 2014 for an amount of 350 million euros – under which, in the event Telecom Italia commits to uphold financial covenants in other loan contracts that are not present in or are stricter than those granted to the EIB, the EIB will have the right to request the provision of guarantees or the modification of the loan contract in order to establish 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;
- "Network Event", covering a total of 850 million euros of loans – and in particular, provided for in the 300 million euro loan and in the 100 million euro loan guaranteed by SACE, both dated February 7, 2013, in the 100 million euro loan dated April 8, 2014, and in the 350 million euro loans dated July 30, 2014 – according to which, in the event of 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 the event of disposal of the controlling interest in the company in which the network or a substantial part of it has previously been transferred, Telecom Italia must immediately inform EIB, which shall have the option of requiring the establishment of guarantees or amendment of the loan contract or an alternative solution.

The loan agreements 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.
The loan agreements contain 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.
For the syndicated bank credit lines only, mechanisms have been established for adjusting the cost of funding in relation to Telecom Italia's credit rating.

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:

- *Loan agreements*:
  In the event of a change in control, Telecom Italia must provide notification of such within five business days to the agent – where present – or to the lending bank, which shall negotiate in good faith on 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 with the bank, the latter may request repayment of the amount disbursed and elimination of 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 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 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 2.6 billion euros:
  - The contracts signed by Telecom Italia with the EIB, for an amount of 1.45 billion euros, carry the obligation of promptly informing the EIB 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 EIB's reasonable opinion, this fact could cause a detriment to the bank or could compromise the execution of the loan project, the EIB 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, 2013 and in 2014, for an amount of 1,150 million euros, carry the obligation of promptly informing the EIB 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 EIB has the right to ask for the early repayment of the loan;

- *Loan Agreements*: the outstanding loans generally contain a commitment by Telecom Italia, whose breach is an Event of Default, not to implement 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.

Finally, as of December 31, 2014, 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, 2014:

(billions of euros)	12/31/2014		12/31/2013	
	Agreed	Drawn down	Agreed	Drawn down
Revolving Credit Facility – expiring August 2014	-	-	8.0	1.5
Revolving Credit Facility – expiring May 2017	4.0	-	-	-
Revolving Credit Facility – expiring March 2018	3.0	-	-	-
Total	**7.0**	**-**	**8.0**	**1.5**

On August 1, 2014, i.e. the date of expiry of the 8 billion euro committed Revolving Credit Facility, the amount drawn down of 1.5 billion euros was repaid.
On the same date, the two RCFs became available for draw down by a total of 7 billion euros. On May 24, 2012 and on March 25, 2013, Telecom Italia S.p.A. had extended the Revolving Credit Facility amounting to 8 billion euros and expiring in August 2014 ("2014 RCF") by 4 and 3 billion euros respectively, through two Forward Start Facilities that would come into force at the end of the 2014 RCF.
Telecom Italia also has a bilateral term loan expiring August 3, 2016, for 100 million euros from Banca Regionale Europea, drawn down for the full amount.
On October 20, 2014, a bilateral term loan was signed with Cassa Depositi e Prestiti for an amount of 150 million euros with a 5-year expiry, drawn down for the full amount.
On November 10, 2014, a bilateral term loan was signed with Mediobanca for an amount of 200 million euros with a 5-year expiry, drawn down for the full amount.

TELECOM ITALIA'S RATING

At December 31, 2014, the three rating agencies — Standard & Poor's, Moody's and Fitch Ratings — rated Telecom Italia as follows:

	Rating	Outlook
STANDARD & POOR'S	BB+	Stable
MOODY'S	Ba1	Negative
FITCH RATINGS	BBB -	Negative

NOTE 15
NET FINANCIAL DEBT

As required by Consob Communication DEM/6064293 of July 28, 2006, the following table presents the net financial debt at December 31, 2014 and December 31, 2013, calculated in accordance with the criteria indicated in the "CESR Recommendations for the Consistent Implementation of Commission Regulation implementing the Prospectus Directive," issued by the Committee of European Securities Regulators on February 10, 2005 (now the European Securities & Markets Authority – ESMA), and adopted by Consob.

For the purpose of determining such figure, the amount of financial liabilities has been adjusted by the effect of the relative hedging derivatives recorded in assets and the receivables arising from financial subleasing.

This table also shows the reconciliation of net financial debt determined according to the criteria indicated by ESMA and net financial debt calculated according to the criteria of the Telecom Italia Group and presented in the Report on Operations.

(millions of euros)		12/31/2014	12/31/2013
Non-current financial liabilities		**30,010**	**29,154**
Current financial liabilities		**7,747**	**8,882**
Total Gross financial debt	**(a)**	**37,757**	**38,036**
Non-current financial assets (°)			
Non-current financial receivables for lease contract		(25)	(56)
Non-current hedging derivatives		(663)	(356)
	(b)	**(688)**	**(412)**
Current financial assets			
Securities other than investments		(802)	(1,462)
Financial receivables and other current financial assets		(303)	(547)
Cash and cash equivalents		(1,305)	(1,284)
	(c)	**(2,410)**	**(3,293)**
Net financial debt as per Consob communication DEM/6064293/2006	**(d=a+b+c)**	**34,659**	**34,331**
Non-current financial assets (°)			
Other financial receivables and other non-current financial assets	(e)	(1,236)	(959)
Net financial debt(*)	**(f=d+e)**	**33,423**	**33,372**
Reversal of fair value measurement of derivatives and related financial assets/liabilities	*(g)*	*(1,942)*	*(1,063)*
Adjusted net financial debt	**(f+g)**	**31,481**	**32,309**

(*) As regards the effects of related party transactions on net financial debt, reference should be made to the specific table included in the Note "Related party transactions ".

(°) At December 31, 2014 and at December 31, 2013, "Non-current financial assets" (b + e) amounted to 1,924 million euros and 1,371 million euros, respectively.

NOTE 16
FINANCIAL RISK MANAGEMENT

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES OF TELECOM ITALIA S.P.A.

As reported in the Note “Financial Risk Management” of the consolidated financial statements of the Telecom Italia Group, Telecom Italia S.p.A. adheres to the “Financial risk management and control guidelines” established for the Group.
The risk management policies of Telecom Italia S.p.A. observe the policies for the diversification of risks identified for the Group.
An optimum fixed-rate and variable-rate debt composition is defined for the entire Group and is not established for the individual companies.
As for the exchange rate risk on financial payables contracted by Telecom Italia S.p.A. denominated in currencies other than euro, such risk is hedged in full.
Derivative financial instruments are designated as fair value hedges for managing exchange rate risk on instruments denominated in currencies other than euro and for managing interest rate risk on fixed-rate loans. Derivative financial instruments are designated as cash flow hedges when the objective is to pre-set the exchange rate of future transactions and the interest rate.
All derivative financial instruments are entered into with leading banking and financial counterparts whose credit ratings are constantly monitored to reduce the credit risk.
Telecom Italia S.p.A. has current account transactions with subsidiaries, as part of its treasury services which are conducted at market rates, and multi-year loan agreements with them which are also at market rates.

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 in November 2013 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, 2014, if the ordinary shares of Telecom Italia S.p.A., with other valuation factors remaining equal, increased by 10%, the value of the embedded option would suffer a negative change of 135 million euros, whereas for a decrease of 10%, the change would be positive by 107 million euros.

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 Telecom Italia S.p.A. derivatives. In particular:

- with regard to derivatives that convert the liabilities contracted by Telecom Italia S.p.A. (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 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, 2014 the interest rates in the various markets in which Telecom Italia S.p.A. operates had been 100 basis points higher/lower compared to that actually realized, then higher/lower finance expenses, before the tax effect, would have been recognized in the income statement for 109 million euros (96 million euros at December 31, 2013).

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 Papers and receivables on sales of securities), has been considered in the category of variable rate.

Total Financial liabilities (at the nominal repayment amount)

(millions of euros)	12/31/2014			12/31/2013		
	Fixed rate	Variable rate	Total	Fixed rate	Variable rate	Total
Bonds	11,180	5,709	16,889	10,446	6,132	16,578
Loans and other financial liabilities (*)	9,022	7,531	16,553	11,903	6,510	18,413
Total	**20,202**	**13,240**	**33,442**	**22,349**	**12,642**	**34,991**

(*) At December 31, 2014, current liabilities totaled 3,388 million euros, of which 3,353 million euros at variable rates (1,809 million euros at December 31, 2013, of which 1,668 million euros at variable rates).

Total Financial assets (at the nominal investment amount)

(millions of euros)	12/31/2014			12/31/2013		
	Fixed rate	Variable rate	Total	Fixed rate	Variable rate	Total
Cash and cash equivalents	-	1,305	1,305	-	1,284	1,284
Securities	-	778	778	-	1,399	1,399
Other receivables	584	266	850	369	377	746
Total	**584**	**2,339**	**2,933**	**369**	**3,060**	**3,429**

With regard to variable-rate financial instruments, the contracts provide for revisions of the relative parameters to take place within the subsequent 12 months.

Effective interest rate

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

(millions of euros)	12/31/2014 Adjusted carrying amount	12/31/2014 Effective interest rate (%)	12/31/2013 Adjusted carrying amount	12/31/2013 Effective interest rate (%)
Bonds	16,785	5.46	16,497	5.65
Loans and other financial liabilities	16,332	3.35	17,808	3.35
Total	**33,117**	**4.42**	**34,305**	**4.45**

Total Financial assets

(millions of euros)	12/31/2014 Adjusted carrying amount	12/31/2014 Effective interest rate (%)	12/31/2013 Adjusted carrying amount	12/31/2013 Effective interest rate (%)
Cash and cash equivalents	1,305	0.38	1,284	0.37
Securities	778	4.40	1,399	4.77
Other receivables	122	5.55	288	5.11
Total	**2,205**	**2.08**	**2,971**	**2.90**

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

Credit risk represents Telecom Italia’s exposure to possible losses arising from the failure of commercial or financial counterparts to fulfill their assumed obligations. Such risk stems principally from economic and financial factors, or from the possibility that a default situation of a counterpart could arise or from factors more strictly technical, commercial or administrative.
Telecom Italia’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, excluding guarantees received, described in the Note “Contingent liabilities, other information, commitments and guarantees”.
In referring to the details indicated in the Note “Trade and miscellaneous receivables and other current assets”, it should be pointed out that provision charges for bad debts are recorded on specific credit positions that present 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.
For the credit risk relating to the asset components which contribute to the determination of Net financial debt it should be noted that, as per Group policy, the management of the liquidity of Telecom Italia S.p.A. is guided by conservative criteria and is principally based on money market management. As part of this management, investments are made during the year with temporary excess cash resources, which are expected to turn around within the subsequent 12-month period.
In order to limit the risk of the non-fulfillment of the obligations undertaken by the counterpart, deposits are made with high-credit-quality banking and financial institutions; moreover, the deposits are generally made for periods of less than three months. As for other temporary investments of liquidity, there are investments for 259 million euros in Italian Treasury Bonds and CCTs.

LIQUIDITY RISK

Telecom Italia S.p.A. pursues the Group’s objective of achieving an adequate level of financial flexibility.
Current financial assets at December 31, 2014, together with unused committed bank lines, ensure complete coverage of debt repayment obligations for the next 18-24 months.
20.6% of gross financial debt at December 31, 2014 (nominal repayment amount) will become due in the next 12 months.

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, 2014. The portions of principal and interest of the hedged liabilities includes both the disbursements and the receipts of the relative hedging derivatives.

Financial liabilities – Maturities of contractually expected disbursements

		maturing by 12/31 of the year:						
(millions of euros)		**2015**	**2016**	**2017**	**2018**	**2019**	**After 2019**	**Total**
Bonds	Principal	1,340	1,880	2,963	1,500	2,341	6,865	16,889
	Interest portion	901	835	735	549	468	2,059	5,547
Loans and other financial liabilities (*)	Principal	2,019	1,316	1,220	1,028	2,629	3,923	12,135
	Interest portion	413	375	313	354	310	4,120	5,885
Finance lease liabilities	Principal	153	143	135	135	137	327	1,030
	Interest portion	76	67	57	47	35	40	322
Non-current financial liabilities (*)	**Principal**	3,512	3,339	4,318	2,663	5,107	11,115	30,054
	Interest portion	1,390	1,277	1,105	950	813	6,219	11,754
Current financial liabilities (**)	**Principal**	3,388	-	-	-	-	-	3,388
	Interest portion	76	-	-	-	-	-	76
Total Financial liabilities	**Principal**	**6,900**	**3,339**	**4,318**	**2,663**	**5,107**	**11,115**	**33,442**
	Interest portion	**1,466**	**1,277**	**1,105**	**950**	**813**	**6,219**	**11,830**

(*) These include hedging derivatives, but exclude non-hedging derivatives.
(**) These exclude non-hedging derivatives.

Derivatives on financial liabilities – Contractually expected interest flows

	maturing by 12/31 of the year:						
(millions of euros)	**2015**	**2016**	**2017**	**2018**	**2019**	**After 2019**	**Total**
Disbursements	375	325	309	277	240	2,143	3,669
Receipts	(346)	(304)	(303)	(221)	(216)	(718)	(2,108)
Hedging derivatives – net (receipts) disbursements	**29**	**21**	**6**	**56**	**24**	**1,425**	**1,561**
Disbursements	5	5	5	5	5	64	89
Receipts	(2)	(3)	(2)	(3)	(2)	(32)	(44)
Non-Hedging derivatives – net (receipts) disbursements	**3**	**2**	**3**	**2**	**3**	**32**	**45**
Total net receipts	**32**	**23**	**9**	**58**	**27**	**1,457**	**1,606**

In order to name the Parent as the sole counterparty of the banking system, all the derivatives of the Group, except for those relating to two banking counterparties, have been centralized under Telecom Italia S.p.A.. In the Telecom Italia S.p.A. separate financial statements, this centralization has resulted in the presence of two non-hedging derivatives for each centralized transaction (one with the bank and the other for the same amount and opposite sign with the company of the Group), while the hedging relationship remains with the subsidiary and the Group.
The flows relating to the non-hedging derivatives that were placed under centralized management have therefore been excluded from the analysis of the maturities of contractually expected disbursements for financial liabilities and the analysis of the maturities of contractually expected interest flows for derivatives, because the positions are fully offset and, consequently, are not significant for the analysis of liquidity risk. The table also shows the flows relating to a non-hedging intercompany derivative for Telecom Italia S.p.A. and a hedging derivative at Group level, relating to Telecom Italia Finance S.A.'s obligation of 20,000 million Japanese yen, due in 2032.

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 differential between the interest rates paid/received.

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, risk-free rate of return, current price, volatility and any cash flows (e.g. dividend) of the underlying instrument, and exercise price.

NOTE 17
DERIVATIVES

Derivative financial instruments are used by Telecom Italia S.p.A. to hedge its exposure to foreign exchange rate and 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, 2014 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), and currency forwards to convert the loans/receivables secured in different foreign currencies to the functional currency.
IRS transactions, at specified maturity dates, provide for the exchange of flows of interest with the counterparts, 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.
In carrying out its role as the Treasury function of the Group and with the aim of centralizing all the exposure with banking counterparties in just one entity (Telecom Italia S.p.A.), Telecom Italia has derivative contracts signed with banks and analogous intercompany derivative contracts with Telecom Italia Capital S.A. and Telecom Italia Finance S.A., for a notional amount of 7,183 million euros. The balance of asset and liability measurements of these contracts is equal to zero.
The following tables show the derivative transactions put into place by Telecom Italia S.p.A. by type:

Type (millions of euros)	**Hedged risk**	**Notional amount at 12/31/2014**	**Notional amount at 12/31/2013**	**Spot (*) Mark-to-Market (Clean Price) at 12/31/2014**	**Spot (*) Mark-to-Market (Clean Price) at 12/31/2014**
Interest rate swaps	Interest rate risk	4,800	5,250	159	(16)
Cross Currency and Interest Rate Swaps	Interest rate risk and currency exchange rate risk	1,375	2,130	161	131
Total Fair Value Hedge Derivatives **		**6,175**	**7,380**	**320**	**115**
Interest rate swaps	Interest rate risk	2,105	3,955	(779)	(392)
Cross Currency and Interest Rate Swaps	Interest rate risk and currency exchange rate risk	5,570	4,628	(1,164)	(1,189)
Forward and FX Options	Currency exchange rate risk	-	297	-	4
Total Cash Flow Hedge Derivatives **		**7,675**	**8,881**	**(1,943)**	**(1,577)**
Total Non-Hedge Accounting Derivatives		**1,506**	**1,628**	**(167)**	**63**
Total Telecom Italia Derivatives		**15,356**	**17,889**	**(1,790)**	**(1,399)**

** Spot Mark-to-market above represents the market measurement of the derivative net of the accrued portion of the flow in progress.*
*** 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.*

The category Non-Hedge Accounting Derivatives also includes the embedded option of the mandatory convertible bond issued by the subsidiary Telecom Italia Finance S.A. amounting to 1.3 billion euros. This component, embedded in the financial instrument, has a notional amount equal to the amount of the loan.
The method selected to test the effectiveness, retrospectively and prospectively, of Fair Value 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 hedging of cash flows by derivatives designated as cash flow hedges was considered highly effective and at December 31, 2014 led to:

- recognition in equity of unrealized charges of 723 million euros;
- reversal from equity to the income statement of net income from exchange rate adjustments of 385 million euros.

Furthermore, at December 31, 2014, overall net gain from hedging instruments that is still recognized in equity amounted to 38 million euros as a result of the effect of transactions terminated early over the years. The positive impact reversed to the income statement during 2014 is 5 million euros.

The transactions hedged by cash flow hedges will generate cash flows and produce economic effects in the income statement in the periods indicated in the following table:

Currency of denomination	**Notional amount in currency of denomination** (millions)	**Start of period**	**End of period**	**Rate applied**	**Interest period**
EURO	120	Jan-15	Nov-15	3 month Euribor + 0.66%	Quarterly
GBP	500	Jan-15	Dec-15	5.625%	Annually
GBP	850	Jan-15	Jun-19	6.375%	Annually
GBP	400	Jan-15	May-23	5.875%	Annually
JPY	20,000	Jan-15	Oct-29	6 month JPY Libor + 0.94625%	Semiannually
USD	1,000	Jan-15	Nov-33	3 month USD Libor + 0.756%	Quarterly
EURO	791	Jan-15	July-36	6 month Euribor + 1.45969%	Semiannually
EURO	400	Jan-15	Jun-16	3 month Euribor + 0.79%	Quarterly
GBP	750	Jan-15	Dec-17	3.72755%	Annually
EUR	794	Jan-15	Sept-34	6 month Euribor + 0.8787%	Semiannually
USD	1,500	Jan-15	May-24	5.303%	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 2014 was positive by 3 million euros (without considering the effects due to the Credit Value Adjustment/Debt Value Adjustment - CVA/DVA).

NOTE 18
SUPPLEMENTARY DISCLOSURES ON FINANCIAL INSTRUMENTS

MEASUREMENT AT FAIR VALUE

For the purposes of the comparative information between the carrying amounts and fair value of financial instruments, required by IFRS 7, the majority of the non-current financial liabilities of Telecom Italia consist of bonds, whose fair value is directly observable in the financial markets, as they are financial instruments that due to their size and diffusion among investors, are commonly traded on the relevant markets (see the Note “Current and non-current financial liabilities”). 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 to be the present value of future cash flows using market interest rates at December 31, 2014.

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 fair value measurement of the financial instruments of Telecom Italia 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: corresponds to input data other than market prices in Level 1 observable directly or indirectly;
- 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, 2014 and 2013 and in accordance with the categories established by IAS 39, the supplementary disclosures on financial instruments required by IFRS 7 and the schedules of gains and losses.

Key for IAS 39 categories

	Acronym
Loans and Receivables	**LaR**
Financial assets Held-to-Maturity	**HtM**
Available-for-Sale financial assets	**AfS**
Financial Assets/Liabilities Held for Trading	**FAHfT and FLHfT**
Financial Liabilities at Amortized Cost	**FLAC**
Hedging Derivatives	**HD**
Not applicable	**n.a.**

Carrying amount for each class of financial asset/liability at 12/31/2014

(millions of euros)	IAS 39 Categories	*note*	Carrying amount in financial statements at 12/31/2014	Amounts recognized in financial statements according to IAS 39				Amounts recognized in financial statements according to IAS 17
				Amortized cost	Cost	Fair value taken to equity	Fair value recognized in the income statement	
ASSETS								
Non-current assets								
Other investments	AfS	6)	*41*		23	18		
Securities, financial receivables and other non-current financial assets								
of which loans and receivables	LaR	7)	*27*	27				
of which hedging derivatives	HD	7)	*663*			328	335	
of which non-hedging derivatives	FAHfT	7)	*1,209*				1,209	
of which financial receivables for lease contracts	n.a.	7)	*25*					25
Miscellaneous receivables and other non-current assets (*)								
of which loans and receivables	LaR	8)	*7*	7				
		(a)	**1,972**	**34**	**23**	**346**	**1,544**	**25**
Current assets								
Trade and miscellaneous receivables and other current assets (*)								
of which loans and receivables	LaR	11)	*2,827*	2,827				
Securities, financial receivables and other current financial assets								
of which available-for-sale financial assets	AfS	7)	*802*			802		
of which loans and receivables	LaR	7)	*19*	19				
of which hedging derivatives	HD	7)	*124*			90	34	
of which non-hedging derivatives	FAHfT	7)	*108*				108	
of which financial receivables for lease contracts	n.a.	7)	*52*					52
Cash and cash equivalents	LaR	7)	*1,305*	1,305				
		(b)	**5,237**	**4,151**		**892**	**142**	**52**
Total		**(a+b)**	**7,209**	**4,185**	**23**	**1,238**	**1,686**	**77**
LIABILITIES								
Non-current liabilities								
of which liabilities at amortized cost (**)	FLAC	14)	*25,835*	25,835				
of which hedging derivatives	HD	14)	*2,038*			2,038		
of which non-hedging derivatives	FAHfT	14)	*1,260*				1,260	
of which finance lease liabilities	n.a.	14)	*877*					877
		(c)	**30,010**	**25,835**		**2,038**	**1,260**	**877**
Current liabilities								
of which liabilities at amortized cost (**)	FLAC	14)	*7,256*	7,256				
of which hedging derivatives	HD	14)	*220*			194	26	
of which non-hedging derivatives	FLHfT	14)	*106*				106	
of which finance lease liabilities	n.a.	14)	*165*					165
Trade and miscellaneous payables and other current liabilities (*)								
of which liabilities at amortized cost	FLAC	22)	*3,403*	3,403				
		(d)	**11,150**	**10,659**		**194**	**132**	**165**
Total		**(c+d)**	**41,160**	**36,494**		**2,232**	**1,392**	**1,042**

(*) Part of assets or liabilities falling under application of IFRS 7.
(**) They also include those at adjusted amortized cost that qualify for hedge accounting.

Comparison between carrying amount and fair value for each class of financial asset/liability at 12/31/2014

(millions of euros)	IAS 39 Categories	Carrying amount in financial statements at 12/31/2014	Amounts recognized in financial statements according to IAS 39				Amounts recognized in financial statements according to IAS 17	Fair Value at 12/31/2014
			Amortized cost	Cost	Fair value taken to equity	Fair value recognized in the income statement		
ASSETS								
Loans and Receivables	LaR	4,185	4,185					4,185
Available-for-Sale financial assets	AfS	843		23	820			843
Financial assets at fair value through profit or loss held for trading	FAHfT	1,317				1,317		1,317
of which non-hedging derivatives	*FAHfT*	*1,317*				*1,317*		*1,317*
Hedging Derivatives	HD	787			418	369		787
Assets measured according to IAS 17	n.a.	77					77	77
Total		**7,209**	**4,185**	**23**	**1,238**	**1,686**	**77**	**7,209**
LIABILITIES								
Financial liabilities at amortized cost (*)	FLAC	36,494	36,494					37,814
Financial liabilities at fair value through profit or loss held for trading	FLHfT	1,366				1,366		1,366
of which non-hedging derivatives	*FLHfT*	*1,366*				*1,366*		*1,366*
Hedging Derivatives	HD	2,258			2,232	26		2,258
Liabilities measured according to IAS 17	n.a.	1,042					1,042	1,367
Total		**41,160**	**36,494**		**2,232**	**1,392**	**1,042**	**42,805**

(*) They also include those at adjusted amortized cost that qualify for hedge accounting.

Fair value hierarchy level for each class of financial asset/liability at 12/31/2014

(millions of euros)		IAS 39 Categories	note	Carrying amount in financial statements at 12/31/2014	Hierarchy Levels		
					Level 1(*)	Level 2(*)	Level 3(*)
ASSETS							
Non-current assets							
Other investments		AfS	6)	*41*	3	15	
Securities, financial receivables and other non-current financial assets							
of which hedging derivatives		HD	7)	*663*		663	
of which non-hedging derivatives		FAHfT	7)	*1,209*		1,209	
	(a)			**1,913**	**3**	**1,887**	
Current assets							
Securities, financial receivables and other current financial assets							
of which available-for-sale financial assets		AfS	7)	*802*	802		
of which hedging derivatives		HD	7)	*124*		124	
of which non-hedging derivatives		FAHfT	7)	*108*		108	
	(b)			**1,034**	**802**	**232**	
Total	**(a+b)**			**2,947**	**805**	**2,119**	
LIABILITIES							
Non-current liabilities							
of which hedging derivatives		HD	14)	*2,038*		2,038	
of which non-hedging derivatives		FAHfT	14)	*1,260*		1,260	
	(c)			**3,298**		**3,298**	
Current liabilities							
of which hedging derivatives		HD	14)	*220*		220	
of which non-hedging derivatives		FLHfT	14)	*106*		106	
	(d)			**326**		**326**	
Total	**(c+d)**			**3,624**		**3,624**	

(*) 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 AT DECEMBER 31, 2014

The embedded derivatives attributable to the issuer Telecom Italia Finance S.A., as well as the intercompany derivative, attributable to both the issuer and the guarantor Telecom Italia S.p.A. have been measured as the net amount of i) a long put option, with an exercise price of 0.6801 euros at the maximum conversion rate at maturity into Telecom Italia S.p.A. ordinary shares; and ii) a 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;
- 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.

From November 16, 2014 – as a result of the availability of market data in terms of options quoted on Telecom Italia shares with a duration comparable to that of the remaining option on the Mandatory Convertible Bond (2 years) – the figure for volatility is taken directly from the market. Accordingly it is no longer considered an "unobservable" input figure. As a result, the measurement of the embedded option, which previously was considered level 3, has come under level 2 of the fair value hierarchy from November 2014, as it is based on observable market data.

The following table shows the income statement and balance sheet effects of the measurement.

(millions of euros)	Fair value hierarchy Levels Level 3:	 Level 2:
Asset value at December 31, 2013	**63**	–
Transfers out from Level 3	(63)	–
Transfers into Level 2	–	63
Gains (losses) recognized in the Separate Income Statement	–	(174)
Asset value at December 31, 2014	–	**(111)**

The loss from the fair value adjustment at December 31, 2014 has been recognized under finance expenses.

During 2013, volatility was 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 issue stage, and market volatility for the nearest time horizon.

The following table shows the income statement and balance sheet effects of that measurement.

(millions of euros)	Level 3 of the fair value hierarchy
Asset value at December 31, 2012	-
Measurement at December 20, 2013	92
Gains (losses) recognized in the Separate Income Statement	(29)
Asset value at December 31, 2013	**63**

The loss from the fair value adjustment at December 31, 2013 has been recognized under finance expenses. In 2013 no changes were made to the measurement technique.

Further details on the measurement of derivative instruments are provided in the Note "Financial risk management".

Carrying amount for each class of financial asset/liability at 12/31/2013

(millions of euros)	IAS 39 Categories	*note*	Carrying amount in financial statements at 12/31/2013	Amounts recognized in financial statements according to IAS 39				Amounts recognized in financial statements according to IAS 17
				Amortized cost	Cost	Fair value taken to equity	Fair value recognized in the income statement	
ASSETS								
Non-current assets								
Other investments	AfS	6)	*39*		22	17		
Securities, financial receivables and other non-current financial assets								
of which loans and receivables	LaR	7)	*33*	33				
of which hedging derivatives	HD	7)	*356*			212	144	
of which non-hedging derivatives	FAHfT	7)	*926*				926	
of which financial receivables for lease contracts	n.a.	7)	*56*					56
Miscellaneous receivables and other non-current assets (*)								
of which loans and receivables	LaR	8)	*3*	3				
		(a)	**1,413**	**36**	**22**	**229**	**1,070**	56
Current assets								
Trade and miscellaneous receivables and other current assets (*)								
of which loans and receivables	LaR	11)	*2,756*	2,756				
Securities, financial receivables and other current financial assets								
of which available-for-sale financial assets	AfS	7)	*1,462*			1,462		
of which loans and receivables	LaR	7)	*124*	124				
of which hedging derivatives	HD	7)	*220*			60	160	
of which non-hedging derivatives	FAHfT	7)	*125*				125	
of which financial receivables for lease contracts	n.a.	7)	*78*					78
Cash and cash equivalents	LaR	7)	*1,284*	1,284				
		(b)	**6,049**	**4,164**		**1,522**	**285**	78
Total		**(a+b)**	**7,462**	**4,200**	**22**	**1,751**	**1,355**	134
LIABILITIES								
Non-current liabilities								
of which liabilities at amortized cost(**)	FLAC	14)	*25,616*	25,616				
of which hedging derivatives	HD	14)	*1,674*			1,659	15	
of which non-hedging derivatives	FAHfT	14)	*863*				863	
of which finance lease liabilities	n.a.	14)	*1,001*					1,001
		(c)	**29,154**	**25,616**		**1,659**	**878**	1,001
Current liabilities								
of which liabilities at amortized cost(**)	FLAC	14)	*8,363*	8,363				
of which hedging derivatives	HD	14)	*205*			135	70	
of which non-hedging derivatives	FLHfT	14)	*126*				126	
of which finance lease liabilities	n.a.	14)	*188*					188
Trade and miscellaneous payables and other current liabilities (*)								
of which liabilities at amortized cost	FLAC	22)	*3,755*	3,755				
		(d)	**12,637**	**12,118**		**135**	**196**	188
Total		**(c+d)**	**41,791**	**37,734**		**1,794**	**1,074**	1,189

(*) Part of assets or liabilities falling under application of IFRS 7.
(**) They also include those at adjusted amortized cost that qualify for hedge accounting.

Comparison between carrying amount and *fair value* for each class of financial asset/liability at 12/31/2013

(millions of euros)	IAS 39 Categories	Carrying amount in financial statements at 12/31/2013	Amounts recognized in financial statements according to IAS 39				Amounts recognized in financial statements according to IAS 17	Fair Value at 12/31/2013
			Amortized cost	Cost	Fair value taken to equity	Fair value recognized in the income statement		
ASSETS								
Loans and Receivables	LaR	*4,200*	4,200					**4,200**
Available-for-Sale financial assets	AfS	*1,501*		22	1,479			**1,501**
Financial assets at fair value through profit or loss held for trading	FAHfT	*1,051*				1,051		**1,051**
of which non-hedging derivatives	FAHfT	*1,051*				1,051		1,051
Hedging Derivatives	HD	*576*			272	304		**576**
Assets measured according to IAS 17	n.a.	*134*					134	**134**
Total		**7,462**	**4,200**	**22**	**1,751**	**1,355**	**134**	**7,462**
LIABILITIES								
Financial liabilities at amortized cost (*)	FLAC/HD.	*37,734*	37,734					**37,734**
Financial liabilities at fair value through profit or loss held for trading	FLHfT	*989*				989		**989**
of which non-hedging derivatives	FLHfT	*989*				989		989
Hedging Derivatives	HD	*1,879*			1,794	85		**1,879**
Liabilities measured according to IAS 17	n.a.	*1,189*					1,189	**1,506**
Total		**41,791**	**37,734**		**1,794**	**1,074**	**1,189**	**42,108**

(*) They also include those at adjusted amortized cost that qualify for hedge accounting.

Fair value hierarchy level for each class of financial asset/liability at 12/31/2013

(millions of euros)	IAS 39 Categories	*note*	Carrying amount in financial statements at 12/31/2013	Hierarchy Levels		
				Level 1(*)	Level 2(*)	Level 3(*)
ASSETS						
Non-current assets						
Other investments	AfS	7)	*39*	3	14	
Securities, financial receivables and other non-current financial assets						
of which hedging derivatives	HD	7)	*356*		356	
of which non-hedging derivatives	FAHfT	7)	*926*		863	63
(a)			**1,321**	**3**	**1,233**	**63**
Current assets						
Securities, financial receivables and other current financial assets						
of which available-for-sale financial assets	AfS	14)	*1,462*	1,462		
of which non-hedging derivatives	FAHfT	14)	*220*		220	
of which hedging derivatives	HD	14)	*125*		125	
(b)			**1,807**	**1,462**	**345**	
Total (a+b)			**3,128**	**1,465**	**1,578**	**63**
LIABILITIES						
Non-current liabilities						
of which hedging derivatives	HD	14)	*1,674*		1,674	
of which non-hedging derivatives	FAHfT	14)	*863*		863	
(c)			**2,537**		**2,537**	
Current liabilities						
of which non-hedging derivatives	FLHfT	14)	*205*		205	
of which hedging derivatives	HD	14)	*126*		126	
(d)			**331**		**331**	
Total (c+d)			**2,868**		**2,868**	

(*) 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.

Gains and losses by IAS 39 category - Year 2014

(millions of euros)	IAS 39 Categories	Net gains/(losses) 2014[(1)]	of which interest
Loans and Receivables	LaR	(410)	*15*
Available-for-Sale financial assets	AfS	55	
Financial Assets/Liabilities Held for Trading	FAHfT/FLHfT	(207)	
Financial Liabilities at Amortized Cost	FLAC	(1,566)	*(1,408)*
Total		**(2,128)**	***(1,393)***

(1) Of which 1 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.

Gains and losses by IAS 39 category - Year 2013

(thousands of euros)	IAS 39 Categories	Net gains/(losses) 2013[(1)]	of which interest
Loans and Receivables	LaR	(344)	*17*
Available-for-Sale financial assets	AfS	47	
Financial Assets/Liabilities Held for Trading	FAHfT and FLHfT	46	
Financial Liabilities at Amortized Cost	FLAC	(1,483)	*(1397)*
Total		**(1,734)**	***(1,380)***

(1) Of which 4 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.

NOTE 19
EMPLOYEE BENEFITS

Employee benefits increased by 130 million euros compared to December 31, 2013. Details of the breakdown and movements are as follows:

(millions of euros)	12/31/2012	Increase/ Present value	Decrease	12/31/2013
Provision for employee severance indemnities	**728**	52	(18)	**762**
Provision for termination benefit incentives	**33**	7	(18)	**22**
Provision for pension plans	**1**	(1)	-	**-**
Total	**762**	**58**	**(36)**	**784**
of which:				
non-current portion	*728*			*762*
current portion (*)	*34*			*22*

(*) The current portion refers only to the Provision for termination benefit incentives and Provision for pension plans.

(millions of euros)	12/31/2013	Increase/ Present value	Decrease	12/31/2014
Provision for employee severance indemnities	**762**	214	(66)	**910**
Provision for termination benefit incentives	**22**	1	(19)	**4**
Provision for pension plans	**-**			**-**
Total	**784**	**215**	**(85)**	**914**
of which:				
non-current portion	*762*			*910*
current portion (*)	*22*			*4*

(*) The current portion refers only to the Provision for termination benefit incentives and Provision for pension plans.

Provision for employee severance indemnities increased by a total of 148 million euros. The reduction of 66 million euros under “Decreases” relates to indemnities paid during the year to employees who terminated employment, in addition to ordinary advances and advances requested by employees for the purchase of Telecom Italia S.p.A. shares under the Broad-Based Share Ownership Plan launched in July 2014. The 214 million euro increase consisted of:

(millions of euros)	2014	2013
Finance expenses	28	33
Net actuarial (gains) losses recognized during the year	186	19
Total expenses (income)	**214**	**52**
Effective return on plan assets	there are no assets servicing the plan	

The net actuarial losses, totaling 186 million euros (19 million euros in 2013), are essentially the result of the change in the discount rate of 1.89% applied, from the 4.11% of December 31, 2013. To take account of the expected future progressive increase in the inflation rate, which is currently particularly low, the rate has been differentiated over the individual periods for the actuarial calculation. More specifically: 0.60% for 2015, 1.20% for 2016, 1.50% for 2017 and 2018, 2.00% for 2019 and onwards.
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. In

accordance with IAS 19, this provision has been recognized as a “Defined benefit plan”, for the amount due up to December 31, 2006.
Under the regulations introduced by Legislative Decree 252/2005 and Law 296/2006 (the State Budget Law 2007), 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”. However, revaluations of the provision for the employee severance indemnities at December 31, 2006, made on the basis of the official cost-of-living index and legally-prescribed interest, are retained in the provision for employee severance indemnities.

In application of IAS 19, the employee severance indemnities have been calculated using the “Projected Unit Credit Method” according to which:

- 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, etc.);
- 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 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.

The following assumptions have been made:

FINANCIAL ASSUMPTIONS	Executives	Non-executives
Inflation rate		
2015	0.60% per annum	0.60% per annum
2016	1.20% per annum	1.20% per annum
2017-2018	1.50% per annum	1.50% per annum
2019 onwards	2.00% per annum	2.00% per annum
Discount rate	**1.89% per annum**	**1.89% per annum**
Employee severance indemnities annual increase rate		
2015	1.950% per annum	1.950% per annum
2016	2.400% per annum	2.400% per annum
2017-2018	2.625% per annum	2.625% per annum
2019 onwards	3.000% per annum	3.000% per annum

DEMOGRAPHIC ASSUMPTIONS	Executives	Non-executives
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	5.0% per annum	1.5% per annum
over 40 up to 50 years of age	4.0% per annum	0.5% per annum
over 50 years of age	None	None
Probability of retirement	Reaching the minimum requisites established by the Obligatory General Insurance updated on the basis of 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

The adoption of the above assumptions resulted in a liability for employee severance indemnities at December 31, 2014 and 2013, respectively, of 910 million euros and 762 million euros.

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 assumption that were reasonably possible at that date, stated in absolute terms.
The weighted average duration of the obligation is 12.5 years.

CHANGES IN ASSUMPTIONS	**Amounts** (millions of euros)
Turnover rate:	
+ 0.25 p.p.	(2)
- 0.25 p.p.	2
Annual inflation rate:	
+ 0.25 p.p.	20
- 0.25 p.p.	(20)
Annual discount rate:	
+ 0.25 p.p.	(27)
- 0.25 p.p.	27

Provision for termination benefit incentives decreased in total by 18 million euros, essentially due to the use of the provision for mobility expenses under Law 223/91 made in previous years.

NOTE 20
PROVISIONS

Provisions decreased by 56 million euros compared to December 31, 2013. The breakdown and movements are as follows:

(millions of euros)	12/31/2013	Increase	Taken to income	Used directly	Reclassifications/other changes	12/31/2014
Provision for taxation and tax risks	**48**	13	(5)	(1)	–	**55**
Provision for restoration costs	**349**	9		(8)	8	**358**
Provision for legal disputes	**140**	11	(15)	(53)		**83**
Provision for commercial risks	**120**	1	(1)	(1)		**119**
Provision for risks and charges on investments and corporate-related transactions	**105**	3	–	(4)		**104**
Other provisions	**37**	1		(1)	(13)	**24**
Total	**799**	**38**	**(21)**	**(68)**	**(5)**	**743**
of which:						
non-current portion	*469*					*484*
current portion	*330*					*259*

The **provision for taxation and tax risks** increased by 7 million euros compared to December 31, 2013.
Provision for restoration costs refers to the provision for the estimated cost of dismantling tangible assets and the relevant restoration of the sites, in particular for mobile telephony. This provision increased by 9 million euros compared to December 31, 2013.
The **provision for legal disputes** decreased by 57 million euros compared to December 31, 2013. The provision refers to disputes with employees (19 million euros), social security agencies (2 million euros) and third parties (62 million euros).
The **provision for commercial risks** was substantially unchanged compared to December 31, 2013.
The **Provision for risks and charges on investment and corporate-related transactions** is basically unchanged compared to December 31, 2013.
Other provisions mainly consisted of provisions for regulatory risk, and they decreased by 13 million euros compared to December 31, 2013.

