Interim Report at September 30, 2014

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Interim Management Report at September 30, 2014

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

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 TI Media Broadcasting S.r.l.)
  - 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

Highlights - First Nine Months of 2014

The first nine months of 2014 continued to be affected by recessionary pressures in the domestic market – where the signs of recovery are still very weak – and by the slowdown in the Latin American economies.
In this adverse economic environment, the market continued to experience a decline in traditional services, only partly offset by the growth in innovative services. In terms of competitive conditions, there are signs of the beginning of a cooling and improvement, particularly in the domestic Mobile segment, still accompanied, albeit with a slowdown, by a decrease in average revenues per customer from traditional services, not only in the Mobile, but also in the Fixed-Line market. To defend its customer base, Telecom Italia is continuing to position itself on the market with competitive deals, investing a portion of profits to clear the way for defense and net acquisition of customers, also using innovative convergent fixed-mobile deals supported by new technology (Fiber and LTE). Results also continued to be affected by the adverse impact of certain regulatory trends and factors.
In Brazil economic growth was modest and the average exchange rate depreciated by about 10% compared to the first nine months of 2013. In a scenario of greater competition pressure, the mobile customers market experienced a slowdown compared to the same period of the previous year. However this did not affect the growth of the Brazilian investee.
You are reminded that, with effect from the 2013 financial statements, the Sofora – Telecom Argentina group has been classified under Discontinued Operations.

Specifically, for the first nine months of 2014, the following is noted:

- Consolidated revenues amounted to 16 billion euros, down 9.1% on the first nine months of 2013 (-6.0% in organic terms), while EBITDA fell to 6.6 billion euros, down 7.7% (-6.4% in organic terms).
  The organic EBITDA Margin came to 41.2%, at 0.2 percentage points lower than in the first nine months of 2013.
- The Operating profit (EBIT) amounted to 3.4 billion euros; in the first nine months of 2013, following the goodwill impairment loss for Core Domestic of 2.2 billion euros, the EBIT was 1.5 billion euros.
- Profit for the period attributable to owners of the Parent totaled approximately 1 billion euros (versus a loss of 0.9 billion euros in the first nine months of 2013, due to the aforementioned goodwill impairment loss). Excluding the impact of the goodwill impairment loss, there would have been a profit for the first nine months of 2013 of 1.3 billion euros.
- Adjusted net financial debt at September 30, 2014 came to 26.6 billion euros, down 0.2 billion euros compared to the end of 2013 and 1.7 billion euros compared to September 30, 2013. For the third quarter of 2014 alone, the reduction amounted to 786 million euros.

Financial Highlights

(millions of euros)		3rd Quarter 2014	3rd Quarter 2013	9 months to 9/30/2014 (a)	9 months to 9/30/2013 (b)	% Change Reported (a/b)	Organic
Revenues		**5,421**	**5,676**	**15,972**	**17,564**	(9.1)	(6.0)
EBITDA	(1)	**2,243**	**2,439**	**6,588**	**7,140**	(7.7)	(6.4)
EBITDA Margin		*41.4%*	*43.0%*	*41.2%*	*40.7%*	*0.5pp*	
Organic EBITDA Margin		*41.4%*	*43.0%*	*41.2%*	*41.4%*	*(0.2)pp*	
EBIT before goodwill impairment loss		**1,168**	**1,356**	**3,393**	**3,670**	(7.5)	
Goodwill impairment loss		–	–	–	*(2,187)*		
EBIT	(1)	**1,168**	**1,356**	**3,393**	**1,483**	-	-
EBIT Margin		*21.5%*	*23.9%*	*21.2%*	*8.4%*	-	
Organic EBIT Margin		*21.5%*	*23.9%*	*21.2%*	*8.6%*	-	
Profit (loss) from Discontinued operations/Non-current assets held for sale		**126**	**85**	**386**	**255**	51.4	
Profit (loss) for the period attributable to owners of the Parent		**442**	**505**	**985**	**(902)**	-	
Capital expenditures (CAPEX)		**933**	**1,075**	**2,640**	**3,037**	(13.1)	
				9/30/2014	12/31/2013	Change Amount	
Adjusted net financial debt	(1)			**26,572**	**26,807**	**(235)**	

(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, unlike in the past, "non-organic" income/expenses are no longer considered.

You are reminded that, with effect from the consolidated financial statements at December 31, 2013, the Sofora – Telecom Argentina group has been classified as a discontinued operation. The periods under comparison have been reclassified accordingly.

Consolidated Operating Performance

Revenues

Revenues amounted to 15,972 million euros for the first nine months of 2014, down 9.1% on the first nine months of 2013 (17,564 million euros). The decrease of 1,592 million euros was mainly due to the Domestic Business Unit (-878 million euros) and the Brazil Business Unit (-663 million euros). The latter was particularly affected by weak exchange rates, which resulted in a depreciation of the Brazilian real against the euro of about 10% compared to the first nine months of 2013 (in terms of average rates).
In terms of organic change, consolidated revenues fell by 6.0% (-1,012 million euros), and were calculated as follows:

(millions of euros)	9 months to 9/30/2014	9 months to 9/30/2013	Change	
			amount	%
HISTORICAL REVENUES	**15,972**	**17,564**	**(1,592)**	**(9.1)**
Foreign currency financial statements translation effect		(536)	536	-
Changes in the scope of consolidation		(44)	44	-
COMPARABLE REVENUES	**15,972**	**16,984**	**(1,012)**	**(6.0)**

Exchange rate fluctuations[1] mainly related to the Brazil Business Unit (-531 million euros), while the change in the scope of consolidation was the result of the sales of La7 S.r.l. and the MTV group, both in the Media Business Unit, in April and September 2013. 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.

The breakdown of revenues by operating segment is the following:

(millions of euros)	9 months to 9/30/2014		9 months to 9/30/2013		Change		
		% of total		% of total	amount	%	% organic
Domestic (*)	11,336	71.0	12,214	69.5	(878)	(7.2)	(7.2)
Core Domestic	*10,551*	*66.1*	*11,403*	*64.9*	*(852)*	*(7.5)*	*(7.5)*
International Wholesale	*905*	*5.7*	*935*	*5.3*	*(30)*	*(3.2)*	*(2.6)*
Olivetti	*154*	*1.0*	*174*	*1.0*	*(20)*	*(11.5)*	*(12.0)*
Brazil	4,617	28.9	5,280	30.1	(663)	(12.6)	(2.8)
Media and Other Operations (*)	51	0.3	108	0.6	(57)		
Adjustments and eliminations	*(32)*	*(0.2)*	*(38)*	*(0.2)*	6		
Consolidated Total	**15,972**	**100.0**	**17,564**	**100.0**	**(1,592)**	**(9.1)**	**(6.0)**

(*) 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 of 878 million euros (-7.2%) for the first nine months of 2014, compared to the same period of 2013, representing a significant improvement in the third quarter compared to the previous quarters (third quarter 2014: -5.0%, second quarter: -8.2%, first quarter: -8.3%), despite the continuing adverse macroeconomic environment. This improvement in performance was mainly due to a cooling of competitive pressure – which resulted in the progressive stabilization of the customer base

(1) The average exchange rate used to translate the Brazilian real to euro (expressed in terms of units of local currency per 1 euro), were 3.10365 in the first nine months of 2014 and 2.79132 in the first nine months of 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.

and ARPU on traditional services, mainly on Mobile – and an acceleration in the growth of broadband and ultrabroadband services.

In detail:

- Revenues from services amounted to 10,715 million euros, down 8.0% compared to the first nine months of 2013. In particular, revenues from services in the Mobile business came to 3,426 million euros, down 457 million euros compared to the first nine months of 2013 (-11.8%). Revenues from Fixed-line services amounted to 8,017 million euros and were down 671 million euros compared to 2013 (-7.7%). Revenues from services in the third quarter of 2014 amounted 3,594 million euros, down 6.2% compared to the same period of the last year, but an improvement over the two previous quarters (-8.9% in the second quarter and -8.8% in the first quarter 2014);
- product sales and change in work in progress recorded revenues of 621 million euros, up on 2013 (+50 million euros), in both the Fixed-line and Mobile business, mainly concentrated in the last quarter (+38 million euros).

For the **Brazil Business Unit**, organic revenues for the first nine months of 2014 were down 2.8% year-on-year. Revenues from services fell by 1.9% compared to the first nine months of 2013, essentially due to lower revenues from incoming traffic as a result of the reduction in the price for mobile termination. Handset revenues also showed a decline (-7.5% compared to the same period of 2013) mainly attributable to a reduction in sales volumes.
The total number of lines for the Brazil Business Unit at September 30, 2014 was 74.8 million, up 1.9% 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 6,588 million euros (7,140 million euros in the first nine months of 2013), decreasing by 552 million euros compared to the corresponding period of 2013; the EBITDA margin was 41.2% (40.7% in the first nine months of 2013), an improvement of 0.5 percentage points.
Organic EBITDA was down 450 million euros (-6.4%) compared to the first nine months of 2013; the organic EBITDA margin was down 0.2 percentage points, from 41.4% for the first nine months of 2013 to 41.2% for the first nine months of 2014.
Organic EBITDA is calculated as follows:

(millions of euros)	9 months to 9/30/2014	9 months to 9/30/2013	Change amount	Change %
HISTORICAL EBITDA	**6,588**	**7,140**	**(552)**	**(7.7)**
Foreign currency financial statements translation effect		(135)	135	-
Changes in the scope of consolidation		33	(33)	-
COMPARABLE EBITDA	**6,588**	**7,038**	**(450)**	**(6.4)**

Exchange rate fluctuations mainly related to the Brazil Business Unit (-133 million euros), while the change in the scope of consolidation was the result of the sales of La7 S.r.l. and the MTV group, in addition to the acquisition of Rete A.

Details of EBITDA and EBITDA Margins by operating segment are as follows:

(millions of euros)	9 months to 9/30/2014	% of total	9 months to 9/30/2013	% of total	Change amount	Change %	Change % organic
Domestic (*)	5,296	80.4	5,831	81.7	(535)	(9.2)	(9.1)
EBITDA Margin	*46.7*		*47.7*			*(1.0)pp*	*(1.0)pp*
Brazil	1,281	19.4	1,326	18.6	(45)	(3.4)	7.4
EBITDA Margin	*27.7*		*25.1*			*2.6pp*	*2.6pp*
Media and Other Operations (*)	11	0.2	(16)	(0.3)	27		
Adjustments and eliminations	*–*	*–*	*(1)*	*–*	*1*		
Consolidated Total	**6,588**	**100.0**	**7,140**	**100.0**	**(552)**	**(7.7)**	**(6.4)**
EBITDA Margin	*41.2*		*40.7*			*0.5pp*	*(0.2)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 (6,887 million euros; 7,785 million euros in the first nine months of 2013).**
  The reduction of 898 million euros was mainly due to the Brazil Business Unit, for an amount of -632 million euros (including a negative exchange rate effect of 334 million euros), which also reflects the reduction in prices for interconnection services, with a decline in revenues due to other TLC operators. In contrast, the Domestic Business Unit reported a reduction of 207 million euros. The decrease in Acquisition of goods and services for the Domestic Business Unit 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 around 48 million euros of costs recognized in the income statement for the first nine months of 2014; in the first nine months of 2013 the capitalized costs for subsidizing handsets (amortized over the term of the contract with the customer, from 24 to 30 months) amounted to 138 million euros.

Further details are provided in the Note "Other intangible assets" of the Condensed Consolidated Financial Statements at September 30, 2014 of the Telecom Italia Group.

- **Employee benefits expenses (2,320 million euros; 2,334 million euros in the first nine months of 2013).**
  These decreased by 14 million euros. The change was influenced by:
  - a 30 million euros decrease in employee benefits expenses in Italy, primarily due to lower ordinary employee expenses and costs, which fell by 10 million euros, and lower expenses for mobility pursuant to Law 223/91, totaling 20 million euros.
    In detail, the reduction in ordinary employee expenses and costs was due to:
    - the exit from the scope of consolidation of the companies La7 and MTV, which resulted in a benefit of around 19 million euros;
    - the reduction in the average workforce by 1,357 employees compared to the first nine months of 2013, of which an average of -742 was a result of the application of the "Solidarity Contracts" by the Parent, Telecom Italia Information Technology, and by Olivetti S.p.A. (in 2013, the Parent and Telecom Italia Information Technology applied the solidarity contracts from the second quarter of 2013)
    - the impact of the increase in the contractual minimums established in the TLC National Collective Labor Agreement signed on February 1, 2013;
    - the notional costs relating to the Broad-Based Share Ownership Plan and the Stock Option Plan of 17 million euros.
  - the increase of 16 million euros for the component outside Italy of employee benefits expenses. The effects of the growth in the average workforce, which rose to 786 employees, and local salary variations, were partially offset by a negative exchange difference of around 27 million euros, essentially due to the Brazil Business Unit.

- **Other income (275 million euros; 165 million euros in the first nine months of 2013).**
  This increased by 110 million euros compared to the first nine months of 2013.
  The increase mainly includes the almost entire release of the risk provision, made in the 2009 consolidated financial statements for the alleged administrative offense pursuant to Legislative Decree 231/2001, linked to the so-called Telecom Italia Sparkle affair (71 million euros). Further details are provided in the Note "Contingent liabilities, other information" of the Condensed Consolidated Financial Statements at September 30, 2014 of the Telecom Italia Group.

- **Other operating expenses (855 million euros; 989 million euros in the first nine months of 2013).**
  These decreased by 134 million euros compared to the first nine months of 2013.
  The decrease mainly related to the Domestic Business Unit (-89 million euros) and the Brazil Business Unit (-38 million euros, including a negative exchange rate effect of 49 million euros).
  They included:
  - write-downs and expenses in connection with credit management (264 million euros; 292 million euros in the first nine months of 2013) consisting of 196 million euros for the Domestic Business Unit (218 million euros in the first nine months of 2013), and 68 million euros for the Brazil Business Unit (70 million euros for the first nine months of 2013);
  - provision charges (60 million euros; 73 million euros in the first nine months of 2013) consisting of 55 million euros for the Brazil Business Unit (61 million euros for the first nine months of 2013), and 4 million euros for the Domestic Business Unit (11 million euros in the first nine months of 2013);
  - TLC operating fees and charges (335 million euros; 372 million euros in the first nine months of 2013) consisting of 297 million euros for the Brazil Business Unit (326 million euros for the first nine months of 2013), and 37 million euros for the Domestic Business Unit (44 million euros in the first nine months of 2013);
  - sundry expenses of 36 million euros; in the first nine months of 2013 they amounted to 114 million euros and related mainly 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), on conclusion of the A428 proceedings.

Depreciation and amortization

Details are as follows:

(millions of euros)	9 months to 9/30/2014	9 months to 9/30/2013	Change
Amortization of intangible assets with a finite useful life	1,404	1,471	(67)
Depreciation of property, plant and equipment – owned and leased	1,825	1,924	(99)
Total	**3,229**	**3,395**	**(166)**

The decrease in depreciation and amortization of 166 million euros was mainly attributable to the Domestic Business Unit (-163 million euros), essentially due to a drop in depreciable and amortizable items.

Gains (losses) on disposals of non-current assets

In the first nine months of 2014 this item amounted to 35 million euros and mainly related to the realized gain, of about 38 million euros, from the sale by Telecom Italia S.p.A. of a property located in Milan. The sale price was 75 million euros.

In the first nine months of 2013 this item showed a loss of 75 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 26 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 the first nine months of 2014.