NOTE 21
MISCELLANEOUS PAYABLES AND OTHER NON-CURRENT LIABILITIES

Miscellaneous payables and other non-current liabilities decreased 53 million euros compared to December 31, 2013 and were broken down as follows:

(millions of euros)	12/31/2014	12/31/2013
Payables to social security agencies	21	28
Capital grants	19	23
Deferred income	298	331
Payables to subsidiaries	20	30
Other payables to third parties	1	–
Total	**359**	**412**

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:

(millions of euros)	12/31/2014	12/31/2013
Non-current payables		
Due from 2 to 5 years after the end of the reporting period	9	15
Due beyond 5 years after the end of the reporting period	12	13
	21	**28**
Current payables	**8**	**9**
Total	**29**	**37**

Capital grants decreased 4 million euros following the depreciation recorded in the separate income statement on the assets to which the grants refer.

Medium/long-term deferred income includes 293 million euros for the deferral of revenues from the activation of telephone service (324 million euros at December 31, 2013).

Payables to subsidiaries related to the payables due for the adoption of the consolidated tax return, mainly due to Olivetti (11 million euros) and TI Information Technology (4 million euros).

NOTE 22
TRADE AND MISCELLANEOUS PAYABLES AND OTHER CURRENT LIABILITIES

Trade and miscellaneous payables and other current liabilities decreased 695 million euros compared to December 31, 2013 and were broken down as follows:

(millions of euros)		12/31/2014	*Of which IAS 39 Financial Instruments*	12/31/2013	*Of which IAS 39 Financial Instruments*
Payables on construction work	**(a)**	**35**		**29**	
Trade payables					
Payables to suppliers		2,011	*2,011*	2,360	*2,360*
Payables to other telecommunication operators		239	*239*	203	*203*
Payables to subsidiaries		406	*406*	432	*432*
Payables to associates and joint ventures		4	*4*	7	*7*
Payables to other related parties		122	*122*	161	*161*
	(b)	**2,782**	*2,782*	**3,163**	*3,163*
Miscellaneous payables and other liabilities					
Payables to subsidiaries		42		54	
Payables to other related parties		27		22	
Advances received		37		23	
Tax payables		209		264	
Payables to social security agencies		140		126	
Payables for employee compensation		222	*222*	225	*225*
Customer-related items		725	*211*	792	*232*
Trade and miscellaneous deferred income		758		789	
Other current liabilities		291	*188*	387	*135*
Employee benefits (except for employee severance indemnities) for the current portion expected to be settled within 1 year		4		22	
Provisions for risks and charges for the current portion expected to be settled within 1 year		259		330	
	(c)	**2,714**	*621*	**3,034**	*592*
Total	**(a+b+c)**	**5,531**	*3,403*	**6,226**	*3,755*

Further details on Financial Instruments are provided in the Note “Supplementary disclosure on financial instruments”.

Trade payables amounted to 2,782 million euros (3,163 million euros at December 31, 2013) and decreased by 381 million euros, mainly as a result of reduction in acquisition of goods and services and capital expenditures.
Trade payables to subsidiaries, amounting to 406 million euros, mainly related to amounts due to Telecom Italia Sparkle (62 million euros) for telecommunications services, Telecom Italia Information Technology (220 million euros), Telenergia (39 million euros), Olivetti (27 million euros), 4G Retail (19 million euros), Telecontact (14 million euros), and HR Services (12 million euros) for supply contracts. Payables to associates, amounting to 4 million euros, relate to supply arrangements with Teleleasing. Trade payables to other related parties amounted to 122 million euros and related in particular to debt positions with the Intesa Sanpaolo group (115 million euros).

Miscellaneous payables and other liabilities amounted to 2,714 million euros and decreased 320 million euros compared to December 31, 2013. The most important items included in this line item are described below:

- Tax payables, amounting to 209 million euros, mainly refer to VAT payables (93 million euros), payables for government concession tax (36 million euros) and withholding tax payables to the tax authorities as the withholding agent (73 million euros);
- Payables to social security agencies include the short-term portion of the amount payable to INPS under Law 58/1992, as described in the Note "Miscellaneous payables and other non-current liabilities";
- customer-related items include, among others, payables for deposits made by subscribers for telephone calls and subscription charges debited in advance;
- trade and miscellaneous deferred income includes 247 million euros for interconnection charges, 180 million euros for the deferral of revenues from the activation of telephone service, 79 million euros for traffic and charges, 28 million euros for rent and maintenance payments and 12 million euros for outsourcing contract charges;
- other current liabilities comprise, among others, lease installments, payables for grants received from the Italian State and the European Union and payables for guarantee deposits and dividends;
- with regard to employee benefits and provisions, reference should be made to the specific notes.

NOTE 23
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 S.p.A. is involved as of December 31, 2014, as well as those that came to an end during the financial year.
The Telecom Italia Group has posted liabilities totalling 123 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 August 2014, the Rome Court filed its grounds for the judgement, the ruling of which was pronounced in October 2013. The Court fully acquitted three former managers of Telecom Italia Sparkle from the charges of transnational conspiracy for the purpose of tax evasion and false declaration by the use of invoices or other documents for non-existent transactions. A further 18 defendants were found guilty, with sentences of 20 months to 15 years. The grounds for the judgement acknowledged that the former managers of Telecom Italia Sparkle were completely uninvolved in the "carousel fraud" and the correctness of their actions.
The non-guilty verdict was, however, appealed by the Rome Public Prosecutor's Office, also in relation to the standing of the Telecom Italia Sparkle employees, and the date of the hearing before the Court of Appeal has not yet been set.
Telecom Italia Sparkle is still formally being investigated for the administrative offence pursuant to Legislative Decree 231/2001, with the predicate offence of conspiracy and translational money laundering.
Following the outcome of the immediate trial, the Company in any event requested and obtained from the Judicial Authority, with an order in June 2014, the release and return of the whole sum of the 72,234,003 euro surety issued in the past in favour of the Judicial Authority to guarantee any obligations deriving from the application of Legislative Decree 231/2001, and the restitution of the sum of 8,451,000 euros; the sum of 1,549,000 euros, corresponding to the maximum fine payable for the administrative offence, remains under seizure.
It is pointed out that in view of the provisions made in the 2009 consolidated financial statements following the Telecom Italia Sparkle affair, risk provisions for a total of 86 million euros (72 million euros of which referred to the risk pursuant to Legislative Decree 231/2001) were still recorded in the financial statements and were fully released in the profit and loss account during 2014.
As for risks of a fiscal nature, you are reminded that in February 2014 the Agenzia delle Entrate (Lazio Regional Office) served 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. The amount of the fines – 25% of the "crime related costs" unduly deducted – total 280 million euros. In this respect the Company has filed an appeal to the Provincial Tax Commission in April 2014 and is still waiting for a hearing date to be set. In light of the investigations carried out, and considering the favourable outcome of the associated criminal proceedings, the risk is believed to be only potential, so no provisions were made in the financial statements.

Investigation by the Public Prosecutor's Office of Monza

Criminal proceedings in their preliminary investigation phase are currently pending before the Public Prosecutor's Office of Monza relative to a number of supply under lease and/or sale of goods transactions which allegedly involve various offences committed to the detriment, amongst others, of Telecom Italia, which filed a charge against persons unknown in 2011.
The preliminary investigation judge filed separate proceedings initiated, amongst others, against three employees/former employees of the Company. A former employee of the Company, amongst others, is apparently still being investigated as part of the main criminal proceedings.

Irregularities concerning transactions for the leasing/rental of assets

In relation to the irregularities detected with regard to some leasing and rental transactions, which in some cases led to disputes relating to Direct Taxes and VAT, the Company arranged in previous years and in the current year to make provision for risks; the actual amount of the risk provision is around 9.6 million euros.

Administrative offence charge pursuant to Legislative Decree 231/2001 for the Telecom Italia Security Affair.

In December 2008 Telecom Italia received notification of the application for its committal for trial for the administrative offence specified in articles 21 and 25, subsections 2 and 4, of legislative decree no. 231/2001 in relation to the affairs that involved several former employees of the Security function and former collaborators of the Company charged – among other things – with offences involving corruption of public officials, with the object of acquiring information from confidential files. In May 2010 Telecom Italia was definitively no longer a defendant in the criminal trial, the Judge for the Preliminary Hearing having approved the motion for settlement of the proceedings (plea bargaining) presented by the Company.
In the hearing before Section One of the Milan Court of Assizes, Telecom Italia acted in the dual role of civil party and civilly liable party. In fact, on the one hand it was admitted as civil party against all the defendants for all charges, and on the other it 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 and 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 the lengthy evidence hearings – which lasted more than a year – 22 civil parties filed claims for compensation, also 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 summarised its conclusions against the defendants, requesting that they be found liable for all the damages suffered as a result of the facts of the case.
In February 2013, Section 1 of the Milan Court of Assizes issued the first instance judgement, sentencing the defendants to terms of imprisonment of between 7 years and 6 months and one year. The Court also recognised that there had been non-pecuniary damage to some of the civil parties as a consequence of the alleged facts, and sentenced the defendants, jointly and severally with civilly liable party Telecom Italia, to compensate said damages, totalling 270,000 euros (of which 170,000 euros jointly and severally with Pirelli); at the same time it also sentenced the defendants to pay compensation for pecuniary and non-pecuniary damages incurred by the Company, granting it a provisional sum of 10 million euros. The judgement also recognised the existence of non-pecuniary damage to the companies Telecom Italia Latam and Telecom Italia Audit & Compliance Services, sentencing the defendants to pay compensation for damages on an equitable basis of 20,000 euros for each company.
In November 2013 the grounds for the judgement in the court of first instance were published (and for its part, the Company decided not to appeal).
To date no date has been set for the appeal hearing.

Antitrust Case A428

At the conclusion of case A428, the Italian antitrust authority - AGCM imposed on 10 May 2013 two administrative sanctions of 88,182,000 euros and 15,612,000 euros on Telecom Italia for abuse of its dominant position. The Company allegedly (i) hindered or delayed activation of access services requested by OLOs through unjustified and spurious refusals; (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 the Country where disaggregated access services to the local network are available, and hence where other operators can compete more effectively with the Company. The liabilities already allocated in the consolidated Financial Statements at 31 December 2013 cover the entire amount of the sanctions and the interest accrued on that date.
Telecom Italia appealed against the decision before the Administrative Court (TAR) for Lazio, applying for payment of the fine to be suspended. In particular, it alleged: infringement of its rights to defend itself in the proceedings, the circumstance that the organisational choices challenged by AGCM and allegedly at the base of the abuse of the OLO provisioning processes had been the subject of specific rulings made by the sector Authority (AGCom), the circumstance that the comparative examination of the internal/external provisioning processes had in fact 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 the second abuse) 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.
In May 2014, the judgement of the Lazio TAR was published, rejecting Telecom Italia's appeal and confirming in full the fines imposed in the original order challenged. In September 2014 the Company appealed against this decision to the Consiglio di Stato (Italian Council of State).
In the meantime the company proceeded to pay the fines and the accrued interest.

It should be noted that for the disputes described below, on the basis of the information available at the closing date of the present document and with particular reference to the complexity of the proceedings, to their progress, and to elements of uncertainty of a technical-trial nature, it was not possible to make a reliable estimate of the size and/or times of possible payments, if any. Moreover, in the case in which the disclosure of information relative to the dispute could seriously jeopardise the position of Telecom Italia or its subsidiaries, only the general nature of the dispute is described.

Antitrust Case I757

On September 12, 2012, 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 new operator BIP Mobile S.r.l.
BIP Mobile, which intended to present itself as the first “low cost” virtual operator, did not have its own sales network, since it accesses the market using the so-called multibrand distribution channel. According to the complaint it submitted to AGCM, the company has been faced with cancellations by retailers that distribute mobile telephony services of various operators, allegedly induced by pressures that were supposedly “the fruit of a concerted strategy between Telecom Italia, Vodafone and Wind.
On 20 December 2013, AGCM decided to extend the investigation to examine the conduct of Telecom Italia and Wind in terms of potential vertical restrictions in violation of article 101 of the Treaty on the Functioning of the European Union arising from supplementary commercial agreements signed by each of them with a number of multibrand dealers, as they provide extra incentives to the dealer while reserving the right to terminate the relationship if the dealer markets the products or services of operators other than those already marketed at the time the agreement is signed.

On 9 April 2014 Telecom Italia presented a proposal of undertakings. AGCM, having assessed that the undertakings presented did not appear to be manifestly groundless, published them on 22 April 2014 for the purposes of the so-called market test.
Upon completion of the investigation the Authority, on 11 December 2014, issued two separate rulings. With the first it ascertained that the horizontal agreement originally contested does not exist; with the second it accepted the undertakings proposed by Telecom Italia with reference to the vertical profiles object of the extension of the investigation, without any offences having been found to have taken place.

Antitrust Case I761

With a ruling issued on 10 July, 2013, the AGCM extended to Telecom Italia the investigation started in March of the same year into some enterprises active in the fixed network maintenance sector to Telecom Italia. The investigation aims to establish if an agreement exists that is prohibited pursuant to article 101 of the Treaty on the Functioning of the European Union. The proceedings were initiated after Wind filed two complaints in which the AGCM was informed 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 alleged 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 these proceedings before the Administrative Court (TAR), sustaining that the Antitrust Authority does not have competence in this matter.
On 7 July 2014, the AGCM notified the objective extension of the proceedings to check if the Company, abusing its dominant position, put in place initiatives that might influence the conditions of the offer of accessory technical services when the offers of the maintenance businesses to Wind and Fastweb were being formulated. With the extension provision, the Authority has also extended the deadline for closing the proceedings from the original date of 31 July 2014 to 31 July 2015. This extension was also challenged before the Administrative Court (TAR) of Lazio sustaining that the Italian Competition Authority does not have competence in this matter.
In November 2014, for reasons of procedural economy and also convinced that it was acting legitimately, Telecom Italia presented to the Authority a proposal of undertakings in order to resolve the competition concerns subject of the investigation. In its resolution of 19 December 2014 the AGCM assessed that these undertakings were not manifestly groundless and later arranged their publication for the purposes of the market test. Unless extended, the procedure will be completed by the end of March 2015.

Dispute relative to "Adjustments on license 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 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 against turnover not received due to bad debts. Telecom Italia lodged an appeal.
With two further recent judgements the Administrative Court (TAR) for Lazio, reiterating all the grounds expressed previously, rejected the appeal in which TIM challenged the requests for payment of outstanding balances of licence fees for the years 1995 to 1998, in the amount of approximately 46 million euros. Telecom Italia will appeal these judgements too to the Council of State.

FASTWEB

In April 2014 Fastweb and Telecom Italia reached a technical-procedural agreement to waive the arbitration started by Fastweb in January 2011 by virtue of which the competitor requested compensation for presumed damages totalling 146 million euros incurred following alleged non-compliance with the provisions contained in the contract for the supply of the LLU service. The agreement reached did not define the respective damages claimed inferred in arbitration, which will continue in the proceedings already pending before the Milan Civil Court, described below. It should be pointed out that in arbitration Fastweb complained 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 filed an appearance, submitting a counterclaim.
In December 2013, Fastweb served a writ of summons at 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 in 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 squeeze" practices). Based on the content of the Antitrust Authority's well-known decision A428, Fastweb has quantified this claim to be in the order of 1,744 million euros.
The Company filed an appearance challenging the claims made by the other party regarding the matter and the amount and making a counterclaim.

VODAFONE

In August 2013, Vodafone, as incorporating company of operator Teletu, submitted to the Milan Court a huge claim for damages for presumed abusive and anticompetitive behaviour (founded principally on AGCM case A428) which Telecom Italia allegedly implemented in the period 2008 - 2013. The pecuniary 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 activities, with refusal to activate lines requested for Teletu customers (in the period from 2008 to the month of June 2013), together with the adoption of allegedly abusive price policies for wholesale network access services (period from 2008 to the month of June 2013). Furthermore, the other party complained of the presumed application of discounts to business customers greater than those envisaged ("margin squeeze" practices) and the carrying out of presumed illegal and anticompetitive win back practices (in the period from the second half of 2012 to the month of June 2013).
Telecom Italia filed an appearance, challenging the claims made by the other party regarding the matter and the amount and making a counterclaim.

TISCALI

With a writ issued before the Milan Court, served in January 2015, Tiscali has claimed damages of 285 million euros for alleged abusive behaviours of Telecom Italia in the years 2009-2014, through technical boycott activities and by making economic offers to its business clients, in areas open to LLU service, which their competitors were not capable of replicating due to the alleged excessive squeezing of their discount margins. Tiscali's claim is based on the content of the known proceedings A428 of the Italian Competition Authority. Telecom Italia will file an appearance challenging the claims of the other party.

WIND

In October 2014 the following cases pending before the Milan Court brought by the operator Wind were settled by mediation:

- judgement initiated with a writ of summons dated January 2012 for the compensation for alleged damages (quantified at around 85 million euros), deriving from alleged acts of unfair competition caused by the refusal to activate customers in the period July 2009 - October 2010, as well as through personalized offers and discounts for customers interested in Wind's commercial offers (these actions were, at the time of the writ of summons, subject to antitrust proceedings A428, referred to in the records);

- judgement brought with a writ of summons dated May 2013, referring to the antitrust decision A428, for the compensation of alleged damages (quantified at over 247 million euros, of which around 37 million euros for reputation damage) resulting from the refusal to activate 80,159 potential customers in the period July 2011 – October 2012.

EUTELIA and VOICEPLUS

In June 2009, Eutelia and Voiceplus asked that alleged acts of abuse by Telecom Italia of its dominant position in the premium services market (based on the public offer of services provided through so-called Non Geographic Numbers) be investigated. The complainants quantified their damages at a total of approximately 730 million euros.

The case follows a precautionary procedure in which the Milan Appeal Court prohibited certain behaviours of the Company relating to the management of some financial relations with Eutelia and Voiceplus concerning the Non Geographic Numbers, for which Telecom Italia managed the payments from the end customers, on behalf of such OLOs and in the light of regulatory requirements.

After the ruling with 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 Court. The first hearing took place in the month of March 2014. Telecom Italia filed an appearance challenging the claims of the other parties.

TELEUNIT

With a writ issued in October 2009 before the Milan Appeal Court, Teleunit asked for alleged acts of abuse by Telecom Italia of its dominant position in the premium services market to be investigated. The complainant quantified its damages at a total of approximately 362 million euros. Telecom Italia filed an appearance, contesting the claims of the other party.

After the ruling of January 2014 with which the Court of Appeal declared that it was not competent in this matter and referred the case to the Court, Teleunit reinstated the case before the Milan Court the following April.

Telecom Italia filed an appearance in the reinstated proceedings challenging the claims of the other parties.

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 with a search warrant issued by the Public Prosecutor’ s Office of Forlì in the context of proceedings in which the defendants included one subsequently suspended employee and three former employees of the Company.

In September 2013, the notice of completion of the preliminary investigations was filed. The offences proceeded with are conspiracy for the purpose of committing crimes of “false declaration through the use of invoices or other documents for non-existent transactions” and the “issuing of invoices or other documents for non-existent transactions” and the respective target offences. The company employees have also been accused of the offence of "preventing public supervisory authorities from performing their functions", "*for having prevented CONSOB from learning promptly of the involvement of Telecom 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*".

Regarding the latter charge, the Forlì Prosecutor's Office has transmitted the case papers to the Milan Public Prosecutor's Office, deemed to be territorially competent.

This matter was the subject of an audit and of the Greenfield Project at the time. In this regard, note that, as a result of what emerged from these activities, the Company took steps to independently regularise some invoices for which the fiscal obligations laid down had not been fully discharged.

POSTE

There are some pending actions brought 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 established an outcome that was 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 had 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 quashed and remanded the decision of the Appeal Court on which the order was based, the Rome Court declared that the matter of 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.

Elinet S.p.A. Bankruptcy

The receivers of bankrupt company Elinet S.p.A. appealed the judgement in which the Rome Court rejected the applications for compensation filed by the receivers of the Elinet-Elitel group (for a total of 350 million euros) resubmitting their own claim for approximately 58 million euros.
The claims made to the Company regard the alleged performance of management and coordination activities of the plaintiff, and with it the Elitel Group (alternative operator in which Telecom Italia has never had any type of interest), allegedly enacted by playing the card of trade receivables management.
Telecom Italia filed an appearance, challenging the claims of the other party.

Brazil - JVCO Dispute

In the month of September 2013, the Company was served notice of judicial proceedings started 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., which asked for their control of Tim Participações S.A. (Tim Participações) to be declared abusive, and for compensation to be awarded for the damages caused by the exercise of this power of control, the amount of which should be determined during the proceedings.
In February 2014 the statements of rejoinder were filed, objecting to the lack of jurisdiction of the court addressed, and in August the Court of Rio de Janeiro ruled in favour of Telecom Italia, Telecom Italia International and Tim Brasil, rejecting JVCO's claim. The latter appealed the judgement before a judge of the first instance, motion which was refused by the judge in September 2014
In November 2014, JVCO appealed against the judgement of the court of first instance. On 10 December 2014 Telecom Italia, Telecom Italia International e Tim Participações filed both their respective responses to this appeal and their own appeal against the costs awarded to them in the judgement of the court of the first instance, deemed to be too low.

Brazil - Opportunity Arbitration

In 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 signed in 2005. Based on claimant’s allegations, such damages would be related to matters emerged in the framework of the criminal proceedings

pending before the Court of Milan regarding, among others, unlawful activities of former employees of Telecom Italia.
The investigatory phase having been completed, the hearing for oral discussion took place in November 2014, after which the parties filed their concluding arguments in preparation for the decision on the case.

B) OTHER INFORMATION

Mobile telephony - criminal proceedings

In March 2012 Telecom Italia was served notice of the conclusion of the preliminary enquiries, which showed that the Company was being investigated by the Public Prosecutor of Milan pursuant to the Legislative Decree n. 231/2001, for the offences of handling stolen goods (Art. 648 of the Criminal Code) and counterfeiting (Art. 491-bis of the Criminal Code) committed, according to the alleged allegations, by fourteen employees of the so-called “ethnic channel”, with the participation of a number of dealers, for the purpose of obtaining 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, 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 in the interest of the civil party were filed, reaffirming Telecom Italia's total lack of involvement in the offences claimed.
At the end of the preliminary hearing, which took place in March 2014, the Judge for the Preliminary Hearings committed for trial all the defendants (including Telecom Italia) who did not ask for the definition of their position with alternative procedures, on the grounds that “the examination hearing is necessary”. Currently the proceedings are in the phase of dealing with the matters preliminary to the trial before the Court sitting as a judicial panel.

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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 Preliminary Hearing Judge 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 Rome Public Prosecutor therefore proposed an appeal to the Court of Cassation, which declared this inadmissible in May2014.

Dispute concerning the license fees for 1998

Telecom Italia has issued civil proceedings against the Presidenza del Consiglio dei Ministri (the office of the Prime Minister) for compensation of the damage caused by the Italian State through appeal judgement no.7506/09 by the Consiglio di Stato that, in the view of the Company, violates the principles of current European community law.
The main claim which the proceedings are founded on is based on community jurisprudence that recognises the right to assert the responsibility of the State in relation to violation of rights recognised in community law and injured by a judgement that has become definitive, in respect of which no other remedy may be applied. The judgement of the Council of State definitively denied the right of Telecom Italia to restitution of the concession charge for 1998 (totalling 386 million euros for Telecom Italia and 143 million euros for Tim, plus interest), already rejected by the Lazio regional administrative court

despite the favourable and binding opinion of the European Court of Justice on February 23, 2008 concerning the conflict between EC Directive 97/13 on general authorisations and individual licences in the telecommunications services industry, and the national regulations that had deferred, for 1998, the obligation to pay the fee payable by telecommunications concession holders, despite the intervening deregulation process. The Company then proposed an alternative compensation claim, within the sphere of the same proceedings, for tort pursuant to art. 2043 of the Italian Civil Code. The compensation claimed has been quantified as approximately 529 million euros, plus legal interest and revaluation. The Avvocatura di Stato filed an appearance and submitted a counterclaim for the same sum. The case is subject to eligibility analysis by the Court, which declared the inadmissibility of Telecom Italia's main claim (case for damages for manifest breach of community law pursuant to law 117/88). However, this decision was amended in favour of the Company on appeal. The final judgement is still pending.

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 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 20 December 2013 the latter issued a press release stating that: "With regard to corporate and financial events involving the companies Telecom 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".
In September 2014 CONSOB closed the preliminary investigation phase of its audit, opening the sanctioning proceeding with a charge against the Company concerning some administrative infringements of the Consolidated Law on Financial Intermediation (TUF).
The Company, confident in the solidity of its arguments, and in acceptance of the explanations provided, has already filed its own arguments. The possible sanctions, in any case subject to appeal, would not result in a material impact on the Company.

Olivetti – Asbestos exposure

In September 2014 the Ivrea Public Prosecutor's Office closed the investigation on the presumed exposure to asbestos of 15 former workers from the companies "Ing. C. Olivetti S.p.A." (now Telecom Italia S.p.A.), "Olivetti Controllo Numerico S.p.A", "Olivetti Peripheral Equipment S.p.A.", "Sixtel S.p.A." and "Olteco S.p.A" and served notice that the investigations had been concluded on the 39 people investigated (who include former Directors of the aforementioned companies).
On 19 December 2014 the Ivrea Public Prosecutor's Office formulated a request for 33 of the 39 people originally investigated to be committed for trial, and at the same time asked that 6 investigations be archived. The preliminary hearing will start in April 2015.
The Company does not currently play any role in the criminal proceedings.

C) COMMITMENTS AND GUARANTEES

Guarantees provided, amounting to 9,523 million euros, essentially refer to guarantee financing provided by Telecom Italia on behalf of Subsidiaries (of which 6,095 million euros relates to Telecom Italia Capital, 2,825 million euros to Telecom Italia Finance, 50 million euros to Lan Med Nautilus, 22 million euros to Olivetti and 9 million euros to Telenergia).
Significant purchase commitments outstanding at December 31, 2014 for long-term contracts forming part of Telecom Italia S.p.A.'s business operations, totaling around 1.6 billion euros, mainly relate to the commitments undertaken by the Company for supplies related to the operation of the telecommunications network.
Guarantees provided by third parties for the obligations of Group companies, amounting to 3,490 million euros, related to guarantees provided by banks and other financial institutions both for loans (2,850 million euros) and as guarantees of performance under outstanding contracts (640 million euros, of which 48 million euros thousand euros provided by Assicurazioni Generali).
The guarantees provided by third parties for Telecom Italia's obligations include 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 274 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).
In March 2014 the Interior Ministry issued a bank guarantee of 26 million euros to Fastweb, as jointly obliged with Telecom Italia following the order from the Consiglio di Stato, which – in suspending the effects of the ruling of the Lazio Administrative Court, which had declared in the "Master Agreement" for the supply of all the electronic communication services, following the appeal by Fastweb – required the issue of a bank guarantee (or other equivalent guarantee) equal to 5% of the financial value of the Agreement. This guarantee covers the potential payment of the amounts that the Consiglio di Stato could award to Fastweb in the appeal proceedings.
The Interior Ministry and Telecom Italia are obliged, jointly, to issue the security (or establish another form of guarantee), on the understanding that the fulfillment of this obligation by one of the parties will exempt the other from having to establish a second identical guarantee and that if the guarantee is enforced against the main obliged party, that party shall retain the possibility of acting by way of recourse against the other party.
Under the amendment agreements of the contract for the sale of the interest in the Sofora - Telecom Argentina group to Fintech signed by Telecom Italia on October 24, 2014, Telecom Italia International issued and Fintech fully subscribed a debt security with a value of 600.6 million USD, a term of 6 years and a fixed coupon of 4.325% per year, payable annually. The note has been guaranteed by Telecom Italia and this guarantee constitutes a related-party transaction, on arm's length terms, between the parent company (Telecom Italia) and its fully owned subsidiary (Telecom Italia International), below the materiality thresholds set forth by the Telecom Italia Group's internal procedure for related-party transactions. According to the aforementioned procedure, this guarantee will be scrutinized by the Telecom Italia Control and Risk Committee.
In addition, also under the amendment agreements of the contract for the sale of the interest in the Sofora - Telecom Argentina group, at the time when the bond was issued by Telecom Italia International and fully subscribed by Fintech, the debt security was pledged in favor of Telecom Italia and Telecom Italia International, as a guarantee of Fintech's future obligations to those companies under the sale agreement for the Argentinian assets. Accordingly, at December 31, 2014, Telecom Italia has a collateral guarantee issued by Fintech for 309 million euros.

Details of the main guarantees received for EIB financing at December 31, 2014 are as follows:

Issuer

	Amount (millions of euros)(1)
BBVA - Banco Bilbao Vizcaya Argentaria	373
Intesa SanPaolo	376
SACE	368
Bank of Tokyo - Mitsubishi UFJ	273
Barclays Bank	180
Cassa Depositi e Prestiti	158
Sumitomo	109
Ing	105
Natixis	92
Commerzbank	57
Banco Santander	52
Citibank	27

(1) Relative to loans issued by the EIB for the Telecom Italia Banda Larga, Telecom Italia Ricerca & Sviluppo, and Telecom Italia Digital Divide Projects.

NOTE 24
REVENUES

Revenues decreased 1,151 million euros compared to 2013 and were broken down as follows:

(millions of euros)		2014	2013
Sales:			
Telephone equipment		780	793
Other sales		3	2
	(a)	**783**	**795**
Services:			
Traffic		3,810	4,584
Subscription charges		6,754	7,048
Fees		283	311
Value-added services (VAS)		2,048	2,059
Recharges of prepaid cards		21	33
Sundry income (*)		454	474
	(b)	**13,370**	**14,509**
Total	**(a+b)**	**14,153**	**15,304**

(*) Includes 3 million euros for royalties (in 2013 they totaled 2 million euros).

Revenues are presented gross of amounts due to other TLC operators (712 million euros), which are included in "Costs of services".

NOTE 25
OTHER INCOME

Other income increased 18 million euros compared to and was broken down as follows:

(millions of euros)	2014	2013
Late payment fees charged for telephone services	53	50
Release of provisions and other payable items	33	19
Recovery of employee benefit expenses, purchases and services rendered	24	22
Capital and operating grants	24	27
Damage compensation, penalties and sundry recoveries	36	42
Other income	104	96
Total	**274**	**256**

NOTE 26
ACQUISITION OF GOODS AND SERVICES

Acquisition of goods and services decreased 341 million euros compared to 2013 and were broken down as follows:

(millions of euros)		2014	2013
Acquisition of raw materials and merchandise	**(a)**	**1,012**	**1,084**
Costs of services			
Revenues due to other TLC operators		712	808
Interconnection costs		39	40
Commissions, sales commissions and other selling expenses		476	533
Advertising and promotion expenses		239	271
Professional and consulting services		111	176
Utilities		402	407
Maintenance		232	217
Outsourcing costs for other services		464	454
Mailing and delivery expenses for telephone bills, directories and other materials to customers		50	54
Distribution and logistics		12	14
Travel and lodging costs		33	37
Insurance		39	39
Other service expenses		495	526
	(b)	**3,304**	**3,576**
Lease and rental costs			
Rent and leases		500	503
TLC circuit lease rents and rents for use of satellite systems		96	106
Other lease and rental costs		181	165
	(c)	**777**	**774**
Total	**(a+b+c)**	**5,093**	**5,434**

NOTE 27
EMPLOYEE BENEFITS EXPENSES

Employee benefits expenses increased 26 million euros compared to 2013 and were broken down as follows:

(millions of euros)		2014	2013
Employee benefits expenses			
Wages and salaries		1,613	1,591
Social security expenses		605	592
Other employee benefits		31	29
	(a)	**2,249**	**2,212**
Costs and provisions for temp work	**(b)**	**–**	**1**
Miscellaneous expenses for personnel and other labor-related services rendered			
Remuneration of personnel other than employees		1	1
Charges for termination benefit incentives		22	22
Expenses for mobility under Law 223/91		5	15
	(c)	**28**	**38**
Total	**(a+b+c)**	**2,277**	**2,251**

The average salaried workforce was 40,364 at December 31, 2014 (40,937 at December 31, 2013). A breakdown by category is as follows:

(number)	2014	2013
Executives	681	689
Middle Management	2,824	2,850
White collars	36,859	37,398
Employees on payroll	**40,364**	**40,937**
Employees with temp work contracts	-	-
Total average of salaried workforce	**40,364**	**40,937**

Employees in service at December 31, 2014 numbered 44,164 (44,386 at December 31, 2013), with a reduction of 222 units.

NOTE 28
OTHER OPERATING EXPENSES

Other operating expenses decreased 92 million euros compared to 2013 and were broken down as follows:

(millions of euros)	2014	2013
Write-downs and expenses in connection with credit management	292	280
Provision charges	2	11
TLC operating fees and charges	50	55
Indirect duties and taxes	70	76
Penalties, settlement compensation and administrative fines	68	72
Association dues and fees, donations, scholarships and traineeships	13	18
Sundry expenses	37	112
Total	**532**	**624**
of which, included in the supplementary disclosure on financial instruments	*292*	*280*

Further details on Financial Instruments are provided in the Note "Supplementary disclosure on financial instruments".

In 2013, the item sundry expenses included an amount of 84 million euros recognized as the estimate of the costs related to the fine imposed by the Italian Antitrust Authority (AGCM) at the end of the A428 proceedings.

NOTE 29
CHANGE IN INVENTORIES

The **change in inventories** was a negative 43 million euros (positive 42 million euros at December 31, 2013) and was mainly attributable to a shopper reduction in purchases than in consumption.
The amount takes into account the write-downs made to adjust the value of fixed and mobile equipment to estimated realizable value of 7 million euros.

NOTE 30
INTERNALLY GENERATED ASSETS

Internally generated assets amounted to 257 million euros and increased 13 million euros compared to 2013, as a result of an increase in tangible assets primarily linked to the construction of infrastructure for ultra-broadband services.
They consisted of:

- cost of labor of 246 million euros;
- amortization of 3 million euros;
- other external costs of 8 million euros.

They included 203 million euros under the item "tangible assets owned", design, construction and testing of network installations, and 54 million euros under the item "intangible assets with a finite useful life", mainly concerning engineering, design and deployment of network solutions, applications and innovative services.

NOTE 31
DEPRECIATION AND AMORTIZATION

Depreciation and amortization decreased 280 million euros compared to 2013 and was broken down as follows:

(millions of euros)		2014	2013
Amortization of intangible assets with a finite useful life			
Industrial patents and intellectual property rights		970	1,075
Concessions, licenses, trademarks and similar rights		227	226
Other intangible assets		178	242
	(a)	**1,375**	**1,543**
Depreciation of tangible assets owned			
Buildings (civil and industrial)		36	39
Plant and equipment		1,548	1,650
Manufacturing and distribution equipment		13	12
Other		94	103
	(b)	**1,691**	**1,804**
Depreciation of tangible assets held under finance leases			
Buildings (civil and industrial)		120	117
Other		4	6
	(c)	**124**	**123**
Total	**(a+b+c)**	**3,190**	**3,470**

NOTE 32
GAINS/(LOSSES) ON DISPOSALS OF NON-CURRENT ASSETS

Gains/(losses) on disposals of non-current assets improved by 33 million euros compared to 2013 and were broken down as follows:

(millions of euros)		2014	2013
Gains on disposals of non-current assets			
Gains on the retirement/disposal of intangible and tangible assets		39	8
	(a)	**39**	**8**
Losses on disposals of non-current assets			
Losses on the retirement/disposal of intangible and tangible assets		8	10
	(b)	**8**	**10**
Total	**(a-b)**	**31**	**(2)**

Gains/losses on disposal of non-current assets showed gains of 31 million euros (losses of 2 million euros in 2013). The item includes in 2014 gains of 38 million euros, following the sale – which took place in March 2014 – of a building owned by Telecom Italia, located in Milan.

NOTE 33
IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS

There were no impairment reversals (losses) on non-current assets in 2014 (2,187 million euros in 2013); the amount in 2013 included the goodwill impairment loss 2,187 million euros allocated to Telecom Italia S.p.A.. Further details are provided in the Note “Goodwill”.

NOTE 34
INCOME/(EXPENSES) FROM INVESTMENTS

Details are as follows:

(millions of euros)	2014	2013
Dividends	6	104
Net gains on disposals of investments	–	1
Other income from investments	–	2
Impairment losses on financial assets	(127)	(180)
Losses on disposals of investments	–	–
Sundry expenses from investments	–	–
Total	**(121)**	**(73)**
of which, included in the supplementary disclosure on financial instruments	*5*	*1*

Specifically:

- dividends mainly related to the associate SIA (4 million euros). Dividends for 2013 mainly related to the subsidiaries Telecom Italia Sparkle (99 million euros) and Telecom Italia Digital Solutions (3 million euros).
- Impairment losses mainly related to write-downs of investments in subsidiaries (63 million euros for Telecom Italia Media, 33 million euros for Olivetti, 21 million euros for TI Information Technology, and 2 million euros for Telecontact) and in associates (6 million euros for Tiglio I). Impairment losses for 2013 related to write-downs of investments in subsidiaries (140 million euros for Telecom Italia Media, 13 million euros for Olivetti, 21 million euros for TI Information Technology, and 2 million euros for Telecontact) and in associates (1 million euros for Tiglio I).
- Gains on disposals of investments for 2013 related to the gain resulting from Adjustment Price for the sale of Matrix which took place at the end of 2012, whereas other income from investments for 2013 related to the proceeds from the liquidation of Tecnoservizi Mobili.

NOTE 35
FINANCE INCOME AND FINANCE EXPENSES

FINANCE INCOME

Finance income decreased by 23 million euros compared to 2013. The breakdown is as follows:

(millions of euros)		2014	2013
Interest income and other finance income			
Income from financial receivables from subsidiaries, recorded in Non-current assets		1	2
Income from securities other than investments, recorded in Current assets		56	52
Income other than the above:			
Interest income		18	22
Interest income from subsidiaries		4	5
Exchange gains		74	52
Income from fair value hedge derivatives		92	82
Reversal of the Reserve for cash flow hedge derivatives to the separate income statement (interest rate component)		252	208
Income from non-hedging derivatives		510	758
Miscellaneous finance income		31	15
	(a)	**1,038**	**1,196**
Positive fair value adjustments to:			
Fair value hedge derivatives		285	91
Underlying financial assets and liabilities of fair value hedge derivatives		91	144
Non-hedging derivatives		1,021	1,027
	(b)	**1,397**	**1,262**
Total	**(c)=(a+b)**	**2,435**	**2,458**
of which, included in the supplementary disclosure on financial instruments		*1,626*	*1,868*

FINANCE EXPENSES

Finance expenses increased 150 million euros compared to 2013 and was broken down as follows:

(millions of euros)		2014	2013
Interest expenses and other finance expenses			
Interest expenses and other costs relating to bonds		941	859
Interest expenses relating to subsidiaries		404	394
Interest expenses relating to associates		8	12
Interest expenses to banks		113	118
Interest expenses to others		134	153
Commissions		131	118
Exchange losses		73	52
Charges from fair value hedge derivatives		69	63
Reversal of the Reserve for cash flow hedge derivatives to the separate income statement (interest rate component)		403	518
Charges from non-hedging derivatives		511	758
Miscellaneous finance expenses		187	155
	(a)	**2,974**	**3,200**
Negative fair value adjustments to:			
Fair value hedge derivatives		125	128
Underlying financial assets and liabilities of fair value hedge derivatives		264	101
Non-hedging derivatives		1,232	1,016
	(b)	**1,621**	**1,245**
Total	**(c)=(a+b)**	**4,595**	**4,445**
of which, included in the supplementary disclosure on financial instruments		*3,467*	*3,324*

For greater clarity of presentation, the net effects relating to derivative financial instruments are summarized in the following table:

(millions of euros)		2014	2013
Exchange gains		74	52
Exchange losses		(73)	(52)
Net exchange gains and losses		**1**	**-**
Income from fair value hedge derivatives		92	82
Charges from fair value hedge derivatives		(69)	(63)
Net result from fair value hedge derivatives	**(a)**	**23**	**19**
Positive effect of the reversal of the Reserve of cash flow hedge derivatives to the income statement (interest rate component)		252	208
Negative effect of the reversal of the Reserve of cash flow hedge derivatives to the income statement (interest rate component)		(403)	(518)
Net effect of the Reversal of the Reserve of cash flow hedge derivatives to the income statement (interest rate component)	**(b)**	**(151)**	**(310)**
Income from non-hedging derivatives		510	758
Charges from non-hedging derivatives		(511)	(758)
Net result from non-hedging derivatives	**(c)**	**(1)**	**-**
Net result from derivatives	**(a+b+c)**	**(129)**	**(291)**
Positive fair value adjustments to fair value hedge derivatives		285	91
Negative fair value adjustments to Underlying financial assets and liabilities of fair value hedge derivatives		(264)	(101)
Net fair value adjustments	**(d)**	**21**	**(10)**
Positive fair value adjustments to Underlying financial assets and liabilities of fair value hedge derivatives		91	144
Negative fair value adjustments to fair value hedge derivatives		(125)	(128)
Net fair value adjustments	**(e)**	**(34)**	**16**
Net fair value adjustments to fair value hedge derivatives and underlyings	**(d+e)**	**(13)**	**6**
Positive fair value to non-hedging derivatives	**(f)**	1,021	1,027
Negative fair value adjustments to non-hedging derivatives	**(g)**	(1,232)	(1,016)
Net fair value adjustments to non-hedging derivatives	**(f+g)**	**(211)**	**11**

NOTE 36
RELATED PARTY TRANSACTIONS

The following tables show the balances relating to transactions with related parties and the impact of those amounts on the separate income statement, statement of financial position and statement of cash flows of Telecom Italia S.p.A..