In preparing the Interim Management Report at September 30, 2014 the Group performed a goodwill impairment test. The results of that testing, carried out in accordance with the specific procedure adopted by the Group, did not require the impairment of the goodwill allocated to the Group's individual Cash Generating Units.

In the first nine months of 2013, this item amounted to 2,187 million euros and 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 Condensed Consolidated Financial Statements at September 30, 2014 of the Telecom Italia Group.

EBIT

EBIT for the first nine months of 2014 amounted to 3,393 million euros. In the first nine months of 2013, EBIT came to 1,483 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 1,934 million euros; excluding the above-mentioned goodwill impairment loss the organic change compared to the first nine months of 2013 would have been negative by 253 million euros.

Organic EBIT is calculated as follows:

(millions of euros)	9 months to 9/30/2014	9 months to 9/30/2013	Change	
			amount	%
HISTORICAL EBIT	**3,393**	**1,483**	**1,910**	**-**
Foreign currency financial statements translation effect		(62)	62	-
Changes in the scope of consolidation		38	(38)	-
COMPARABLE EBIT	**3,393**	**1,459**	**1,934**	**-**

Exchange rate fluctuations mainly related to the Brazil Business Unit (-61 million euros), while the change in the scope of consolidation was the result of the sales of La7 S.r.l. and the MTV group, in addition to the acquisition of Rete A.

Other income (expenses) from investments, net
This amounted to a positive 15 million euros, essentially referring 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 at a price of 17 million euros.

Finance income (expenses), net
Finance income (expenses) shows net expenses of 1,737 million euros (net expenses of 1,515 million euros in the first nine months of 2013), an increase of 222 million euros year-on-year.
This increase was linked to the net effect resulting, on the one hand, 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 trend 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 the first nine months of 2013 a benefit was also recognized, of around 43 million euros, following the first-time adoption of the new IFRS 13, whereas there was a negative impact of 29 million euros for the first nine months of 2014;
- 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 the first nine months of 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 199 million euros.

Income tax expense
This item totaled 637 million euros, down 199 million euros on the first nine months of 2013 (836 million euros), largely due to the smaller taxable base of the Parent Telecom Italia. The Brazil Business Unit recorded a decrease in taxes of 17 million euros compared to the first nine months of 2013. This

was due to the exchange rate effect of approximately 17 million euros. Excluding that effect, income tax expense would have been in line with the same period of 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

In the first nine months of 2014, the item Non-current assets held for sale amounted to 386 million euros (255 million euros in the first nine months of 2013) and essentially related to:

- the positive contribution of 390 million euros to the consolidation from the Sofora - Telecom Argentina group, classified under Discontinued Operations with effect from the 2013 Financial Statements;
- the costs related to the disposals carried out in previous years and other minor items totaling 4 million euros.

More details are provided in the section “Discontinued operations/Non-current assets held for sale” of this Interim Management Report and in the Note “Discontinued operations/Non-current assets held for sale” in the Condensed Consolidated Financial Statements at September 30, 2014 of the Telecom Italia Group.

Profit (loss) for the period

The details are as follows:

(millions of euros)	9 months to 9/30/2014	9 months to 9/30/2013
Profit (loss) for the period	**1,415**	**(611)**
Attributable to:		
Owners of the Parent:		
Profit (loss) from continuing operations	913	(954)
Profit (loss) from Discontinued operations/Non-current assets held for sale	72	52
Profit (loss) for the period attributable to owners of the Parent	**985**	**(902)**
Non-controlling interests:		
Profit (loss) from continuing operations	116	88
Profit (loss) from Discontinued operations/Non-current assets held for sale	314	203
Profit (loss) for the period attributable to non-controlling interests	**430**	**291**

Consolidated Operating Performance for the Third Quarter of 2014

(millions of euros)	3rd Quarter 2014	3rd Quarter 2013	Change amount	%	% organic
Revenues	**5,421**	**5,676**	**(255)**	**(4.5)**	**(4.9)**
EBITDA	**2,243**	**2,439**	**(196)**	**(8.0)**	**(8.5)**
EBITDA Margin	*41.4%*	*43.0%*	*(1.6)pp*		
Organic EBITDA Margin	*41.4%*	*43.0%*	*(1.6)pp*		
EBIT	**1,168**	**1,356**	**(188)**	**(13.9)**	**(14.4)**
EBIT margin	*21.5%*	*23.9%*	*(2.4)pp*		
Organic EBIT margin	*21.5%*	*23.9%*	*(2.4)pp*		
Profit (loss) before tax from continuing operations	**677**	**821**	**(144)**	**(17.5)**	
Profit (loss) from continuing operations	**457**	**528**	**(71)**	**(13.4)**	
Profit (loss) from Discontinued operations/Non-current assets held for sale	126	85	41		
Profit (loss) for the period	**583**	**613**	**(30)**	**(4.9)**	
Profit (loss) for the period attributable to owners of the Parent	**442**	**505**	**(63)**	**(12.5)**	

Revenues

Consolidated revenues for the third quarter of 2014 decreased by 255 million euros compared with the third quarter of 2013 (-4.5%). In organic terms, the decrease was 4.9%. This change was the result of the shrinkage in both the domestic area and the Brazil Business Unit, which generated decreases in organic terms of 5.0% and 4.5% respectively.

EBITDA

Consolidated EBITDA for the third quarter of 2014 was down 196 million euros (-8.0%) year-on-year. The EBITDA margin came to 41.4% (43.0% in the third quarter of 2013). In organic terms, the decrease was 8.5% with an organic EBITDA Margin of 41.4% (43.0% in the third quarter of 2013).

EBIT

Consolidated EBIT for the third quarter of 2014 came to 1,168 million euros, down 188 million euros compared with the third quarter of 2013 (-13.9%), with an EBIT margin of 21.5% (23.9% in the third quarter of 2013). The organic change in EBIT was -14.4%, with an organic EBIT margin of 21.5% (23.9% in the same period of 2013).

Profit (loss) for the period attributable to owners of the Parent

The profit for the third quarter of 2014 attributable to owners of the Parent was 442 million euros, down 63 million euros (-12.5%) compared with the third quarter of 2013.

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 different 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 corresponding periods of the previous year have been restated on a consistent basis.

Domestic

(millions of euros)	3rd Quarter 2014 (a)	3rd Quarter 2013 (b)	9 months to 9/30/2014 (c)	9 months to 9/30/2013 (d)	% Change (a/b)	(c/d)	Organic (c/d)
Revenues	3,805	4,007	11,336	12,214	(5.0)	(7.2)	(7.2)
EBITDA	1,795	2,031	5,296	5,831	(11.6)	(9.2)	(9.1)
EBITDA Margin	*47.2*	*50.7*	*46.7*	*47.7*	*(3.5)pp*	*(1.0)pp*	*(1.0)pp*
EBIT	982	1,172	2,845	1,000	(16.2)	-	-
EBIT Margin	*25.8*	*29.2*	*25.1*	*8.2*	*(3.4)pp*	*16.9pp*	*16.9pp*
Headcount at period-end (number)			53,249	(1) 53,377		(0.2)	

(1) Headcount at December 31, 2013.