In accordance with article 5, paragraph 8 of Consob Regulation 17221 of March 12, 2010 concerning "related party transactions" and the subsequent Consob Resolution 17389 of June 23, 2010, the following major transactions were entered into in 2014 as defined by art. 4, paragraph 1, letter a) of the aforementioned regulation.
On August 4, 2014 the threshold of greater significance of the equivalent-value ratio, set at 3.5% of the consolidated equity of Telecom Italia, was exceeded, as a result of the execution of a series of sales of tax receivables during 2014, together with the sales of trade receivables with advances to companies of the Intesa Sanpaolo group, a related party of Telecom Italia according the Procedure adopted by the Company.
As a result of the exceeding of the threshold for significant transactions, an information document was published on August 14, 2014, pursuant to Article 5 of Consob Regulation 17221/2010, available for consultation in Italian only at the website www.telecomitalia.com, section About Us – channel General Archive, Year 2014 "Governance". Further details are provided in the Note "Discontinued operations/Non-current assets held for sale".
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, from the 2013 Separate financial statements, the investment has been classified as Discontinued Operations (Discontinued operations/Non-current assets held for sale).
No other related party transactions were entered into that have materially affected the financial position or results of Telecom Italia S.p.A.. Finally, there were no changes or developments with respect to the related party transactions described in 2013 Separate Financial Statements which had a significant effect on the financial position or on the results of Telecom Italia S.p.A. in 2014.

The effects on the individual line items of the separate income statements for the years 2014 and 2013 are as follows:

SEPARATE INCOME STATEMENT LINE ITEMS 2014

(millions of euros)	Total (a)	Related Parties						
		Subsidiaries	Subsidiaries, companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	Key managers	Total related parties (b)	% of financial statement item (b/a)
Revenues	14,153	257	8	128	–	–	**393**	2.8
Other income	274	12	–	9	–	–	**21**	7.7
Acquisition of goods and services	5,093	932	18	50	–	–	**1,000**	19.6
Employee benefits expenses	2,277	–	–	3	75	13	**91**	4.0
Other operating expenses	532	–	–	1	–	–	**1**	0.2
Income (expenses) from investments	(121)	–	–	–	–	–	**–**	–
Finance income	2,435	503	–	307	–	–	**810**	33.3
Finance expenses	4,595	2,127	8	151	–	–	**2,286**	49.7
Profit (loss) from Discontinued operations/Non-current assets held for sale	7	7	–	–	–	–	**7**	100.0

(*) Other related parties both through directors, statutory auditors and key managers and as participants in shareholder agreements pursuant to Article 122 of the Consolidated Law on Finance.

SEPARATE INCOME STATEMENT LINE ITEMS 2013

(millions of euros)	Total (a)	Related Parties						
		Subsidiaries	Subsidiaries, companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	Key managers	Total related parties (b)	% of financial statement item (b/a)
Revenues	**15,304**	281	11	142	–	–	**434**	2.8
Other income	**256**	10	–	7	–	–	**17**	6.6
Acquisition of goods and services	**5,434**	1,010	25	50	–	–	**1,085**	20.0
Employee benefits expenses	**2,251**	–	–	3	69	20	**92**	4.1
Other operating expenses	**624**	1	–	1	–	–	**2**	0.3
Income (expenses) from investments	**(73)**	104	–	–	–	–	**104**	
Finance income	**2,458**	1,366	–	118	–	–	**1,484**	60.4
Finance expenses	**4,445**	1,213	18	310	–	–	**1,541**	34.7
Profit (loss) from Discontinued operations/Non-current assets held for sale	**–**	–	–	–	–	–	**–**	-

(*) Other related parties both through directors, statutory auditors and key managers and as participants in shareholder agreements pursuant to Article 122 of the Consolidated Law on Finance.

The effects on the line items of the statements of financial position at December 31, 2014 and at December 31, 2013 are as follows:

STATEMENT OF FINANCIAL POSITION LINE ITEMS AT DECEMBER 31, 2014

(millions of euros)	Total (a)	Related Parties Subsidiaries	Subsidiaries, companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	Total related parties (b)	% of financial statement item (b/a)
NET FINANCIAL DEBT							
Non-current financial assets	1,924	260	–	298	–	**558**	29.0
Securities other than investments (current assets)	802	543	–	–	–	**543**	67.7
Financial receivables and other current financial assets	303	35	–	14	–	**49**	16.2
Cash and cash equivalents	1,305	126	–	32	–	**158**	12.1
Current financial assets	2,410	704	–	46	–	**750**	31.1
Non-current financial liabilities	30,010	8,143	25	436	–	**8,604**	28.7
Current financial liabilities	7,747	4,525	43	61	–	**4,629**	59.8
Total net financial debt	33,423	**11,704**	**68**	**153**	**–**	**11,925**	35.7
OTHER STATEMENT OF FINANCIAL POSITION LINE ITEMS							
Miscellaneous receivables and other non-current assets	1,012	30	–	–	–	**30**	3.0
Trade and miscellaneous receivables and other current assets	3,492	155	3	101	–	**259**	7.4
Miscellaneous payables and other non-current liabilities	359	24	–	–	–	**24**	6.7
Trade and miscellaneous payables and other current liabilities	5,531	516	15	118	27	**676**	12.2

(*) Other related parties both through directors, statutory auditors and key managers and as participants in shareholder agreements pursuant to Article 122 of the Consolidated Law on Finance.

STATEMENT OF FINANCIAL POSITION LINE ITEMS AT DECEMBER 31, 2013

(millions of euros)	Total (a)	Related Parties					
		Subsidiaries	Subsidiaries, companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	Total related parties (b)	% of financial statement item (b/a)
NET FINANCIAL DEBT							
Non-current financial assets	**1,371**	521	–	107	–	**628**	45.8
Securities other than investments (current assets)	**1,462**	1,198	–	–	–	**1,198**	81.9
Financial receivables and other current financial assets	**547**	306	–	11	–	**317**	58.0
Cash and cash equivalents	**1,284**	18	–	26	–	**44**	3.4
Current financial assets	**3,293**	1,522	–	37	–	**1,559**	47.3
Non-current financial liabilities	**29,154**	7,348	56	142	–	**7,546**	25.9
Current financial liabilities	**8,882**	4,331	70	313	–	**4,714**	53.1
Total net financial debt	**33,372**	**9,636**	**126**	**311**	**–**	**10,073**	30.2
OTHER STATEMENT OF FINANCIAL POSITION LINE ITEMS							
Miscellaneous receivables and other non-current assets	**1,134**	20	–	–	–	**20**	1.8
Trade and miscellaneous receivables and other current assets	**3,475**	179	6	137	–	**322**	9.3
Miscellaneous payables and other non-current liabilities	**412**	37	–	–	–	**37**	9.0
Trade and miscellaneous payables and other current liabilities	**6,226**	562	33	141	21	**757**	12.2
Discontinued operations/Non-current assets held for sale	**–**	–	–	–	–	**–**	-

(*) Other related parties both through directors, statutory auditors and key managers and as participants in shareholder agreements pursuant to Article 122 of the Consolidated Law on Finance.

The effects on the individual line items of the statements of cash flows for the years 2014 and 2013 are as follows:

STATEMENT OF CASH FLOWS LINE ITEMS 2014

(millions of euros)	Total (a)	Related Parties					
		Subsidiaries	Subsidiaries, companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	Total related parties (b)	% of financial statement item (b/a)
Purchase of intangible and tangible assets on an accrual basis	2,693	**472**	**124**	**–**	**–**	**596**	22.1

(*) Other related parties both through directors, statutory auditors and key managers and as participants in shareholder agreements pursuant to Article 122 of the Consolidated Law on Finance.

STATEMENT OF CASH FLOWS LINE ITEMS 2013

(millions of euros)	Total (a)	Related Parties					
		Subsidiaries	Subsidiaries, companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	Total related parties (b)	% of financial statement item (b/a)
Purchase of intangible and tangible assets on an accrual basis	**2,915**	**521**	**110**	**–**	**–**	**631**	21.6
Dividends paid	**454**	**2**	**–**	**62**	**–**	**64**	14.1

(*) Other related parties both through directors, statutory auditors and key managers and as participants in shareholder agreements pursuant to Article 122 of the Consolidated Law on Finance.

Transactions with subsidiaries

The most significant amounts are summarized as follows:

SEPARATE INCOME STATEMENT LINE ITEMS

(millions of euros)	2014	2013	Type of contract
Revenues			
4G Retail	67	88	Supply of products for sale to the public, voice and data transmission services for company use, lease of properties
TLC Commercial Services group	-	8	Telephone and data transmission services for company use, supply of products for sale to the public, lease of properties
Tim Participações group	11	11	Roaming and technical assistance services, assistance and license provision as part of network operations, information technology, marketing & sales
H.R. Services	3	3	Human resources assistance and consulting service, user licenses for software products and rent of HW equipment, leases of properties and facility management services, telephone services, and administrative outsourcing
Olivetti S.p.A.	3	4	Telephone services, MPLS and on fiber services for the national data network and international network maintenance, SAP and Data Center outsourcing services, lease of properties
Telecom Italia Digital Solutions S.p.A.	45	45	Services and infrastructures relating to the supply of data transmission connections for the Public Administration, rendering of outsourcing services, telephone services
Telecom Italia Information Technology	42	41	Telephone services, IT services to the Nuvola Italiana (Italian Cloud), desktop management and Microsoft licenses services, real estate management activities, administrative outsourcing
Persidera S.p.A.	6	6	Sale of network infrastructures for carrying TV signals, data network and TLC network monitoring on IT platform services, telephone services, technical services, administrative outsourcing
Telecom Italia S.Marino S.p.A.	1	2	Connection and telecommunications services, in particular for the sale of data (bitstream) services, dark fiber contract, local loop unbundling
Telecom Italia Sparkle S.p.A.	71	60	Telephone and data transmission services, services relating to interconnection between Telecom Italia Sparkle and Telecom Italia communications networks with particular reference to accesses and international traffic, sale of IRU dark fiber, property leasing, administrative outsourcing
Telecontact S.p.A.	4	6	Lease of properties and facility management services, supply of fixed and mobile network and IP connectivity telecommunications products and services, administrative outsourcing
Telefonia Mobile Sammarinese S.p.A.	1	1	Interconnection services
Telenergia S.p.A.	1	1	Outsourcing for company business, administrative outsourcing
Other minor companies	2	5	
Total revenues	**257**	**281**	
Other income	**12**	**10**	Recovery of costs of personnel on secondment, reimbursement of costs of services, compensation for board positions, other income

(millions of euros)	2014	2013	Type of contract
Acquisition of goods and services			
4G Retail	95	104	Supply of services for acquisition of new customers, information activities and post-sales assistance for Telecom Italia customers, activities for the promotion of Telecom Italia image and distinctive brands through point-of-sale windows
TLC Commercial Services group	-	12	Supply of services for acquisition of new customers, information activities and post-sales assistance for Telecom Italia customers, activities for the promotion of Telecom Italia image and distinctive brands through point-of-sale windows
A.C.C. S.r.l.	13	17	Call center and back office services for customers, cloud computing for the Nuvola Italiana (Italian Cloud)
Advalso	-	8	Supply and installation of technological products and equipment for the “Smart Town” Project, framework agreement for data processing services, dispatching support for electronic data flows concerning the out-of-court settlement of receivables due from customers, electronic and paper archiving services for customer contracts
Tim Participações group	1	1	Roaming services
H.R. Services	46	46	Administration services for personnel employed by Telecom Italia, training of Telecom Italia personnel, welfare services, and ASSILT and CRALT
Telecom Italia Trust Technologies	6	5	Certification Authority service for Telecom Italia and within the Telecom Italia customer offering, design, development and testing of new applications and progressive maintenance of existing systems
Olivetti Multiservices	4	4	Lease of properties
Olivetti S.p.A.	31	34	Supply and installation of applications and assistance for document management, customized products and services as part of the Telecom Italia offerings to customers, purchase of IT services, ICT product installation costs, after-sales services as part of the Telecom Italia offerings to end customers, supply and installation of technological products and equipment for the “Smart Town” Project, data processing services, dispatching support for electronic data flows concerning the recovery of receivables and legally compliant electronic storage of documents, electronic and paper archiving services for Consumer customer contracts, back office services under the “Postino Intelligente” (smart postman) project for the marketing of the remote mobile offering
Telecom Italia Digital Solutions S.p.A.	10	2	Acquisition of call center services and customized services within the offering to the Public Administration; acquisition of services for the design, construction and management of the EXPO 2015 digital presence, service management fees agreement for the end-to-end management of the Machine-to-Machine and Internet of Things businesses, supply and development of cloud services, design, development and implementation of a specific portal in the Parallels platform, design, development and testing for Digital Touch Points for Samsung Totem in EXPO 2015
Telecom Italia Information Technology	57	66	Supply of IT services relating to design, application development and testing, advanced maintenance and configuration of existing solutions, infrastructures and applications management in Data Centers, analysis and design of innovative architecture and security solutions; services supply for Nuvola Italiana under framework agreements; supply of personalized services for customers

(millions of euros)	2014	2013	Type of contract
Telecom Italia Sparkle S.p.A.	244	290	Portion to be paid for telecommunications services and interconnection costs, telephone services, data transmission and international line lease
Telecontact S.p.A.	65	64	Call center services
Telenergia S.p.A.	358	354	Power services
Other minor companies	2	3	
Total acquisition of goods and services	**932**	**1,010**	
Other operating expenses	**-**	**1**	
Income (expenses) from investments			
Telecom Italia Digital Solutions S.p.A.	-	3	Dividends
Telecom Italia Sparkle S.p.A.	-	99	Dividends
Other minor companies	-	2	
Total income (expenses) from investments	**-**	**104**	

(millions of euros)	2014	2013	Type of contract
Finance income			
Olivetti S.p.A.	1	1	Interest income on financial receivables, financial commission income
Telecom Italia Capital S.A.	413	1,286	Income from derivatives and financial commission income
Telecom Italia Finance S.A.	82	71	Income from derivatives and financial commission income
Telecom Italia Media S.p.A.	4	5	Income from non-current receivables, interest income on financial receivables
Telecom Italia Sparkle S.p.A.	-	1	Financial commission income
Telenergia S.p.A.	1	1	Income from derivatives and financial commission income
Other minor companies	2	1	
Total finance income	**503**	**1,366**	
Finance expenses			
Telecom Italia Capital S.A.	1,666	919	Interest on financial payables, charges on derivatives
Telecom Italia Finance S.A.	460	291	Interest on financial payables, charges on derivatives, financial commissions payables
Telecom Italia Sparkle S.p.A.	1	1	Interest expenses on financial payables
Telenergia S.p.A.	-	2	Charges on derivatives, interest expenses on financial payables
Other minor companies	-	-	
Total finance expenses	**2,127**	**1,213**	

(millions of euros)	2014	2013	Type of contract
Profit (loss) from Discontinued operations/Non-current assets held for sale	**7**	-	Dividend from Sofora

STATEMENT OF FINANCIAL POSITION LINE ITEMS

(millions of euros)	12/31/2014	12/31/2013	Type of contract
Net financial debt			
Non-current financial assets			
TLC Commercial Services group	-	6	Variable rate loan
Telecom Italia Capital S.A.	19	330	Derivatives
Telecom Italia Finance S.A.	240	185	Derivatives, included the embedded option of the mandatory convertible bond, issued by Telecom Italia Finance convertible into ordinary shares
Other minor companies	1	-	
Total non-current financial assets	**260**	**521**	
Securities other than investments (current assets)	**543**	**1,198**	Securities held in portfolio by Telecom Italia S.p.A., as a result of the buyback offer on bonds of Telecom Italia Capital S.A.
Financial receivables and other current financial assets			
4G Retail	6	-	Mainly referring to loans granted in 2013, due in 2015
TLC Commercial Services group	-	9	Mainly referring to loans granted in 2011, due in 2014
Telecom Italia Capital S.A.	21	193	Derivatives
Telecom Italia Finance S.A.	7	3	Derivatives
Telecom Italia Media S.p.A.	-	100	Short-term loan
Other minor companies	1	1	
Total financial receivables and other current financial assets	**35**	**306**	
Cash and cash equivalents			Treasury current account transactions
Olivetti S.p.A.	15	-	
Telecom Italia Media S.p.A.	111	18	
Total Cash and cash equivalents	**126**	**18**	
Non-current financial liabilities			
Telecom Italia Capital S.A.	5,481	5,922	Payables for loans and derivative liabilities
Telecom Italia Finance S.A.	2,661	1,425	Payables for loans and derivative liabilities
Other minor companies	1	1	
Total Non-current financial liabilities	**8,143**	**7,348**	

(millions of euros)	12/31/2014	12/31/2013	Type of contract
Current financial liabilities			
A.C.C. S.r.l.	-	2	Payables for current account transactions
EMSA Servizi	6	8	Payables for current account transactions and for loans
TLC Commercial Services group	-	10	Payables for current account transactions
H.R. Services	9	8	Payables for current account transactions and for loans
Telecom Italia Trust Technologies	7	4	Payables for current account transactions and for loans
OFI Consulting	31	31	Payables for current account transactions
Olivetti Multiservices	23	21	Payables for current account transactions and for loans
Olivetti S.p.A.	-	14	Mainly referring to payables for current account transactions
Telecom Italia Digital Solutions S.p.A.	18	7	Payables for current account transactions
Telecom Italia Information Technology	83	73	Payables for current account transactions
Telecom Italia Capital S.A.	1,271	1,929	Payables for loans, derivatives
Telecom Italia Finance S.A.	2,799	2,017	Payables for loans
Telecom Italia Sparkle S.p.A.	222	159	Payables for current account transactions and for loans
Telecom Italia Ventures	1	-	Payables for current account transactions
Telecontact S.p.A.	13	10	Payables for current account transactions
Telenergia S.p.A.	35	30	Mainly referring to payables for current account transactions
Telsy	5	8	Payables for current account transactions
Other minor companies	2	-	
Total Current financial liabilities	**4,525**	**4,331**	

(millions of euros)	12/31/2014	12/31/2013	Type of contract
Other statement of financial position line items			
Miscellaneous receivables and other non-current assets	**30**	**20**	Mainly referring to prepaid expenses with Telecontact for call center services
Trade and miscellaneous receivables and other current assets			
4G Retail	34	42	Supply of products for sale to the public, voice and data transmission services for company use, lease of properties
TLC Commercial Services group	-	3	Telephone and data transmission services for company use, supply of products for sale to the public, lease of properties
Tim Participações group	6	7	Roaming and technical assistance services, assistance and license provision as part of network operations, information technology, marketing & sales
H.R. Services	2	3	Human resources assistance and consulting service, user licenses for software products and rent of HW equipment, leases of properties and facility management services, telephone services, and administrative outsourcing
Olivetti S.p.A.	3	5	Telephone services, MPLS and on fiber services for the national data network and international network maintenance, SAP and Data Center outsourcing services, lease of properties
Telecom Italia Digital Solutions S.p.A.	32	33	Services and infrastructures relating to the supply of data transmission connections for the Public Administration, rendering of outsourcing services, telephone services
Telecom Italia Information Technology	19	13	Telephone services, IT services to the Nuvola Italiana (Italian Cloud), desktop management and Microsoft licenses services, real estate management activities, administrative outsourcing
Persidera S.p.A.	5	6	Sale of network infrastructures for carrying TV signals, data network and monitoring of TLC networks on the IT platform services, telephone services, administrative outsourcing
Telecom Italia Media S.p.A.	1	1	Connectivity services, management and development of the digital terrestrial platform and telephone services, lease of properties
Telecom Italia S.Marino S.p.A.	1	-	Connection and telecommunications services, in particular for the sale of data (bitstream) services, dark fiber contract, local loop unbundling
Telecom Italia Sparkle S.p.A.	35	51	Telephone and data transmission services, inherent to interconnection between Telecom Italia Sparkle and Telecom Italia communications network with particular reference to accesses and international traffic, sale of IRU dark fiber, property leasing, administrative outsourcing
Telecontact S.p.A.	8	9	Lease of properties and facility management services, supply of fixed and mobile network and IP connectivity telecommunications products and services, administrative outsourcing
Telenergia S.p.A.	2	2	Outsourcing for company business, administrative outsourcing
Other minor companies	7	4	
Total trade and miscellaneous receivables and other current assets	**155**	**179**	

(millions of euros)	12/31/2014	12/31/2013	Type of contract
Miscellaneous payables and other non-current liabilities			
Olivetti I-Jet	-	2	Payables for tax consolidation
Olivetti S.p.A.	11	8	Payables for tax consolidation
Telecom Italia Information Technology	4	11	Payables for tax consolidation
Persidera S.p.A.	4	7	Mainly deferred income
Telecom Italia Media S.p.A.	4	4	Payables for tax consolidation
Telecontact S.p.A.	-	4	Payables for tax consolidation
Other minor companies	1	1	
Total miscellaneous payables and other non-current liabilities	**24**	**37**	
Trade and miscellaneous payables and other current liabilities			
4G Retail	21	17	Supply of services for acquisition of new customers, information activities and post-sales assistance for Telecom Italia customers, activities for the promotion of the Telecom Italia image and distinctive brands through point-of-sale windows, payables for tax consolidation
TLC Commercial Services group	-	1	Supply of services for acquisition of new customers, information activities and post-sales assistance for Telecom Italia customers, activities for the promotion of Telecom Italia image and distinctive brands through point-of-sale windows
A.C.C. S.r.l.	2	4	Call center and back office services for customers, cloud computing for the Nuvola Italiana (Italian Cloud)
H.R. Services	13	11	Personnel administrative services to Telecom Italia except for managers, carrying out Telecom Italia personnel training, welfare services, and ASSILT and CRALT
Telecom Italia Trust Technologies	4	5	Certification authority service for Telecom Italia and within the Telecom Italia customer offering, design, development and testing of new applications and progressive maintenance of existing systems, payables for tax consolidation
Advalso	-	4	Supply and installation of technological products and equipment for the “Smart Town” Project, framework agreement for data processing services, dispatching support for electronic data flows concerning the out-of-court settlement of receivables due from customers, electronic and paper archiving services for customer contracts
Olivetti S.p.A.	37	28	Supply and installation of applications and assistance for document management, customized products and services, as part of Telecom Italia offerings to customers, purchase of IT services, ICT product installation costs, after-sales services as part of Telecom Italia offerings to end customers, supply and installation of technological products and equipment for the “Smart Town” Project, data processing services, dispatching support for electronic data flows concerning the recovery of receivables and legally compliant electronic storage of documents, electronic and paper archiving services for Consumer customer contracts, back office services under the “Postino Intelligente” (smart postman) project for the marketing of the remote mobile offering, payables for tax consolidation
Persidera S.p.A.	8	3	Mainly payables for tax consolidation
Telecom Italia Digital Solutions S.p.A.	12	3	Acquisition of call center services and customized services within the offering to the Public Administration; acquisition of services for the design, construction and management of the EXPO 2015 digital presence, service management fees agreement for the end-to-end management of Machine-to-Machine and Internet of Things, supply and development of cloud services, design, development and implementation of a specific portal in the Parallels platform, design, development and testing for Digital Touch Points for Samsung Totem in EXPO 2015

(millions of euros)	12/31/2014	12/31/2013	Type of contract
Telecom Italia Information Technology	228	266	Supply of IT services relating to design, application development and testing, advanced maintenance and configuration of existing solutions, infrastructures and applications management in Data Centers, analysis and design of innovative architecture and security solutions; services supply for Nuvola Italiana under framework agreements; supply of personalized services for customers; payables for tax consolidation
Telecom Italia Media S.p.A.	3	21	Mainly payables for tax consolidation
Telecom Italia San Marino S.p.A.	1	1	Interconnection services of the Telecom Italia network to the Telecom Italia San Marino network in San Marino
Telecom Italia Sparkle S.p.A.	128	150	Portion to be paid for telecommunications services and interconnection costs, telephone services, data transmission and international line lease
Telecontact S.p.A.	15	15	Call center services; payables for tax consolidation
Telenergia S.p.A.	39	31	Power services
Other minor companies	5	2	
Total trade and miscellaneous payables and other current liabilities	**516**	**562**	

STATEMENT OF CASH FLOWS LINE ITEMS

STATEMENT OF CASH FLOWS LINE ITEMS (millions of euros)	2014	2013	Type of contract
Purchase of intangible and tangible assets on an accrual basis			
Olivetti S.p.A.	6	3	Purchase of IT products for resale and lease under the offering to end customers
Telecom Italia Information Technology	459	517	Supply of IT services
Telenergia S.p.A.	3	-	Supply of new NGAN infrastructure
Other minor companies	4	1	
Total purchase of intangible and tangible assets on an accrual basis	**472**	**521**	
Dividends paid			
Telecom Italia Finance S.A.	-	2	
Total dividends paid	**-**	**2**	

Transactions with associates, subsidiaries of associates and joint ventures

The economic, financial and equity relations with associates, subsidiaries of associates and joint ventures are included below. Please note that the "Italtel group" includes both Italtel Group S.p.A. and Italtel S.p.A. and related subsidiaries.
The most significant amounts are summarized as follows:

SEPARATE INCOME STATEMENT LINE ITEMS

(millions of euros)	2014	2013	Type of contract
Revenues			
Italtel group	1	2	Provision of equipment rental, fixed and mobile telephone and outsourced communication services
NordCom S.p.A.	2	2	Fixed and mobile voice services, data network connections and outsourced ICT products and services
Teleleasing S.p.A. (in liquidation)	4	5	Equipment sale and maintenance services
TM Holding News S.p.A.	-	1	Property leases, telephone services
Other minor companies	1	1	
Total revenues	**8**	**11**	
Acquisition of goods and services			
Italtel group	13	17	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
Movenda S.p.A.	2	2	Supply and specialist support for the development of SIM cards, functional development of IT platforms, and software development.
NordCom S.p.A.	1	2	Supply and development of IT solutions, provision of customized services as part of Telecom Italia offerings to end customers, and rental expense for radio base station housing
Teleleasing S.p.A. (in liquidation)	1	2	Purchase of goods assigned under leasing arrangements with Telecom Italia customers
TM Holding News S.p.A.	1	2	Supply of information content for the TimSpot service, services and photos for intranet, supply of journalistic information
Total acquisition of goods and services	**18**	**25**	
Income/(expenses) from investments			
Total income (expenses) from investments		**-**	
Finance expenses			
Aree Urbane (in liquidation)	-	6	Write-down of financial receivable and provision for guarantees given.
Teleleasing S.p.A. (in liquidation)	8	12	Mainly interest expenses on finance leases of equipment and finance leases
Total finance expenses	**8**	**18**	

STATEMENT OF FINANCIAL POSITION LINE ITEMS

(millions of euros)	12/31/2014	12/31/2013	Type of contract
Net financial debt			
Financial receivables and other current financial assets	-	-	
Non-current financial liabilities			
Teleleasing S.p.A. (in liquidation)	25	56	Finance lease payables of equipment and finance leases
Total Non-current financial liabilities	**25**	**56**	
Current financial liabilities			
Teleleasing S.p.A. (in liquidation)	43	70	Mainly finance lease payables of equipment and finance leases
Total Current financial liabilities	**43**	**70**	
Other statement of financial position line items			
Trade and miscellaneous receivables and other current assets			
Italtel group	1	2	Provision of equipment rental, fixed and mobile telephone and outsourced communication services
Teleleasing S.p.A. (in liquidation)	1	2	Equipment sale and maintenance services
TM Holding News S.p.A.	-	1	Property leases, telephone services
Other minor companies	1	1	
Total trade and miscellaneous receivables and other current assets	**3**	**6**	
Trade and miscellaneous payables and other current liabilities			
Italtel group	11	25	Supply transactions connected with investment and operations activities
Movenda S.p.A.	2	2	Supply and specialist support for the development of SIM cards, functional development of IT platforms, and software development.
NordCom S.p.A.	-	1	Supply and development of IT solutions, provision of customized services as part of Telecom Italia offerings to end customers, and rental expense for radio base station housing
Teleleasing S.p.A. (in liquidation)	1	3	Purchase of goods assigned under leasing arrangements with Telecom Italia customers
TM Holding News S.p.A.	-	1	Supply of information content for the TimSpot service, services and photos for intranet, supply of journalistic information
Other minor companies	1	1	
Total trade and miscellaneous payables and other current liabilities	**15**	**33**	

STATEMENT OF CASH FLOWS LINE ITEMS

(millions of euros)	2014	2013	Type of contract
Purchase of intangible and tangible assets on an accrual basis			
Italtel group	123	108	Purchases of telecommunications equipment
Movenda S.p.A.	1	2	Information services
Total purchase of intangible and tangible assets on an accrual basis	**124**	**110**	

Telecom Italia has also issued guarantees on behalf of subsidiaries, associates and joint ventures for a total of 9,519 million euros (9,868 million euros at December 31, 2013).
In particular, the following is noted: 6,095 million euros on behalf of Telecom Italia Capital (6,997 million euros at December 31, 2013); 2,825 million euros on behalf of Telecom Italia Finance (2,764 million euros at December 31, 2013); 495 million euros on behalf of Telecom Italia International (not present at December 31, 2013); 50 million euros on behalf of the Latin American Nautilus group (49 million euros at December 31, 2013); 22 million euros on behalf of Olivetti S.p.A. (14 million euros at December 31, 2013); 9 million euros on behalf of Telenergia (23 million euros at December 31, 2013); 4 million euros on behalf of Olivetti Multiservices (4 million euros at December 31, 2013).

Transactions with other related parties (both through directors, statutory auditors and key managers and as participants in shareholder 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 shareholder agreements 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.

With the renewal of the board of directors at the shareholders' meeting of April 16, 2014 the companies headed by the new directors Francesca Cornelli, Laura Cioli, Luca Marzotto and Giorgio Valerio shall also be considered as related parties.

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 those companies are no longer considered related parties.

The most significant amounts are summarized as follows:

SEPARATE INCOME STATEMENT LINE ITEMS

(millions of euros)	2014	2013	Type of contract
Revenues			
Generali group	53	52	Supply of telephone and data transmission services, peripheral data networks, connections, storage, and telecommunications products and services
Intesa Sanpaolo group	56	68	Telephone services, MPLS data and international network, ICT services and Microsoft licenses, Internet connectivity and high-speed connections
Mediobanca group	6	7	Telephone and MPLS data network services and marketing of data devices and sale of equipment for fixed and mobile networks
Telefónica group	12	14	Roaming services, operations services on software and hardware platforms
Other minor companies	1	1	
Total revenues	**128**	**142**	
Other income	**9**	**7**	Damage compensation from the Generali group
Acquisition of goods and services			
Cartasì group	5	-	Commissions on collections and top-up services for prepaid mobile users
Generali group	26	27	Insurance premiums and property leases
Intesa Sanpaolo group	13	11	Factoring fees, fees for smart card top-ups/activation, and fees for payment of telephone bills by direct debit and collections via credit cards.
Mediobanca group	1	2	Credit recovery activities
Telefónica group	5	10	Roaming services
Total acquisition of goods and services	**50**	**50**	
Employee benefits expenses	**3**	**3**	Referring to non-obligatory employee insurance policies written with the Generali group
Other operating expenses	**1**	**1**	Expenses for penalties and contractual breaches towards the Intesa Sanpaolo group
Finance income			
Intesa Sanpaolo group	271	106	Mainly referring to income from derivatives
Mediobanca group	36	12	Mainly referring to income from derivatives
Total finance income	**307**	**118**	
Finance expenses			
Intesa Sanpaolo group	137	287	Expenses from derivatives, financial commissions payable, other expenses
Mediobanca group	14	23	Expenses from derivative contracts
Total finance expenses	**151**	**310**	

STATEMENT OF FINANCIAL POSITION LINE ITEMS

(millions of euros)	12/31/2014	12/31/2013	Type of contract
Net financial debt			
Non-current financial assets	**298**	**107**	Derivatives put into place with the Mediobanca group and Intesa Sanpaolo group
Financial receivables and other current financial assets	**14**	**11**	Derivatives put into place with the Mediobanca group and Intesa Sanpaolo group
Cash and cash equivalents			
Intesa Sanpaolo group	32	26	Bank accounts and deposits
Total Cash and cash equivalents	**32**	**26**	
Non-current financial liabilities			
Intesa Sanpaolo group	191	128	Derivative liabilities
Mediobanca group	245	14	Mainly non-current financial payables and derivative liabilities
Total Non-current financial liabilities	**436**	**142**	
Current financial liabilities			
Intesa Sanpaolo group	58	250	Mainly financial payables and derivative liabilities
Mediobanca group	3	63	Financial payables and derivative liabilities
Total Current financial liabilities	**61**	**313**	

(millions of euros)	12/31/2014	12/31/2013	Type of contract
Other statement of financial position line items			
Trade and miscellaneous receivables and other current assets			
Generali group	21	20	Supply of telephone and data transmission services, peripheral data networks, connections, storage, and telecommunications products and services
Intesa Sanpaolo group	83	112	Factoring services, telephone services, MPLS data and international network, ICT services and Microsoft licenses, Internet connectivity and high-speed connections
Mediobanca group	1	2	Telephone and MPLS data network services and marketing of data devices and sale of equipment for fixed and mobile networks
Telefónica group	(4)	3	Roaming services (amounts include discounts), operation services on software and hardware platforms
Total trade and miscellaneous receivables and other current assets	**101**	**137**	
Trade and miscellaneous payables and other current liabilities			
Cartasì group	2	-	Commissions on top-up services for prepaid mobile users
Intesa Sanpaolo group	122	134	Payable on the sale to Intesa Sanpaolo group, by our suppliers, of trade receivables due from Telecom Italia. It also includes the payable deriving from fees for smart card top-ups/activation and fees for payment of telephone bills by direct debit and collections via credit cards
Mediobanca group	1	1	Credit recovery activities
Telefónica group	(8)	5	Roaming services (amounts include discounts)
Other minor companies	1	1	
Total trade and miscellaneous payables and other current liabilities	**118**	**141**	

STATEMENT OF CASH FLOWS LINE ITEMS

(millions of euros)	2014	2013	Type of contract
Purchase of intangible and tangible assets on an accrual basis	**-**	**-**	
Dividends paid			
Telco	-	60	
Other minor companies	-	2	
Total dividends paid	**-**	**62**	

Transactions with pension funds

The most significant amounts are summarized as follows:

SEPARATE INCOME STATEMENT LINE ITEMS

(millions of euros)	2014	2013	Type of contract
Employee benefits expenses			Contributions to pension funds
Fontedir	10	10	
Telemaco	65	59	
Total Employee benefits expenses	**75**	**69**	

STATEMENT OF FINANCIAL POSITION LINE ITEMS

(millions of euros)	12/31/2014	12/31/2013	Type of contract
Trade and miscellaneous payables and other current liabilities			Payables for contributions to pension funds
Fontedir	3	3	
Telemaco	24	18	
Total trade and miscellaneous payables and other current liabilities	**27**	**21**	

Remuneration to Key Managers

In 2014, the total remuneration recorded on an accrual basis by Telecom Italia S.p.A. in respect of key managers amounted to 13 million euros (20 million euros at December 31, 2013) broken down as follows:

(millions of euros)	2014	2013
Short-term remuneration	8	10
Long-term remuneration	-	-
Employment termination benefit incentives	2	10
Share-based payments (*)	3	-
Total	**13**	**20**

(*) 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 (2014-2016 Stock Option Plan).

The amounts shown in the table for 2014 do not include the effects of the cancellation of the verifications pertaining to the LTI 2011 and LTI 2012 Plans carried out due to the failure to achieve the three-year performance targets. These are broken down below:

LTI 2011 – verifications in the years 2011, 2012 and 2013:

- Long-term remuneration of -1.4 million euros
- Share-based payments of -1.2 million euros

LTI 2012 – verifications in the years 2012 and 2013:

- Long-term remuneration of -0.5 million euros
- Share-based payments of -0.4 million euros

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 2014, the contributions paid in to defined contribution plans (Assida and Fontedir) by Telecom Italia S.p.A., on behalf of key managers, amounted to 208 thousand euros (803 thousand euros at December 31, 2013).

In 2014, “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:		
Giuseppe Recchi	(1)	Chairman of Telecom Italia S.p.A.
Marco Patuano		Managing Director and Chief Executive Officer of Telecom Italia S.p.A.
Managers:		
Rodrigo Modesto de Abreu		Diretor Presidente Tim Participações S.A.
Simone Battiferri		Head of Business
Franco Brescia		Head of Public & Regulatory Affairs
Antonino Cusimano		Head of Legal Affairs
Mario Di Loreto		Head of People Value
Giuseppe Roberto Opilio	(5)	Head of Operations
Piergiorgio Peluso		Head of Administration, Finance and Control
Luca Rossetto	(2)	Head of Consumer
Stefano De Angelis	(3)	
Alessandro Talotta	(4)	Head of National Wholesale Services
Stefano Ciurli	(5)	
Paolo Vantellini		Head of Business Support Office

(1) from April 16, 2014;

(2) to August 12, 2014;

3) from August 13, 2014;

(4) to December 21, 2014;

5) from December 22, 2014.

NOTE 37
EQUITY COMPENSATION PLANS

The equity compensation plans in force at December 31, 2014 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, 2014; For more information on the plans in place at December 31, 2013, reference should be made to the separate financial statements of Telecom Italia S.p.A. at that date.

DESCRIPTION OF STOCK OPTION PLANS

- **Telecom Italia S.p.A. Top 2008 Stock Option Plan**
  The option rights to Telecom Italia ordinary shares at a price of 1.95 euros were granted during the year 2008 to the then Chairman and Chief Executive Officer. The options totaled 8,550,000.
  The exercise period ended on April 15, 2014 and all the options lapsed.

- **Telecom Italia S.p.A. Top 2014-2016 Stock Option Plan**
  The Stock Option Plan 2014-2016 was approved by the Shareholders' Meeting of Telecom Italia S.p.A of April 16, 2014 and was initiated following the resolution of the Board of Directors of June 26, 2014.
  The Plan is aimed at encouraging Management, who hold organizational positions that are crucial to the company business, to focus on the medium/long-term growth in value of the company shares.
  The beneficiaries of the Plan include the Chief Executive Officer, Top Management (including Key Officers) and a selected part of the Management for a total of 160 employees of the Telecom Italia Group.
  The Plan covers the three-year period 2014-2016, with a maximum limit of 196,000,000 shares available for issue. Beneficiaries identified off to the plan is launched will receive an allocation of options based on the actual number of years of incentivization.
  The number of options allocated is commensurate to the fixed component of the remuneration of the beneficiaries. Each beneficiary, upon achieving the target level of their performance objectives, is awarded a number of exercisable options, for an amount calculated as a percentage of their annual gross remuneration based on the strategic level of the role held and the value at the time of allocation.
  The option rights become exercisable after achievement of the performance conditions for the 2014-2016 three-year period has been verified by the Board of Directors of the company called to approve financial statements at December 31, 2016. Once they have vested, the rights can be exercised for a period of three years (exercise period).
  The performance conditions are described below:

  – Total Shareholder Return of Telecom Italia which determines 50% of the options. This parameter measures the positioning of Telecom Italia's TSR in the TSR ranking of the Benchmark Panel consisting of: AT&T, Verizon, Telefonica, Deutsche TeleKom, Orange (France Telecom), Telekom Austria, Telecom Portugal, KPN, Swisscom, British Telecom, Vodafone, and Telecom Italia itself. The objective includes different levels of achievement based on the Telecom Italia TSR's positioning in the ranking, which corresponds to a different exercisable percentage of the Options associated to it:
    – 150% of the target level for positioning in first place (maximum level);
    – 100% of the target level for positioning in fifth place (target level);
    – 40% of the target level for positioning in eighth place (minimum level);
    – no options for positioning below the minimum level.

- The consolidated **Cumulated Free Cash Flow** in the 20142016 threeyear period determines the exercisability of the remaining 50% of the allocated Options. The parameter measures the Free Cash Flow available for the payment of dividends and repaying the debt, and will be calculated as a cumulative value for the 20142016 period.
  The Options associated with the Cumulated Free Cash Flow objective will become exercisable according to the level of performance achieved over the threeyears:
  - 150% of the target options for over performance of 110% (or more) than the value established in the Plan;
  - 100% of the options for achievement of the plan objective 2014-2016 (target level);
  - 80% of the target options for achievement of the minimum value, set at 93% of the Cumulated Free Cash Flow value established in the plan (minimum level);
  - no options for positioning below the minimum level.

The number of Exercisable Options for intermediate performance levels of the Objectives with respect to those listed above will be calculated by linear interpolation.
The exercise price was set, by the Board of Directors meeting that initiated the plan, at 0.94 euros per option (strike price) and is in line with the market price of the shares at the time of allocation of the options, calculated as the average of the official market price of the shares on Borsa Italiana S.p.A. in the month prior to the board resolution. If allocations are made at a later stage, the strike price will be the higher of the price established upon initial allocation in the price resulting from the application of the above criteria at the time of allocation of the options.

DESCRIPTION OF OTHER EQUITY COMPENSATION PLANS

Equity compensation plans which call for payment in equity instruments are recorded at fair value 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 such 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, 2014.

- **Long Term Incentive Plan 2010-2015 (LTI Plan 2010-2015)**
  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, 2014 the maximum number of matching shares issuable was 180,716 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.

- **Long Term Incentive Plan 2012 (LTI Plan 2012)**
  The LTI Plan 2012-2014 provides for the allocation to Top Management and a selected part of management (not the Executive Directors) of a bonus in cash and/or in equity on the basis of parameters linked, on one hand, to company performance measured by the cumulative Free Cash Flow in the three years 2012-2014 (so-called absolute performance: 35% weighted), and on the

other hand, to the growth of value relative to a group of peers (measured by the Total Shareholder Return (so-called relative performance: 65% weighted). In particular, 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 a 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 February 5, 2015, the Board of Directors of Telecom Italia S.p.A. acknowledged that the levels for the incentive targets had not been reached. As a result, the rights relating to the LTI Plan 2012 were forfeited.

- **2014 Broad-Based Share Ownership Plan**

  The Broad-Based Share Ownership Plan was commenced, in implementation of the resolutions passed on April 17, 2013 by the Extraordinary Shareholders' Meeting, on March 6, 2014 by the Board of Directors of Telecom Italia S.p.A..

  The Plan consists of an offer to subscribe to ordinary shares of the Company, for cash,

  at a discounted price compared to the market price, reserved for employees of the Company or its Italy-based subsidiaries. The Plan also provides for the free allocation of ordinary shares, subject to the shares subscribed being retained for one year and continuation of employment with companies in the Telecom Italia Group. Three supplementary methods of payment were established for subscription of the shares: payment in cash, advance of the Employee Severance Indemnity or company loan.

  The Subscribers who retain the Subscribed Shares uninterruptedly the with the Issuer and maintain the status of Employee will be allocated the Bonus Shares in the ratio of one Bonus Share for every three Subscribed Shares.

  The offer of the shares took place from June 26, to July 10; the shares were subscribed at a unit price of 0.84 euros, corresponding to the average official price recorded from May 25, 2014 to June 25, 2014, discounted by 10%.

  On July 31, 2014, a total of 53,911,926 Telecom Italia ordinary shares were issued, corresponding to 0.40% of the capital for the class.

  The Plan has been accounted for according to IFRS 2 (Share-based payment). Specifically: the unit value of the discount applied for the subscription of the shares has been calculated as the difference between the market price and the subscription price, defined as follows:

  - subscription price: 0.84 euros
  - market price: official price of Telecom Italia S.p.A. ordinary shares recorded on the electronic market of Borsa Italiana S.p.A. on July 31, 2014.

CALCULATION OF FAIR VALUE MEASUREMENT OF THE GRANTED OPTIONS AND RIGHTS

The fair value of the options relating to the 2014 - 2016 Stock Option Plan was calculated using the "Monte Carlo method" according to the calculation parameters reported in the following table.

For the 2010-2015 LTI plan, the following was measured:

- the debt component, determined as follows:
  - 65%, linked to reaching Total Shareholder Return targets, was calculated as the average of the levels of expected bonus weighted by the probability of occurrence of the related scenarios; such probability is measured using the Monte Carlo method;
  - 35%, linked to reaching Free Cash Flow targets, was calculated as the bonus level according to the best estimate of expected Free Cash Flow with 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 (36 months for the 2014-2016 Stock Option Plan) on Telecom Italia ordinary shares, starting in three years.

Parameters used to determine fair value – Telecom Italia S.p.A.

Plans/Parameters	Exercise price (euro)	Current price/ Spot (euro) (1)	Volatility (2)	Period	Expected dividends (euro) (3)	Rate (4)
LTI Plan 2010-2015 equity component	-	0.9219	33.4281%	5 years	0.055 first year 0.06 second year	1.89% at 5 years
2014 Broad-Based Share Ownership Plan		0.94	40.36%	1 year	0.02	0.239%
2014-2016 Stock Option Plan	0.94	0.931	36.95%	3 years	0.02	1.135%

(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) The dividends are estimated based on data from Bloomberg.
(4) For the 2010-2015 LTI Plan, the interest rate is based on the rate of government securities of the Federal Republic of Germany (the market benchmark for transactions in euro) with expirations commensurate with the reference period. For the 2014 Broad-Based Share Ownership Plan, the rate is equal to the 1-year yield on Italian securities. For the 2014–2016 Stock Option Plan, it consists of a 3-year forward zero coupon rate.

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”. 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.
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, 2014.

NOTE 38
SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

The impact of non-recurring events and transactions on equity, profit, net financial debt and cash flows is set out below in accordance with Consob Communication DEM/6064293 dated July 28, 2006:

(millions of euros)		Equity	Profit (loss) for the year	Net financial debt	Cash flows (*)
Amount – financial statements	**(a)**	**16,506**	**636**	**33,423**	**65**
Fines		(1)	(1)	2	(2)
AGCom A428 fine		–	–	105	(105)
Sundry expenses		(3)	(3)	–	–
Expenses for mobility		(4)	(4)	14	(14)
Gains on disposal of non-current assets		26	26	(71)	71
Interest expenses on disputes		–	–	1	(1)
IRES tax recovery for IRAP tax on cost of labor (Decree Law 16/2012)		–	–	(231)	231
Total impact	**(b)**	**18**	**18**	**(180)**	**180**
Figurative amount	**(a-b)**	**16,488**	**618**	**33,603**	**(115)**

(*) Cash flows refer to the increase (decrease) in Cash and cash equivalents during the year.

The impact of non-recurring items on the separate income statement line items is as follows:

(millions of euros)	2014	2013
Employee benefits expenses		
Expenses for mobility	(5)	(15)
Other operating expenses		
Fines	(1)	(2)
AGCom A428 fine	–	(84)
Sundry expenses	(3)	–
Impact on Operating profit before depreciation and amortization, capital gains (losses) realized and impairment reversals (losses) on non-current assets (EBITDA)	**(9)**	**(101)**
Gains/(losses) on disposals of non-current assets		
Gain on disposals of non-current assets	38	1
Impairment reversals (losses) on non-current assets		
Goodwill impairment loss	–	(2,187)
Impact on EBIT	**29**	**(2,287)**
Impact on profit (loss) before tax from continuing operations	**29**	**(2,287)**
Effect on income taxes on non-recurring items	(11)	4
Impact on profit (loss) for the year	**18**	**(2,283)**

NOTE 39
POSITIONS OR TRANSACTIONS RESULTING FROM ATYPICAL AND/OR UNUSUAL OPERATIONS

In accordance with Consob Communication DEM/6064293 of July 28, 2006, a statement is made to the effect that in 2014 the Telecom Italia Group has not put into place any atypical and/or unusual transactions, as defined by that Communication.

NOTE 40
OTHER INFORMATION

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:

(millions of euros)	12/31/2014	12/31/2013
Research and development costs expensed during the year	55	41
Capitalized development costs	1,027	884
Total research and development costs (expensed and capitalized)	**1,082**	**925**

The increase for 2014 was primarily linked to the diffusion and development work conducted on the next generation networks, such as LTE and NGAN.
Moreover, in the separate income statement for 2014 amortization charges are recorded for development costs, capitalized during the year and in prior years, for an amount of 629 million euros.
Research and development activities conducted by Telecom Italia S.p.A. are detailed in the Report on Operations (Sustainability Section).

OPERATING LEASES

Revenue related

Telecom Italia has entered into agreements for line lease and hosting which cannot be canceled. At December 31, 2014 the amount of lease installments receivable is as follows:

(millions of euros)	12/31/2014	12/31/2013
Within 1 year	105	71
From 2 to 5 years	173	153
Beyond 5 years	9	11
Total	**287**	**235**

Expense related

Telecom Italia has entered into agreements for lease of properties, vehicle rental and hosting which cannot be canceled. At December 31, 2014 the amount of lease installments receivable is as follows:

(millions of euros)	12/31/2014	12/31/2013
Within 1 year	178	238
From 2 to 5 years	432	424
Beyond 5 years	105	93
Total	**715**	**755**

SUMMARY SCHEDULE OF FEES DUE TO THE AUDIT FIRM AND OTHER FIRMS IN ITS NETWORK

The following schedule reports the fees due to PricewaterhouseCoopers S.p.A. ("PwC") and to the other firms in the PwC network for the audit of the 2014 financial statements and the fees referring to the year 2014 for other audit and review services, and for other services besides audit rendered to Telecom Italia by PwC and other firms in the PwC network. Out-of-pocket expenses incurred in 2014 for such services are also included herein.

(in euros)	Telecom Italia S.p.A. PwC S.p.A.	Telecom Italia S.p.A. Other firms in the PwC network	Total PwC network
Audit services:			
audit of the separate financial statements	1,019,050	5,599	**1,024,649**
audit of the consolidated financial statements	287,770	-	**287,770**
review of Form 20-F and SOX Rule 404	1,074,080	-	**1,074,080**
limited review of the half-year condensed consolidated financial statements	162,380	-	**162,380**
other	748,000	122,499	**870,499**
Verification services with issue of certification	236,100	-	**236,100**
Tax consulting services	-	-	**-**
Other services:			
agreed procedures on regulatory accounting areas	124,000	-	**124,000**
Total 2014 fees due for audit and other services to the PwC network	**3,651,380**	**128,098**	**3,779,478**
Out-of-pocket			**211,875**
Total			**3,991,353**

NOTE 41
EVENTS SUBSEQUENT TO DECEMBER 31, 2014

AGREEMENT FOR THE TRANSFER OF 170 THOUSAND NOVERCA CONSUMER CUSTOMERS TO TIM

On January 9, 2015, Telecom Italia S.p.A. and Noverca Italia S.r.l., a subsidiary of Acotel Group S.p.A, signed an agreement for the transfer of around 170,000 Noverca consumer customers to TIM.
The agreement allows Noverca customers, starting in February and ending in May 2015, to switch their mobile phone number to TIM with mobile number portability, while maintaining their price plans substantially unchanged.
Noverca will receive a consideration that will vary according to the numbers and types of customer who migrate: if all customers migrate to TIM, the consideration will total 3.9 million euros.

BOND ISSUE

On January 12, 2015, Telecom Italia S.p.A. successfully completed the launch of a fixed-rate bond issue for 1 billion euros, maturing January 2023, aimed at institutional investors. The yield on the issue is 3.33%.

BUYBACK OF TELECOM ITALIA S.p.A. BONDS

On January 21, 2015, the public buyback offer made by Telecom Italia S.p.A. on its own bonds for a total nominal amount of 810.3 million euros was successfully completed. Details of the four bond issues bought back are provided below:

Bond Name	Outstanding nominal amount prior to the purchase offer (euros)	Repurchased nominal amount (euros)	Buyback price	Outstanding nominal amount remaining (euros)
Buybacks				
Telecom Italia S.p.A. - 750 million euros, maturing June 2015, coupon 4.625% (1)	577,701,000	63,830,000	101.650%	513,871,000
Telecom Italia S.p.A. - 1 billion euros, maturing January 2016, coupon 5.125% (2)	771,550,000	108,200,000	104.661%	663,350,000
Telecom Italia S.p.A. - 1 billion euros, maturing January 2017, coupon 7.00%	1,000,000,000	374,308,000	111.759%	625,692,000
Telecom Italia S.p.A. - 1 billion euros, maturing September 2017, coupon 4.50%	1,000,000,000	263,974,000	108.420%	736,026,000

(1) Net of buybacks by the Company of 172 million euros during 2014.

(2) Net of buybacks by the Company of 228 million euros during 2014.

MERGER BY INCORPORATION OF TI MEDIA S.p.A. INTO TELECOM ITALIA S.p.A. APPROVED

On March 19, 2015, the Boards of Directors of Telecom Italia S.p.A. and Telecom Italia Media S.p.A. (a company controlled and subject to the direction and coordination of Telecom Italia, which holds, directly and indirectly, 77.71% of the ordinary share capital and 0.95% of the savings share capital) confirmed the integration process already announced on February 19, 2015, approving the plan for the merger by absorption of Telecom Italia Media into Telecom Italia.
The Board of Directors of the two companies, with the aid of their respective advisors, each independently confirmed the exchange ratio, already preliminarily approved on February 19, 2015.

The transaction was approved on the following basis:
- rationalization and simplification of the group structure;
- elimination of the Telecom Italia Media listing costs, no longer justified by the company's business, mainly consisting of the holding and management of the investment in Persidera S.p.A.;
- solution to the structural equity, financial and liquidity issues and net losses of Telecom Italia Media;
- possibility of managing the value generation process for Persidera S.p.A. more efficiently, also by seizing medium/long-term opportunities;
- ability to provide a treatment to the minority shareholders of Telecom Italia Media allowing them to obtain liquid securities of the same category (but with much higher trading volumes and value, also due to the significant concentration of institutional investors) or, if they elect, the opportunity to exercise withdrawal rights at market prices, as described further below.

The exchange rate has therefore been set as follows:
- 0.66 new ordinary shares of Telecom Italia with the same dividend entitlement as the existing Telecom Italia ordinary shares as of the date of effect of the Merger, for each ordinary share of Telecom Italia Media;
- 0.47 new savings shares of Telecom Italia with the same dividend entitlement as the existing Telecom Italia savings shares as of the date of effect of the Merger, for each savings share of Telecom Italia Media.

No cash adjustments are envisaged.

The financial appropriateness of the exchange ratio was certified by specific fairness opinions.

The merger plan will be submitted for approval by the Meetings of the Ordinary Shareholders of Telecom Italia Media and Telecom Italia already called for the approval of the financial statements, on April 30, 2015 and May 20, 2015 respectively.

The merger will not be subject to approval by the special meeting of savings shareholders of the two companies, because the rights granted by the respective bylaws to these shareholder categories are not adversely affected by the transaction.

Holders of ordinary shares in Telecom Italia Media who do not vote in favor of the transaction and holders of savings shares in Telecom Italia Media shall have a right of withdrawal as established under Italian law, as a consequence of the change to Telecom Italia Media’s corporate purpose as a result of the merger.
The exit price for duly withdrawn shares will be 1.055 euros for each ordinary share and 0.6032 euros for each savings share. In accordance with the Italian Civil Code, this value corresponds to the arithmetic mean of the closing price of the shares for the 6 months prior to the publication of the notice convening the Shareholders' Meeting of Telecom Italia Media called to approve the transaction. The effectiveness of the withdrawal right will be subject, in any event, to the effectiveness of the merger.
Telecom Italia intends to exercise its option and pre-emption rights over the entire holding of ordinary and savings shares of Telecom Italia Media for which the right of withdrawal has been exercised and that is not otherwise subscribed on completion of the offer envisaged by applicable regulations. Please note that the maximum theoretical cost of withdrawal, assuming all minority shareholders of Telecom

Italia Media exercise this right, is greater than the value of their shares which has been used for the determination of the exchange ratio, but this difference is more than compensated for, in quantitative terms, by the value of the cost synergies the management has identified as a result of the merger.

The merger will have only marginal effects on the ownership structure of Telecom Italia, as the maximum dilution following the issue of new shares to service the exchange for minority shareholders of Telecom Italia Media (the shares of the company to be absorbed in the Telecom Italia portfolio when the merger takes effect will be canceled without exchange), is approximately 0.114% of the current ordinary share capital and approximately 0.042% of the current savings share capital.

INFRASTRUTTURE WIRELESS ITALIANE S.p.A. (INWIT) HAS SUBMITTED AN APPLICATION FOR ADMISSION TO LISTING AND HAS FILED THE RELATED PUBLIC OFFERING PROSPECTUS

On March 13, 2015, Infrastrutture Wireless Italiane S.p.A. ("Inwit"), a company of the Telecom Italia Group, announced that it had submitted an application to Borsa Italiana for admission to listing of its ordinary shares on the Electronic Stock Exchange organized and managed by Borsa Italiana S.p.A. and had also submitted an application to Consob (Italian stock exchange commission) for the approval of the information prospectus for the public offering for sale and admission to listing of Inwit's ordinary shares.
Inwit is a newly-established company that will receive the transfer, from Telecom Italia, of the business unit that includes around 11,500 sites, currently operated by Telecom Italia, which house the radio transmission equipment for Telecom Italia's mobile telephone networks and the radio equipment for other operators. Telecom Italia, as the offerer, owns the entire share capital of Inwit and intends to hold a majority of its share capital upon completion of the Initial Public Offering.

ISSUE OF A TELECOM ITALIA S.p.A. CONVERTIBLE BOND WITH A VALUE OF 2 BILLION EUROS

On March 19, 2015, the Board of Directors of Telecom Italia S.p.A. announced the launch of an unsecured equity-linked bond maturing March 26, 2022 (7 years).
The institutional bookbuilding period was started immediately and ended on 20 March 2015 for a nominal value of 2 billion euros.
The offer was aimed exclusively at qualified institutional investors, outside the United States of America, with the exclusion of U.S. Persons (pursuant to *Regulation S*).
Telecom Italia S.p.A. will convene an Extraordinary Shareholders' Meeting to be held no later than June 30, 2015 to seek shareholders' approval in respect of an increase in share capital, with the exclusion of preferential subscription rights pursuant to Article 2441.5 of the Italian Civil Code, to enable the issue of Telecom Italia S.p.A. ordinary shares to be reserved exclusively to service the conversion of the abovementioned Bonds. The agenda for the Shareholders' Meeting of May 20, 2015 will be supplemented with the proposal for a capital increase through the issue of new ordinary shares, reserved to service the conversion, and, therefore, with the exclusion of preferential subscription rights.

Up to the time when Telecom Italia S.p.A. has notified subscribers of the approval of the capital increase, the Bonds may redeemed in cash, upon request for conversion by the bondholders, at the cash alternative amount, as defined in the terms and conditions of the issue. From the time when Telecom Italia S.p.A. has made this notification, the Bonds will be convertible into fully paid ordinary shares. If the Extraordinary Shareholders' Meeting does not approve the capital Increase by June 30, 2015, Telecom Italia S.p.A. may, by giving notice no later than 10 dealing days after that date, elect to redeem all the Bonds in cash, at the greater of:

- 102% of the nominal amount of the Bonds, plus accrued interest and
- 102% of the total fair market value of the Bonds, plus accrued interest.

The Bonds, which are in registered form in accordance with the law governing securities issues, for a unit nominal amount of 100,000 euros each, have been issued at par and will be redeemed at their nominal amount at maturity on March 26, 2022 (7 years). The Bonds will pay a fixed coupon of 1.125% per annum, payable semi-annually in arrears on 26 September and 26 March of each year, beginning on September 26, 2015.

The initial conversion price has been set at 1.8476 euros.

Telecom Italia S.p.A. will have the option to redeem all, and not solely part, of the Bonds at their nominal value, plus interest accrued and not paid, from April 16, 2019 when:

- the volume-weighted average price (VWAP) of the Telecom Italia S.p.A. shares, for a number of consecutive days, as specified in the terms and conditions of the issue, is equal to or greater than 130% of the applicable conversion price, or
- if the conversion or early redemption rights have been exercised – or the Bonds have been repurchased or canceled – at a percentage equal to or greater than 85% of the initial overall value of the Bonds.

Upon redemption of the Bonds at maturity, Telecom Italia S.p.A., under certain conditions, will have the option to deliver cash, shares or a combination thereof.

Settlement of the Bonds took place on March 26, 2015.
The net proceeds of the Bonds will be used to fund the capital expenditures announced upon presentation of the 2015–2017 Plan.
Telecom Italia S.p.A. has agreed a lock-up period for this bond issue of 90 days from the pricing date of the Bonds of March 20, 2015, for the issue of shares and convertible bonds, with the customary exceptions.
Telecom Italia S.p.A. will submit an application for admission to listing of the Bonds on an internationally recognized and regularly operating market or an multilateral trading facility within 30 days from March 26, 2015.

NOTE 42
LIST OF INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

(thousands of euros)	Head office		Share capital (1)	Equity (1) (2)	Profit/ (loss) (1)	% Ownership	Share of equity (A) (3)		Carrying amount (B) (4)	Difference (B-A)
Investments in subsidiaries										
4G RETAIL	Milan		2,402	35,845	5,895	100.00%	35,845		15,104	(20,741)
EMSA SERVIZI (in liquidation)	Rome		5,000	6,020	23	100.00%	6,020		5,000	(1,020)
HR SERVICES	L'Aquila		500	4,451	1,060	100.00%	4,451		543	(3,908)
OFI CONSULTING	Ivrea (TO)		95	46,366	7	100.00%	46,366		35,109	(11,257)
OLIVETTI GESTIONI IVREA	Ivrea (TO)		100	308	(12)	100.00%	308	(5)	375	67
OLIVETTI MULTISERVICES	Milan		20,337	76,358	(1,359)	100.00%	76,358		40,407	(35,951)
OLIVETTI	Ivrea (TO)		13,200	5,117	(26,317)	100.00%	(3,054)	(5)(6)	-	3,054
TELECOM ITALIA CAPITAL	Luxembourg		2,336	(130,132)	(25,506)	100.00%	(130,132)		2,388	132,520
TELECOM ITALIA DEUTSCHLAND HOLDING	Francoforte (Germany)		25	21,658	1,193	100.00%	21,658		10,820	(10,838)
TELECOM ITALIA INFORMATION TECHNOLOGY	Rome		3,400	25,619	(10,140)	100.00%	25,619		25,619	-
TELECOM ITALIA INTERNATIONAL	Amsterdam (The Netherlands)		2,399,483	7,348,391	188,945	100.00%	7,348,391		6,835,705	(512,686)
TELECOM ITALIA LATAM PARTICIPAÇÕES E GESTÃO ADMINISTRATIVA	San Paolo (Brazil)	R $ (.000)	118,926	(7,689)	(2,100)					
		Euro	36,877	(2,384)	(651)	100.00%	(2,384)	(5)	-	2,384
TELECOM ITALIA MEDIA	Rome		15,902	10,697	(4,771)	71.69%	(46,902)	(6)	74,568	121,470
TELECOM ITALIA SAN MARINO	San Marino		1,808	3,865	327	100.00%	3,865		7,565	3,700
TELECOM ITALIA TRUST TECHNOLOGY (ex IT TELECOM)	Pomezia (RM)		7,000	10,058	463	100.00%	10,058		8,487	(1,571)
TELECOM ITALIA VENTURES	Milan		10	1,355	(3)	100.00%	1,355		1,360	5
TELECONTACT CENTER	Naples		3,000	12,509	(1,267)	100.00%	12,509		12,509	-
TELENERGIA	Rome		50	24,747	5,044	100.00%	24,747		50	(24,697)
TELSY	Turin		390	15,303	379	100.00%	15,303		14,517	(786)
TIAUDIT COMPLIANCE LATAM (in liquidation)	Rio de Janeiro (Brazil)	R $ (.000)	1,500	1,885	(140)					
		Euro	465	585	(43)	69.99%	409		313	(96)
TI DIGITAL SOLUTIONS	Rom		7,224	20,207	5,875	100.00%	20,207		8,046	(12,161)
TIERRA ARGENTEA	Buenos Aires (Argentina)	Pesos Arg. (.000)	20,832	129,168	107,778					
		Euro	2,027	12,571	10,489	16.88%	2,121		2,131	10
TELECOM ITALIA FINANCE	Luxembourg		542,090	1,768,934	136,858	100.00%	1,768,934		1,448,390	(320,544)
TELECOM ITALIA SPARKLE	Rome		200,000	548,222	108,276	100.00%	694,871	(6)	586,630	(108,241)
TRENTINO NGN	Trento		55,918	50,763	(1,941)	99.33%	50,423		55,227	4,804
								(*)	**9,190,863**	**(796,483)**

(thousands of euros)	Head office	Share capital (1)	Equity (1) (2)	Profit/ (loss) (1)	% Ownership	Share of equity (A) (3)	Carrying amount (B) (4)	Difference (B-A)
Investments in associates and joint ventures								
AREE URBANE (in liquidation)	Milan	100	(61,635)	(21,165)	31.65%	(19,508)	-	19,508
ASSCOM INSURANCE BROKERS	Milan	100	2,021	1,221	20.00%	404	20	(384)
NORDCOM	Milan	5,000	8,983	479	42.00%	3,773	2,143	(1,630)
TELELEASING (in liquidation)	Milan	9,500	109,183	2,803	20.00%	21,837	829	(21,008)
TIGLIO I	Milan	5,256	18,129	(15,034)	45.70%	8,285	7,817	(468)
TIGLIO II (in liquidation)	Milan	10	881	(119)	49.47%	436	444	8
Consorzio EO (in liquidation)	Rome	31	1	(1)	50.00%	1	-	(1)
							11,253	**(3,975)**

(*) The amount does not include 77 thousand euros representing the discount and the fair value of the bonus shares, on Telecom Italia ordinary shares subscribed by the employees of the companies controlled indirectly by the Telecom Italia Group under the "Broad-base Employee Share Ownership Plans of 2010 and 2014 ("PAD")

(1) Figures taken from the latest approved financial statements. For subsidiaries, the data used are taken from the IFRS-prepared financial statements.

(2) Includes profit (loss)

(3) Net of dividends to be paid

(4) Includes payments made to the investment account

5) Covered by the provision for losses of subsidiaries and associates

(6) Figures taken from the consolidated financial statements

CERTIFICATION OF THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION 11971 DATED MAY 14, 1999, WITH AMENDMENTS AND ADDITIONS

1. We, the undersigned, Giuseppe Recchi, as chairman, Marco Patuano, as Chief Executive Officer, and Piergiorgio Peluso, as Manager responsible for preparing Telecom Italia S.p.A.'s financial reports, certify, having also considered the provisions of art. 154-bis, paragraphs 3 and 4, of Legislative Decree 58 of February 24, 1998:
   - the adequacy in relation to the characteristics of the company and
   - the effective application

   of the administrative and accounting procedures used in the preparation of the separate financial statements for the 2014 fiscal year.
2. Telecom Italia has adopted the Internal Control – Integrated Framework Model (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission, as its framework for the establishment and assessment of its internal control system, with particular reference to the internal controls for the preparation of the financial statements.
3. The undersigned also certify that:
   3.1. the separate financial statements at December 31, 2014:
      a) are prepared in conformity with international accounting principles adopted by the European Union pursuant to EC regulation 1606/2002 of the European Parliament and Council of July 19, 2002 (International Financial Reporting Standards – IFRS) as well as the legislative and prescribed provisions in force in Italy with particular reference to art. 154-ter of Legislative Decree 58 of February 24, 1998 and the measures enacted for the implementation of Article 9 of Legislative Decree 38 of February 28, 2005;
      b) agree with the results of the accounting records and entries;
      c) provide a true and fair view of the financial conditions, results of operations and cash flows of the Company;

   3.2. the report on operations contains a reliable operating and financial review of the Company, as well as the description of its exposure to the main risks and uncertainties.

March 19, 2015

Chairman	Chief Executive Officer	Manager responsible for preparing the corporate financial reports
/signed/	/signed/	/signed/
Giuseppe Recchi	Marco Patuano	Piergiorgio Peluso

pwc

INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE N° 39 OF 27 JANUARY 2010

To the shareholders of
Telecom Italia SpA

1 We have audited the separate financial statements of Telecom Italia SpA as of and for the year ended 31 December 2014 which comprise the statement of financial position, the separate income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related notes. The directors of Telecom Italia SpA are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards, as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree No. 38/2005. Our responsibility is to express an opinion on these separate financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for listed Companies and Stock Exchange. Those standards require that we plan and perform the audit to obtain the necessary assurance about whether the separate financial statements are free from material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the separate financial statements of the prior year, which are presented for comparative purposes, reference is made to our report dated 24 March 2014.

3 In our opinion, the separate financial statements of Telecom Italia SpA as of and for the year ended 31 December 2014 comply with the International Financial Reporting Standards, as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree No. 38/2005; accordingly, they have been prepared clearly and give a true and fair view of the financial position as of 31 December 2014, result of operations and cash flows of Telecom Italia SpA for the year then ended.

4 The directors of Telecom Italia SpA are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure published on the corporate website of Telecom Italia SpA, section "About us", menu "Governance system", in

accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the information referred to in paragraph 1, letters c), d), f), l), m), and paragraph 2, letter b), of article 123-bis of Legislative Decree No.58/98 presented in the report on corporate governance and ownership structure, with the financial statements, as required by law. For this purpose, we have performed the procedures required under Italian Auditing Standard 1 issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili) and recommended by Consob. In our opinion, the report on operations and the information referred to in paragraph 1, letters c), d), f), l), m), and paragraph 2, letter b), of article 123-bis of Legislative Decree No.58/98 presented in the report on corporate governance and ownership structure are consistent with the separate financial statements of Telecom Italia SpA as of and for the year ended 31 December 2014.

Milan, 30 March 2015

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

This report is an English translation of the original audit report, which was issued in Italian. This report has been prepared solely for the convenience of international readers.

| 04 |

OTHER INFORMATION

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE MEETING OF THE SHAREHOLDERS OF TELECOM ITALIA S.P.A. PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE NO. 58/1998

Dear Shareholders,

This report explains the activities performed by the Board of Statutory Auditors during the 2014 financial year and up to today's date, as required by Consob Notice no. DEM/1025564 of 6 April 2001 and subsequent amendments and additions.
The Board of Statutory Auditors has performed the supervisory activities required by the applicable legislation, taking account of the principles of conduct recommended by the National Board of Chartered Accountants and Accounting Consultants and the Consob notices on company controls and the activities of the Board of Statutory Auditors.
The Control Body acquired the information necessary for the performance of the tasks of general supervision assigned to it by attending the meetings of the Board of Directors and board committees (i.e. the Control and Risk Committee, the Nomination and Remuneration Committee, the Board Committee pursuant to the procedure for the execution of transactions with related parties and the Committee of Independent Directors pursuant to the Brazil Transactions Procedure), meetings with Executive Directors and by interviewing Company management, meetings with the external auditor and control bodies of Group companies, analysis of information flows from the competent company structures, as well as by further inspection and control activities. Where deemed necessary, the Control Body was assisted by its own legal advisors.

1. On the basis of the information received and as a result of the analyses conducted by the Board of Statutory Auditors, it has become clear that the transactions carried out by the Company which have major impact on revenues, finances and assets, including transactions performed through companies in which the Company has a direct or indirect stake, are essentially made up as follows:
   - in November 2013, the Telecom Italia Group accepted the purchase offer made by the Fintech Group, of the entire controlling shareholding held in the Sofora - Telecom Argentina group, by Telecom Italia S.p.A. and its subsidiaries Telecom Italia International and Tierra Argentea;
   - in December 2013, the shareholding held by Tierra Argentea was sold;
   - in October 2014, whilst pending clearance by the sector regulatory authority, Telecom Italia signed the agreements amending the contract for the sale of the shareholding in the Sofora - Telecom Argentina Group to Fintech. Specifically:
     - the first closing took place on October 29, 2014 and, consequently, 17% of the shareholding of TI International in Sofora. In exchange for this closing, a price was collected for a total amount of 215.7 million dollars;
     - the sale of the controlling stake of 51% of the capital of Sofora (32.50% held by Telecom Italia and 18.50% by Telecom Italia International) is envisaged during the next two and a half years, subject to approval by the Argentinian regulatory authorities;
     - Telecom Italia International has issued, and Fintech has fully subscribed a note for a consideration of 600 million dollars, constituting it as a pledge in favour of Telecom Italia.

     Starting with the 2013 consolidated financial statements, the investment was classified as Discontinued operations;
   - in February 2014, Telecom Italia acquired the shareholdings of Trentino NGN S.r.l. held by the Autonomous Province of Trento and minority shareholders, with an outlay of approximately 17 million euros, acquiring the control of the company with 97.4% of the share capital. Thereafter, by virtue of a further purchase of shares from the minority shareholders and a voluntary

reduction of the share capital, the controlling stake of Telecom Italia rose to 99.33% of the share capital of the specified company;

- on June 30, 2014 Telecom Italia Media and Gruppo Editoriale L'Espresso completed the integration of the digital terrestrial network operator activities respectively owned by Persidera S.p.A. (the new name of Telecom Italia Media Broadcasting S.r.l.) and Rete A S.p.A.. The operation was implemented through the transfer of 100% of Rete A shares owned by Gruppo Editoriale L'Espresso to Persidera, by way of the subscription of a capital increase reserved to it. As a result of the transfer, TI Media and the Gruppo Editoriale L'Espresso respectively hold 70% and 30% of the shares of Persidera, which incorporated Rete A on December 1, 2014;
- on August 4, 2014, the threshold of major importance of the equivalent value ratio, established as 3.5% of the consolidated shareholders' equity of Telecom Italia was exceeded with regards to the Intesa Sanpaolo Group, a related party of Telecom Italia in accordance with the procedure adopted by the Company, following the 2014 implementation of a series of operations of advance factoring;
- as a consequence of the exceeding of the major importance threshold on August 12, 2014, in accordance with Article 5 of Consob Regulation no. 17221/2010, an information document was published, available for consultation on the website www.telecomitalia.com, under the section The Group - General Archives channel, Year 2014 "Governance".

In 2014 the following bonds were also issued:

- on January 23, 2014 Telecom Italia issued bonds for the amount of one billion euros, with coupon rate 4.5% and maturity on January 25, 2021;
- on May 30, 2014 Telecom Italia issued bonds for the amount of 1.5 billion dollars, with coupon rate 5.303% and maturity on May 30, 2024.

All the transactions indicated above are listed in the notes to the consolidated financial statements of the Telecom Italia Group and the notes to the separate balance sheet of Telecom Italia S.p.A., as well as in the report on operations for the year 2014.

The Board of Statutory Auditors has verified that the above transactions comply with the law, the Company bylaws and the principles of correct administration, and has made sure that they were not manifestly imprudent or hazardous, in potential conflict of interest, or contrary to the resolutions adopted by the Shareholders' Meeting or likely to compromise the integrity of the corporate assets; the transactions with Directors' interests or with other related parties, were subjected to the transparency procedure set out in the applicable regulations.

2. During the course of 2014 the Board of Statutory Auditors did not encounter atypical and/or unusual corporate transactions with third parties or related parties (including the companies within the Group).

   The information relating to the principal intragroup transactions and with other related parties executed in the financial year 2014, and the description of their characteristics and economic effects is contained in the notes to the separate financial statements of Telecom Italia S.p.A. and to the consolidated financial statements of the Telecom Italia Group.

   The Board of Statutory Auditors reports that the company procedure for the execution of transactions with related party, prepared in compliance with Consob Regulation no. 17221 of March 12, 2010 and adopted in November 2010, was updated in June 2012 and thereafter in December 2014, introducing some clarifying amendments based on the experience accrued and making some updates and simplifications, such as, in particular, the exclusion of the application of the Consob Regulation on intragroup transactions (i.e. transactions with or between subsidiaries and transactions with associated companies), as permitted by the latter. For a thorough illustration of the procedure, see the Telecom Italia S.p.A. Report on corporate governance and share ownership for the 2014 financial year

   The Board of Statutory Auditors has overseen the conformity of the procedure adopted by the Company with the principles indicated by Consob, as well its actual observance.

3. Taking account of the size and structure of the Company and of the Telecom Italia Group, given that there were no atypical and/or unusual transactions, the Board of Statutory Auditors believes that the report on the Company's transactions with related and intragroup parties, given in the

notes to the separate financial statements of Telecom Italia S.p.A. and in the notes to the consolidated financial statements of the Telecom Italia Group, should be considered adequate.

4. On March 30, 2015, Independent Auditor PricewaterhouseCoopers issued the reports pursuant to articles 14 and 16 of Legislative Decree no. 39 of January 27, 2010, in which it states that the separate financial statements of Telecom Italia S.p.A. and the consolidated financial statements of the Telecom Italia Group at December 31, 2014 comply with the International Financial Reporting Standards (IFRS) adopted by the European Union, as well as with the provisions issued in implementation of Article 9 of Legislative Decree no. 38 of 2005, that they are drafted with clarity and that they represent truthfully and correctly the finances and assets of the company, the profit and loss results, and the cash flows of the Company and the Group.
   Furthermore, the Independent Auditor also considers that the report on operations and the information in subsection 1, letters c), d), f), l) and m) and subsection 2, letter b) of Article 123-bis of CFL, presented in the report on corporate governance and share ownership, are consistent with the Company's separate financial statements and the consolidated financial statements for the Group at December 31, 2014.

5. In January 2015, a shareholder submitted a report in accordance with Art. 2408 of the Italian Civil Code, censuring the work implemented by Telecom Italia for which the Antitrust Authority has assigned a pecuniary administrative fine of Euro 1,750,000. The Authority in fact declared that the business practices concerning the supply to the Company's mobile telephone users of premium services, not requested and/or requested unknowingly and the charging of the relevant amounts to the telephone bill of consumers to be unfair. The Company has challenged the order before the Administrative Court (TAR) of Lazio, asking that it be cancelled.
   The same shareholder thereafter sent the Board of Statutory Auditors the report of a Telecom Italia customer on the undesired activation of premium services for which payment was required.
   In view of the report and declaration received, the Board of Statutory Auditors acquired information from the Company's management. These have provided suitable reassurance on the correctness of the conduct of the Company, both with reference to the sector regulations and with regards to the diligence obligations set forth in the Consumer Code. The Board of Statutory Auditors has also ascertained that, with a view to ensuring maximum attention paid to its customers, the Company is spontaneously implementing some of the measures concerned by the proposed commitments of August 2014, such as, for example, the introduction of a new service activation mechanism set on two separate, consequential actions (double click) or the reimbursement of charges as a consequence of the activation of premium services not required and/or required unknowingly.
   In any case, the Board of Statutory Auditors has sent the mentioned report to the Audit Department for the appropriate assessments, which will also continue in 2015 with follow-up activities.
   In November 2014, a shareholder submitted a report concerning the assignment of consultancy to a foreign company for the verification of managerial capacity and the correctness of the positions reporting directly to the Chairman and Chief Executive Officer. Following the request made by the Board of Statutory Auditors to run a specific audit, the Audit Department analysed the consultancy activated in 2014 without coming across any appointment relating to the report.
   In December 2014, a shareholder sent the Board of Statutory Auditors a report signalling a "possible defect in the Company's audit systems", given the lack of assessment of previous reports sent to the Company about a fraud perpetrated to its detriment and reported to the competent authority, with a request to reimburse the amounts improperly invoiced in its regard, in the amount of approximately 1,000 euros.
   Through the Audit Department, the Board of Statutory Auditors arranged for suitable assessments that enabled the claim to be settled with the return of the amount charged. The Audit Department is currently carrying out an in-depth analysis of the causes of the improper charge.