Fixed

	9/30/2014	12/31/2013	9/30/2013
Physical accesses at the end of the period (thousands) (1)	19,823	20,378	20,536
of which Retail physical accesses at the end of the period (thousands)	*12,656*	*13,210*	*13,372*
Broadband accesses at period-end (thousands) (2)	8,743	8,740	8,732
of which Retail broadband accesses at the end of the period (thousands)	*6,932*	*6,915*	*6,892*
Network infrastructure in Italy:			
copper access network (millions of km – pair, distribution and connection)	115.2	114.9	114.8
access and carrier network in optical fiber (millions of km - fiber)	7.4	6.7	6.3
Total traffic:			
Minutes of traffic on fixed-line network (billions)	62.6	91.2	67.1
Domestic traffic	51.2	75.8	57.0
International traffic	11.4	15.4	10.1
DownStream and UpStream traffic volumes (PBytes)	2,258	2,533	1,842

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

Mobile [1]

	9/30/2014	12/31/2013	9/30/2013
Lines at period-end (thousands)	30,374	31,221	31,554
Change in lines (%)	(2.7)	(2.9)	(1.9)
Churn rate (%) [2]	18.3	30.4	23.1
Total average outgoing traffic per month (millions of minutes)	3,648	3,581	3,549
Total average outgoing and incoming traffic per month (millions of minutes)	5,386	5,084	5,003
Mobile browsing volumes (PBytes) [3]	95.6	98.1	72.3
Average monthly revenues per line (in euros) [4]	12.0	13.1	13.1

(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, at September 30, 2014 the activities were duly completed for the regularization (including deactivation) of an additional 98,000 SIM cards 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 inherent 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 and also public telephony;
  - **Business**: expanded as of the beginning of 2013 to include Top customers, the segment consists of voice, data, and Internet services and products, and ICT solutions managed and developed for small and medium-size enterprises (SMEs), Small Offices/Home Offices (SOHOs), Top customers, the Public Sector, Large Accounts, and Enterprises in the Fixed and Mobile telecommunications markets;
  - **National Wholesale**: consists of the management and development of the portfolio of regulated and unregulated wholesale services for Fixed and Mobile telecommunications operators in the domestic market;
  - **Other (Support Structures)**: includes:
    - **Technology & IT**: constitutes services related to the development, building and operation of network infrastructures, real estate properties and plant engineering, delivery processes and assurance regarding customer services in addition to the development and operation of information services;
    - **Staff & Other**: services carried out by Staff functions and other support activities performed by minor companies of the Group also offered to the market and other Business Units.
- **International Wholesale**: includes the activities of the Telecom Italia Sparkle group which operates in the international voice, data and Internet services market aimed at fixed and mobile telecommunications operators, ISPs/ASPs (Wholesale market) and multinational companies through its own networks in the European, Mediterranean and South American markets;
- **Olivetti:** operates in the sector of office products and services for Information Technology. It carries out Solution Provider activities to automate processes and business activities for small and medium-size enterprises, large corporations and vertical markets. Its reference market is focused mainly in Europe, Asia and South America.

Main financial data

Key results of the Domestic Business Unit for the third quarter and first nine months of 2014, overall and by customer segment/business area, compared with the corresponding periods of 2013, are shown in the following tables.

Core Domestic

(millions of euros)	3rd Quarter 2014 (a)	3rd Quarter 2013 (b)	9 months to 9/30/2014 (c)	9 months to 9/30/2013 (d)	% Change (a/b)	% Change (c/d)
Revenues	3,544	3,716	10,551	11,403	(4.6)	(7.5)
Consumer	*1,839*	*1,940*	*5,414*	*5,931*	*(5.2)*	*(8.7)*
Business	*1,184*	*1,258*	*3,589*	*3,885*	*(5.9)*	*(7.6)*
National Wholesale	*458*	*467*	*1,373*	*1,430*	*(1.9)*	*(4.0)*
Other	*63*	*51*	*175*	*157*	*23.5*	*11.5*
EBITDA	1,750	1,984	5,115	5,715	(11.8)	(10.5)
EBITDA Margin	*49.4*	*53.4*	*48.5*	*50.1*	*(4.0)pp*	*(1.6)pp*
EBIT	958	1,148	2,731	955	(16.6)	-
EBIT Margin	*27.0*	*30.9*	*25.9*	*8.4*	*(3.9)pp*	*17.5pp*
Headcount at period-end (number)			51,983	(1) 51,954		0.1

(1) Headcount at December 31, 2013.

International Wholesale

(millions of euros)	3rd Quarter 2014 (a)	3rd Quarter 2013 (b)	9 months to 9/30/2014 (c)	9 months to 9/30/2013 (d)	% Change (a/b)	% Change (c/d)	% Change Organic (c/d)
Revenues	304	339	905	935	(10.3)	(3.2)	(2.6)
of which third party	*237*	*260*	*706*	698	*(8.8)*	*1.1*	*2.0*
EBITDA	52	55	208	151	(5.5)	37.7	39.6
EBITDA Margin	*17.1*	*16.2*	*23.0*	*16.1*	*0.9pp*	*6.9pp*	*7.0pp*
EBIT	28	29	134	74	(3.4)	81.1	83.6
EBIT Margin	*9.2*	*8.6*	*14.8*	*7.9*	*0.6pp*	*6.9pp*	*6.9pp*
Headcount at period-end (number) (2)			647	(1) 741		(12.7)	

(1) Headcount at December 31, 2013.
(2) Includes employees with temp work contracts: 4 employees at September 30, 2014, (4 employees at December 31, 2013).

Olivetti

(millions of euros)	3rd Quarter 2014 (a)	3rd Quarter 2013 (b)	9 months to 9/30/2014 (c)	9 months to 9/30/2013 (d)	% Change (a/b)	% Change (c/d)	% Change Organic (c/d)
Revenues	48	50	154	174	(4.0)	(11.5)	(12.0)
EBITDA	(4)	(5)	(19)	(28)	20.0	32.1	32.1
EBITDA Margin	*(8.3)*	*(10.0)*	*(12.3)*	*(16.1)*	*1.7pp*	*3.8pp*	*3.7pp*
EBIT	(6)	(7)	(23)	(32)	14.3	28.1	28.1
EBIT Margin	*(12.5)*	*(14.0)*	*(14.9)*	*(18.4)*	*1.5pp*	*3.5pp*	*3.4pp*
Headcount at period-end (number) (2)			619	(1) 682		(9.2)	

(1) Headcount at December 31, 2013.
(2) Includes employees with temp work contracts: 4 employees at September 30, 2014, (zero at December 31, 2013).

Revenues

In an economic scenario which continues to show structural weakness, the change for the first nine months of 2014, compared to the same period of 2013, was a decrease of 7.2% (-878 million euros), with a decrease in the third quarter of -5.0%, representing a significant improvement over the previous periods (second quarter 2014: -8.2%, first quarter 2014: -8.3%), as well as the full year 2013 (-9.5%).
This recovery in revenues was primarily due to the progressive stabilization of the customer base and the ARPU on traditional voice services - mainly Mobile - and growth in Fixed-line Broadband, ICT and Mobile Internet revenues.

In detail:

Core Domestic Revenues

- **Consumer:** revenues for the Consumer segment for the first nine months of 2014 amounted to a total of 5,414 million euros, decreasing 517 million euros compared to the same period of 2013 (-8.7%). Although it was still negative, the performance continues the trend of recovery over the initial months of the year, with a deterioration of -5.2% in the third quarter of 2014 compared to the same period in 2013, but an improvement over the previous quarters (-9.2% in the second quarter compared to the same period of the previous year and -11.7% in the first quarter). This recovery can be seen in particular in revenues from Mobile services (-335 million euros or -12.4% in the first nine months of 2014; -6.6% in the third quarter of 2014, compared to -13.7% in the second quarter and -16.9% in the first quarter). This result was driven by the improvement in competitive performance with the progressive stabilization of the customer base and ARPU on voice services and the continued growth of mobile Internet. The Fixed-line segment also showed signs of recovery compared to the deterioration seen in the first half of the year: the service revenues of the first nine months of 2014 showed a reduction of 204 million euros, corresponding to -6.7%, with a performance in the third quarter of -6.1% (compared to -7.9% in the second quarter and -6.2% in the first quarter), owing to a stable market share and the positive trend in ARPU, supported by the increased weight of customers with flat contracts and with service upgrades (Superinternet and Fiber), and an increase in revenues from Broadband/Internet services;
- **Business:** revenues for the Business segment amounted to 3,589 million euros, decreasing 296 million euros compared to the first nine months of 2013 (-7.6%). The third quarter, despite posting a negative performance compared to the same period of 2013, showed signs of improvement over the previous periods, having posted a deterioration of -5.8% in the third quarter of 2014 compared to the same period of 2013, against -9.1% in the second quarter and -7.8% in the first quarter. The decline was entirely due to revenues from services (-347 million euros for the first nine months of 2014, compared to the first nine months of 2013), of which -132 million euros in the Mobile segment (-12.7%) and -221 million euros (-8.2%) in the Fixed-line segment. Specifically, in the Mobile business, despite the effective defensive actions and growth of the customer base (which increased by 3.3%), revenue from traditional voice and messaging services declined (-147 million euros for the first nine months 2014, compared to the same period of 2013), due to the repositioning of customers towards deals that have lower overall ARPU. The Fixed-line segment continued to feel the effects of the economic recession and the contraction in prices on the traditional voice and data services, though there were signs of recovery in the last quarter thanks to the steady growth in ICT services (+6.0% in the third quarter of 2014, of which +17.5% for Cloud services);
- **National Wholesale:** revenues for the Wholesale segment in the first nine months of 2014 came to 1,373 million euros, a fall of 57 million euros (-4.0%) compared to the corresponding period of 2013. The decline was mainly attributable to the reduction in fixed-line and mobile termination rates, the start of the migration to IP infrastructure solutions, and the drop in prices for national roaming.