6. Telecom Italia is registered with the US Securities and Exchange Commission as a foreign issuer and listed on the New York Stock Exchange, is also subject to United States legislation and the Board of Statutory Auditors carries out the tasks required of an "Audit Committee" by the above mentioned US legislation.

In particular, in implementation of the obligations that derive from its role as Audit Committee of the Company, the Board of Statutory Auditors adopted in due course a specific procedure for handling reports received by the control body. These reports may consist of:

- “complaints” from shareholders concerning what is considered to be improper behaviour;
- complaints or notifications, from anyone, shareholders or otherwise, concerning alleged anomalies, irregularities, misconduct or, more generally, any problem or issue which is thought to merit investigation by the Control Body;
- "complaints", from anyone, concerning “accounting, internal accounting controls or auditing matters”;
- ‘concerns’, which may be submitted anonymously, from employees of the Company or the Group, concerning “questionable accounting or auditing matters”.

There are instructions on the About Us section of the Company’s website (Corporate Bodies – Board of Statutory Auditors - Role, tasks and responsibilities), for sending such reports - in paper or electronic format - to the Board of Statutory Auditors/Audit Committee of the Company.

During the last financial year and until March 18, 2015 the Board of Statutory Auditors received 21 reports (or groups of "reports", treated as units in the case of several communications from a single individual, even if at separate times), of which 5 were anonymous, complaining, for the most part, of technical service issues and failures of a commercial, accounting and administrative nature.

The Board of Statutory Auditors investigated these complaints appropriately, with the support of the Group Compliance Officer, the Audit Department and the competent Company departments, but no irregularities to be reported to the Shareholders’ Meeting have emerged.

7. During the 2014 financial year Telecom Italia S.p.A. appointed PricewaterhouseCoopers S.p.A. to undertake various tasks other than audits of financial statements, the fees for which, before VAT, are summarised below:

PricewaterhouseCoopers S.p.A.	**(in euros)**
Agreed procedures and declarations regarding tender bids	60,100.00
Agreed procedures connected with the issue of comfort letters in relation to the issue of notes	137,000.00
Activities connected with updating the 20,000,000,000 euros Euro Medium Term Note Programme	39,000.00
Limited auditing of the abbreviated interim consolidated financial statements at March 31, 2014.	217,000.00
Agreed audit procedures on regulatory accounting areas	124,000.00
Accounting advice and consultation in relation to the Securities and Exchange Commission review of the Telecom Italia S.p.A. 20-F 2012 Form.	28,000.00
Accounts auditing of the summary of costs for the staff engaged in research and development for Telecom Italia S.p.A. for the financial year 2013 allowed as deductible for the purposes of IRAP [Regional Tax], in accordance with Article 11, subsection 1, letter A) no. 5) of Legislative Decree no. 446/97 and subsequent amendments	20,000.00
Agreed audit procedures in relation to the portfolio of trade receivables sold by Telecom Italia S.p.A.	225,000.00
Audit procedures connected with the signing of the tax declaration "Modello Unico SC 2014"	6,000.00
Accounting advice and consultation activities carried out in financial year 2013.	180,000.00
Total	**1,036,100.00**

The Board of Statutory Auditors acknowledged the request made by PricewaterhouseCoopers S.p.A. to supplement the final fees relating to FY 2014 for the additional audit procedures connected with the adoption of the new standard relating to the recognition of the revenues "IFRS 15 - Revenues from contracts with customers" issued by the IASB in May 2014.

8. In the course of the 2014 financial year, Telecom Italia S.p.A. conferred, also through its Branch Office in Argentina, a number of tasks on parties connected by continuing relationships with PricewaterhouseCoopers S.p.A. and/or on companies belonging to the latter's network for which the fees, excluding VAT, are summarised below:

Price Waterhouse & Co. Asesores de Empresas S.R.L. (Argentina)	**(in euros)**
Auditing the financial statements as at 31.12.2014 of "Sucursal Argentina" (Argentina Branch Office) Equivalent of 60,277 Argentinian Pesos (ARS) at the average exchange rate for financial year 2014: 1 euro = 10.76605 ARS	5,599.00
Total	**5,599.00**

PricewaterhouseCoopers Advisory S.p.A.	**(in euros)**
Supplementary auditing activities with respect to the appointment relative to the examination of the sustainability reports for the financial years from 2010 to 2018: • 2014 • Period 2015-2018 (for each year, variable amounts from 17,000 euros to 21,000 euros)	52,276.00
Total	**52,276.00**

It should be noted that the Shareholders' meeting held on April 29, 2010, on the basis of the proposal put forward by the Board of Statutory Auditors, conferred the office of External Auditor (separate financial statements of Telecom Italia S.p.A., annual consolidated financial statements, abbreviated half-yearly consolidated financial statements, annual report for the purposes of the US Laws) on PricewaterhouseCoopers S.p.A. for the nine year period 2010 -2018.

The external auditor appointed by the Parent company Shareholders' Meeting is the main external auditor for the entire Telecom Italia Group. To protect the independence of the appointed auditor, the Company has adopted special Guidelines for the appointment of the independent auditor to undertake assignments. These establish the principle under which the appointment of further assignments (when allowed by the reference regulations) is limited to the services and activities closely related to the audit of the financial statements. Conferment of a single further appointment is subject to the prior approval of the Board of Statutory Auditors of the Parent company; for some types of appointment ("preapproved appointments"), approval is given in advance. In any event, the Board of Statutory Auditors has the right to establish guidelines and qualitative and quantitative criteria regarding the appointment of external auditors, 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 Statutory Auditors, even for pre-approved appointments, when certain qualitative conditions occur or when specific quantitative thresholds are exceeded.

The Board of Statutory Auditors would also make clear that, with an adequate flow of information, it will adopt the corresponding determinations made by the audit committees of the SEC registered subsidiary companies (i.e. TIM Participações S.A., Nortel Inversora S.A. and Telecom Argentina S.A.) provided they are taken based on rules that comply with the applicable law - including U.S. law - and the Group Guidelines on this subject.

9. Pursuant to article 2389, subsection 3 of the Italian Civil Code, the Board of Statutory Auditors issued its favourable opinion on the compensation package of the Chairman and of the Chief Executive Officer, including the scorecards regarding the short-term incentives (MBO 2014).

   In accordance with Art. 154-bis, subsection 1 of Italian Legislative Decree no. 58/1998, the Control body has issued a favourable opinion on the confirmation of Piergiorgio Peluso, Head of the Administration, Finance and Control Department, in the role of Executive responsible for preparing the corporate accounting documents.

   Pursuant to the Corporate Governance Principles adopted by the Company in December 2012, the Board of Statutory Auditors expressed its favourable opinion of the functional objectives scorecards for the short term incentive scheme (2014 MBO) for the Heads of the control departments who report directly to the Board (Audit Department, Compliance Department and IT & Security Compliance Function).

10. Over the course of financial year 2014, the Company's Board of Directors held fifteen meetings, at which the Board of Statutory Auditors was always present.
    The Control and Risk Committee met twenty times (of which thirteen jointly with the Board of Statutory Auditors, due to the topics dealt with). The Nomination and Remuneration Committee met twelve times.
    During 2014, there were fifty-six meetings of the Board of Statutory Auditors (including the thirteen meetings held jointly with the Control and Risk Committee).
    It should also be noted that the Board of Statutory Auditors attended all meetings of the of the Control and Risk Committee (not held jointly with its meetings) and of the Nomination and Remuneration Committee, by the attendance of its Chairman or another Statutory Auditor designated by the Chairman.
    In accordance with the Brazil Transactions Procedure, in August 2014, the Board of Statutory Auditors attended four meetings of the Independent Directors' Committee under the scope of the proposed partnership with the Vivendi Group for the integration of the respective Brazilian activities and on another four occasions, again on matters relating to possible developments of the Brazilian investments.
    The Control body attended the Company's Shareholders' meeting held on April 16, 2014 and, through its Chairman, attended the Meeting of the bondholders relating to the loan "Telecom Italia 2002-2022 Floating Rate bonds, Open Special series, reserved for subscription to employees of the Telecom Italia Group, in service or retired", held on March 18, 2014.

11. In accordance with its obligations, the Board of Statutory Auditors obtained information and supervised compliance with the principles of correct administration, by attendance at the meetings of the Board of Directors, meetings with the executive responsible for preparing the corporate accounting documents, the Head of the Internal Audit Department, the Group Compliance Office, the Head of the IT & Security Compliance function and by means of interviews with the management and the acquisition of information.
    The Board of Statutory Auditors – occasionally through its Chairman – met the Chairman of the Board of Directors, the Chief Executive Officer and external auditor PriceWaterhouseCoopers S.p.A (for the reciprocal exchange of relevant information and data pursuant to article 150, subsection three of the CLFI) and attended the meetings of the board's internal committees.
    The Board of Statutory Auditors believes that the governance arrangements and tools adopted by the Company constitute a valid supervisory framework to ensure that the principles of correct administration are respected in operational practice. In particular, in relation to the decision-making processes of the Board of Directors, the Control Body has supervised, including by attendance at board meetings, that the management decisions made by the Directors be substantially legitimate and in the interests of the Company, and checked that the Board resolutions were adequately supported by information, analysis and audit – also involving consultation with the board committees and external professionals, when necessary.
    Continuing on from FY 2013 and also considering the significant increase in the volume of investments envisaged by the 2015-2017 industrial plan, monitoring continued by the Board of Statutory Auditors on the Company's equity and financial position, stimulating the Board of Directors and the management to evaluate strengthening initiatives, as considered appropriate and suitable.

12. Pursuant to the Corporate Governance Principles of Telecom Italia, the role of providing strategic supervision and direction for the Company in order to pursue the primary objective of creating value for the shareholders, with a medium-long term perspective, also taking the legitimate interests of the remaining stakeholders into account, is reserved to the Board of Directors.
    For the execution of its resolutions and the management of the company, the Board of Directors may, in accordance with the legal limits, delegate the appropriate powers to one or more Directors who report to the Board of Directors and Board of Statutory Auditors on the activities carried out, the general trend of operations and on the transactions of greatest economic and financial significance concluded by the Company or its subsidiaries.

The Shareholders' Meeting on April 16, 2014 appointed Mr. Giuseppe Recchi Chairman of the Board of Directors.

On April 18, 2014, the Board of Directors appointed Marco Patuano Chief Executive Officer, assigning him the relevant powers without appointing an Executive Committee.

On this same date, the Board of Directors assigned the Chairman, who at the time of application had declared that he met the requirements of independence as per the Corporate Governance Code prepared by the Corporate Governance Committee of Borsa Italiana (the "Corporate Governance Code"), delegations and powers relating to the activities listed below, in addition to the powers assigned to him by the law as Chairman of the Company:

- a role providing guidance and supervision of the development and implementation of the strategic, industrial and financial plans of the Company and the Group, and guidelines for development, as well as supervising the definition of organisational arrangement and economic and financial progress;
- representation of the Company and the Group in external relations with the Authorities, Institutions and Investors;
- organisational responsibility for the Legal Affairs, Press Office & Opinion Makers Relations, Public & Regulatory Affairs and Corporate Social Responsibility functions, and supervision of the Audit function.

On June 26, 2014, the Board of Directors acknowledged the in-depth analysis carried out regarding the qualification of the Chairman as executive director pursuant to the Corporate Governance Code for listed companies, in light of the powers assigned to him. In particular, having noted that the application criterion in the aforementioned Corporate Governance Code establishes that, for chairmen, the executive nature of their role would derive "from the attribution of a specific role in the development of the company's strategies", the Board agreed with the Chairman in considering his office an executive one, with the consequence that the Chairman no longer qualified as independent and renounced to the task of acting as link between the Board of Directors and the mangers responsible for Internal Audit and compliance, in application of the corporate governance principles of the Company, attributing this role to Ms. Calvosa, already Chairperson of the Control and Risk Committee. On its part, the Board of Statutory Auditors had investigated appropriately, with the support of its legal advisor, monitoring to ensure that the Board of Directors took the relevant resolutions and duly informed the market.

In addition to legal representation of the Company and all powers, to be exercised with a single signature, responsibility for the overall running of the Company and the Group (including responsibility for defining and proposing to the Board of Directors, and then implementing and developing, the strategic, industrial and financial plans) was attributed to the Chief Executive Officer, as were all organisational responsibilities to guarantee the management and development of the business in Italy and South America. The Chief Executive Officer is also responsible for the components of the Public & Regulatory Affairs function that manage relations with AGCOM and AGCM and the corresponding foreign authorities, in coordination with the Chairman.

As from April 16, 2014, the new Group Committees System was defined, focused on the governance and operational integration of the activities of the Group. The Group Committees System fulfils the aim of (i) monitoring the implementation of strategies and the development of plans; (ii) guaranteeing that the overall operations of the Group and specific businesses are monitored; (iii) strengthening the operational synergies needed between the different departments involved in technological, business and support processes.

The Board of Statutory Auditors carefully monitored the main changes of the organisation and the organisational method and supervised the adequacy of the organisational structure with respect to the strategic objectives of the Company, by meetings with the Chief Executive Officer, the Head of People Value and the individual company departments.

Given the complexity of the organisational structure of the Company and the Telecom Italia Group, having noted the changes made to the Executive Directors of the Company, the 2015-2017 industrial plan and, finally, having taken into account that in a complex enterprise the organisational structure is subject to a substantially permanent evolution process, the Board of Statutory Auditors considers the organisational structure of the Company and the Group to be adequate.

13. The internal control and risk management system consists of the set of rules, procedures and organizational structures that, through a process of identifying, measuring, managing and monitoring the principal risks, allows the sound, fair and consistent operation of the company in line with the pre-established objectives.

It is organized and operates according to the principles and criteria of the Corporate Governance Code, to which the Company adheres, 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 supervision, the responsibility of the Executive Directors and management to control and manage, the responsibility of the control and risk Committee and the Head of the Audit Department to monitor and provide support to the Board of Directors, and the supervisory responsibilities of the Board of Statutory Auditors.

In exercising its responsibilities regarding the internal control and risk management system, the Board of Directors resolved that the Head of the Audit Department, the Group Compliance Officer and the Head of the IT & Security Compliance Department report directly to the Board.

The Head of the Audit Department has an adequate level of independence and means suitable for the execution of this function. The Head of the Audit Department is responsible for supporting the management and control boards in assessing the adequacy, full functioning and effectiveness of the control and risk management system and for proposing corrective measures in case of anomalies and/or deficiencies. Under the scope of its powers of inspection and control, the Board of Statutory Auditors ordinarily assigns duties on specific matters to the Audit Department and the Compliance Department.

The Head of the Audit Department reports on his work to the Directors in charge of the internal control and risk management system, i.e. the Chairman and the Chief Executive Officer, each with respect to the area delegated, to the Control and Risk Committee and, through the latter, to the Board of Directors, as well as to the Board of Statutory Auditors.

The oversight role of the Head of the Audit Department is directed, in particular, towards expressing an assessment of the capacity of the internal control and risk management 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. This oversight is assured through:

- the direct execution of assurance services (audits and complementary activities – so-called 3rd level controls – aimed at assessing the governance, control and risk management processes) and consultancy services;
- checking the implementation of improvement plans by continuous monitoring and specific follow-up work in cases that are complex and significant to the topics originally analysed.

The Board of Statutory Auditors has acknowledged the overall assessment of the internal control and risk management system by the Audit Department, which is set forth below: "*With reference to the specific operating contexts analysed in 2014 on the Italian context, given the weaknesses of varying intensity of the internal control and risk management system found in the audits and having assessed the process of implementation of the improvement actions undertaken by the owner functions to quickly overcome these weaknesses, it considered that the system should be capable of reducing the risk profiles to a level acceptable for the correct operation of the business processes.*"

The Board of Statutory Auditors shares the assessment of overall adequacy of the internal control and risk management system as formulated by the Audit Department. The Control body, on its part, constantly monitored its effectiveness and monitored the work of the main players in the internal control and risk management system and, in particular, the implementation of risk improvement and mitigation actions identified and, in some cases, prompting further specific interventions to strengthen the controls.

In this context, the Board of Statutory Auditors has held periodic meetings with the Head of the Audit Department, the Group Compliance Officer, the Head of the IT & Security Compliance Function, the executive responsible for preparing the corporate accounting documents, the Head of Enterprise Risk Management, the management and the external auditor. It also had contact and

exchanged information with the corresponding control bodies of the major Italian subsidiary companies.
The Board of Statutory Auditors of the Parent Company took note of the assessment of overall adequacy of the internal control system of Telecom Argentina and of Tim Participações expressed by the Comité de Auditoria of the Argentinian subsidiary and the Comitê de Auditoria Estatutário of the Brazilian subsidiary, respectively. The Board of Statutory Auditors also noted the positive opinion formulated by these control bodies on the functioning of internal audit in both South American subsidiaries, and on the independence of the internal audit work carried out.
The internal control and risk management system also incorporates the so-called "Organizational Model 231", i.e. a model of organization and management adopted pursuant to Legislative Decree No. 231/2001, aimed at preventing offences that can result in liability for the Company.
The functions of the Supervisory Body are assigned (since 2012) to the Board of Statutory Auditors, which uses a dedicated company structure (Compliance 231) as part of Compliance Department.
The Organisational Model 231 has been adopted by domestic subsidiaries of the Group as well as by Telecom Italia, and consists of:

- the Code of Ethics and Conduct of the Telecom Italia Group, which enunciates the general principles (transparency, fairness, loyalty) that guide the Company in the carrying out and management of business;
- the "general principles of internal control", i.e. the set of tools to achieve the objectives of efficiency and operational effectiveness, reliability of financial and management reporting, compliance with laws and regulations, safeguarding of assets against possible fraud;
- the "principles of conduct", which consist of specific rules for relations with third parties and for all fulfilments and activities of a corporate nature, and
- the "internal control schemes" that describe business processes at risk of crime, any predicate offences relating to them, the preventive control activities and the behavioural indications aimed at avoiding the related risks.

The Organizational Model 231 is a dynamic instrument, which affects the corporate operation and must, therefore, be constantly checked and updated in the light of the elements that emerged from experience of its application and of the evolution of the regulatory framework. The amendments were drafted by the managerial committee called Steering Committee 231, briefed by the Supervisory Board and approved by the Board of Directors of the Company when of a significant nature.
The Organisational Model incorporates, in terms of application, the predicate offences provided for in Legislative Decree no. 231/2001, excluding those deemed to not be directly pertinent for the Telecom Italia Group.
The Organisational Model represents an integral part of the reference compliance program for the application of foreign anti-corruption legislation such as the US Foreign Corrupt Practices Act and the UK Bribery Act. In this context, a foreign version of the Organisational Model has been defined for adoption by the non-Italian subsidiaries, also taking account of the possible application of similar regulations at local level. In this respect, Tim Participações Organisational Model, implementing the provisions of the recently-introduced Brazilian anti-corruption law was adopted during the course of 2014.
The Board of Statutory Auditors oversees the operation and observance of the 231 Organisational Model and reports to the Board of Directors on the oversight and verification activities which it has performed and the corresponding outcomes. For FY 2014, the Board of Statutory Auditors has expressed an opinion of compliance with the reference legal framework of the Organisational Model 231 adopted by the Company.
In the course of 2014 the Telecom Italia Group defined a new process of Enterprise Risk Management (ERM) by which the Board of Directors defines the nature and level of risk (Risk Appetite) consistent with the strategic objectives of the Group within the framework of the industrial plan.
The model adopted makes it possible to identify and manage risks in a homogeneous way within the Group companies, emphasising potential synergies between the players involved in the assessment of the internal control and risk management system. The ERM process is designed to

identify potential events that may impact on business activity, to manage the risk within acceptable limits and to provide reasonable assurance of the achievement of the objectives.

The process is governed by the ERM Steering Committee, chaired and coordinated by the Head of the Administration, Finance and Control department. The ERM Steering Committee meets at three-monthly intervals (or in response to specific needs), and has the object of ensuring governance of the process of managing the Group's risks, aimed at ensuring the operational continuity of the company's business by monitoring the efficacy of the counter-measures adopted.

The process adopted is cyclical and consist of the following stages:

- defining Risk Appetite, identifying the Risk Exposure Threshold and Risk Tolerance with respect to the predefined objectives;
- identifying and fine-tuning the Risk Universe of Telecom Italia. The Risk Universe is the document which contains the description of the principal characteristics of all the risks identified; it is reviewed annually with the aim of confirming/supplementing/amending the list of corporate risks;
- Risk Assessment. The risks of the Risk Universe are submitted, by means of an interview, to the risk owners, who assess their gravity and document the controls for the purpose of positioning them on the Risk and Control Panel (R&CP), which guides the intervention priorities;
- Identifying Relevant Risks and defining the Corporate Risk Profile. Relevant Risks are risks assessed as high on the R&CP, and the totality of them constitutes the Corporate Risk Profile (CRP);
- activation of mitigation actions on the Relevant Risks and monitoring them over time;
- processing the reporting flows to the Executive Directors and the company boards responsible for risk management.

The Board of Statutory Auditors promoted and monitored the evolution of the ERM process particularly closely, to promote a more incisive approach in harmony with the internal control and risk management system. The Control Body has acknowledged that in its meeting of February 19, 2015, the Board of Directors approved the definition of risk appetite in the Telecom Italia Group, in line with the provisions of the Corporate Governance Code.

During the second half of 2014, the Company launched an independent analysis process of the company control model, with specific reference to the audit and compliance departments.

The Board of Statutory Auditors has met with the consultant appointed to carry out the assessment, under the scope of its meetings and joint meetings with the Control and Risks Committee, acquiring the results of the analyses performed, currently being assessed by the company boards with a view to any initiatives to improve the existing organisational solutions.

On its part, the Control body has addressed some recommendations to both the consultant during the course of its mandate and the Board of Directors, in the sense of keeping a strong commitment and high level of attention to the internal controls system.

14. Telecom Italia has adopted the Internal Control - Integrated Framework model (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission as its reference framework for the definition and assessment of its internal control system, with particular reference to the internal controls for the preparation of the financial statements.

    The Board of Statutory Auditors evaluated and supervised the adequacy of the administrative and accounting system of the Company and its reliability to fairly represent operations, also by collecting information from Company management, examining company documents and analysing the results of the activities undertaken by the External Auditor.

    The Board of Statutory Auditors acknowledged the statements issued by the Chairman, Chief Executive Officer and the Manager responsible for preparing the corporate accounting documents of Telecom Italia S.p.A. concerning the adequacy – in relation to the characteristics of the company – and the actual application during 2014 of the administrative and accounting procedures for the preparation of the financial statements and the consolidated financial statements.

    On the question of goodwill impairment test, the Board of Statutory Auditors observed that in Telecom Italia it is applied in a consolidated and structured way, coordinated by the Administration, Finance and Control Department, with the intervention of an independent external expert of acknowledged professional expertise. The implementation of the process is also analysed and discussed in special joint meetings of the Control and Risk Committee and Board of Statutory

Auditors, that precede the Board of Directors meetings to approve the financial reports to which the impairment test must be applied.

The Board of Statutory Auditors checked that the impairment test process was carried out on the 2014 financial statements in terms coherent with the procedure approved (in continuity with the previous year) by the Board of Directors on February 5, 2015. The Board of Statutory Auditors acknowledged that the results of this assessment did not require the impairment loss on goodwill attributed to the individual Cash Generating units of the Group. For a more detailed analysis, the Board of Statutory Auditors refers to the explanations given in the "Goodwill" note to the consolidated financial statements as of December 31, 2014 of the Telecom Italia Group.

Regarding the provisions of article 36, subsection 1, letter c, ii) of the Market Regulations (conditions for the listing of shares of controlling companies and of companies registered in and regulated by the laws of States that are not members of the European Union), the Board of Statutory Auditors has not ascertained facts and circumstances that would indicate that the administrative-accounting system of the controlled companies is not adequate to ensure that the data on the revenues, finances and assets of the companies needed for the preparation of the consolidated financial statements regularly reaches the management and auditor of the controlling company.

Finally, the Board of Statutory Auditors monitored the financial disclosure process including through the collection of information from the Company's management.

15. The Board of Statutory Auditors has acknowledged the instructions imparted by the Company to its subsidiaries, pursuant to art. 114, section 2 of the CLFI, and considers them adequate to comply with the obligations regarding communication established by the law. In this respect it should be noted that the Company regulates the flow of information it receives from its subsidiary companies on transactions of particular impact, with specific procedures.

    Following a project for verifying and updating the procedure for managing sensitive information, launched in 2013, in its meeting of August 5, 2014, the Board of Directors approved the new version of the "Procedure for the internal management and disclosure to the public of sensitive information". This regulates the methods by which information and documents relating to Telecom Italia are communicated externally, with specific reference to sensitive information. The procedure also applies as an instruction to all subsidiaries in order to obtain from them, without delay, the information necessary for the timely and proper fulfilment of the public disclosure obligations. This procedure also disciplines the maintenance of the register of people with access to sensitive information.

    The Board of Statutory Auditors monitored, by means of specific meetings with the management, the process by which the procedure for managing sensitive information and updating the supporting computer application, is revised.

16. The Board of Statutory Auditors has ascertained, from information obtained from Independent Auditor PricewaterhouseCoopers and from the management of the Company, that the IAS/IFRS principles, and the other legal and regulatory provisions that apply to the preparation and presentation of the separate financial statements, the consolidated financial statements and the accompanying report on operations are complied with.

    The Board of Statutory Auditors acknowledges that, from the report issued by PricewaterhouseCoopers S.p.A. on April 14, 2014 pursuant to article 19, subsection 3 of Legislative Decree no. 39 of January 27, 2010, no "fundamental issues" or "significant shortcomings" in the internal control system on the financial reporting of Telecom Italia S.p.A. emerged for the financial year that ended on December 31, 2013.

17. The Board of Statutory Auditors has supervised the arrangements for the concrete implementation of the rules of corporate governance required by the Corporate Governance Code recently amended in July 2014, to which the Company adheres. Furthermore, the Board of Directors adopted its Corporate Governance Principles in force in its meeting of December 6, 2012.

    In this respect, it should be noted that Telecom Italia has adopted the criteria established by the Corporate Governance Code of Borsa Italiana for qualifying Directors as independent.

    In its first meeting after the Shareholders' Meeting that appointed it (18 April 2014), before the attribution of powers, the Board of Directors provided to ascertain that its members possessed the requirements, including those regarding independence. In particular, in addition to the Chairman, and pursuant to the Corporate Governance Code, it considered the following directors to be independent: Benello, Calvosa, Cattaneo, Cioli, Cornelli, Gallo, Kingsmill, Marzotto and Valerio; it recognised that these Directors, and Mr. Fitoussi, fulfilled the criteria for independence pursuant to the Consolidated Law on Financial Intermediation. As already stated in this Report, on June 26, 2014 a rectification was made regarding the powers attributed to the person of the Chairman, after the qualification of his role as an executive one, which also determined that he no longer qualified as independent, according to the Corporate Governance Code.

In its meeting on March 19, 2015, the Board of Directors checked that its members continued to meet the requirements for independence, based on the declarations made by said members, and acknowledged (i) that Directors Benello, Calvosa, Cattaneo, Cioli, Cornelli, Gallo, Kingsmill, Marzotto and Valerio possessed the requirements of independence, pursuant to the Corporate Governance Code, and (ii) the same Directors, plus Mr Fitoussi possessed the requirements of independence pursuant to the Consolidated Law on Financial Intermediation. The market was informed of the outcome of this verification.

In its meeting of March 23, 2015, the Board of Statutory Auditors audited the correct application of the independence requirements and the procedures for assessing the requirements adopted by the Board of Directors.

In its meeting of March 10, 2015, the Board of Statutory Auditors checked that its members continued to meet the requirements for independence pursuant to article 148, subsection 3 of the CLFI, as well as the Corporate Governance Code. Regarding the latter, the Board of Statutory Auditors took account of the circumstance that two of its members (Salvatore Spiniello and Ferdinando Superti Furga) had acted as Standing Auditors for more than three terms of office, without the emergence of elements that might be construed as a decrease in the independence of the two members.

The Board of Statutory Auditors checked the independence of External Auditor PricewaterhouseCoopers, in accordance with the provisions of article 19, subsection 1, lett. d) of legislative decree no. 39 of January 27, 2010, also acquiring from the External Auditor the declaration specified in article 17, subsection 9, lett. a) of said decree.

The Board of Directors also has subcommittees comprising a Control and Risk Committee and a Nomination and Remuneration Committee. Both committees are regulated by their respective regulations approved by the Board of Directors in the meeting held on August 5, 2014 (documents available for consultation on the website www.telecomitalia.com section The Group - Governance System/Regulations channel).

The Control and Risk Committee comprises non-executive Directors, the majority of whom are independent directors, with at least one Director from a minority slate. At least one member of the Control and Risk Committee shall possesses adequate expertise in accounting and finance or risk management. Without prejudice to the tasks attributed to it by the Corporate Governance Code, the Committee:

- provides 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;
- monitors 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;
- expresses a prior opinion on the transactions with related parties (i) entrusted to the board pursuant to the law, Bylaws or Corporate Governance Code; (ii) on ordinary standard or market conditions, according to terms not predetermined or defined after a tender worth over 10 million euros; (iii) non ordinary transactions worth more than 2 million euros;
- performs other duties assigned to it by the Board of Directors.

The Nomination and Remuneration Committee comprises non-executive Directors, the majority of whom are independent directors, with at least one Director from a minority slate. At least one member of the Nomination and Remuneration Committee possesses adequate expertise in financial matters or remuneration policies. Without prejudice to the tasks assigned by the

Corporate Governance Code to the remuneration committee and to the nomination committee, the Nomination and Remuneration Committee:

- oversees the succession plan for Executive Directors, and monitors the updating of the company management replacement lists, prepared by the Executive Directors;
- establishes the procedure and period for the annual evaluation of the Board of Directors;
- proposes the criteria for allocating the total annual remuneration established by the Shareholders' Meeting for the whole Board of Directors;
- performs other duties assigned to it by the Board of Directors.

The Board of Statutory Auditors monitored the activities performed by the Control and Risks Committee during 2014 in joint meetings or by the attendance of its Chairman or a Statutory Auditor designated by the Chairman at their meetings. The Board of Statutory Auditors also monitored the activities performed by the Nomination and Remuneration Committee by the attendance of its Chairman or a Statutory Auditor designated by the Chairman at their meetings.

The Lead Independent Director, a role currently held by Director Francesca Cornelli, is the point of reference and coordination for the issues and contributions of the independent Directors and the non-executive Directors in general. She also has the right to convene special meetings of the Independent Directors only (Independent Directors' Executive Sessions) to discuss issues affecting the functioning of the Board of Directors or the management of the business.

The Board of Statutory Auditors shared the initiative launched by the Board of Directors appointed by the Shareholders meeting of April 16, 2014, aimed at the overall revision of the corporate governance tools of the Company with a view to aligning them with the best practices and the public company model.

See the Report on the corporate governance and share ownership of Telecom Italia S.p.A. for the 2014 financial year for further detailed information on the corporate governance of the Company, which the Board of Statutory Auditors evaluates positively.

18. No significant facts that should be mentioned in its Report to the Shareholders' Meeting have emerged from the supervision and control activities carried out by the Board of Statutory Auditors, as described above.

    The Board of Statutory Auditors also reports that no observations or problems have emerged from its analysis of the information flows received in relation to the activity carried out by the control bodies of the subsidiary companies or the representations the external auditor has made in its reports on said subsidiaries.

    Equally, no problems have emerged from the review of the reports of the external auditor and the Boards of Statutory Auditors of Telecom Italia Media S.p.A. (a subsidiary company with shares listed on the market organised and managed by Borsa Italiana S.p.A.), and of Telecom Italia Sparkle S.p.A. pursuant to and for the purposes of article 153 of the CLFI, article 2429, second subsection, of the Italian Civil Code and article 14 of legislative decree no. 39 of January 27, 2010.

    Finally, the Board of Statutory Auditors examined the external auditor's reports on Tim Participações S.A. and Telecom Argentina S.A., which also contained no observations or remarks.

19. Having acknowledged the 2014 financial statements of Telecom Italia S.p.A., the Board of Statutory Auditors had no objections to formulate on the proposed resolutions presented by the Board of Directors on the allocation of the Company's profits for the year and, in particular, on the recognition to savings Shareholders of the privileged dividend in the amount of 0.0275 euros per savings share, gross of legal withholdings.

    The mandate conferred on the Board of Statutory Auditors by the Shareholders' Meeting of May 15, 2012 expires with the Shareholders' Meeting called to approve the financial statements as at December 31, 2014. The Board of Statutory Auditors therefore invites the Shareholders to make the resolutions reserved to them for the renewal of the Control Body.

    As regards the proposed resolution to amend Articles 9, 11 and 17 of the Bylaws submitted to the Shareholders' meeting, the Board of Statutory Auditors particularly shares the proposed amendment that regards the clarification on the entitlement to submit slates for the renewal of the Board of Directors and the Board of Statutory Auditors (0.5% of the ordinary capital or less), in line with the assessment already expressed (at the request of Consob) in its report to the Shareholders' meeting on April 16, 2014.

The Board of Statutory Auditors also shares the other proposals to amend the bylaws and, in particular, the majority premium, when renewing the administrative body, to 2/3 of the Directors to be elected, thereby increasingly bringing the Bylaws of Telecom Italia into line with the best practices in terms of corporate governance.

Milan, March 30, 2015

For the Board of Statutory Auditors
The Chairman
Enrico Maria Bignami

MOTIONS FOR RESOLUTIONS

SHAREHOLDERS' MEETING OF TELECOM ITALIA S.p.A.

May 20, 2015: ordinary and extraordinary shareholders' meeting – single call

Medium

Ordinary session

- Financial statements as at December 31, 2014 – approval of the financial statements documentation – related and consequent resolutions
- Allocation of the profits for the year - related and consequent resolutions
- Report on Remuneration – resolutions on the first section
- Appointment of the Board of Auditors: appointment of standing auditors and alternate auditors; appointment of the Chairman of the Board of Auditors; determination of the remuneration
- Deferment by liquidation in equity of a portion of the short-term incentive - 2015 cycle - related and consequent resolutions

Extraordinary session

- Mandate to increase the share capital to service the partial liquidation in equity of the short-term incentive for the 2015 financial year – amendment of article 5 of the company Bylaws – related and consequent resolutions
- Authorization to convert the "€2,000,000,000 1.125 per cent. equity-linked bonds due 2022" and increase the share capital, in tranches, with disapplication of the preferential subscription rights, to service the aforementioned bonds, through the issue of Telecom Italia S.p.A. ordinary shares – related and consequent resolutions
- Changes to corporate governance internal rules - amendment of articles 9, 11 and 17 of the Bylaws – related and consequent resolutions
- Merger by incorporation of Telecom Italia Media S.p.A. into Telecom Italia S.p.A. – related and consequent resolutions
- Supplements to the Bylaws requested by Telefónica, through Telco, pursuant to the ruling by the Agência Nacional de Telecomunicações (ANATEL). Related and consequent resolutions

FINANCIAL STATEMENTS AS AT DECEMBER 31, 2014 – APPROVAL OF THE FINANCIAL STATEMENTS DOCUMENTATION – RELATED AND CONSEQUENT RESOLUTIONS

Dear Shareholders,

the 2014 financial year marks the return to profit of the Company's financial statements. The draft financial statements submitted for the approval of the Shareholders' Meeting show a net profit of 636,281,666.33 euros.
For an analysis of this result, see the report on operations accompanying the financial statements.

In view of the above, the Board of Directors submits for your approval the following

Proposed Resolution

The Shareholders' Meeting of Telecom Italia S.p.A.,

– having examined the annual financial report of Telecom Italia S.p.A.;
– having taken note of the reports by the Board of Statutory Auditors and the independent auditor PricewaterhouseCoopers S.p.A.;

resolved

to approve the financial statements of Telecom Italia S.p.A. for the year 2014.

ALLOCATION OF THE PROFITS FOR THE YEAR - RELATED AND CONSEQUENT RESOLUTIONS

Dear Shareholders,

as pointed out in the explanatory report on the proposed approval of the draft financial statements, this shows a net profit of 636,281,666.33 euros.
Despite this, in light of the investment commitments resulting from the industrial plan, it is proposed to limit distribution to the preference dividend on savings shares, in the amount of 0.0275 euros (5% of 0.55 euros) per share. The amount of the dividend distributed will be 165,718,318.18 euros.
In addition to the allocation to the legal reserve (up to one fifth of the issued capital), the proposal on the allocation of profits for the financial year is completed by the allocation to the "Plans pursuant to article 2349 of the Italian Civil Code" reserve of 25,500,000 euros to service the capital increase through allocation of profits to be approved in due course by the Board of Directors in relation to the liquidation in shares of the deferred portion of the 2015 bonus, as per the proposals made to the Shareholders' Meeting's (i) ordinary session for authorization pursuant to article 114-bis, Legislative Decree 58/1998, and (ii) extraordinary session for powers to be granted to increase the share capital pursuant to articles 2349 and 2343 of the Civil Code.
Residual profits from previous years will be carried forward.
The dividends will be made payable to the entitled parties based on the evidence in the share deposit accounts at the end of the record date of June 23, 2015 (record date), starting from the coming June 24, 2015, while the coupon date will be June 22, 2015.

In view of the above, the Board of Directors submits for your approval the following

Proposed Resolution

The Shareholders' Meeting of Telecom Italia S.p.A.,

– having examined the annual financial report of Telecom Italia S.p.A.;
– having taken account of the current amount of the legal reserve and considering the capital increases taking place;
– considering that the total number of savings shares with regular dividend entitlement as of the record date of June 23, 2015 will be equal to 6,026,120,661;
– in view of the proposals made to the Shareholders' Meeting, both ordinary and extraordinary sessions, regarding the deferment and liquidation in equities of a portion of the 2015 bonus, as part of the 2015 remuneration policy reserved for a qualifying part of the management;

resolved

- to allocate profits for the financial year to the legal reserve in the amount required to ensure that this reserve reaches one fifth of the share capital existing at the time of the Shareholders' Meeting, subject to a maximum limit of 5% of the profits for the financial year;
- to allocate savings Shareholders, based on the number of savings shares they hold as of the record date, a privileged dividend of 0.0275 euros per savings share, gross of withholdings required by law;
- to allocate profits for the financial year of 25,500,000 euros to the "Plans pursuant to article 2349 of the Civil Code" reserve, in order to service the powers being granted to increase the share capital through the allocation of profits, further to liquidation of the 2015 bonus component that is the subject of the deferment and liquidation in equities;
- to authorise the Board of Directors - and on its behalf the legal representatives pro tempore - to ascertain in due course, on the basis of the actual share capital at the time of the Shareholders' Meeting, the amount of profits to be allocated to the legal reserve and to be carried forward;
- to make the dividend payable starting on June 24, 2015, with a coupon date of June 22, 2015 (record date June 23, 2015).

REPORT ON REMUNERATION – RESOLUTIONS ON THE FIRST SECTION

Dear Shareholders,

pursuant to article 123-ter of Legislative Decree no. 58 of February 24, 1998, a remuneration report has been prepared for the Shareholders' Meeting to be held on May 20, 2015, divided into two sections: the first illustrates the Company's policy regarding the remuneration of directors and key managers with strategic responsibilities, with reference to the 2015 financial year;
the second provides a report on the items that make up the remuneration of the subjects mentioned above, with a detailed comparison of the compensation paid to them in the 2014 financial year.
You are called on to express your opinion of the first section of the report, with a resolution that is not legally binding.

In view of the above, the Board of Directors submits for your approval the following

Proposed Resolution

The Shareholders' Meeting of Telecom Italia S.p.A.,
– given the applicable legal provisions regarding the report on remuneration;
– having acknowledged the non-binding nature of the resolution required,

resolved

to approve the first section of the remuneration report.

APPOINTMENT OF THE BOARD OF AUDITORS: APPOINTMENT OF STANDING AUDITORS AND ALTERNATE AUDITORS; APPOINTMENT OF THE CHAIRMAN OF THE BOARD OF AUDITORS; DETERMINATION OF THE REMUNERATION

Dear Shareholders,

The mandate of the Board of Statutory Auditors appointed by the Shareholders' Meeting of May 15, 2012 concludes with approval of the financial statements for the year ending December 31, 2014.
In order to renew the control body, the Shareholders' Meeting is called on, pursuant to the law and the Bylaws,
- to appoint five standing Auditors and four alternate Auditors,
- to appoint one of the Statutory Auditors elected from the minority slate as Chairman of the Board of Statutory Auditors and
- to determine the annual fee for this office.

The duration of the mandate is established by law as three financial years, hence until the Shareholders' Meeting called to approve the financial statements at December 31, 2017.

Appointment of the Standing and Alternate Auditors

1. The Bylaws provide for the appointment of 5 Standing Auditors and 4 Alternate Auditors. When the legal regulations regarding gender balance are first applied, at least one fifth of the members of each of the two categories must belong to the less represented gender, rounded up to the nearest whole number: at least one Standing Auditor and at least one Alternate Auditor.
2. In accordance with current legislation, at least two Standing Auditors and at least one Alternate Auditor must be chosen from among those registered in the register of chartered accountants who have worked as external auditors for a period of no less than three years. The remaining Statutory Auditors (standing and alternate) must have gained at least three years' experience in administration or control activities or managerial tasks in corporations with share capital of no less than two million euros, or have performed for three years (i) university teaching or professional activities in legal, economic, financial and technical/scientific subjects closely connected to the

company's business, or (ii) management roles in public or government bodies operating in the fields of lending, finance and insurance or in sectors closely connected to the company's business. The Bylaws of Telecom Italia in turn consider the following sectors of activity to be closely linked to that of the Company: activities and matters related to telecommunications, information technology, online systems, electronics and multimedia technology, and matters related to private and administrative law, economics and business administration.

3. Renewal takes place on the basis of slates divided into two sections containing two separate lists of candidates to the position of Standing Auditor and candidates to the position of Alternate Auditor. The first candidate in each section shall be selected from among the external auditors entered in the appropriate register who have worked on external audits for a period of not less than three years. In each section, if the number of candidates is three or more, the presence of both genders must be ensured, in such a way that candidates of the less represented gender are at least one third of the total, rounding any fractions up to the next whole number.
4. Slates may be submitted by shareholders who, alone or jointly with others, hold a total number of shares that represent at least 0.5% of the capital with voting rights in the Ordinary Shareholders' Meeting or such other measure as determined by the regulatory provisions issued by Consob. The latter set the minimum shareholding required to submit slates of candidates for election to the administration and control bodies of Telecom Italia at 1% (resolution no. 19109 of January 28, 2015). Despite this, adopting an interpretation of the Bylaws text more favourable for minorities, and which, according to Consob, is more in line with the rationale behind the regulation on slates voting, the Board of Directors has adopted 0.5% as the minimum capital shareholding required to submit candidates.
5. If by the deadline of 25 days prior to the Shareholders' Meeting (April 25, 2015) only one valid slate has been presented (or - it is believed - none), or the only slates presented are associated with shareholders who own, whether individually or jointly, a controlling or relative majority stake (therefore, as of the date of approval of this report, associated with Telco S.p.A. and its shareholders), the deadline for the submission shall be postponed by 3 days (April 28, 2015) and the entitlement threshold shall be halved to 0.25% of the ordinary capital. In any case, the Company must obtain the entitlement communications from the intermediaries no less than 21 days prior to the Shareholders' Meeting (April 29, 2015).
6. Each shareholder may submit only one slate, alone or jointly with others. In doing this, Consob requires shareholders to accompany the slate with information regarding their identity, in addition to stating the total percentage shareholding they own, and - if different from those shareholders - a declaration that attests to the absence of connecting relationships, including indirect relationships, with shareholders who hold, including jointly, a controlling or relative majority stake, specifying any relationships that exist with the latter.
7. The slate must be submitted together with declarations from candidates confirming their fulfilment of the requirements and acceptance of the candidacy. Together with the declarations, a curriculum vitae for each candidate shall be filed setting out their main personal and professional data.
8. At the Shareholders' Meeting, the distribution of seats takes place by drawing from the respective sections
   - of the slate which has obtained the majority of the votes (the so-called "majority slate") 3 Standing Auditors and 2 Alternate Auditors;
   - of the remaining slates (the so-called "minority slates") 2 Standing Auditors and 2 Alternate Auditors, selected according to the "quotients method". (i) a single decreasing ranking, for the appointment to the post of standing auditor and for the appointment to the post of alternate auditor respectively, of all the corresponding candidates on the various slates, based on the assigned quotients, obtained by dividing the number of slate votes by one and by two and (ii) the appointment, in order, of the candidates with the highest quotient.
9. If the composition of the board resulting from the application of the mechanisms described does not allow gender balance to be respected (at least one Standing Auditor and one Alternate Auditor must belong to the less represented gender), the last elected candidates from the majority slate of the more represented gender, based on the order in which they are listed on the slate, shall be replaced by the first unelected candidates on the same slate of the less represented gender. In the absence of candidates of the less represented gender on the majority slate to proceed with the

replacement, the Shareholders' Meeting shall supplement the board with the majorities required by law (absolute majority of the share capital represented at the meeting), thus ensuring that the requirement is met.

10. Similarly, in appointing statutory auditors who for whatever reason have not been appointed pursuant to the voting procedure specified above, the Shareholders' Meeting shall vote on the basis of the majorities required by law.

Appointment of the Chairman of the Board of Statutory Auditors

11. Pursuant to the law, the Chairman of the Board of Statutory Auditors is elected by the Shareholders' Meeting from among the standing Auditors "elected by the minority". By law, the appointment depends on the decision of the Shareholders' Meeting and therefore the person chosen must be one of the two Standing Auditors elected by the "minority shareholders not directly or indirectly associated with shareholders who submitted or voted for the slate that came first in terms of number of votes" (in accordance with article 148 of Legislative Decree No. 58/1998).
12. The Shareholders' Meeting shall vote on this matter on the basis of the majorities required by law: absolute majority of share capital represented at the meeting.

Determination of the compensation

13. The statutory Auditors' annual remuneration is established by the Shareholders' Meeting which, according to customary practice, sets a different level of remuneration for the Chairman of the body.
14. In setting the remuneration, consideration must be given to the responsibilities and duties of the body as established by Italian law, but also to the fact that (i) in Telecom Italia the Board of Statutory Auditors is also identified as the audit committee in terms of the United States legal framework, within the limits in which the Company is subject to it as a foreign private issuer registered with the US Securities and Exchange Commission, listed on the New York Stock Exchange, and (ii) the Board of Directors of Telecom Italia has assigned the Board of Statutory Auditors the functions of supervisory body pursuant to art. 6, subsection 4-bis, of Legislative Decree no. 231 of June 8, 2001.
15. In this respect, we should point out that the remuneration of the outgoing Board of Statutory Auditors was established by the Shareholders' Meeting of May 15, 2012 at 95,000 euros gross per year for each Standing Auditor and 135,000 euros gross per year for the Chairman of the Board of Statutory Auditors. Furthermore, given the increasing complexity of the relevant legal framework, the growing importance of the system of controls in the context of corporate governance, the increasingly vital role that the Board of Statutory Auditors is considered to play in this system, as well as the resulting increase in the number of board meetings which Auditors must attend, the Shareholders' Meeting of April 16, 2014 introduced – in addition to the previously allocated remuneration ratione temporis – an attendance fee for meetings attended by the Auditors, in order to make the remuneration more consistent with the increasing intensity of the commitment required of them.

Conclusions

16. As already done last year for the renewal of the Board of Directors,
    - Shareholders are advised to proceed with the submission of slates (and the accompanying proposals for Chairman and the remunerations for the members of this body) reasonably in advance of the deadline set by law (April 25, 2015), stating the name of the candidate who – subject to him/her being elected as Standing Auditor by the minority - they propose for appointment to the post of Chairman of the Board of Statutory Auditors;
    - candidates are advised only to accept a candidacy if they believe they will be able to fulfil the tasks required by the post and be able to commit for the full term of their mandate.

    Operationally, it is also advisable for candidates to make a photograph available, and to authorise publication of their curriculum vitae on the Company website, ensuring that details they do not wish to be disseminated are not included.

DEFERMENT BY LIQUIDATION IN EQUITY OF A PORTION OF THE SHORT-TERM INCENTIVE – 2015 CYCLE - RELATED AND CONSEQUENT RESOLUTIONS

Dear Shareholders,

The Board of Directors submits for your approval, pursuant to article 114-bis, Legislative Decree 58 of February 24, 1998, the mechanism of deferment by liquidation in equities of a portion of the short-term incentive, which the Board of Directors intends to introduce as of the 2015 cycle of the so-called MBO (Management by Objectives) bonus, as stated in the company's remuneration policy and explained in the first section of the relevant report, which is also submitted for examination by the Shareholders' Meeting.
While you are invited to refer for further details to the information document drawn up according to the chart of the Issuer Regulations (adopted by Consob with resolution no. 11971 of May 14, 1999 and as subsequently amended), summarised below are the essential terms and conditions of the compensation plan of which the deferment consists, which will be better defined in the regulations remitted to the Board of Directors for definition, upon the proposal of the Nomination and Remuneration Committee, after obtaining – where required – the opinion of the Board of Statutory Auditors pursuant to art. 2389 of the Italian Civil Code (the “Regulations”).
The aim of the initiative is to align the interests of the management with those of the shareholders, making the management share in the business risk, while also introducing a deferment mechanism that rewards people who remain in office and can therefore act as a retention tool. It will initially be restricted to Top Management (including the Chief Executive Officer) and a selected number of executives ("the Selected Executives"), but it may be extended in future to the rest of the MBO population, in accordance with the decisions made when establishing the remuneration policy.
For the resources involved, with regard to any MBOs accrued under the relevant performance conditions (amounting in total to no more than 17 million euros for the 2015 MBO cycle: the Amount), the plan is to

- liquidate 50% of the Amount in cash;
- for the remaining 50% to allocate free non-transferable two-year rights to ordinary Telecom Italia shares (the Rights), the number of Rights being calculated by applying to 50% of the Amount a divisor that is equal to the normal value of the share as of the date of the meeting of the Board of Directors called to approve the finalised Chief Executive Officer MBO scorecard for the financial year of reference, but no less than the accounting par value of the shares as of 31 December 2014 (0.55 euros per share), for a maximum allocation of 15,454,545 Rights.

In this way, the management will be making a kind of contribution to the company's equity, equivalent to the non-cash-out and rewarded by the deferred allocation of shares. This will take place for a number of shares equal to 2 ordinary shares per Right (ideally: one share corresponding to the initial “contribution” in terms of non-cash-out at the proper time, and a bonus share), increased to 3 ordinary shares per Right (ideally: one share corresponding to the initial “contribution” and 2 bonus shares) subject to the accumulated achievement over the two-year period 2016-17 of an amount of EBITDA – organic net financial charges equal at least to the sum of the corresponding indicators in the 2016 and 2017 budget (target level).
If, during the vesting period, the beneficiaries should die or their employment with the Company (or with companies it directly or indirectly controls, even if the company is not the same Group company the interested party was employed by at the time the Options were allocated) should be terminated, or they should cease to hold office before the natural expiry of the appointment, the Rights will lapse, as better specified in the Regulations. In this case, the amount not liquidated initially will be paid in cash without any interest.
In the event of extraordinary operations on the Company's capital, the Board of Directors, independently and without the need for further approval by the Shareholders' Meeting of the Company, will make all the amendments and additions to the Regulations deemed necessary or appropriate to keep unchanged the substantial and economic contents of the initiative, , which does not benefit from the support of the special Fund to provide incentives for employee shareholdings in companies.

The liquidation in equities of the MBO bonus, based on the characteristics of the recipients and at the discretion of the Board of Directors, will be serviced by using treasury shares in the Company's portfolio and/or by means of a capital increase, exercising the relevant powers to increase the share capital free of charge proposed to the Extraordinary Shareholders' Meeting, subject to the possibility of some or all of the liquidation being serviced by other equivalent means, at the Board of Director's discretion, based on the normal value of the ordinary share at the end of the two-year term from the date of allocation of the Rights. The Board of Directors therefore also asks the Shareholders' Meeting for authorisation to make the aforementioned treasury shares available.
For only the Top Management a quantity of shares equal to the number of Rights will be subject to a lock-up restriction requiring mandatory deposit in a securities account, at the Company itself, for one year.
The Board of Directors invites you to refer to the information document for an analytical explanation of the initiative, and submits for your approval the following

Proposed Resolution

The Shareholders' Meeting of Telecom Italia S.p.A.,

- having examined the explanatory report of the Board of Directors,
- having examined the information document made available to the public in accordance with the applicable regulations,

resolved

- to approve the mechanism of deferment by liquidation in equities of a portion of the short-term incentive for the 2015 financial year, under the general terms stated above and detailed in the information document published pursuant to the applicable regulations;
- to confer on the Board of Directors all powers necessary or expedient for implementing the initiative, making any changes and/or additions to it that prove necessary for the implementation of what has been resolved, including for the purposes of compliance with any applicable regulatory provision, including authorisation to assign free of charge ordinary treasury shares existing at the appropriate time in the Company portfolio.

MANDATE TO INCREASE THE SHARE CAPITAL TO SERVICE THE PARTIAL LIQUIDATION IN EQUITY OF THE SHORT-TERM INCENTIVE FOR THE 2015 FINANCIAL YEAR – AMENDMENT OF ARTICLE 5 OF THE COMPANY BYLAWS – RELATED AND CONSEQUENT RESOLUTIONS

Dear Shareholders,

in the ordinary session, a mechanism was submitted to the Shareholders' Meeting for the deferment by liquidation in ordinary Telecom Italia shares of a portion of the short-term management incentive (so-called MBOs), with reference to the 2015 cycle (the Deferment). In particular, for the purposes hereof, the Deferment provides for the allocation to the beneficiaries of the initiative of a maximum of 15,454,545 Telecom Italia ordinary share free allocation rights (the Rights), in a ratio of 2 or 3 shares per each accrued and exercisable Right, subject to the fulfilment of pre-determined conditions and therefore for a maximum of 46,363,635 shares.
To service the Deferment, regulated by specific regulations (the Regulations), we therefore ask you to approve the granting to the Board of Directors, pursuant to article 2443 of the Italian Civil Code and for a period of five years from the date of the shareholders' resolution, of the powers to increase the share capital by issuing a maximum of 46,363,635 ordinary shares (allocating the amount of 0.55 euros per share issued to the share capital), in the amount, under the terms and conditions and according to the procedures set out in the Regulations, by allocating profits in the maximum amount of 25,500,000 euros pursuant to article 2349 of the Italian Civil Code.
The Board of Directors will be granted the power to identify, at the appropriate time, the profits and/or retained profits to be used for this purpose, subject to the proposal for allocation to the "Plans pursuant to article 2349 of the Italian Civil Code" reserve of the aforesaid amount of 25,500,000 euros, drawn from 2015 profits, to service the Deferment, at the time of approval of the financial statements as of

December 31, 2014, with the powers to make the appropriate accounting entries resulting from the issue operations, in accordance with the legal provisions and the accounting principles that are applicable in each case.
In relation to the proposed resolution authorising an increase in the share capital (which result in a maximum theoretical dilution of 0.24% of the total share capital and 0.34% of ordinary shares only at December 31, 2014), shareholders who do not vote in favour of this proposal do not have the right of withdrawal.

In view of the above, the Board of Directors submits for your approval the following

Proposed Resolution

The Shareholders' Meeting of Telecom Italia S.p.A.,

- having examined the explanatory report of the Board of Directors;
- given the statement by the Board of Statutory Auditors that the current share capital has been fully paid in;

resolved

1. to grant the Board of Directors, pursuant to article 2443 of the Italian Civil Code and for a period of five years from the date of this resolution, the powers to increase the share capital by issuing a maximum of 46,363,635 ordinary shares without par value, allocating the amount of 0.55 euros per share issued to the share capital, by allocating profits or retained profits in the maximum amount of 25,500,000 euros pursuant to article 2349 of the Italian Civil Code. The aforesaid ordinary shares will be reserved exclusively for part of the employees benefiting from the short-term incentive scheme (so-called MBO) for the 2015 financial year, as identified at the appropriate time by the Company's Board of Directors, subject to the terms and conditions and by the methods specified in the appropriate regulations. Regarding the capital increase, the Board of Directors shall have the right to proceed to duly identify the profits and/or retained profits, stated in the last duly approved financial statements, to be used for this purpose, with the powers to make the appropriate accounting adjustments consequent on the issue operations, in accordance with the legal provisions and the accounting principles that are applicable in each case;
2. to introduce a new subsection at the end of art. 5 of the Company Bylaws which shall read as follows:
   "*For five years starting from May 20, 2015 the Directors may increase the share capital to service the partial liquidation in equities of the short-term incentive for the 2015 financial year by issuing a maximum of 46,363,635 new ordinary shares without par value, with regular dividend entitlement, allocating the amount of 0.55 euros to the share capital for each share issued and excluding the right of option pursuant to article 2441,subsection 8, Italian Civil Code, to be reserved for part of the management of Telecom Italia S.p.A. and companies controlled by it that are covered by this measure for 2015, as identified at the appropriate time by the Company's Board of Directors*".
3. to confer on the Board of Directors – and on behalf thereof on the pro tempore legal representatives of the Company, jointly or severally – all the powers necessary to
   - make the changes on a case by case basis to article 5 of the Company Bylaws that are consequent on the resolutions, and on the execution and completion of the increase in share capital authorised as above, and to that end meet all the obligations and publish all information required by the regulations;
   - to complete all the necessary formalities for the adopted resolutions to be entered in the Business Register, accepting and introducing into said resolutions the amendments, additions or deletions of a non-substantial nature that might be requested by the competent authorities, as well as all the powers necessary for legal and regulatory compliance deriving from the resolutions adopted.

AUTHORISATION TO CONVERT THE “€2,000,000,000 1.125 PER CENT. EQUITY-LINKED BONDS DUE 2022” AND INCREASE THE SHARE CAPITAL, IN TRANCHES, WITH EXCLUSION OF THE PREFERENTIAL SUBSCRIPTION RIGHTS TO SERVICE THE AFOREMENTIONED BOND ISSUE THROUGH THE ISSUE OF ORDINARY SHARES – RELATED AND CONSEQUENT RESOLUTIONS

Dear Shareholders,

the Board of Directors of Telecom Italia S.p.A. (hereinafter: "**Telecom Italia**" or the "**Company**") has called this Extraordinary Shareholders' Meeting to discuss and resolve on, among other matters, the proposed authorisation to convert into ordinary Telecom Italia shares the "€2,000,000,000 1.125 per cent. Equity-Linked Bonds due 2022”, issued on March 26, 2015 (the "**Bond Issue**" or, for the sake of brevity, the "**Bond**") reserved for qualified investors and, consequently, the proposed share capital increase to service the Bond, for payment and in tranches, with exclusion of the preferential subscription right pursuant to art. 2441, subsection 5 of the Italian Civil Code, for a total maximum amount of 2,000,000,000 euros, including any share premium, to be paid up in one or more tranches by the issue of ordinary shares with regular dividend entitlement and the same characteristics as the existing ordinary shares (the "**Increase in Capital**").
The Increase in Capital proposed is therefore instrumental to enabling the Company to issue shares in the circumstances provided by the contractual regulations pursuant to the Bond Issue.
This report is aimed at illustrating the proposed share capital increase pursuant to art. 2441, subsection 6, of the Italian Civil Code and art. 72 of the Regulations adopted by Consob with Resolution no. 11971 of May 14, 1999 (the "**Issuers' Regulations**") and Article 125-ter of Italian Legislative Decree no. 58 of February 24, 1998 (the "**CLFI**").

1. Characteristics of the operation

1.1. Reasons and purpose of the Share Capital Increase

The Share Capital Increase comes as part of the Bond issue operation, reserved to qualified Italian and foreign investors (as defined in accordance with current applicable regulations), with the exclusion of the United States of America and U.S. persons (as defined in accordance with the Regulation S of the 1933 Securities Act), Australia, Canada, Japan and South Africa and any other jurisdiction in which the offer or placement of the bonds would be subject to specific authorisations (hereinafter the "**Institutional Investors**") and in any case with the exclusion of any offer to the general public, the issue of which was resolved by the Board of Directors on March 19, 2015 with pricing defined on March 20, 2015, following the placement procedure.
Below are the main characteristics and purposes of the Bond Issue.

1.2. Characteristics and purpose of the Bond Issue

The bond issue (the "**Bonds**") and main terms and characteristics of the Bond Issue were approved by the Board of Directors on March 19, 2015. Bond placement was initiated on March 19, 2015 and completed the following day, with pricing defined on March 20, 2015.
The amount of the Bonds is equal to 2 billion euros.
The Bond placement operation targeted the national and international market of Institutional Investors specialised in equity-linked instruments, due, on the one hand, to the complexity of the instruments offered and, on the other, the desire to guarantee the successful outcome of the operation in a reasonably short space of time. The offer of the Bond to Institutional Investors made it possible to promptly obtain financial resources from the non-banking capital market, allowing the Company to benefit from the opportunities offered by the favourable market context and the placement conditions deriving from the equity-linked characteristics of the Bond Issue. The Board of Directors believes that the issue of the Bond meets the Company's interests, which has thus completed a collection of financial means on the market at favourable conditions.

In deciding to proceed with the Bond Issue - with the consequent proposal, at this meeting, to approve, pursuant to art. 2441, subsection 5 of the Italian Civil Code, the Increase in Capital - the Board of Directors has considered the main advantages of the operation as structured and as described below:

- the possibility of benefiting promptly from the positive market conditions through a rapid placement with Institutional Investors, with a reference market, in terms of potential investors, that is compatible with the sum to be raised;
- the extremely fast execution terms that allow the market risk for the Company to be minimised, compared to alternative instruments, such as, for example, an capital increase with preferential subscription rights. In the trade-off between certainty about the issue conditions on the one hand, and acknowledging preferential subscription rights on the other, the Company opted for the former, since it considered that this option was better suited to the needs of the shareholders, as it allows the Company to issue a relatively small number of new shares at the best possible price. At the same time, placement immediately after Board approval, which represents a fairly common method ("overnight execution") in the case of equity-linked financial instruments such as the Bonds, mitigates the risk that the announcement may be followed by speculation on the shares involved,which could negatively affect the final issue price;
- the obtaining of funds at favourable conditions, also in view of the equity-linked characteristics of the Bonds;
- the placement of capital at a premium instead of at market price at the time of Bond issue, where an increase in capital with preferential subscription rights - the market practice - would have had to be carried out at a possibly substantial discount.

The Bond issue is in any case to be used to strengthen the financial structure and the cost of capital of the Company, as well as to finance its business. The capital increase operation that the Board of Directors submits to the Shareholders' Meeting for approval therefore comes within the context of the Bond Issue, and the latter justifies the Company's interest in exclusion of the preferential subscription right.

The Bond regulations set out in the Trust Deed and including Terms & Conditions (hereinafter: the "**Regulations**", which may be consulted at www.telecomitalia.com) specify that, following approval of the share capital increase, Telecom Italia shall send a notice, after which all the conversions of Bonds shall be settled in ordinary shares of the Company (hereinafter: the "**Conversion Shares**"), without prejudice to adjustment payments in cash provided in the Regulations. If the Share Capital Increase should not be approved by June 30, 2015, the Bonds may not be converted into Conversion Shares and Telecom Italia shall be entitled to proceed to early redemption of the Bond as described below (see the part on "**Early redemption**" in paragraph 1.3).

1.3. Purpose of the Share Capital Increase to service the Bond conversion

The Regulations establish that if the Shareholders' meeting does not approve the Share Capital Increase to service the Bond conversion by June 30, 2015 (the "**Long-Stop Date**"), the Company may proceed to make full early redemption of the Bond in cash in the amount of the highest of: (i) 102% of the capital amount of the Bond; and (ii) 102% of the average market price of the bonds recorded over a time frame subsequent to announcement of redemption(plus, in either case, interest accrued).

However, if the Shareholders' meeting should resolve to authorise the potential conversion of the Bond and, consequently, to increase the share capital to service the Bond conversion, the Company will be required to send Bondholders a specific notice (the "**Physical Settlement Notice**"), by virtue of which, as of the date specified therein (the "**Physical Settlement Date**") - and in any case no earlier than 10 and no later than 20 dealing days on the Milan stock exchange after the Physical Settlement Notice date - they shall be entitled conversion rights into ordinary newly issued shares in the Company.

Any conversion of the Bonds into newly issued shares will enable the Company to strengthen its asset structure and diversify its financial one, at the same time limiting the related cash outlay in respect of the financial charges and capital at the due date and to extend its holding structure, with Institutional Investors joining the capital.

For all of the foregoing reasons, the Board of Directors believes that it is important that the Bonds can be converted into Company shares. As highlighted above, the reasons for excluding preferential subscription rights, pursuant to article 2441, subsection 5 of the Italian Civil Code in relation to the proposed Share Capital Increase reflect the same reasons that led to the issue of the Bond.

The Board of Directors therefore believes that the exclusion of preferential subscription rights is entirely justified in view of the characteristics, timing and purpose of the Bond issue.

The proceeds from the bonds will be used within the scope of the recently-announcement 2015 - 2017 Plan, to address the investment plan.

1.4. Main features of the Bond Issue

According to the resolutions passed by the Board of Directors and the terms of the Regulations, the Bond has the following characteristics:

- total principal amount of the issue: 2,000,000,000 euros (two billion);
- minimum denomination of the Bonds: 100,000.00 euros (one hundred thousand euros and zero cents);
- duration: 7 (seven) years, due March 26, 2022;
- issue price: 100 percent of the principal amount of the Bond Issue;
- interest rate: fixed rate of 1.125% (one point one, two, five percent) per year, to be paid in arrears once every six months (on September 26 and March 26 of each year), as from September 26, 2015;
- initial conversion price: 1.8476 euros (one point eight, four, seven, six) per share, subject to adjustments as per the Regulations, in line with current market practice for this type of financial instrument;
- date of dividend entitlement: from date of issue;
- any conversion: subject to approval by the Shareholders' meeting, of the Share Capital Increase by the Long-Stop Date;
- redemption: at the due date, the capital must be repaid as a lump sum for an amount equal to 100% of the principal amount, without prejudice to cases of early redemption;
- early redemption by the Company: faculty to make early redemption in the events defined by the Regulations, in accordance with the market practice "clean-up call", "soft call" or "redemption for taxation reasons", potentially as from a given date;
- change of control and free float event: bondholders may ask the Company for early redemption, at principal amount, plus interest accrued and not yet paid, if: (i) there is a change of control in the Company, as defined in the Regulations; or (ii) in the event of a free float event, as defined in the Regulations. In the event of a change of control or free float event, besides, investors may be granted a specific conversion ratio, adjusted downwards with respect to the initial conversion price calculated in accordance with the methods specified in the Regulations;
- share settlement election: at the due date, the Company may opt to repay all or part of the Bond through the delivery of shares (and in any case in the maximum number of ordinary shares in the Company that would be delivered in the event of conversion) with any cash supplement in order to recognise a value equivalent to par value of each Bond, in accordance with the formula detailed in the Regulations;
- applicable law: English law, except for aspects that must be governed by Italian law.

1.5. Reasons for exclusion of the preferential subscription right

The Bond Issue, the Share Capital Increase and the approval of the potential conversion of the bonds into convertible bonds constitute a single operation aimed at providing the Company with a funding tool by which to obtain, in a short space of time and at significantly limited costs, resources from the non-banking capital market. To this end, in order to complete the operation, a share capital increase must be resolved to service the Bond Issue, with the exclusion of preferential subscription rights. The Board of Directors believes that the exclusion of preferential subscription rights is required in the interests of the Company pursuant to article 2441, subsections 5 and 6 of the Italian Civil Code, for the following reasons:

a) the choice to reserve the subscription of the Bond to Institutional Investors only, thereby excluding the preferential subscription rights for shareholders over the subsequent Share Capital Increase is connected with the high degree of complexity and the characteristics of equity-linked financial instruments, which make them entirely unsuitable for a retail public (and, therefore, an indiscriminate offer up to all Company shareholders). The use of the equity-linked instrument (and the specific structure and characteristics of the Bond, offered, amongst others, in denominations of 100,000.00 euros), intended for Institutional Investors only, is an effective means by which to obtain non-banking financial resources at particularly favourable conditions, which sits well with the Company's current needs and enables the financial position and related costs to improve in a way that would not otherwise be possible (and in particular not possible using traditional convertible bonds offered up in option to shareholders);
b) the issue and placement of equity-linked instruments presupposes an offer on the market with very quick methods and timing that require the exclusion of preferential subscription rights and the exclusion of the public offering of the Bonds, which would require more onerous corporate procedures, lengthier execution terms and greater costs;
c) the approval of the Share Capital Increase and the consequent possibility of converting the Bond Issue means that the provisions of cash settlement by Bondholders cease to apply, except in the event of early redemption as specified under paragraph 1.4 above, potentially stabilising the acquisition of the resources obtained by means of the Bond Issue;
d) any conversion of the Bonds into Telecom Italia shares, or in any case the issue of the shares pursuant to the Bond, will, finally, enable the Company (i) to strengthen its asset structure and diversify its financial one, at the same time limiting the related cash outlay in respect of the financial expense and capital at the due date and (ii) to extend its holding structure.

1.6. Terms and methods for the conversion of the Bond into capital

The conversion price, which corresponds to the price of the issue of new shares as a result of the Share Capital Increase, without prejudice to the hypothesis of exercise of the share settlement election, as described herein, is 1.8476 euros, without prejudice to any adjustments to the conversion price, as described herein.

The issue price will be allocated as 0.55 euros (or the lesser amount of the conversion price) in capital and any residual amount, by way of premium.

The number of shares to be issued or transferred to service the conversion will be determined by dividing the principal amount of the Bonds by the conversion price in force as of the related conversion date, rounded down to the nearest whole number of ordinary shares. No parts of shares will be issued or delivered and no cash payment or adjustment will be made in lieu of said parts.

On the basis of these parameters, the initial conversion ratio of the Bond Issue of 1.8476 euros corresponds to the issue of up to 1,082,485,386 ordinary shares.

The Bond Issue Regulations establish that the initial conversion price will be subject to adjustment, in line with current market practice for this type of financial instrument, where, amongst others, the following events should occur, without limitation: grouping or splitting of existing ordinary shares; issue of ordinary shares without charge (with the exception of share capital increase to service remuneration plans based on financial instruments, pursuant to art. 114-bis of the CLFI); distribution of dividends in kind or dividends in cash to ordinary shares; attribution to ordinary shareholders and/or issue of ordinary shares, financial instruments convertible into ordinary shares, rights or options giving the right to subscribe ordinary shares, at

a price below market price, which are not offered to the Bondholders (with the exception of share capital increase to service remuneration plans based on financial instruments, pursuant to art. 114-bis of the CLFI); amendments to the rights of financial instruments already issued, giving the right or obligations to convert them into ordinary shares and thereby enabling the acquisition of ordinary shares for a price that is below market price.
It is specified that the newly issued shares to service the conversion of the bond named “Eur 1,300 million mandatory Convertible Bonds due November 2016”, issued by Telecom Italia Finance S.A. and guaranteed by the Company, does not entail any adjustment of the initial Bond conversion price, except for the hypothesised adjustments provided by the regulation of the specified bond named “Eur 1,300 million mandatory Convertible Bonds due November 2016” applicable to all conversion hypotheses upon onset of operations or events affecting the Company's ordinary shares, including, without limitation, the payment of dividends or distribution of reserves. If such hypotheses should arise, the initial Bond conversion price may be adjusted.
The Bonds provide investor protection with respect to future dividends paid by the Company. In actual fact, if the Company should decide to distribute dividends, for any amount, to the ordinary shares during the life of the Bond Issue, the conversion price of the Bonds will be adjusted, on the basis of the formulae provided by the Bond Issue Regulations, in order to compensate the Bondholders for the amount of dividends distributed.
In the event of a change of control and free float event, as defined and regulated by the Regulations, investors may be granted a specific conversion ratio, for a limited period of time (60 days), adjusted downwards with respect to the initial conversion price, on the basis of a mathematical formula that considers the time when the significant event takes place and the overall duration of the Bond, in order to endorse the (unused) value of the option underlying the Bonds, in accordance with the terms and conditions detailed in the Regulations.
The share issue price in the event of exercise of the share settlement election will instead depend on their market value in the approach to the exercise of said right, as described in the Regulations. In actual fact, in this case the Regulations give the Issuer the right to settle all or part of the redemption at the due date by delivering shares (in any case in a number that does not exceed the shares it would have had to deliver in the event of the voluntary conversion of the Bonds), calculated in accordance with a mathematical formula that considers the average of volume weighted average prices of an ordinary share recorded on the Electronic Share Market at the end of each dealing day in a period of twenty dealing days prior to the maturity of the Bond, in addition to any cash integration to ensure that the redemption is made as a whole, at par, as specified in the Regulations.

2. Short- and long-term composition of financial debt

A table summarising the net financial debt of the Telecom Italia Group at December 31, 2014 and 2013 is provided below.

(millions of euros)		12/31/2014	12/31/2013
Non-current financial liabilities		**32,325**	**31,084**
Current financial liabilities		**4,686**	**6,119**
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale		**43**	**27**
Total Gross financial debt	**(a)**	**37,054**	**37,230**
Non-current financial assets (°)			
Non-current financial receivables for lease contract		(92)	(58)
Non-current hedging derivatives		(2,163)	(1,018)
	(b)	**(2,255)**	**(1,076)**
Current financial assets			
Securities other than investments		(1,300)	(1,348)
Financial receivables and other current financial assets		(311)	(283)
Cash and cash equivalents		(4,812)	(5,744)
Financial assets relating to Discontinued operations/Non-current assets held for sale		(165)	(657)
	(c)	**(6,588)**	**(8,032)**
Net financial debt as per Consob communication DEM/6064293/2006	**(d=a+b+c)**	**28,211**	**28,122**
Non-current financial assets (°)			
Securities other than investments		(6)	(6)
Other financial receivables and other non-current financial assets		(184)	(174)
	(e)	**(190)**	**(180)**
Net financial debt	**(f=d+e)**	**28,021**	**27,942**
Reversal of fair value measurement of derivatives and related financial assets/liabilities	(g)	(1,370)	(1,135)
Adjusted net financial debt	**(f+g)**	**26,651**	**26,807**

(°) At December 31, 2014 and at December 31, 2013, "Non-current financial assets" (b+e) amounted to 2,445 million euros and 1,256 million euros, respectively.

A table summarising the net financial debt of the Telecom Italia S.p.A. at December 31, 2014 and 2013 is provided below.

(millions of euros)		12/31/2014	12/31/2013
Non-current financial liabilities		**30,010**	**29,154**
Current financial liabilities		**7,747**	**8,882**
Total Gross financial debt	**(a)**	**37,757**	**38,036**
Non-current financial assets (°)			
Non-current financial receivables for lease contract		(25)	(56)
Non-current hedging derivatives		(663)	(356)
	(b)	**(688)**	**(412)**
Current financial assets			
Securities other than investments		(802)	(1,462)
Financial receivables and other current financial assets		(303)	(547)
Cash and cash equivalents		(1,305)	(1,284)
	(c)	**(2,410)**	**(3,293)**
Net financial debt as per Consob communication DEM/6064293/2006	**(d=a+b+c)**	**34,659**	**34,331**
Non-current financial assets (°)			
Other financial receivables and other non-current financial assets	(e)	(1,236)	(959)
Net financial debt	**(f=d+e)**	**33,423**	**33,372**
Reversal of fair value measurement of derivatives and related financial assets/liabilities	*(g)*	*(1,942)*	*(1,063)*
Adjusted net financial debt	**(f+g)**	**31,481**	**32,309**

(°) At December 31, 2014 and at December 31, 2013, "Non-current financial assets" (b + e) amounted to 1,924 million euros and 1,371 million euros, respectively.

For information on the economic-equity and financial effects deriving from the Bond Issue, reference is made to paragraph 9 below.

3. Any existence of guarantee and/or issuance consortia, their composition and the terms and procedures of their intervention

No guarantee and/or issuance consortia are provided in relation to the Share Capital Increase insofar as it is intended exclusively to service any Bond conversion.

Please note, moreover, that the placement of the Bond Issue has been carried out by J.P. Morgan Securities plc and BNP Paribas as joint global coordinator and joint bookrunner, and Barclays Bank plc, Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited and UniCredit Bank AG as joint bookrunner.

4. Other forms of placement provided

No other forms of placement are provided.

5. Criteria on which basis the issue price has been determined for the new ordinary shares

Considering the characteristics of both the Bonds and the Share Capital Increase, the Company's Board of Directors has resolved to propose to the Shareholders' meeting that the issue price of the shares from the Share Capital Increase is equal to the Bond conversion price, without prejudice to compliance with the criteria set forth under art. 2441, subsection 6 of the Italian Civil Code, according to which the issue price should be no less than that determined on the basis of the Company's net equity value, also considering the share price as listed on the Electronic Share Market of the Company's ordinary shares in the last six months.

The initial conversion price of the Bonds - considering the nature of the Bond Issue, intended to become convertible into ordinary shares, subject to approval by the Extraordinary shareholders' meeting - has been determined, in compliance with market practice for said financial instruments, upon completion of the placement of the Bond Issue, on the basis of the market value of the Company's ordinary shares, the quantity and quality of the demand expressed under the scope of the placement of the Bond Issue. In particular, in order to determine the market value of the ordinary shares, the volume weighted average price of an ordinary share has been taken as reference, as recorded on the Electronic Share Market as of the end of the dealing day following the start of Bond placement, equal to 1.0868 euros. A conversion premium of 70% has been added to this market value, pre-established on the basis of the indications received from the banks identified to act as bookrunners and market conditions, giving rise to a conversion price of 1.8476 euros. The application of this premium was made possible also as a result of the positive market situation.

In compliance with the provisions of art. 2441, subsection 6 of the Italian Civil Code, in order to establish the issue price of the new ordinary shares to service any conversion of the Bonds, the Board of Directors has considers the value of the net equity of Telecom Italia S.p.A. per share as of December 31, 2014, equal to 0.848 euros, and the mathematical average of the price of the Company's ordinary shares, recorded on the basis of the official prices, recorded on the Italian Stock Exchange during the six-month period prior to the date of March 19, 2015 (9/19/2014 - 3/18/2015), equal to 0.9322 euros.

Please remember that, in accordance with the Bond Issue Regulations, the initial conversion price may be adjusted at the conversion date in accordance with market practice in force for this type of instrument, where the events indicated, without limitation, under paragraph 1.61.6 above, to which reference is made, should occur.

Considering the analyses performed, the Board of Directors considers that the criteria adopted to determine the initial conversion price of the Bonds and, therefore, the issue price of the Conversion Shares (and related conversion ratio) are coherent with the criteria provided by art. 2441, subsection 6 of the Italian Civil Code and, therefore, appropriate in terms of identifying a price able to preserve the equity interests of the Company's shareholders, in view of the exclusion of preferential subscription rights.

With reference to the change of control and free float event events, as defined and regulated by the Regulations, the conversion price adjustment is justified given the specificity of the events described therein. More specifically, in these events, it is provided that investors may be granted a specific conversion ratio, for a limited period of time (60 days), adjusted downwards with respect to the initial conversion price, on the basis of a mathematical formula that considers the moment when the significant event takes place and the overall duration of the Bond, in order to endorse the (unused) value of the option underlying the Bonds, in accordance with the terms and conditions detailed in the Regulations.