International Wholesale Revenues

International Wholesale revenues for the first nine months of 2014 totaled 905 million euros, down year-on-year (-30 million euros, -3.2%). Revenues were down both for Voice services (-15 million euros, -2.2%) and for IP/Data services (-11 million euros, -5.4%), as a result of the growth in competition with a reduction in prices. The Multinational Companies business segment also showed a slight decrease (-2 million euros, -5.3%), whereas revenues for Mobile services were up slightly (+3 million euros, +16.8%).

Olivetti Revenues

Revenues for the Olivetti group for the first nine months of 2014 amounted to a total of 154 million euros, decreasing 20 million euros compared to the same period of 2013 (-11.5%).
The reduction in revenues reflected various factors, including mainly the slowdown in sales abroad (-13 million euros, of which 5 million euros in South America, 4 million euros in Europe, and almost 4 million euros in the Far East, Middle East and Africa) and the price competition for bank printers in the Chinese market. In the Italian market, the decline in revenues was lower (-6 million euros) and primarily concentrated in the small and medium-sized enterprises segment, still affected by the continued adverse economic environment.

EBITDA

EBITDA of the Domestic Business Unit was 5,296 million euros for the first nine months of 2014, down 535 million euros compared to the same period of 2013 (-9.2%, of which -2.2 percentage points attributable to the change in the classification of costs for subsidies to customers for the purchase of handsets), with an EBITDA margin of 46.7%, a slight deterioration compared to the corresponding period of 2013 (-1.0 percentage points). The result mainly reflects the contraction in revenues from services (-928 million euros compared to the first nine months of 2013), only partly offset by the efficiency improvements achieved through the selective control and containment of operating expenses.
EBITDA for the third quarter of 2014 was 1,795 million euros, down 236 million euros compared with the corresponding period of 2013 (-11.6%).

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

(millions of euros)	9 months to 9/30/ 2014	9 months to 9/30/ 2013	Change
Acquisition of goods and services	4,196	4,402	(206)
Employee benefits expenses	2,034	2,045	(11)
Other operating expenses	400	489	(89)

- **acquisition of goods and services** decreased by 206 million euros (-4.7%) compared to the first nine months of 2013, mainly due to the reduction in commercial costs and revenues due to other TLC operators, which more than offset the higher costs resulting from Telecom Italia's new market strategy aimed at gradually ceasing to subsidize handsets in the "bundle deals". The new commercial strategy had an impact of around 48 million euros of costs recognized in the income statement for the first nine months of 2014; in the first nine months of 2013 the capitalized costs for subsidizing handsets (amortized over the term of the contract with the customer, from 24 to 30 months) amounted to 138 million euros;
- **employee benefits expenses** fell by 11 million euros compared to the first nine months of 2013. The drop was mainly due to lower expenses for mobility, due to the elimination of the provision made in 2013 in relation to the framework agreement reached by the Parent Telecom Italia with trade unions on March 27, 2013. This reduction was partly offset by the increase in ordinary employee expenses, due to the notional costs relating to the Broad-Based Share Ownership Plan and the Stock Option Plan of 17 million euros and the increase in the contractual minimums established in the TLC

National Collective Labor Agreement signed on February 1, 2013. These items more than offset the effect of the decrease in the average workforce by 1,099 employees compared to the first nine months of 2013 (of which an average of -742 employees as a result of the application of the "Solidarity Contracts" by the Parent, Telecom Italia Information Technology and Olivetti S.p.A.; in 2013 the Parent and Telecom Italia Information Technology had applied the solidarity contracts from the second quarter of 2013);

- **other operating expenses** decreased by 89 million euros compared to the first nine months of 2013. In the first nine months of 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) on conclusion of the A428 proceedings.

Details of other operating expenses are shown in the table below:

(millions of euros)	9 months to 9/30/ 2014	9 months to 9/30/ 2013	Change
Write-downs and expenses in connection with credit management	196	218	(22)
Provision charges	4	11	(7)
TLC operating fees and charges	37	44	(7)
Indirect duties and taxes	74	80	(6)
Sundry expenses	89	136	(47)
Total	**400**	**489**	**(89)**

Other income amounted to 263 million euros for the first nine months of 2014 (146 million euros for the same period of 2013), an increase of 117 million euros, mainly as a result of the almost entire release of the risk provision, made in the 2009 consolidated financial statements for the alleged administrative offense pursuant to Legislative Decree 231/2001, linked to the so-called Telecom Italia Sparkle affair (71 million euros).

EBIT

EBIT for the first nine months of 2014 was positive at 2,845 million euros (1,000 million euros for the same period of 2013). The EBIT margin came to 25.1% (8.2% in the first nine months of 2013). This performance was driven – in addition to the absence of 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 163 million euros and by the above-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.
Organic EBIT for the first nine months of 2014 – which is calculated net of the effect of the change in exchange rates of -1 million euros, relating to International Wholesale – was up 1,846 million euros compared to the same period of 2013. Excluding the above-mentioned goodwill impairment loss from the organic EBIT for the first nine months of 2013, the reduction in organic EBIT would have been 341 million euros (-10.7%). EBIT for the third quarter of 2014 was 982 million euros, down 190 million euros compared with the corresponding period of 2013 (-16.2%).

Brazil

	(millions of euros)				(millions of Brazilian reais)				% Change	
	3rd Quarter 2014	3rd Quarter 2013	9 months to 9/30/2014	9 months to 9/30/2013	3rd Quarter 2014 (a)	3rd Quarter 2013 (b)	9 months to 9/30/2014 (c)	9 months to 9/30/2013 (d)	(a/b)	(c/d)
Revenues	1,608	1,660	4,617	5,280	4,853	5,083	14,330	14,738	(4.5)	(2.8)
EBITDA	441	407	1,281	1,326	1,330	1,249	3,975	3,701	6.5	7.4
EBITDA Margin	*27.4*	*24.6*	*27.7*	*25.1*	*27.4*	*24.6*	*27.7*	*25.1*	*2.8pp*	*2.6pp*
EBIT	188	183	557	603	568	561	1,729	1,682	1.2	2.8
EBIT Margin	*11.7*	*11.0*	*12.1*	*11.4*	*11.7*	*11.0*	*12.1*	*11.4*	*0.7pp*	*0.7pp*
Headcount at period-end (number)							12,507	(1) 12,140		3.0

(1) Headcount at December 31, 2013.

	9/30/ 2014	9/30/ 2013
Number of lines at the end of the period (thousands) (*)	74,848	(**) 73,417
MOU (minutes/month) (***)	137.7	147.4
ARPU (reais)	17.6	18.4

(*) Estimate; excluding corporate lines.
(**) Number at December 31, 2013.
(***) Net of visitors.