The ordinary share issue price in the event of exercise of the share settlement election will instead depend on their market value in the approach to the exercise of said right, as described in the Regulations; this is without prejudice to the fact that this is in any case a right and not an obligation for the Company, the exercise of which will be assessed by the Board of Directors at the appropriate time. In actual fact, in this case the Regulations give the Issuer the right to settle all or part of the redemption at the due date by delivering shares (in any case in a number that does not exceed the shares it would have had to deliver in the event of the voluntary conversion of the Bonds), calculated in accordance with a mathematical formula that considers the average of volume weighted average prices of an ordinary share recorded on the Electronic Share Market at the end of each dealing day in a period of twenty dealing days prior to the maturity of the Bond, in addition to any cash integration to ensure that the redemption is made as a whole, at par, as specified in the Regulations. The Board of Directors deems that, also in relation to these situations, the criteria used to determine the conversion price and, therefore, the issue price of the conversion shares are consistent with the criteria established under art. 2441, subsection 6 of the Italian Civil Code.

6. Shareholders who have declared willing to subscribe the newly issued shares rateably to the share held and any preferential subscription rights not exercised

As described above, the Share Capital Increase is exclusively to service the potential conversion of the Bonds into ordinary newly issued Telecom Italia shares.

Therefore, for the reasons given above, the faculty of shareholders to exercise their preferential subscription rights pursuant to Article 2441, subsection 5 of the Italian Civil Code, is excluded.

7. Period specified for execution of the transaction

The Share Capital Increase will take place as a consequence of any requests for conversion of the Bonds during the period for which the Bond Issue remains valid.

If, as of the last conversion, the Share Capital Increase should not be fully subscribed, the share capital of the Company will have increased by the amount deriving from the subscriptions carried out by that date.

8. Date of dividend entitlement of the newly issued ordinary shares

The ordinary shares to be offered up in conversion of the Bonds shall have regular dividend entitlement and shall, therefore, attribute to their possessors the same rights as the existing ordinary shares of the Company at the time of issue of the former.

9. Pro-forma economic-equity and financial effects able to represent the consequences of the operation on the economic performance and equity position - Effects on the unit share value

For the purposes of estimating the pro-forma capital and financial effects of the Bond Issue, it is assumed that the Bond Issue be converted into ordinary shares of the Company at maturity (March 26, 2022).

<u>Consolidated Financial Statements and Separate Financial Statements of Telecom Italia S.p.A.</u>

On the basis of the aforementioned assumptions, the bond issue determines:

i. as of the trading/settlement date, a partial reduction of the net financial debt corresponding to the difference between the credit to be collected / collected by the bondholders (net of issue costs) and the debt component of the financial instrument issued (net of the relative issue costs attributed to it). The debt component is equal to the fair value of an identical liability issued by the Company at market conditions but without conversion rights, whilst the remaining portion, up to the amount of the credit to be collected, is recorded as an item of equity (the "residual" method). The issue costs are assigned proportionally to the debt component and equity component;

ii. at maturity, a reduction of up to 2,000 million euros in the net financial debt as a result of the conversion of the bond into ordinary shares in the Company, net of any outgoing cash flow in the event of the application of the share settlement election clause;

iii. a corresponding increase in net equity (for the consolidated financial statements, an increase in the portion of "net equity attributable to the Shareholders of the Holding Company"), net of the reduction for interest to be paid during the Bond (net of the tax effect); said interest shall have a negative impact on the net financial debt throughout the duration of the Bond.

On the basis of the number of existing shares comprising the Company's share capital as of March 26, 2015, in the event of the full conversion of the Bond into ordinary shares in the Company as of the related due date on the basis of the maximum number of shares above (n. 1.082.485.386 ordinary shares), compliance with an initial hypothetical portion of 1% of the ordinary share capital (corresponding to 0.69% of the total share capital), the shareholder shall hold a portion of 0.93% of the total ordinary share capital - following the conversion - (corresponding to 0.65% of the total share capital), as indicated in the table below:

	Share Capital at 3/26/2015	Potential number of shares to be issued to service the convertible bond	Share capital as of 3/26/2015 + maximum increase of share capital to service the convertible bond
Existing Ordinary Shares*	13,433,283,437	1,082,485,386	14,515,768,823
Savings shares	6,026,120,661		6,026,120,661
TOTAL SHARES	**19,459,404,098**	**1,082,485,386**	**20,541,889,84**
Number of ordinary shares corresponding to possession of 1% of the existing Ordinary Capital as of 3/26/2015	134,332,834		134,332,834
Impact on total ordinary shares	***1.00%***		***0.93%***
Impact on total ordinary shares and savings shares	***0.69%***		***0.65%***

* net of the ordinary shares held by Telecom Italia S.p.A. (37,672,014)

10. Changes to the By-laws

As a consequence of the Share Capital Increase object of this report, we would also propose introducing a new, additional subsection at the end of art. 5 of the Company by-laws which shall read as follows:

"*The extraordinary shareholders' meeting of [•] 2015 resolved to increase the share capital for cash for payment, in tranches, with exclusion 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 2,000,000,000 euros (two billion), to service the conversion of the "€2,000,000,000 1.125 per cent. Equity-Linked bonds due 2022", to be paid up in one or more tranches by the issue of ordinary shares of the Company with regular dividend entitlement, for a maximum amount of 2,000,000,000 euros (two billion), exclusively for the service of the bond issued by the Company named " €2,000,000,000 1.125 per cent. Equity-Linked Bonds due 2022", in accordance with the criteria determined by the related Regulations, without prejudice to the fact that the final terms for subscription of the newly issued shares are established as 26 March 2022 and that if, as of that date, the share capital increase has not been fully subscribed, it will in any case be intended as increased by an amount equal to the subscriptions collected and as of that date, with the specific authorisation of the directors to issue the new shares as they are subscribed. No parts of shares will be issued or delivered and no cash payment or adjustment will be made in lieu of said parts*".

It is specified that the proposed amendment of the by-laws concerned by this report does not entail any right of withdrawal as provided by legislation currently in force.

In view of the above, the board of directors submits for your approval the following

Proposed Resolution

The shareholders' meeting of Telecom Italia S.p.A., met in an extraordinary session,

- having examined the explanatory report of the Board of Directors;
- given the statement by the Board of Statutory Auditors that the current share capital has been fully paid in;

resolved

1. to establish and authorise, in accordance with the provisions of the Regulations, the convertibility of the equity-linked bond issue of a nominal amount of 2,000,000,000 euros, due on March 26, 2022, named "€2,000,000,000 1.125 per cent. Equity-Linked Bonds due 2022", and therefore to approve the proposed share capital increase for cash, in tranches, with exclusion 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 2 billion euros, to service the conversion of the "€2,000,000,000 1.125 per cent. Equity-Linked bonds due 2022", as described herein, potentially to be settled in shares as prescribed in the Regulation, to be paid up in one or more tranches by means of the issue of ordinary shares in the Company for a maximum amount of 2 billion euros, with regular dividend entitlement exclusively to service the bond issued by the Company named "€2,000,000,000 1.125 per cent. Equity-Linked Bonds due 2022", in accordance with the criteria established by the related Regulations. No parts of shares will be issued or delivered and no cash payment or adjustment will be made in lieu of said parts;
2. to approve the sending by the Chairman and Chief Executive Officer, even separately and with the faculty to sub-delegate, of a communication ("Physical Settlement Notice") to Bondholders by virtue of which the possibility will be provided of converting the Bond into ordinary newly issued Company shares;
3. to establish that the issue price of the Conversion shares of the share capital increase is determined on the basis of provisions of the Bond Issue Regulations under point 1 above and therefore equal to 1.8476 euros, excepting adjustments and without prejudice to the cases where the related conversion price will be calculated in accordance with the methods specified by the bond issue Regulations pursuant to point 1 above and, in particular, without prejudice in the event of exercise of the share settlement election; and is allocated as 0.55 euros (or the lesser amount of the conversion price) in capital and any residual amount, by way of premium;
4. to authorise the Board of Directors and, on its behalf its legal representatives, to carry out the above mentioned share capital increase determining, inter alia and each time, in compliance with the provisions of the Regulations (i) the exact issue price of the shares, and, as a consequence of the determination of the issue price, (ii) the exact number of shares to be issued, and, therefore, the spot exchange ratio, where this is necessary for the timely application of the provisions and criteria of the Regulations; it being understood that, should the share capital increase referred to above not be fully subscribed on March 26, 2022, the share capital will be deemed to be increased by an amount equal to the subscriptions received;
5. to introduce a new subsection at the end of art. 5 of the Company by-laws which shall read as follows:

   "*The extraordinary shareholders' meeting of [•] 2015 resolved to increase the share capital for cash for payment, in tranches, with exclusion 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 2,000,000,000 euros (two billion), to service the conversion of the "€2,000,000,000 1.125 per cent. Equity-Linked bonds due 2022", to be paid up in one or more tranches by the issue of ordinary shares of the Company with regular dividend entitlement, for a maximum amount of 2,000,000,000 euros (two billion),exclusively for the service of the bond issued by the Company named " €2,000,000,000 1.125 per cent. Equity-Linked Bonds due 2022", in accordance with the criteria determined by the related Regulations, without prejudice to the fact that the final terms for subscription of the newly issued shares are established as March 26, 2022 and that if, as of that date, the share capital increase has not been fully subscribed it will in any case be intended as increased by an amount equal to the subscriptions collected and as of that date, with the specific* *authorisation of the directors to issue the new shares as they are subscribed. No parts of shares will be issued or delivered and no cash payment or adjustment will be made in lieu of said parts*"

6. to confer upon the Board of Directors – and on behalf thereof on the pro tempore legal representatives of the Company, jointly or severally – all powers to put into effect the aforementioned share capital increase and to make the consequent changes on a case by case basis to article 5 of the Company By-laws, and to that end meet all the obligations and publish all information required by the regulations to complete all the necessary formalities for the approved resolutions to be entered in the Business Register, accepting and making thereto any amendments, additions or deletions of a non-substantial nature that may be required by the competent authorities, as well as all the powers necessary for legal and regulatory compliance deriving from the resolutions adopted.

CHANGES TO CORPORATE GOVERNANCE INTERNAL RULES - AMENDMENT OF ARTICLES 9, 11 AND 17 OF THE BYLAWS – RELATED AND CONSEQUENT RESOLUTIONS

Dear Shareholders,

in formulating its guidance for Shareholders, in view of the Shareholders' Meeting of April 16, 2014, called to renew the administration body, the outgoing Board of Directors concluded its report by recommending that "the incoming Board of Directors evaluate whether or not the Bylaws and/or the remaining corporate governance instruments in force be amended in order to implement the solutions suggested, and in any case the best company practices".

The Board of Directors elected by that Shareholders' Meeting, with a radically renewed composition (only 4 of the 13 Directors were members of the previous structure) and internal balance (currently 9 Directors fulfil the independence requirements established by the Corporate Governance Code, compared to 5 at 31 December 2013, when the total number of Directors in office was 11, out of the 15 established by the Shareholders' Meeting), picked up the baton and decided to conduct a comprehensive review of the corporate governance structures, launching a workout initiative, the results of which are presented here with reference to the work to be done on the Bylaws.

The work proposed essentially relates to:

- clarification regarding the entitlement to submit slates for the renewal of the Board of Directors and the Board of Statutory Auditors (0.5% of the ordinary share capital or less), as specified by the Company (at the request of Consob) in view of the Shareholders' Meeting of April 16, 2014 (renewal of the Board of Directors) and reiterated for today's Shareholders' Meeting (renewal of the Board of Statutory Auditors);
- the introduction of a principle of independence, when renewing the Board of Directors, for at least half of the candidates and elected directors on each slate; Reference is made alternatively to the independence requirements established by law or to those of the Corporate Governance Code drawn up by the Corporate Governance Committee of Borsa Italiana, with which Telecom Italia complies;
- a change to the majority premium, when renewing the Board of Directors, to 2/3 of the Directors to be elected;
- a change to the mechanism for convening the Board of Directors at the request of the Directors, attributing this right to 2 Directors (rather than to one fifth of the Directors in office), in a similar way to the legal provisions regarding Auditors.

The amendments proposed are deemed to be largely self-explanatory: the objective is to align the Bylaws of Telecom Italia with best practice, particularly as regard the crucial matter of the appointment of corporate bodies by the Shareholders' Meeting, enhancing the pluralism of the shareholding structure and the weight and role of independent Directors.

At the same time, the opportunity would be seized to eliminate transitional clauses whereby the gender quota is restricted to one fifth (instead of one third) on first renewal of the Board of Directors and the Board of Statutory Auditors respectively, subsequent to the introduction of the rule on gender balance. With today's Shareholders' Meeting (called, among other things, to elect the supervisory body), the rules will come into full effect.

Note that shareholders who do not approve the proposed changes to the Bylaws being examined do not have the right of withdrawal.

The proposed resolution of the Shareholders' Meeting is reproduced below, with a comparison of the relevant articles 9, 11 and 17, in their current form and after incorporation of the proposed amendments

In view of the above, the Board of Directors submits for your approval the following

Proposed Resolution

The Shareholders' Meeting of Telecom Italia S.p.A.,

– having examined the explanatory report of the Board of Directors;

resolved

1. to amend articles 9, 11 and 17 as stated in the text below, with indications of the amendments made.

Article 9

Current text	Proposed text
9.1 - The Company shall be managed by a Board of Directors consisting of not less than seven and not more than nineteen members, at least one third of whom shall be of the less represented gender, rounding any fractions up to the next whole number. The Shareholders' Meeting shall establish the number of members of the Board of Directors, which shall remain unchanged until a different number is established.	Unchanged
9.2 - The Board of Directors shall be appointed, in accordance with the applicable laws and regulations, on the basis of slates presented by the shareholders or by the outgoing Board of Directors.	Unchanged
9.3 - Each shareholder may present or participate in the presentation of only one slate and each candidate may appear on only one slate on pain of ineligibility. Slates that contain a number of candidates greater than or equal to three must ensure that both genders are present, in such a way that candidates of the less represented gender are at least one third of the total, rounding any fractions up to the whole number.	9.3 - Each shareholder may present or participate in the presentation of only one slate and each candidate may appear on only one slate on pain of ineligibility. **The slates must ensure the presence of candidates who fulfil the requirements of independence established by Article 148 of Legislative Decree 58/1998 and/or the Corporate Governance Code for listed companies, in such a way that at least one half of the members chosen from each slate, at the outcome of the vote, possesses such requirements.** Slates that contain a number of candidates greater than or equal to three must **also** ensure that both genders are present, in such a way that candidates of the less represented gender are at least one third of the total. **For the purpose of applying the independence and gender requirements,** ~~rounding any~~ fractions~~up~~ **will be rounded up** to the nearest whole number.

Current text	Proposed text
9.4 - Slates may be submitted only by shareholders who alone or together with other shareholders hold a total number of shares representing at least 0.5% (or such other amount established by Consob regulations) of the share capital entitled to vote at the Ordinary Shareholders' Meeting .	9.4 - Slates may be submitted only by shareholders who alone or together with other shareholders hold a total number of shares representing at least 0.5% (or such ~~other~~lower amount established by Consob regulations) of the share capital entitled to vote at the Shareholders' Meeting.
9.5 - Together with each slate, it is necessary to file individual candidates' acceptance of their candidacy and declarations in which they attest, on their own responsibility, that there are no grounds for ineligibility or incompatibility, and that they meet any requirements, as well as any other information requested by applicable law or regulation or the bylaws. Together with the declarations, a curriculum vitae shall be filed for each candidate setting out their main personal and professional data with an indication of the positions held in management and control bodies of other companies and of the grounds for their qualifying as independent in accordance with the criteria established by law and the Company. Any changes that occur up to the day the Shareholders' Meeting is held must be promptly notified to the Company.	Unchanged
9.6 - Each person entitled to vote may vote for only one slate.	Unchanged
9.7 - The Board of Directors shall be elected as specified below: a) four-fifths of the Directors to be elected shall be chosen from the slate that obtains the majority of the votes (the Majority Slate) in the order in which they are listed on the slate, rounding any fractions down to the nearest whole number. b) without prejudice to compliance with the applicable laws and regulations concerning the limits to the link with the Majority Slate, the remaining directors shall be taken from the other slates; to that end, the votes obtained by the various slates shall be divided successively by whole numbers from one up to the number of directors to be chosen. The quotients thus obtained shall be 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 shall be arranged in a single decreasing ranking. Those who have obtained the highest quotients shall be elected. If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected any director or that has elected the smallest number of directors shall be elected. If none of such slates has yet elected a director or all of them have elected the	9.7 - The Board of Directors shall be elected as specified below: a) from the slate which has obtained the majority of the votes (the so-called Majority Slate) ~~four fifths~~two thirds of the Directors to be elected shall be chosen, in the order in which they are listed on said slate, rounding any fractions down to the nearest whole number. At least one half of the Directors chosen from the Majority Slate (with fractions rounded up to the nearest whole number) must possess the independence requirements envisaged in art. 148 of Legislative Decree 58/1998 and/or the Corporate Governance Code for listed companies; if this is not the case, the last candidate chosen from the Majority Slate who does not fulfil such requirements shall be replaced by the first of those not elected from the same slate who possesses these requirements. In the absence of independent candidates on the Majority Slate in sufficient number to proceed with the replacement, the Shareholders' Meeting shall supplement the board with the majorities required by law, thus ensuring that the requirement is met; c) without prejudice to compliance with the applicable laws and regulations concerning the limits to the link with the

same number of directors, the candidate from the slate that obtained the largest number of votes shall be elected. If the different slates have received the same number of votes and their candidates have been assigned the same quotients, a new vote shall be held by the entire Shareholders' Meeting and the candidate obtaining the simple majority of the votes shall be elected. If the composition of the resulting board does not reflect gender balance, taking into account their ranking order on the slate, the necessary number of the last candidates of the more represented gender elected from the Majority Slate shall forfeit their post to ensure compliance with this requirement, and shall be replaced by the first candidates not elected from the same slate who are of the less represented gender. In the absence of candidates of the less represented gender on the Majority Slate in sufficient number to proceed with the replacement, the Shareholders' Meeting shall supplement the board with the majorities required by law, thus ensuring that the requirement is met.	Majority Slate, the remaining directors shall be taken from the other slates; to that end, the votes obtained by the various slates shall be divided successively by whole numbers from one up to the number of directors to be chosen. The quotients ~~thus~~ obtained shall be 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 shall be arranged in a single decreasing ranking. Those who have obtained the highest quotients shall be elected, provided that at least one half of the candidates chosen from each slate (with fractions rounded up to the nearest whole number) possesses the independence requirements envisaged in art. 148 of Legislative Decree 58/1998 and/or the Corporate Governance Code for listed companies, proceeding, if this is not the case, to replace the last candidate elected who does not fulfil such requirements with the first of those not elected from the same slate who possesses these requirements. In the absence of independent candidates on the Majority Slate in sufficient number to proceed with the replacement, the candidates with the next largest number of votes and fulfilling the independence requirements, according to the order as per the single ranking as set forth above, shall be elected. If this is not the case, the Shareholders' Meeting shall supplement the board with the majorities required by law, thus ensuring that the requirement is met. If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected any director or that has elected the smallest number of directors shall be elected. If none of such slates has yet elected a director or all of them have elected the same number of directors, the candidate from the slate that obtained the largest number of votes shall be elected. If the different slates have received the same number of votes and their candidates have been assigned the same quotients, a new vote shall be held by the entire Shareholders' Meeting and the candidate obtaining the simple majority of the votes shall be elected. If the composition of the resulting board does not reflect gender balance, taking into account their ranking order on the slate, the necessary number of the last candidates of the more represented gender elected from the Majority Slate shall forfeit their post to ensure compliance with this requirement, and shall be replaced by the first candidates not elected

	from the same slate who are of the less represented gender. In the absence of candidates of the less represented gender on the Majority Slate in sufficient number to proceed with the replacement, the Shareholders' Meeting shall supplement the board with the majorities required by law, thus ensuring that the requirement is met. The elected members of the more represented gender who possess the independence requirements specified by Article 148 of Legislative Decree no. 58/1998, and/or the Corporate Governance Code for listed companies, shall in all cases be replaced with nominees who similarly possess these requirements.
9.8 - In appointing directors who for any reason have not been appointed pursuant to the procedure specified above, the Shareholders' Meeting shall vote on the basis of the majorities required by law, ensuring that the requirements of the law and the Bylaws regarding the composition of the board are respected.	Unchanged
9.9 - If in the course of the financial year one or more vacancies occur on the Board, the procedure specified in Article 2386 of the Civil Code shall be followed, ensuring that the requirements of the law and the Bylaws regarding the composition of the board are respected.	Unchanged
9.10 - Should a majority of the seats on the Board of Directors become vacant for any cause or reason, the remaining directors shall be deemed to have resigned and they shall cease to hold office from the time the Board of Directors has been reconstituted by persons appointed by the Shareholders' Meeting.	Unchanged
9.11 - At the first renewal of the Board of Directors after the Shareholders' Meeting of 15 May 2012, the quota to be assigned to the less represented gender is limited to one fifth of the total, rounding any fractions up to the nearest whole number.	Removed

Article 11

Current text	Proposed text
11.1 - The Chairman or his/her substitute shall call meetings of the Board of Directors at the Company's registered office or elsewhere, on his/her own initiative and whenever he/she receives a written request to do so from at least one fifth of the directors holding office or from the members of the Board of Statutory Auditors. The Chairman shall give advance notice of the matters to be discussed in Board meetings and arrange for adequate information on the questions to be examined to be provided to all the Directors, taking account of the circumstances of each case.	11.1 - The Chairman or his/her substitute shall call meetings of the Board of Directors at the Company's registered office or elsewhere, on his/her own initiative and whenever he/she receives a written request to do so from at least two~~one fifth~~ of the directors holding office or from the members of the Board of Statutory Auditors. The Chairman shall give advance notice of the matters to be discussed in Board meetings and arrange for adequate information on the questions to be examined to be provided to all the Directors, taking account of the circumstances of each case.

Current text	Proposed text
11.2 - Meetings shall be called, using suitable means in relation to the notice to be given, normally at least five days prior to the date thereof, except in urgent cases, when at least twelve hours' notice must in any case be given.	Unchanged
11.3 - Notice shall be given to the Statutory Auditors within the same time limits.	Unchanged
11.4 - Participation in Board meetings may – if the Chairman or his/her substitute verifies the necessity – be by means of telecommunication techniques that permit participation in the discussion and informational equality for all those taking part.	Unchanged

Article 17

Current text	Proposed text
17.1 - The Board of Statutory Auditors shall consist of five standing auditors, including at least two from the less represented gender. The Shareholders' Meeting shall also appoint four alternate auditors, two of each gender.	Unchanged
17.2 - For the purposes of Article 1, subsection 2, letters b) and c) of the regulation referred to in Justice Minister Decree 162/2000, the following sectors of activity and matters shall be considered closely linked to those of the Company: telecommunications, information technology, online systems, electronics and multimedia technology, and matters related to private and administrative law, economics and business administration.	Unchanged
17.3 - The appointment of the Board of Statutory Auditors shall be in compliance with the applicable laws and regulations on the basis of slates presented by shareholders.	Unchanged
17.4 - Each shareholder may present or participate in the presentation of only one slate and each candidate may appear on only one slate on pain of ineligibility.	Unchanged
17.5 - Slates may be submitted only by shareholders who alone or together with other shareholders hold a total number of shares representing at least 0.5% (or such other amount established by Consob regulations for the appointment of the Board of Directors) of the voting share capital.	17.5 - Slates may be submitted only by shareholders who alone or together with other shareholders hold a total number of shares representing at least 0.5% (or such ~~other~~ lower amount established by Consob regulations for the appointment of the Board of Directors) of the voting share capital
17.6 - Together with each slate, it is necessary to file individual candidates' acceptance of their candidacy and declarations in which they attest, on their own responsibility, that there are no grounds for ineligibility or incompatibility, and that they meet the requirements, as well as any other information requested by applicable law or regulation or the bylaws.	Unchanged

Current text	Proposed text
17.7 - Together with the declarations, a curriculum vitae for each candidate shall be filed setting out their main personal and professional data with an indication of the positions held in management and control bodies of other companies. Any changes that occur up to the day the Shareholders' Meeting is held must be promptly notified to the Company.	Unchanged
17.8 - The slates shall be divided into two sections: one for candidates to the position of standing auditor and the other for candidates to the position of alternate auditor. Slates which in one or both sections contain three or more candidates must ensure the presence of both genders in said section, so that candidates of the less represented gender are at least one third of the total, rounding any fractions up to the next whole number. The first candidate in each section shall be selected from among the external auditors entered in the appropriate register who have worked on external audits for a period of not less than three years.	Unchanged
17.9 - Each person entitled to vote may vote for only one slate.	Unchanged
17.10 - The Board of Statutory Auditors shall be elected as specified below: a) from the slate that obtains the majority of the votes (the Majority Slate) three standing and two alternate auditors shall be chosen in the order in which they are listed on the slate; b) without prejudice to the applicable laws and regulations concerning the limits to link with the Majority Slate, two standing and two alternate auditors shall be chosen from the other slates (the Minority Slates). To this end, the votes obtained by the Minority Slates shall be divided by one and by two. The quotients thus obtained shall be assigned to the candidates of the one and the other section of each slate in the order specified thereon. On the basis of the quotients assigned, the candidates on the various slates shall be arranged respectively in a single decreasing ranking for the appointment of the standing auditors and a single decreasing ranking for the appointment of the alternate auditors and those who have obtained the two highest quotients shall be elected. If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected a statutory auditor shall be elected or, subordinately, there shall be a tiebreaker vote by the entire Shareholders' Meeting and the candidate who obtains the simple majority of the votes shall be elected. If the composition of the resulting board or	Unchanged

category of alternate auditors does not reflect the gender balance, taking into account their ranking order in the respective sections, the necessary number of the last candidates of the more represented gender elected from the Majority Slate shall forfeit their position to ensure compliance with this requirement, and shall be replaced by the first unelected candidates of the less represented gender on the same slate and the same section. In the absence of candidates of the less represented gender in the relevant section of the Majority Slate in sufficient number to proceed with the replacement, the Shareholders' Meeting shall appoint the standing or alternate auditors that are missing with the majorities required by law, ensuring that the requirement is met.	
17.11 - The Shareholders' Meeting shall appoint the Chairman of the Board of Statutory Auditors from among the standing auditors elected from Minority Slates.	Unchanged
17.12 - In appointing statutory auditors who for any reason have not been appointed pursuant to the procedure specified above, the Shareholders' Meeting shall vote on the basis of the majorities required by law, ensuring compliance with the requirements of the law and the Bylaws regarding the composition of the board and the category of alternate auditors.	Unchanged
17.13 - In the event of the termination of the appointment of statutory auditors chosen from the Majority Slate or from one of the Minority Slates, alternate auditors chosen respectively from the Majority Slate or the Minority Slates shall take their place in declining order of age, always in compliance with the requirements of the Bylaws regarding the composition of the board. Appointments to fill vacancies on the Board of Statutory Auditors pursuant to Article 2401 of the Italian Civil Code shall be approved by the Shareholders' Meeting with the affirmative vote of the absolute majority of those voting and in compliance with the principle of the necessary representation of the minority shareholders, and of the requirements of the Bylaws regarding gender balance. In the event of the termination of the appointment of a statutory auditor chosen from the Minority Slates the principle of the necessary representation of the minority shareholders shall be deemed to be complied with in the event of the appointment of an alternate auditor chosen from the Minority Slates.	Unchanged
17.14 - After notifying the Chairman of the Board of Directors, the Board of Statutory Auditors, may call, as provided for by law, a Shareholders' Meeting or a meeting of the Board of Directors or the Executive Committee. This power to call meetings may be exercised individually by each statutory auditor, except for the power to call a Shareholders' Meeting, which must be exercised by at least two statutory auditors.	Unchanged

Current text	Proposed text
17.15 - Participation in the meetings of the Board of Statutory Auditors may – if the Chairman verifies the necessity – be by means of telecommunication techniques that permit participation in the discussion and informational equality for all those taking part.	Unchanged
17.16 - If the Chairman is absent or unable to act, the other standing auditor elected from the Minority Slates shall take his/her place.	Unchanged
17.17 – At the first renewal of the Board of Statutory Auditors after the Shareholders' Meeting of 15 May 2012, the quota to be assigned to the less represented gender is limited to one fifth of the total rounding any fractions up to the nearest whole number".	Removed

2. to confer on the Board of Directors - and on behalf thereof on the legal representatives pro tempore of the company, jointly or severally, – all the powers necessary to complete all the necessary formalities for the adopted resolutions to be entered in the Business Register, accepting and introducing into said resolutions the amendments, additions or deletions of non-substantial parts that might be requested by the competent authorities, as well as all the powers necessary for legal and regulatory compliance deriving from the resolutions adopted".

MERGER BY INCORPORATION OF TELECOM ITALIA MEDIA S.p.A. INTO TELECOM ITALIA S.p.A. – RELATED AND CONSEQUENT RESOLUTIONS

Dear Shareholders,

This report (the "**Report**") has been prepared by the board of directors (the "**Board of Directors**") of Telecom Italia S.p.A. ("**Telecom Italia**" or the "**Surviving Company**") to explain and justify, in legal and economic terms and with specific reference to the criteria used to determine the exchange ratio, the plan for the merger (the "**Merger Plan**") by incorporation of Telecom Italia Media S.p.A. ("**Telecom Italia Media**" and, together with Telecom Italia, the "**Companies Participating in the Merger**") into Telecom Italia.

This Report has been prepared in accordance with Article 2501-quinquies of the Italian Civil Code and, as the ordinary and savings shares of the Companies Participating in the Merger are listed on the Electronic Share Market (the "**MTA**") organised and managed by Borsa Italiana S.p.A., also in accordance with Article 70, subsection 2 of the implementation regulation of Italian Legislative Decree no. 58 of 24 February 1998 (the "CLFI"), adopted by Consob resolution no. 11971 of May 14, 1999 (the "**Issuer Regulations**"), in compliance with Chart 1 of Annex 3A to the Issuer Regulations.

1. Description of the Companies Participating in the Merger

1.1. Telecom Italia S.p.A.

1.1.1. Company Information

Telecom Italia S.p.A. is an Italian joint stock company with registered office at Via Gaetano Negri n.1 in Milan; it is registered with Milan Business Register and has tax code and registration number 00488410010.

The share capital is equal to 10,723,391,861.60 euros, divided into 13,470,955,451 ordinary shares and 6,026,120,661 savings shares, all without par value.

1.1.2. Company purpose

Telecom Italia carries out the activities described herewith: a) the installation and operation, using any technique, method or system, of fixed and mobile equipment and installations, including radio stations, links for maritime wireless communications, and dedicated and/or integrated networks, for the purpose of providing, operating and marketing, without territorial restrictions, communications services, including those resulting from technological progress, and the performance of activities directly or indirectly related thereto, including the design, construction, operation, maintenance, integration and marketing of telecommunications, information technology and electronic products, services, networks and systems and, in general, ICT (Information Communication Technology) solutions for final users; b) the performance of related or instrumental activities, including publishing, advertising, information technology, on-line and multimedia activities and, in general, all commercial, financial, property, research, training and consulting activities; c) the acquisition, provided it is not Telecom Italia’s principal activity, of equity interests in other companies and undertakings falling within the scope of the corporate purpose or related, complementary or similar thereto; d) the control and the strategic, technical and administrative and financial coordination of subsidiary companies and undertakings, and the financial planning and management thereof, with the implementation of all related transactions.

Activities reserved to persons entered in a professional register and activities involving dealings with the public covered by Article 106 of Legislative Decree 385/1993 are expressly excluded.

1.2. Telecom Italia Media S.p.A.

1.2.1. Company Information

Telecom Italia Media S.p.A. is an Italian joint stock company with registered office at Via della Pineta Sacchetti 229 in Rome; it is registered with Rome Business Register and has tax code and registration number 12213600153.

The share capital is equal to 15,902,323.62 euros, divided into 103,308,421 ordinary shares and 5,496,951 savings shares, all without par value.

1.2.2. Company purpose

Telecom Italia Media's purpose is as follows: a) the exercise of publishing, typographic and graphic in general trade and industry, carried out in any form and on any means, including on-line; b) the collection and execution - also on behalf of third parties - of advertising, in any form and intended for any means of communication, including in exchange for goods or services; c) the management of activities - including promotional activities - in the field of advertising communication and public relations initiatives; d) the exercise, processing and sale, using all technological means and any transmission support, including on-line and over the internet, of all types of documentation services in any case concerning the multiple forms of the economic business, such as, merely by way of example, databases and support services for the trade of goods and services; e) the management of all activities connected with the processing and exercise of information of all types and in any form such may be carried out, including those concerning the exercise and marketing of communication services of all types and using any instruments and methods and, in general, all productive and commercial activities related, complementary or instrumental to the above-specified scope of operation.

Telecom Italia Media may also carry out all commercial, industrial, financial and real estate operations and investments considered useful to the achievement of the company purpose; to this end it may also directly or indirectly - in a non-prevalent manner - take on interests and investments in other companies or businesses, with the specific exclusion of any activities relating to the collection of public savings and all other activities not permitted by the law.

2. Description of the businesses of the Companies Participating in the Merger

2.1. Telecom Italia business

The Telecom Italia Group mainly operates in Europe, in the Mediterranean basin and in South America. It is involved in the ICT sector and in particular in national and international fixed and mobile telecommunications. Telecom Italia operates in Italy.

2.1.1. Summary of the most significant data of the business of the Surviving Company

Consolidated Operating and Financial Data (*)

(million euros)		Telecom Italia Group 2014	2013
Revenues		21,573	23,407
EBITDA	(1)	8,786	9,540
EBIT before goodwill impairment loss	(1)	4,530	4,905
goodwill impairment loss		–	(2,187)
EBIT	(1)	4,530	2,718
Profit (loss) before tax from continuing operations		2,347	532
Profit (loss) from continuing operations		1,419	(579)
Profit (loss) from Discontinued operations/Non-current assets held for sale		541	341
Profit (loss) for the year		1,960	(238)
Profit (loss) for the year attributable to owners of the Parent		1,350	(674)
Capital expenditures		4,984	4,400

Consolidated Financial Position Data (*)

(million euros)		12/31/2014	12/31/2013
Total Assets		71,551	70,220
Total Equity		21,699	20,186
- attributable to owners of the Parent		18,145	17,061
- attributable to non-controlling interests		3,554	3,125
Total Liabilities		49,852	50,034
Total Equity and Liabilities		71,551	70,220
Capital		10,634	10,604
Net financial debt carrying amount	(1)	28,021	27,942
Adjusted net financial debt	(1)	26,651	26,807
Adjusted net invested capital	(2)	48,350	46,993
Debt ratio (Adjusted net financial debt/Adjusted net invested capital)		55.1%	57.0%

Consolidated Profit Ratios (*)

		2014	2013
EBITDA / Revenues	(1)	40.7%	40.8%
EBIT / Revenues (ROS)	(1)	21.0%	11.6%
Adjusted net financial debt/EBITDA	(1)	3.0	2.8

(1) Details are provided under "Alternative Performance Measures").
(2) Adjusted net invested capital = Total equity + Adjusted net financial debt.
(*) Following stipulation of the agreements, in November 2013, for the sale of the controlling share held in the Sofora - Telecom Argentina, it has been classified as Discontinued operations - Assets held for sale.

(units)(3)	12/31/2014	12/31/2013
Headcount (excluding headcount relating to Discontinued operations/Non-current assets held for sale	66,025	65,623
Headcount relating to Discontinued operations/Non-current assets held for sale	16,420	16,575

(equivalent units)	2014	2013
Headcount (excluding headcount relating to Discontinued operations/Non-current assets held for sale	59,285	59,527
Headcount relating to Discontinued operations/Non-current assets held for sale	15,652	15,815

(3) Include employees with temp work contracts.

Alternative Performance Measures

The main financial performance indicators used by the Telecom Italia Group and the Telecom Italia Media Group include, in addition to the conventional financial performance indicators contemplated under IFRS, some alternative performance indicators in order to give a clearer picture of the trend of operations and the company's financial position. Such measures, which are also presented in other periodical financial reports (annual and interim), should, however, not be considered as a substitute for those required by IFRS.

The alternative performance measures used are described below:

- **EBITDA:** this indicator is used as a financial target in internal presentations (business plan) and in external presentations (to analysts and investors). It represents a useful unit of measurement for the evaluation of operating performance in addition to EBIT. These measures are calculated as follows:

Profit (loss) before tax from continuing operations	
+	Finance expenses
-	Finance income
+/-	Other expenses/(Income) from investments
+/-	Share of losses (profits) of associates and joint ventures accounted for using the equity method
EBIT - Operating profit (loss)	
+/-	Impairment reversals/(losses) of non-current assets
+/-	Losses (gains) on disposals of non-current assets
+	Depreciation & amortisation
EBITDA- Operating profit (loss) before depreciation and amortization, Capital gains (losses) and Impairment reversals (losses) on non-current assets	

- **Net Financial Debt:** Net Financial Debt represents an indicator of a company's ability to meet financial obligations. It is represented by Gross Financial Debt less Cash and Cash Equivalents and other Financial Assets.

In order to better represent the actual change in Net Financial Debt, in addition to the usual indicator (renamed "Net financial debt carrying amount") the "Adjusted net financial debt" is also shown, which excludes, where present, effects that are purely accounting in nature resulting from the fair value measurement of derivatives and related financial liabilities/assets.

Net financial debt is calculated as follows:

+	Non-current financial liabilities
+	Current financial liabilities
+	Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale
A)	**Total gross financial debt**
+	Non-current financial assets
+	Current financial assets
+	Financial assets relating to Discontinued operations/Non-current assets held for sale
B)	**Financial Assets**
C=(A - B)	**Net financial debt**
D)	**Reversal of fair value measurement of derivatives and related financial assets/liabilities**
E=(C + D)	**Adjusted net financial debt**

2.2. Telecom Italia Media business

Telecom Italia Media is involved, through its subsidiary Persidera S.p.A. (formerly Telecom Italia Media Broadcasting S.r.l.) ("**Persidera**"), in the operation of a digital television broadcasting network operation and the supply of accessory services and signal broadcasting platforms.

2.2.1. Summary of the most significant data of the business of Telecom Italia Media Group

Consolidated Operating and Financial Data (*)

(million euros)		Telecom Italia Media Group 2014	2013
Revenues		71	72
EBITDA	(1)	25	30
EBIT	(1)	6	2
Profit (loss) before tax from continuing operations		(3)	(4)
Profit (loss) from continuing operations		(3)	(4)
Profit (loss) from Discontinued operations/Non-current assets held for sale		-	(134)
Profit (loss) for the year		(3)	(138)
Profit (loss) for the year attributable to owners of the Parent		(5)	(132)
Capital expenditures		6	6

Consolidated Financial Position Data

(million euros)		12/31/2014	12/31/2013
Total Assets		322	258
Total Equity		(22)	(59)
- attributable to owners of the Parent		(66)	(59)
- attributable to non-controlling interests		44	-
Total Liabilities		344	317
Total Equity and Liabilities		322	258
Capital		248	201
Net financial debt	(1)	269	260

Consolidated Profit Ratios (*)

		2014	2013
EBITDA / Revenues	(1)	35.21%	41.67%
EBIT / Revenues (ROS)	(1)	8.45%	2.78%

(1) Details are provided above under (“Alternative Performance Measures”).

(*) As a consequence of the transfer of LA7 S.r.l., completed on 30 April 2013, and the transfer of MTV Italia S.r.l., completed on 12 September 2013, for FY 2013, their economic results have been classified in accordance with the provisions of IFRS 5, to "Profit (loss) from discontinued operations/assets held for sale".

(units)	12/31/2014	12/31/2013
Employees	89	84

(equivalent units)	2014	2013
Employees	87	84

3. Explanation of and reasons for the transaction, with specific regard to the operational objectives of the Companies Participating in the Merger and the programmes formulated to achieve them

3.1. Structure, terms and conditions of the transaction

3.1.1. Description of the transaction

A. The transaction to be submitted for your approval is the merger by incorporation of Telecom Italia Media into Telecom Italia (the "Merger" or the "Transaction"), pursuant to Article 2501 and subsequent articles of the Italian Civil Code. The Merger Plan was approved by the boards of directors of Telecom Italia Media and Telecom Italia on 19 March 2015.