Revenues

Revenues for the first nine months of 2014 amounted to 14,330 million reais and were down 2.8% on the same period of 2013 (-408 million reais). Service revenues totaled 12,129 million reais, a decrease of 230 million reais compared to 12,359 million reais for the same period of 2013 (-1.9%). Revenues from product sales fell from 2,379 million reais for the first nine months of 2013 to 2,201 million reais for the first nine months of 2014 (-7.5%); this decrease was attributable to a reduction in sales volumes only partially offset by an increase in prices.

Mobile Average Revenue Per User (ARPU) was 17.6 reais for the first nine months of 2014 compared with 18.4 reais in the same period of 2013 (-4.3%). 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 September 30, 2014 was estimated at 74,848 thousand, 1.9% higher than on December 31, 2013, representing about 26.9% market share in terms of lines.

Revenues for the third quarter of 2014 amounted to 4,853 million reais, down 230 million reais on the same period of the prior year (-4.5%). Services decreased by 162 million reais (-3.9%) compared with the third quarter of 2013, and growth in revenues from the sale of handsets amounted to 68 million reais (-7.8%) compared with the third quarter of 2013.

EBITDA

EBITDA for the first nine months of 2014 amounted to 3,975 million reais, an improvement of 274 million reais (+7.4%) year-on-year. The increase in EBITDA was essentially driven by lower costs for the acquisition of goods and services, partially offset by higher employee benefits expenses and other

operating expenses. The EBITDA margin stood at 27.7%, 2.6 percentage points higher than in the first nine months of 2013.
EBITDA in the third quarter of 2014 came to 1,330 million reais, up 81 million reais compared to the same period of 2013 (+6.5%).

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

	(millions of euros)		(millions of Brazilian reais)		
	9 months to 9/30/ 2014 (a)	9 months to 9/30/ 2013 (b)	9 months to 9/30/ 2014 (c)	9 months to 9/30/ 2013 (d)	Change (c-d)
Acquisition of goods and services	2,688	3,321	8,344	9,269	(925)
Employee benefits expenses	279	263	866	734	132
Other operating expenses	452	490	1,403	1,367	36
Change in inventories	(3)	(46)	(10)	(127)	117

- **acquisition of goods and services** totaled 8,344 million reais (9,269 million reais in the first nine months of 2013). The 10% decrease year-on-year (-925 million reais) was broken down as follows:
  - 888 million reais for the revenues due to other TLC operators;
  - 264 million reais for purchases referring primarily to product cost;
  +10 million reais for rent and lease costs;
  +217 million reais for external service costs.
- **employee benefits expenses**, amounting to 866 million reais, were up 132 million reais compared to the first nine months of 2013 (+18.0%). The average workforce grew from 10,561 employees for the first nine months of 2013 to 11,357 employees for the first nine months of 2014. The ratio of employee benefits expenses to total revenues rose to 6.0%, up 1.1 percentage points on the first nine months of 2013;
- **other operating expenses** amounted to 1,403 million reais, an increase of 2.6% (1,367 million reais in the first nine months of 2013). The expenses was broken down as follows:

(millions of Brazilian reais)	9 months to 9/30/ 2014	9 months to 9/30/ 2013	Change
Write-downs and expenses in connection with credit management	211	196	15
Provision charges	170	170	-
TLC operating fees and charges	923	910	13
Indirect duties and taxes	37	44	(7)
Sundry expenses	62	47	15
Total	**1,403**	**1,367**	**36**

EBIT

EBIT was 1,729 million reais, up 47 million reais compared to the first nine months of 2013. This increase was due to higher EBITDA, partially offset by higher depreciation and amortization charges of 230 million reais (2,247 million reais in the first nine months 2014, compared to 2,017 million reais in the same period of 2013).
EBIT for the third quarter of 2014 was 568 million reais, up 7 million reais compared with the corresponding period of 2013 (+1.2%).

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 merger 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 contribution of 100% of Rete A shares to Persidera, as a subscription to a capital increase reserved to it. Following the contribution, TI Media and Gruppo Editoriale L'Espresso hold 70% and 30%, respectively, of shares in Persidera, which in turn controls 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 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. This transaction will also generate significant industrial synergies.
The agreement signed with Gruppo Editoriale L'Espresso also provides for a process of value leverage for the combined entity, also through a search for interested investors.
In view of these possible developments and also considering the uncertainty surrounding regulatory changes regarding the use of frequencies, TI Media has also retained a purchase option on user licenses (thus excluding infrastructure and customers) for one of the five frequencies that are owned by the combined entity.
On September 12, 2014, the resolutions of the shareholders' meetings of Persidera and Rete A (held on September 11, 2014) relating to the merger of Rete A into Persidera were entered in the Companies Register; the merger plan had been registered on August 4, 2014.

As a result of the acquisition, Rete A is now part of the scope of consolidation of the Media Business Unit and has been fully consolidated on a line-by-line basis with effect from June 30, 2014.

(millions of euros)	3rd Quarter 2014 (a)	3rd Quarter 2013 (b)	9 months to 9/30/2014 (c)	9 months to 9/30/2013 (d)	% Change (a/b)	% Change (c/d)
Revenues	20	20	51	108	-	(52.8)
EBITDA	8	5	19	(6)	60	
EBITDA Margin	*40.0*	*25.0*	*37.3*	*(5.6)*		
EBIT[(1)]	-	5	(2)	(129)		98.4
EBIT Margin	-	*25.0*	*(3.9)*			
Headcount at period-end (number) [(2)]			96	(*) 84		14.3

(1) EBIT of the Media Business Unit for the first nine months of 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 September 30, 2014, zero at December 31, 2013), as well as personnel of Rete A, a company acquired at the end of June 2014 (12 employees).
(*) Headcount at December 31, 2013.

At September 30, 2014, the three digital multiplexes of Persidera and the two multiplexes of Rete A reached 95.2% and 91.9% of the Italian population, respectively.

You are reminded that La7 S.r.l. and the MTV group were sold in April and September 2013, respectively. Accordingly, the table below shows figures for the first nine months and the third quarter of 2014 compared to those for the same periods of 2013 restated to exclude the results of both companies.

(millions of euros)	3rd Quarter 2014 (a)	3rd Quarter 2013 (b)	9 months to 9/30/2014 (c)	9 months to 9/30/2013 (d)	% Change (a/b)	% Change (c/d)
Revenues	20	18	51	56	11.1	(8.9)
EBITDA	8	8	19	26	-	(26.9)
EBITDA Margin	*40.0*	*44.4*	*37.3*	*46.4*		
EBIT	-	1	(2)	5		
EBIT Margin	-	*5.6*	*(3.9)*	*8.9*		
Headcount at period-end (number) (°)			96	(1) 84		14.3

(°) Includes employees with temp work contracts (1 employee at September 30, 2014, zero at December 31, 2013), as well as personnel of Rete A, a company acquired at the end of June 2014 (12 employees).
(1) Headcount at December 31, 2013.

Revenues

Revenues amounted to 51 million euros in the first nine months 2014, decreasing by 5 million euros compared to the 56 million euros for the same period of 2013. This decrease was entirely attributable to the network operator (represented by Persidera and Rete A) and is related to the expiry, at year-end 2013, of the agreement with RTI (Mediaset Extra and Italia 2) and the termination of the agreement with the channel QVC, also at the end of 2013. These were only partially offset by higher revenues from other customers and the entry into the scope of consolidation of Rete A S.p.A. (4 million euros). Excluding these revenues the reduction in turnover was 9 million euros.

EBITDA

EBITDA was a positive 19 million euros for the first nine months of 2014, down 7 million euros compared to the same period of 2013 (26 million euros). In detail, the EBITDA of the Media Business Unit 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 24 million euros in the first nine months of 2014, 30 million euros in the same period of 2013). The Network Operator's EBITDA performance was mainly driven by the above-mentioned reduction in revenues, only partly offset by a reduction in operating expenses (-1 million euros) which included 3 million euros of costs relating to Rete A which was not consolidated in 2013. Excluding the results of Rete A, the EBITDA of the Media Business Unit would have decreased by 8 million euros.

EBIT

EBIT was a negative 2 million euros (positive 5 million euros in the first nine months of 2013). This performance essentially reflected the change in EBITDA described above.

Discontinued operations/Non-current assets held for sale

The results of the Sofora - Telecom Argentina group, classified under "Discontinued operations/Non-current assets held for sale" as a result of the sale agreement entered into on November 13, 2013, are shown below. 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:

- On October 29, 2014, the first closing took place and, as a result, 17% of the Sofora - Telecom Argentina group was sold. Against this closing a consideration was received – also including other related assets – for a total amount of 215.7 million USD (around 170 million euros). As a result, the Telecom Italia Group's economic interest in Telecom Argentina was 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 a security worth 600.6 million USD.

Further details on the new arrangements are provided in the Notes "Discontinued operations/Non-current assets held for sale" and "Subsequent Events" of the Condensed Consolidated Financial Statements at September 30, 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 10.81202 in the first nine months of 2014 and 6.95181 in the first nine months of 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)					
	3rd Quarter 2014	3rd Quarter 2013	9 months to 9/30/2014	9 months to 9/30/2013	3rd Quarter 2014 (a)	3rd Quarter 2013 (b)	9 months to 9/30/2014 (c)	9 months to 9/30/2013 (d)	Change % (a/b)	Change % (c/d)
Revenues	**784**	**962**	**2,237**	**2,852**	**8,598**	**7,114**	**24,183**	**19,826**	**20.9**	**22.0**
EBITDA	**187**	**259**	**570**	**796**	**2,061**	**1,922**	**6,166**	**5,537**	**7.2**	**11.4**
EBITDA Margin	*24.0%*	*27.0%*	*25.5%*	*27.9%*	*24.0%*	*27.0%*	*25.5%*	*27.9%*	*(3.0)pp*	*(2.4)pp*
EBIT	**187**	**127**	**571**	**353**	**2,062**	**928**	**6,177**	**2,452**	**-**	**-**
EBIT Margin	*24.0%*	*13.0%*	*25.5%*	*12.4%*	*24.0%*	*13.0%*	*25.5%*	*12.4%*	*11.0pp*	*13.1pp*
Finance income/(expenses), net	9	22	25	54	98	162	272	375	(39.5)	(27.5)
Profit (loss) before tax from Discontinued operations/Non-current assets held for sale	**196**	**149**	**596**	**407**	**2,160**	**1,090**	**6,449**	**2,827**	**-**	**-**
Income tax expense	(68)	(53)	(206)	(144)	(757)	(387)	(2,233)	(1,001)	-	-
Profit (loss) after tax from Discontinued operations/Non-current assets held for sale	**128**	**96**	**390**	**263**	**1,403**	**703**	**4,216**	**1,826**	**-**	**-**

	9/30/2014	12/31/2013	Change	
			amount	%
Fixed-line				
Lines at period-end (thousands)	4,106	4,124	(18)	(0.4)
ARBU (Average Revenue Billed per User) (Argentine pesos)	56.5	51.8 (3)	4.7	9.1
Mobile				
Lines at period-end (thousands)	22,192	22,508	(316)	(1.4)
Telecom Personal mobile lines (thousands)	19,767	20,088	(321)	(1.6)
% postpaid lines (1)	*32%*	*32%*		
MOU Telecom Personal (minutes/month)	97.6	111.4 (3)(4)	(13.8)	(12.4)
ARPU Telecom Personal (Argentine pesos)	71.7	66.1 (3)	5.6	8.5
Núcleo mobile lines (thousands) (2)	2,425	2,420	5	0.2
% postpaid lines (1)	*20%*	*20%*		
Broadband				
Broadband accesses at period-end (thousands)	1,750	1,707	43	2.5
ARPU (Argentine pesos)	148.1	121.4 (3)	26.7	22.0

(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) Figures for the first nine months of 2013.
(4) The voice traffic was adjusted during the period also considering the minutes offered free of charge when customers top-up which were not taken into account in previous periods because they were considered to be insignificant. Figures for the period under comparison have been recalculated accordingly.

Revenues

Revenues for the first nine months of 2014 amounted to 24,183 million pesos, increasing 4,357 million pesos (+22.0%) compared to the first nine months of 2013 (19,826 million pesos), mainly thanks to the growth in the relative 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 business unit, an increase of 22% compared to the first nine months of 2013.

Revenues for the third quarter of 2014 amounted to 8,598 million pesos and were up 20.9% on the same period of 2013.

Fixed-line telephony service: the number of fixed lines decreased by 18 thousand compared to the end of 2013 to a total of 4,106 thousand at September 30, 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, ARBU rose by 9.1% compared to the first nine months of 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 benefit from the significant exchange rate spread during 2014.

Mobile telephony service: Telecom Personal mobile lines in Argentina decreased by 321 thousand compared to the end of 2013, coming to a total of 19,767 thousand lines at September 30, 2014, 32% of which were postpaid. At the same time, thanks to high-value customer acquisitions and leadership in the smartphone segment, ARPU grew by 8.5% to 71.7 pesos (66.1 pesos in the first nine months of 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 the first nine months of 2014.

In Paraguay, the Núcleo customer base grew by 0.2% compared to December 31, 2013, reaching 2,425 thousand lines, 20% of which are postpaid.

BroadBand: Telecom Argentina's portfolio of broadband lines totaled 1,750 thousand accesses at September 30, 2014, an increase of 43 thousand on December 31, 2013. ARPU rose by 22.0% to 148.1 pesos (121.4 pesos in the first nine months of 2013), largely thanks to up-selling strategies and price adjustments.

EBITDA

EBITDA showed an increase of 629 million pesos (+11.4%) compared to the first nine months of 2013, reaching 6,166 million pesos. The EBITDA margin stood at 25.5%, down 2.4 percentage points compared to the first nine months of 2013, mainly due to higher employee benefits expenses and acquisitions of goods and services, particularly as a result of the higher charges resulting from the increase in purchases of goods for resale, as well as higher costs for contracts entered into in foreign currency.
EBITDA for the third quarter of 2014 came to 2,061 million pesos and was up 7.2% compared to the same period of the previous year.

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

	(millions of euros)		(millions of Argentine pesos)		
	9 months to 9/30/2014 (a)	9 months to 9/30/2013 (b)	9 months to 9/30/2014 (c)	9 months to 9/30/2013 (d)	Change (c-d)
Acquisition of goods and services	1,048	1,320	11,326	9,176	2,150
Employee benefits expenses	375	436	4,053	3,028	1,025
Other operating expenses	276	368	2,990	2,561	429
Change in inventories	(28)	(64)	(307)	(450)	143

- **acquisition of goods and services** totaled 11,326 million pesos (9,176 million pesos for the first nine months of 2013). The increase of 23.4% compared to the first nine months of 2013 (+2,150 million pesos) was mainly due to higher external service costs of 1,173 million pesos and higher purchases of assets of 871 million pesos;
- **employee benefits expenses** totaled 4,053 million pesos, up by 1,025 million pesos compared to the first nine months of 2013 (+33.9%). The change was due to salary increases as a result of periodic revisions in union agreements, primarily linked to inflation, and to the increase in provisions for termination benefit incentives. The ratio of employee benefits expenses to total revenues rose to 16.8%, up 1.5 percentage points on the first nine months of 2013;
- other **operating expenses** amounted to 2,990 million pesos, increasing 429 million pesos on the first nine months of 2013. These expenses consisted of the following:

(millions of Argentine pesos)	9 months to 9/30/2014	9 months to 9/30/2013	Change
Write-downs and expenses in connection with credit management	328	221	107
Provision charges	61	187	(126)
TLC operating fees and charges	430	380	50
Indirect duties and taxes	1,957	1,572	385
Sundry expenses	214	201	13
Total	**2,990**	**2,561**	**429**

EBIT

EBIT for the first nine months of 2014 came to 6,177 million pesos compared with 2,452 million pesos recorded for the same period of 2013. The increase of 3,725 million pesos was attributable to the improvement in EBITDA and the suspension of calculation of depreciation and amortization (2,924 million pesos in the first nine months of 2013) as a result of the classification of the Sofora - Telecom Argentina group as Discontinued operations already in the consolidated financial statements of the Telecom Italia Group at December 31, 2013. In the first nine months of 2013, impairment losses of 172 million pesos were also recognized on non-current assets, relating to several business projects and IT platforms that the group had decided to abandon.
The EBIT margin stood at 25.5% of revenues (+13.1 percentage points compared to the first nine months of 2013), also as a result of the suspension of calculation of depreciation and amortization.
EBITDA for the third quarter of 2014 came to 2,062 million pesos and was up almost double compared to the same period of the previous year due to above-mentioned suspension of depreciation and amortization.