   The Merger Plan was generated using the financial positions of the Companies Participating in the Merger as reported at 31 December 2014 and, specifically, of the respective draft financial statements relative to FY 2014, also valid in accordance with and pursuant to Art. 2501-quater of the Italian Civil Code. These draft financial statements are subject to the opinion of the company appointed to carry out the external audit of the accounts, PricewaterhouseCoopers S.p.A., and to the approval of the ordinary shareholders' meetings of Telecom Italia and Telecom Italia Media, also convened to an extraordinary session to approve the Merger Plan.

B. In accordance with Art. 2504-ter of the Italian Civil Code, the Merger will result in the cancellation without exchange of the investment held by Telecom Italia in Telecom Italia Media at the time the Merger takes effect. Shareholders of ordinary and savings shares of Telecom Italia Media, other than Telecom Italia, will be allocated newly issued ordinary and savings shares of Telecom Italia, respectively, in accordance with the exchange ratio. The transaction will take place by means of an increase in the share capital of Telecom Italia (as detailed in paragraph 3.1.2), with the issuance of new ordinary and savings shares.

C. During the exchange, shareholders with savings shares of Telecom Italia Media will be allocated savings shares of the Surviving Company.

   The Merger will not depend upon approval by the special meeting of savings shareholders of Telecom Italia Media insofar as the rights granted by the respective bylaws to this shareholder category are not adversely affected by the Transaction.

D. Upon completion of the Merger, the ordinary and savings shares of Telecom Italia will continue to be listed on the MTA (Electronic Share Market) and the New York Stock Exchange, in the form of ADRs (American Depositary Receipts), such ADRs representing ten ordinary shares and ten savings shares respectively.

E. Please note that no publication of the information document on the merger is envisaged in accordance with Art. 70, subsection 6 of the Issuer Regulations, as both Companies Participating in the Merger have exercised the opt-out faculty permitted by the last subsection of said Art. 70.

3.1.2. Amendments to the bylaws

By virtue of the Merger, Art. 5 of the bylaws of the Surviving Company in relation to share capital shall incorporate the changes necessary to permit the issuance of the new ordinary and savings shares pursuant to the exchange ratios, as described in paragraph 4 below.

The amount of the share capital increase of Telecom Italia to fulfill the exchange will be equal to a maximum par value of 10,612,042.10 euros:

(i) by means of the issuance of up to 16,735,479 new ordinary shares with no par value, in application of the exchange ratio and share allocation methods pursuant to paragraphs 4 and 5;

(i) by means of the issuance of up to 2,559,143 new savings shares with no par value, in application of the exchange ratio and share allocation methods pursuant to paragraphs 4 and 5;

The amount of the maximum share capital increase of Telecom Italia to fulfill the exchange is calculated without considering the ordinary shares and savings shares of Telecom Italia Media held by Telecom Italia as at the date of the Merger Plan; these shares will be cancelled without exchange during the Merger.

No further changes to the bylaws of the Surviving Company are envisaged as a result of the Merger. The bylaws of Telecom Italia are expected to undergo a series of additional amendments, if approved, at the Shareholders' Meeting of Telecom Italia convened to approve the Merger Plan. These amendments are not related to the Merger and will take effect as of their registrations in the Business Register, regardless of the effect of the Merger.

3.2. Rationale for the Transaction; operational objectives and programmes formulated to achieve them

The transaction has been approved on the following basis:

- rationalisation and simplification of the group structure;
- elimination of Telecom Italia Media’s listing costs, no longer justified by the company's business (mainly consisting of holding and management of the investment in Persidera) as well as by the lack of market demand for the shares, trading in which has been increasingly limited in quantity and value, including among institutional investors, and which have received poor coverage by analysts;
- resolution of the structural equity, financial and liquidity issues and net losses of Telecom Italia Media;
- the possibility of ensuring a more efficient form of management of medium/long-term opportunities and of the valuation process of Persidera;
- the possibility of guaranteeing the minority shareholders of Telecom Italia Media an exchange in securities of the same category (but with far greater volumes and value of trade, in part due to the significant concentration of institutional investors) or, alternatively, the right of withdrawal at market prices.

Rationalisation and simplification of structure and assets

The Merger enables a clear rationalisation and simplification of the group's assets, deriving first and foremost from the elimination of intra-group debt.

Other organisational and cost benefits are expected to result from the rationalisation of staff function duties.

Elimination of listing costs

The Merger enables an increase in operational efficiency through the elimination of listing costs on the MTA. These costs can no longer be justified by the business of Telecom Italia Media (consisting of the holding and management of the investment in Persidera) as well as by the poor liquidity of the shares.

Solution to the financial and liquidity issues and net losses

Telecom Italia Media currently suffers financial and liquidity issues and net losses as a result of which its business continuity can only be maintained with the financial support of Telecom Italia.

The Merger should solve these issues and ensure the full and prompt integration of Telecom Italia Media and Telecom Italia.

More efficient management of the Persidera valuation process

The Merger would not compromise the Persidera valuation process; rather, it would manage it more efficiently, including over the medium/long-term.

Exchange in securities of the same category with better trading characteristics

Lastly, the Merger will guarantee shareholders of Telecom Italia Media an exchange into more liquid securities represented by shares of the same category as those they already hold or access to liquidity through withdrawal rights.

4. Exchange Ratios and their underlying criteria

4.1. The exchange ratios

A. The boards of directors of the Companies Participating in the Merger have determined the exchange ratio should follow a weighted valuation of Telecom Italia and Telecom Italia Media taking into account the nature of the transaction and using valuation methods commonly used in Italy and internationally for similar transactions and adjusted to suit the characteristics of each of the Companies Participating in the Merger.

In preparing the valuation of the exchange ratio, the Board of Directors considered, in identifying the values to be assigned to Telecom Italia and Telecom Italia Media, the documentation prepared by its consultants. More specifically, the Board of Directors used the reports prepared by the financial advisors Citigroup Global Markets Ltd and Studio Tasca, each of which provided a fairness opinion, from a financial point of view, on the exchange ratio (each report, including the fairness opinion, is hereinafter referred to as an "Opinion" and jointly, the "Opinions"). The Opinions concluded that the exchange ratio proposed was financially fair.

B. After having examined the valuations of their respective advisors, the boards of directors of Telecom Italia and Telecom Italia Media approved—on a preliminary basis on February 19, 2015 and on a definitive basis on March 19, 2015—the exchange ratios of ordinary and savings shares of Telecom Italia Media and ordinary and savings shares of Telecom Italia by which shares of the Surviving Company will be allocated. The ratios were determined as follows:

   i. 0.66 ordinary shares in Telecom Italia, without par value and with the same dividend entitlement as the existing Telecom Italia ordinary shares as of the date on which the Merger takes effect, for every 1 (one) ordinary share in Telecom Italia Media; and

   ii. 0.47 savings shares in Telecom Italia, without par value and with the same dividend entitlement as the existing Telecom Italia savings shares as at the date on which the Merger takes effect, for every 1 (one) savings share in Telecom Italia Media.

No cash balance payments are envisaged.

C. On March 13, 2015, following the joint application filed by the companies involved in the Merger, the Court of Milan appointed Reconta Ernst & Young S.p.A. as common expert charged with drawing up the fairness report on the Exchange Ratio, in accordance with and pursuant to Article 2501-sexies of the Italian Civil Code.

4.2. Valuation methods used to determine the exchange ratio

Telecom Italia was assisted in the determination of the exchange ratio by Citigroup Global Markets Ltd and Studio Tasca as financial advisors with respect to the valuation of the economic capital of the Surviving Company and the economic capital of Telecom Italia Media. The value of the individual shares was derived from these valuations, distinguishing between ordinary and savings shares for both companies. For savings shares, the value was determined on the basis of the average market discount of savings shares versus ordinary shares in the last three months (20% for Telecom Italia and 41% for Telecom Italia Media) and in the last six months (20% for Telecom Italia and 42% for Telecom Italia Media).

The aim was to use homogeneous methods and assumptions to define comparable values, in relation to profitability, capital structure and financial trends of the Companies Participating in the Merger, on a standalone basis, in order to establish a fair exchange rate for each category of shares. The standalone valuations reflect the current position and future prospects of the two companies considered independently, regardless of the effects of the merger, as well as synergies that can potentially be achieved.

In order to identify the appropriate exchange ratios, the valuations employed a methodological principle that focused on accurately estimating the relative values of the companies, rather than on determinating their absolute economic values. Different standard valuation methodologies, including the valuation expressed by the market (i.e., using market multiples of comparable companies, target prices of analysts and discounted cash flows based on the plans of the two companies) were considered.

Considering the specific characteristics of Telecom Italia and Telecom Italia Media, their specific operations and the valuation practices of the reference market, as well as international standards, the main method used was the "Sum of the Parts" discounted cash flow ("DCF") method, as other methods were believed to be unable to express values that are adequately representative of TI Media, prejudicing the homogeneity and comparability of the values.

In view of the highly liquid nature of Telecom Italia's shares and the number and quality of the financial analysts covering it, in order to verify the consistency of the value ranges determined as described above, a finding was identified using market multiples of comparable companies, stock market prices and financial analysts' target prices. In the case of Telecom Italia Media, due to its limited float and the consequently low level of liquidity of its shares, together with the fact that its coverage by financial analysts was limited and not up-to-date and institutional investors had a limited presence in its share capital, the market prices of Telecom Italia Media's shares and financial analysts' target prices were not considered significant.

Moreover, it should also be noted that, as further explained below, the transaction results—in accordance with current legislation—in a right of withdrawal at market values for investors not interested in participating in the Merger.

Determination of the equity value by means of the DCF falls under the more extensive scope of cash flow-based valuations. The cash flow method considers the Enterprise Value ("EV") as the current value of a succession of future cash flows generated by the business given its terminal value ("TV").

The valuation is based on the following formula:

$$\mathrm{EV} = \sum_{i=1}^{n} \frac{\mathrm{FCFF_i}}{(1+\mathrm{WACC})^i} + \frac{\mathrm{TV}}{(1+\mathrm{WACC})^n}$$

where:

- "FCFF" = Annual unlevered operating free cash flow forecast for the period i
- "n" = number of forecast years
- "WACC" = Weighted Average Cost of Capital

The equity value is therefore determined by subtracting the debt and other non-operating adjustments from the EV at time t=0.

In applying the DCF method, the WACC of the individual Companies Participating in the Merger were determined on the basis of the cash flows of the business plans and the terminal values (determined on the basis of the normalised cash flows beyond the specific plan period) of both Companies Participating in the Merger.

$$\mathrm{WACC} = \mathrm{K_D}\,(1-\mathrm{t})\ \mathrm{x} \left(\frac{\mathrm{D}}{\mathrm{D}+\mathrm{E}}\right) + \mathrm{K_E}\ \mathrm{x} \left(\frac{\mathrm{E}}{\mathrm{D}+\mathrm{E}}\right)$$

where:

- "Kd" = Cost of Debt
- "Ke" = Cost of Equity
- "D" = Debt
- "E" = Equity
- "t" = Tax rate

Cost of Debt represents the cost of debt in the medium and long-term of a company with a similar risk level net of tax effects. Cost of Equity represents the return expected by the investor and considers the risk associated with the investment, calculated on the basis of the Capital Asset Pricing Model according to the following formula:

$$\mathrm{K_e} = \mathrm{rf} + \beta\,(\mathrm{rm} - \mathrm{rf})$$

where:

- "rf" = forecast rate of return on a risk-free investment
- "β"= coefficient that measures the correlation between the forecast return on the investment analysed and the return expected by the market
- "m" = average return expected from investments in equities on the market
- (rm - rf) = Equity Risk Premium ("ERP")

Depending on the case at hand, an additional risk premium ("Small Cap Risk Premium" or "SCRP") may apply which increases as the size of the company being valued decreases. When applied, this SCRP coefficient is added to the Cost of Equity, calculated on the basis of the above formula.

The sum of the parts, also defined as the "break up analysis", provides a range of values by adding the EVs of the individual company businesses, determined using the DCF method, to achieve the total EV. The Equity Value is therefore calculated by deducting net debt and other non-operating adjustments.

Below is a table summarising the main valuation data. The exchange ratios selected for the two share categories fall within the range derived from said valuation.

Telecom Italia

Values in euro per share	**Ordinary Shares**		**Savings Shares**	
	Minimum	Maximum	Minimum	Maximum
DCF	0.75	1.54	0.60	1.23
Control methods				
EV/EBITDA	1.12	1.41	0.89	1.13
Market prices over the last 12 months	0.77	1.14	0.61	0.91
Research analysts target price	0.60	1.20	0.50	0.96
Selected range (DCF)	0.75	1.54	0.60	1.23

Telecom Italia Media

Values in euro per share	**Ordinary Shares**		**Savings Shares**	
	Minimum	Maximum	Minimum	Maximum
Selected range (DCF)*	0.44	1.15	0.26	0.63

	Ordinary Shares		**Savings Shares**	
	Minimum	Maximum	Minimum	Maximum
Exchange ratio range**	0.59x	0.75x	0.43x	0.51x
Exchange ratio	0.66x		0.47x	

* For information on the control methods, reference is made to that specified in the text above.

** Ratio of the range selected for Telecom Italia Media and that selected for Telecom Italia.

5. Telecom Italia share allocation method and dividend entitlement date

A. The exchange of Telecom Italia Media shares with Telecom Italia shares deriving from the share capital increase will be carried out at no expense to the shareholders and with no commission payable through the authorised intermediaries in accordance with applicable laws and regulations. Non-dematerialised Telecom Italia Media shares can only be exchanged by delivering them to an intermediary authorised to release them to the centralised management system under the dematerialisation regime.
In order to facilitate management of the rounding-off procedure relating to fractional shares, an authorised intermediary will be appointed. Additional information on the methods for the assignment of shares and rounding-off procedures will be communicated in due time in a shareholder notice.

B. As mentioned above, it is confirmed that the ordinary and savings shares to be issued by Telecom Italia to fulfill the exchange will have the same dividend entitlement date as that of the existing ordinary and savings shares of Telecom Italia as of the time the Merger takes effect. Newly issued Telecom Italia shares, therefore, will not receive the dividend for which distribution will be proposed at the shareholders' meeting of the Surviving Company convened to approve the Merger Plan.

6. Date of application of the transactions of the Companies Participating in the Merger to the financial statements of Telecom Italia and for tax purposes

The effects of the Merger will be applied to the statutory financial statements, in accordance with Art. 2504-bis, subsection 2, of the Italian Civil Code, as from the date of the last of the registrations of the Deed of Merger, or as from a subsequent date as may be specified in said deed.

The transactions performed by Telecom Italia Media will be applied to the financial statements of the Surviving Company as from January 1 of the year in which the Merger takes effect. The fiscal effects will also be applied as from that same date.

7. Tax effects of the Merger on the Companies Participating in the Merger

In accordance with Art. 172 of the TUIR (Consolidated Law on Income Tax), the Merger is a tax-neutral transaction in terms of income tax; it does not, therefore, constitute the realisation or distribution of assets of Telecom Italia Media. In determining the income of the Surviving Company, no consideration will be given to any surplus or deficit stemming from the share exchange ratio and the cancellation of the shares held by the Surviving Company. For tax purposes, the assets of Telecom Italia Media registered on the financial statements of the Surviving Company are valued at the last value recognised for income tax purposes of Telecom Italia Media.

As there are no tax suspension reserves currently or prospectively allocated to the share capital of Telecom Italia Media, the specific provisions of Art. 172, subsection 5 of the TUIR do not apply.

For shareholders of Telecom Italia Media, the exchange of their shares for shares of the Surviving Company does not constitute any realisation or distribution of capital gains or losses and is not recognised as revenue.

8. Forecast for the significant shareholder composition and control structure of Telecom Italia following the Merger

8.1. Significant shareholdings and control structure of Telecom Italia

To date, the shareholders who, according to the records of the shareholders' register, supplemented by the communications of significant shareholdings in accordance with Article 120 of the CLFI and the information publicly available, have a number of ordinary shares of Telecom Italia representing more than 2% of the share capital, are specified in the table below:

Declarant or party at the top of the chain of holdings	Percentage of total ordinary shares
Telco S.p.A.	22.297 %
BlackRock Inc.	4.794%
People's Bank of China	2.072%

8.2. Significant shareholdings and control structure of Telecom Italia Media

To date, the shareholders who, according to the records of the shareholders' register, supplemented by the communications of significant shareholdings in accordance with Article 120 of the CLFI and the information publicly available, have a number of ordinary shares of Telecom Italia Media representing more than 2% of the share capital, are specified in the table below:

Declarant or party at the top of the chain of holdings	Direct shareholder	Percentage of total ordinary shares
Telecom Italia S.p.A.	Telecom Italia S.p.A.	75.455%
	Telecom Italia Finance SA	2.256%

Telecom Italia exercises direction and coordination, as well as legal control, over Telecom Italia Media.

8.3. Forecast for the significant shareholding composition and control structure of Telecom Italia following the Merger

Considering the proposed exchange ratio, the Merger will have only marginal effects on the ordinary share capital of Telecom Italia insofar as the maximum dilution for minority shareholders of Telecom Italia Media following the issue of new shares to fulfill the exchange is approximately 0.124% (or 0.114% net of own shares held directly and through subsidiaries). This maximum dilution effect assumes no shareholder of Telecom Italia Media exercises the right of withdrawal in accordance with Article 2437, subsection 1(a) and is calculated assuming that there are no changes to the current ownership structure of Telecom Italia and Telecom Italia Media. For your information, maximum dilution is approximately 0.042% of the current savings capital.

The table below shows the shares that will be held by the major ordinary shareholders of Telecom Italia following the Merger:

Declarant or party at the top of the chain of holdings	Percentage of total ordinary shares
Telco S.p.A.	22.269 %
BlackRock Inc.	4.788%
People's Bank of China	2.069%

9. Effects of the merger on significant shareholders' agreements in accordance with Article 122 CLFI

9.1. Shareholders' agreement containing forecasts relating to Telecom Italia

A. The agreement (the "Telco Agreement") stipulated by the shareholders of Telco S.p.A. ("Telco"), a major shareholder in Telecom Italia which as of December 31, 2014 held 22.297% of its ordinary share capital, qualifies as significant for Telecom Italia under Article 122 of the CLFI and the applicable provisions of the Issuer Regulations.
The Telco Agreement defines, among other things, the criteria for the composition of the slate of candidates for appointment to the Board of Directors submitted by Telco.

B. For the sake of completeness it should be noted that in 2014, the parties to the Telco Agreement launched a Telco break up process, which has not yet been completed to date, as a result of which four newly constituted beneficiary companies (each a "Newco") - each wholly controlled by one of the parties to the Telco Agreement - will be assigned a respective portion of the shares held by Telco in Telecom Italia as follows as of the date hereof: 14.72% to the Newco controlled by Telefónica S.A., 4.30% to the Newco controlled by the Generali Group and 1.64% to each of the Newcos controlled respectively by Intesa Sanpaolo S.p.A. and Mediobanca S.p.A. The breakup resolution was passed by the extraordinary shareholders' meeting of Telco on July 9, 2014.

On February 27, 2015, the term of the Telco Agreement was renewed until the earlier of June 30, 2015 and the date on which the Telco breakup takes effect. The breakup project requires authorisation from the Brazilian Conselho Administrativo de Defesa Economica (CADE), the Brazilian Agencia Nacional de Telecomunicacoes (Anatel), the Argentinian Comision Nacional de Defensa de la Competencia (CNDC) and the Italian Istituto per la Vigilanza sulle Assicurazioni (IVASS, previously ISVAP) before the operation can be finalised.

9.2. Shareholders' agreement concerning Telecom Italia Media

A. On April 9, 2014, as part of agreements (the "GELE Agreements") entered into by Telecom Italia Media and Gruppo Editoriale l'Espresso S.p.A. ("GELE") for the integration of their respective activities as network operators for terrestrial digital television, GELE made a specific standstill commitment with regards to Telecom Italia Media shares which may be considered as relevant in accordance with Art. 122, subsection 5(b) of the CLFI. GELE has undertaken not to, and to ensure that the parent companies controlled by or subject to joint control with GELE, shall not, purchase or hold, directly or indirectly, any Telecom Italia Media shares or any other financial, capital or debt instruments of Telecom Italia Media or any rights that enable GELE or its affiliated companies to directly or indirectly acquire, including at term, said shares or said financial instruments.

The agreement has a duration of three years starting from June 30, 2014.

9.3. Effects of the Merger on shareholders' agreements

The Merger has no effect on the Telco Agreement.

GELE's commitment under the GELE Agreements not to purchase Telecom Italia Media shares shall remain in force until the Merger comes into effect, at which point the additional commitments and rights assigned to or in favour of Telecom Italia Media in the GELE Agreements shall be transferred to the Surviving Company.

10. Assessment of the Board of Directors on the applicability of the right of withdrawal

A. The Merger shall not give rise to any right of withdrawal pursuant to Art. 2437 of the Italian Civil Code for ordinary and savings shareholders of Telecom Italia who did not vote in favour of the resolution approving the Merger. Nor does Article 2437-quinquies of the Italian Civil Code, which assigns the right of withdrawal to shareholders who did not vote in favour of the resolution resulting in the exclusion from listing, apply insofar as the ordinary and savings shares of Telecom Italia shall continue to be listed on the MTA.

B. Certain Telecom Italia Media shareholders shall have the right to withdraw in accordance with Art. 2437, subsection 1, letter a) of the Italian Civil Code (which concerns the "*amendment of the clause setting out the company purpose, when it enables a significant change to the company's business*"), since the adoption of the company bylaws of Telecom Italia will imply, for the shareholders of Telecom Italia Media, a significant change in the business of the company in which they will hold shares upon completion of the Merger.

Ownership of the shares for which the right of withdrawal can be exercised must be uninterrupted from the date of the extraordinary shareholders' meeting convened to approve the Merger until the date on which the right of withdrawal is exercised. Given that the event envisaged by Article 2437, subsection 1, letter a) of the Italian Civil Code shall only take place if the Merger is finalised, the effect of withdrawal is subject to the Merger taking effect.

Holders of ordinary shares of Telecom Italia Media who do not vote in favour of the Merger decision and holders of savings shares of Telecom Italia Media shall have a right to withdraw at an exit price of 1.055 euros per ordinary share and 0.6032 euros per savings share. In accordance with the Italian Civil Code, this value coincides with the arithmetic mean of the closing share price in the six months prior to publication (on 19 February 2015) of the notice convening the shareholders' meeting of Telecom Italia Media called to approve the Transaction.

The maximum theoretical cost of withdrawal, if all minority shareholders should exercise this right, amounts to approximately 30 million euros. This cost exceeds the value of the shares used for the exchange, but the difference is more than quantitatively compensated for by the value of the cost synergies management has identified as a result of the Merger. On the basis of these results, even if all those entitled to do so should withdraw, the economic benefit of the transaction for Telecom Italia is in any case confirmed, as reflected by the Opinions.

11. Indication of the parties entitled to exercise a right of withdrawal, the terms and conditions envisaged for the exercise of said right and payment of the related repayment

The terms and conditions for the exercise of the right of withdrawal due to the shareholders of Telecom Italia Media will be described in the documents prepared and published for this purpose by Telecom Italia Media.

In view of the above, the Board of Directors submits for your approval the following

Proposed Resolution

The Shareholders' Meeting of Telecom Italia S.p.A.,

– given the plan for merger by incorporation of Telecom Italia Media S.p.A. into Telecom Italia S.p.A.;
– having examined the Directors' Explanatory Report on the merger plan specified above;
– having acknowledged the financial position of the companies participating in the merger, represented by the draft financial statements for FY 2014;
– having acknowledged the fairness report on the exchange ratio prepared by Reconta Ernst & Young S.p.A., as expert appointed in accordance with Article 2501-sexies of the Italian Civil
– Code by the Court of Milan;
– having acknowledged the timely deposit of the documentation, in accordance with current provisions; and
– given the statement by the Board of Statutory Auditors that the current share capital has been fully paid in;

resolved

1. to approve the merger plan and consequently to proceed with the merger by incorporation of Telecom Italia Media S.p.A. into Telecom Italia S.p.A., in accordance with the terms and conditions set out therein. The exchange of the ordinary and savings shares in the company being incorporated, Telecom Italia Media S.p.A., will be achieved by issuing
   - 0.66 ordinary shares of the Surviving Company for each 1 ordinary share in Telecom Italia Media and
   - 0.47 savings shares of the Surviving Company for each 1 savings share in Telecom Italia Media,

   with the same dividend entitlement date as that of the existing Telecom Italia S.p.A ordinary and savings shares as of the date on which the Merger takes effect, all without par value, in application of the share allocation methods envisaged in the merger plan;
2. to increase, in tranches, the share capital of the incorporating company, Telecom Italia S.p.A., to fulfill the exchange by a maximum par value of 10,612,042.10 euros, by means of the issue of up to 16,735,479 new ordinary shares and up to 2,559,143 new savings shares, all without par value, allocating 0.55 euros per share to capital. Said maximum amount is calculated without considering the ordinary shares and savings shares of Telecom Italia Media S.p.A. held by Telecom Italia S.p.A. as at the date of the merger plan; these will be cancelled without exchange. It is specified that in order to facilitate management of the rounding-off procedure relating to fractional shares, a specific appointment will be made of an authorised intermediary.
3. to accordingly amend Art. 5 of the company Bylaws by introducing a new, last subsection as follows: *"The shareholders' meeting of 20 May 2015 resolved a divisible share capital increase by a maximum total of 10,612,042.10 euros by means of the issue of up to 16,735,479 new ordinary*

shares and up to 2,559,143 new savings shares, all without par value, allocating 0.55 euros per share to capital, with regular entitlement, to fulfill the merger by incorporation of Telecom Italia Media S.p.A.";

4. to confer upon the Board of Directors and, on behalf thereof, on the pro tempore legal representatives, severally and also by means of special proxies to be appointed to this end, all powers to make any non-substantive amendments, supplements or eliminations to and from the meeting resolutions as may be necessary at the request of any competent administrative authority or when registering it with the Business Register; and
5. to confer upon the Board of Directors and, on behalf thereof, on the pro tempore legal representatives, severally and also by means of special proxies to be appointed to this end, full powers, with no exclusions, to implement the merger in accordance with the terms and conditions laid down by the merger plan and this resolution and, therefore, without any limitation to:
   - stipulate and sign the public deed of merger and any deed of recognition, supplement and adjustment as may be necessary or appropriate, defining all relevant conditions, clauses, terms and methods in compliance with and fulfilment of the merger plan;
   - to supplement and amend, when stipulating the deed of merger, the numerical expressions given in Article 5 of the Bylaws of Telecom Italia S.p.A., in application of the criteria identified by the merger plan and in relation to the number of shares to be issued in accordance with the terms of the Merger;
   - generally to carry out all else as may be required, necessary, useful or appropriate to fully implement the above resolutions, including enabling the transfers, transcriptions, notes, amendments and adjustments of ownership in public registers and all other competent offices, as well as the presentation to the competent authorities of all applications, requests, communications or petitions for authorisation as may be required, necessary or appropriate for the purpose of the transaction.

SUPPLEMENTS TO THE BYLAWS REQUESTED BY TELEFÓNICA, THROUGH TELCO, PURSUANT TO THE RULING BY THE AGÊNCIA NACIONAL DE TELECOMUNICAÇÕES (ANATEL). RELATED AND CONSEQUENT RESOLUTIONS

Dear Shareholders,

This report has been drawn up by Telco S.p.A. ("Telco") pursuant to and for the purposes of article 126-legislative degree 58 of February 24, 1998 (the "bis, subsection 4, of CLFI") - to accompany the request for the amendment of the agenda for the annual shareholders' meeting of Telecom Italia S.p.A. ("Telecom Italia" or the "Company"), being called for May 20, 2015 after the resolution by the Board of Directors of Telecom Italia on March 19, 2015, with the addition of the following item, to be discussed and resolved on in the extraordinary part of the meeting:
“1. "Amendments of the Bylaws requested by Telefónica, through Telco, pursuant to the ruling issued by Agência Nacional de Telecomunicações (ANATEL). Related and consequent resolutions".

1. REASONS FOR THE REQUEST FOR AMENDMENT AND FOR THE ADOPTION OF THE PROPOSED RESOLUTIONS.

On March 20, 2015, after the ANATEL decision of December 22, 2014, subsequently amended on March 12, 2015, Telefónica S.A. (“Telefónica”): (i) gave binding undertakings to Telecom Italia in which it irrevocably renounced its administrative rights (direitos políticos) connected to its future shareholding in Telecom Italia and its subsidiaries and (ii) asked Telco to call a meeting of its Board of Directors in order to, in turn, request that Telecom Italia call an extraordinary meeting of the shareholders of Telecom Italia or to supplement the agenda for the meeting of the shareholders of the Company being called for May 20 next to resolve on the introduction into the by-laws of Telecom

Italia of certain changes to said Bylaws prescribed by the Agência Nacional de Telecomunicações "ANATEL" (the Brazilian regulatory authority) in its authorisation (the "Authorisation") of the partial non-proportional break-up of Telco (the "Break-up"), currently being implemented, approved by the Board of Directors and Extraordinary Meeting of the shareholders of Telco on June 26, 2014 and July 6, 2014 respectively (a note summarising the aforementioned Break-up process in annexed at "A").

The ANATEL ruling originates from the request made by the Telco shareholders to said Authority to authorise completion of the Break-up. In fact, the shareholders agreement between the Telco partners expires as an effect of the break-up, and Telefónica – which is a partner in Telco with a shareholding equivalent to 66% of the share capital, and a competitor of Telecom Italia in the Brazilian market - becomes owner of a direct shareholding in Telecom Italia equivalent to approximately 14.8% of its ordinary share capital.

On December 22, ANATEL issued its Authorisation of the Break-up, subject to certain conditions. In particular, in the Authorisation ruling, as amended on March 12, 2015, ANATEL has ordered Telefónica:

a) to suspend its exercise of any administrative rights (direitos políticos) that may be exercised by Telefónica in the shareholders' meetings of Telecom Italia and its subsidiaries (including Tim Celular and Intelig Telecomunicações Ltda.), with particular regard to:
    (i) the designation of members of the Board of Directors, Board of Statutory Auditors and any corporate body of such companies with equivalent powers;
    (ii) the exercising by Telefónica of its voting rights and veto rights in the shareholders' meetings of Telecom Italia and said companies or in any corporate body thereof with equivalent powers;
    (iii) its participation (in order to calculate quorums for the purpose of constituting such meetings and for resolutions) in shareholders' meetings or in any corporate body of Telecom Italia and said companies with equivalent powers;
b) to request that Telecom Italia submit the amendment of its company Bylaws to a meeting of its shareholders, so as to incorporate into said Bylaws the prescriptions set out in the Authorisation mentioned in paragraph (a) above, doing everything in its power, and also making provision for said restrictions to prevail over the other provisions of the Telecom Italia Bylaws, so that Telefónica is always precluded from participating, intervening or exercising a voting right or veto, or registering its presence (in order to calculate quorums for the purpose of constituting such meetings and for resolutions) in relation to any resolution adopted by Telecom Italia or a company directly or indirectly controlled by the latter, and;
c) that the restrictions mentioned in paragraphs (a) and (b) above shall remain valid for as long as Telefónica remains a shareholder of Telecom Italia, irrespective of the number of shares, or until the moment in which this control, object of the restriction identified in the ANATEL case ("Ato nº 454 22 January 2015), shall cease to have efficacy.

2. PROPOSED RESOLUTION

In light of the Authorisation ruling, given below is the text of the transitory clause that it is proposed be inserted at the end of the company Bylaws of Telecom Italia, with efficacy limited in time (i) for so long as Telefónica retains a shareholding in Telecom Italia or (ii) if earlier, until the moment in which the restrictions imposed by ANATEL should cease to have effect.

"Article 20-bis
Transitory clause
In conformity with the prescriptions made by Agência Nacional de Telecomunicações "ANATEL" in its ruling dated December 22, 2014, as subsequently amended on 12 March 2015, the exercise of all the administrative rights (direitos políticos) of Telefónica S.A. in Telecom Italia and in its subsidiaries (including Tim Celular S.A. and Intelig Telecomunicações Ltda.) shall be understood to be suspended, particularly with regard to:

(i) *the designation of members of the Board of Directors, Board of Statutory Auditors and Executive Committee or any corporate body of such companies with equivalent powers;*

(ii) *the exercising by Telefónica S.A. of its voting rights and veto rights in the shareholders' meetings of Telecom Italia and said companies or in any corporate body thereof with equivalent powers;*

(iii) *its participation (in order to calculate quorums for the purpose of constituting such meetings and for resolutions) in shareholders' meetings or in any corporate body of Telecom Italia and said companies with equivalent powers;*

The aforementioned restrictions shall prevail over the other provisions of the company Bylaws of Telecom Italia that are incompatible with them, in such a way that Telefónica S.A.is always precluded from participating, intervening or exercising a voting right or veto, or registering its presence (in order to calculate quorums for the purpose of constituting such meetings and for resolutions) in relation to any resolution adopted by Telecom Italia or said companies.

The content of this article 20-bis shall have efficacy for as long as Telefónica remains a shareholder of Telecom Italia, irrespective of the number of shares, or until the moment in which this control, object of the restriction identified in the ANATEL case ("Ato n° 454 January 22, 2015), shall cease to have efficacy."

It should be noted that the proposed amendment of the Bylaws does not attribute the right of withdrawal to those Shareholders who might not have participated in the approval thereof, since this does not include any of the withdrawal cases identified in article 2437 of the Italian Civil Code.

In the eventuality that, in the presence of the prescribed authorisations, the Telco Break-up has already taken place before the proposed amendments to the bylaws have been introduced, shareholder Telefónica has already stated, now and henceforth - as set out in the irrevocable undertaking sent to Telecom Italia on March 20, 2014 - that it fully accepts the aforementioned restrictions, and thus, also for said shareholder, no right of withdrawal is applicable.

Milan, March 26, 2015

Telco S.p.A.
The Chairman
Clemente Rebecchini

GLOSSARY

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 technology provide to transfer 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.

ADR (Agreement concerning the international carriage of Dangerous goods by Road). Rules governing the carriage of dangerous goods by road.

ADS (American Depositary shares)/ ADR (American Depositary Receipt). Used for the listing of Telecom Italia ordinary and savings shares on the NYSE (New York Stock Exchange). Ordinary ADS represent 10 ordinary shares of Telecom Italia. Savings ADS represent 10 savings shares of Telecom Italia.

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.

Backbone. Network portion 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 a transmission capacity to the network of another OLO.

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.

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).

Bundle. Commercial offer including different telecommunication services (voice, BroadBand Internet, IPTV, other) by an operator with only one commercial brand. Bundle Dual Play includes fixed telecommunication services and BroadBand internet; bundle Triple Play is the “bundle dual play” integrated by IPTV; bundle Quadruple Play is the “bundle triple play” integrated by mobile telecommunication services.

Carrier. Company that makes available the physical telecommunication network.

CDP (Carbon Disclosure Project). An international initiative that encourages companies to focus on deal with the risks and emerging opportunities of climate change.

CLG (Corporate Leaders Group) – EU CLG. The European Corporate Leaders Group, coordinated by Cambridge University.

CO2 – **Carbon dioxide**. Carbon dioxide, one of the most important greenhouse gases. Attributable to industrial processes as a product of combustion, in particular from the use of fossil fuels.

Cogeneration. Cogeneration is the joint production of usable electrical (or mechanical) and heat energy drawn from the same primary source. Cogeneration, using the same fuel for two different uses, aims at a more efficient use of primary energy, with respective financial savings, above all in those production processes where the electricity and thermal extraction take place contemporaneously.

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.

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

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

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

EEB (Energy Efficiency in Buildings). An international initiative promoted by WBCSD for research into the energy efficiency of buildings.

EFFC (Extraction Full Free Cooling). A system of cooling intended to reduce consumption without the use of greenhouse gases. EFFC is based on the principle of Free Cooling (forced ventilation without the use of air-conditioning), associated with a system for extracting the hot air produced by the equipment, and the further (adiabatic) cooling of the incoming air, achieved by using an area with a high concentration of vaporized water.

EMS (Environmental Management Systems). Environmental Management Systems contribute to the management, in a sustainable way, of the production and support processes, and are a stimulus to continuous improvement in environmental performance in that they are instruments for ensuring the effective management, prevention and continuous reduction of environmental impact in the field of working processes.

EPS (External Power Supplies).External power supplies for equipment.

EuP (Energy-using Products). Within the scope of the Directive for the eco-compatible design of products which consume energy (Eco-design Directive for Energy-using Products 2005/32/EC), the regulatory framework has been defined to which producers of energy-using products (EuP) must comply, from the design phase onwards, to increase energy efficiency and reduce the negative environmental impact of their products.

FFC – Full Free Cooling. A system of cooling based on the use of forced ventilation in order to reduce energy consumption.

FSC (Forest Stewardship Council). The Forest Stewardship Council is an international non-governmental, non-profit organization. FSC is an internationally recognized system of forestry certification. The purpose of the certification is to ensure proper forestry management and the traceability of derivative products. The FSC logo ensures that the product has been created with raw materials originating in properly managed forests according to the principles of the two main standards: forestry management and the chain of custody. The FSC certification scheme is third party and independent.

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. In the case of FTT Curb (Fiber to the Curb) the fiber arrives at the apparatus (distribution cabinet) located on the pavement, from where copper connections are run to the customer; in the case of FTTHome (Fiber to the Home), the fiber terminates inside the home of the customer.

GRI (Global Reporting Initiative).

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

HCFC (Hydrochlorofluorocarbons). Hydrochlorofluorocarbons: chemical molecules mainly used in cooling plants to replace chlorofluorocarbons, which have been banned by the Montreal protocol, thanks to their relatively limited ozone-depleting effect (approximately 10% of the ozone-depleting rating of CFC).

HFC (Hydrofluorocarbons). Hydrofluorocarbons: compound molecules used in cooling equipment. They are part of the family of greenhouse gases. They do not cause ozone depletion.

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.

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.

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.

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

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.

KVAR (kilovolt–amperes reactive). Reactive energy. measurement system, expressed in kilovolt, of power losses in an AC electrical system.

LCA (Life Cycle Analysis). analytic methodology for the evaluation and quantification of environmental impact associated to a product/process/activity along the whole life cycle, from the extraction and acquisition of raw materials up to the end of life.

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

Local Loop (Doppino Telefonico). 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 (e.g., gaming, video conferencing). A further development of LTE, called "LTE Advanced", will perform bitrates even higher.

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.

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

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 fiber optic or metallic cable or point to point radio connections.

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.

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

OHSAS (Occupational Health and Safety Assessment Series). The international standard that sets the prerequisites for management systems for the health and safety protection for workers.

OLOs (Other Licensed Operators). Companies other than the incumbent operator which operate telecommunications systems in a national market.

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 unlimited 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.

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.

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.

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).

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).

RoHS (Restriction of Hazardous Substances). European Directive n° 95 of 2002 regulating the use of hazardous substances in electrical and electronic equipment.

SAR (Specific Absorption Rate). Specific Absorption Rate. evaluates the "electromagnetic power absorbed by a tissue mass". SAR is measured in Watt/kg. As far as mobile phones, the law now enforces SAR as the reference parameter to define the basic limit. a person exposed to an electromagnetic field inducing a SAR level higher than established may undergo the relevant effects and health damage. To safeguard the population health and the health of people directly exposed, by virtue of their work, to electromagnetic waves, the European legislation has established SAR thresholds than should not be exceeded.

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 traveling directly along the operator's channels at the substation.

SMS (Short Message Service). Short text messages than 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.

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.

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

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

UPS (Uninterruptible Power Supply). Uninterruptible Power Supply.

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

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

VOD (Video On Demand). TV-program supply on user's request, with payment of a fee for each purchased program (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.

WEEE (Waste Electrical and Electronic Equipment). Waste resulting from electrical and electronic equipment which the owner intends to dispose of because it is broken, unused or obsolete.

Wi – Max (Worldwide Interoperability for Microwave Access). 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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