Capital expenditures

Capital expenditures for the first nine months of 2014 amounted to 3,759 million pesos and increased by 863 million pesos compared to the first nine months of 2013 (2,896 million pesos). In addition to customer acquisition costs, capital expenditure was aimed at enlarging and upgrading the access network in order to increase the capacity and improve the quality of the 3G mobile network, and upgrading broadband services on the fixed-line network, and at backhauling, to support the growth in data traffic volumes.

Auction for mobile telephony frequencies in Argentina

The auction procedures, announced by the *Secretaria de Comunicaciones* for the allocation of the frequency bands to be used for the *Servicio de Comunicaciones Personales* ("PCS"), the *Servicio de Radiocomunicaciones Movil Celular* ("SRMC") and the *Servicio de Comunicaciones Moviles Avanzadas* ("SCMA") were carried out on October 31, 2014.
The four companies that had pre-qualified participated in this competition: Telecom Personal S.A., Telefonica Moviles 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.
In accordance with the provisions of the Auction, within twenty days after the auction, the *Secretaria de Comunicaciones* will issue an administrative order awarding the frequency bands.

Consolidated Financial Position and Cash Flows Performance

Non-current assets

- **Goodwill:** increased by 91 million euros, from 29,932 million euros at the end of 2013 to 30,023 million euros at September 30, 2014 as a result of the following items:
  - 21 million euros due to the recognition of provisional goodwill following the acquisition of control and subsequent consolidation, with effect from June 30, 2014, of Rete A (Media Business Unit);
  - change in exchange rates for the Brazilian companies [1].

  Further details are provided in the Note "Goodwill" in the Condensed Consolidated Financial Statements at September 30, 2014 of the Telecom Italia Group.

- **Other intangible assets:** decreased 339 million euros, from 6,280 million euros at the end of 2013 to 5,941 million euros at September 30, 2014, as the balance of the following:
  - capex (+1,018 million euros);
  - amortization charge for the period (-1,404 million euros);
  - disposals, exchange differences, reclassifications and other changes (for a net positive balance of 47 million euros).

- **Tangible assets:** decreased by 61 million euros, from 13,219 million euros at the end of 2013 to 13,158 million euros at September 30, 2014, as the balance of the following:
  - capex (+1,622 million euros);
  - depreciation charge for the period (-1,825 million euros);
  - disposals, impairment losses, exchange differences, reclassifications and other changes (for a net positive balance of 142 million euros).

Discontinued operations/Non-current assets held for sale

These relate to the Sofora - Telecom Argentina group and include:
- financial assets of 424 million euros;
- non-financial assets of 2,940 million euros.

For more details, see the Note "Discontinued operations/Non-current assets held for sale" in the Condensed Consolidated Financial Statements of the Telecom Italia Group at September 30, 2014.

Consolidated equity

Consolidated equity amounted to 21,208 million euros (20,186 million euros at December 31, 2013), of which 17,882 million euros attributable to owners of the Parent (17,061 million euros at December 31, 2013) and 3,326 million euros attributable to non-controlling interests (3,125 million euros at December 31, 2013).

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(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 3.08409 at September 30, 2014 and 3.23068 at December 31, 2013.

In greater detail, the changes in equity were the following:

(millions of euros)	9/30/2014	12/31/2013
At the beginning of the period	**20,186**	**23,012**
Total comprehensive income (loss) for the period	1,160	(2,188)
Dividends approved by:	(294)	(635)
Telecom Italia S.p.A.	*(166)*	*(452)*
Other Group companies	*(128)*	*(183)*
Issue of equity instruments	58	1
Effect of Rete A acquisition	40	–
Effect of equity transactions of the Sofora – Telecom Argentina group	–	4
Other changes	58	(8)
At the end of the period	**21,208**	**20,186**

Cash flows

Adjusted net financial debt came to 26,572 million euros, down 235 million euros compared to December 31, 2013.
Excluding the net financial assets of the Sofora - Telecom Argentina group, amounting to 396 million euros (630 million euros at December 31, 2013), the Net Financial Debt would have decreased by 469 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 the first nine months of 2014:

Change in adjusted net financial debt

(millions of euros)	9 months to 9/30/2014	9 months to 9/30/2013	Change
EBITDA	6,588	7,140	(552)
Capital expenditures on an accrual basis	(2,640)	(3,037)	397
Change in net operating working capital:	(1,604)	(1,590)	(14)
Change in inventories	*11*	*(99)*	*110*
Change in trade receivables and net amounts due from customers on construction contracts	*(314)*	*471*	*(785)*
Change in trade payables (*)	*(1,039)*	*(1,479)*	*440*
Other changes in operating receivables/payables	*(262)*	*(483)*	*221*
Change in employee benefits	(33)	(13)	(20)
Change in operating provisions and Other changes	(39)	(44)	5
Net operating free cash flow	**2,272**	**2,456**	**(184)**
% of Revenues	*14.2*	*14.0*	*0.2pp*
Sale of investments and other disposals flow	78	(33)	111
Share capital increases/reimbursements, incidental costs	11	9	2
Financial investments flow	(31)	(9)	(22)
Dividends payment	(252)	(537)	285
Finance expenses, income taxes and other net non-operating requirements flow	(1,609)	(2,001)	392
Reduction/(Increase) in adjusted net financial debt from continuing operations	**469**	**(115)**	**584**
Reduction/(Increase) in net financial debt from Discontinued operations/Non-current assets held for sale	(234)	160	(394)
Reduction/(Increase) in adjusted net financial debt	**235**	**45**	**190**

(*) 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, the change in adjusted net financial debt for the first nine months of 2014 has been particularly impacted by the following:

Capital expenditures on an accrual basis

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

(millions of euros)	9 months to 9/30/2014	% of total	9 months to 9/30/2013	% of total	Change
Domestic (*)	1,792	67.9	2,025	66.7	(233)
Brazil	843	31.9	992	32.7	(149)
Media and Other Operations (*)	5	0.2	20	0.6	(15)
Adjustments and eliminations	–	–	–	–	–
Consolidated Total	**2,640**	**100.0**	**3,037**	**100.0**	**(397)**
% of Revenues	*16.5*		*17.3*		*(0.8)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 the first nine months of 2014 totaled 2,640 million euros, down 397 million euros compared to the corresponding period of 2013. In particular:

- the **Domestic Business Unit** reported capital expenditure down by 233 million euros compared to the same period of 2013. This reduction was entirely attributable to the more traditional components of capex, and resulted in the abandonment of several platforms and the simplification of several industrial processes. A portion of these savings was targeted to the development of next generation networks (LTE and fiber networks, +102 million euros in capital expenditure compared to the same period of 2013), which reached 35% of network capex (27% in the first nine months 2013). Furthermore, as already noted, in the first nine months of 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 intangible assets. In the same period of 2013, 138 million euros was capitalized over the term of the contract (24 – 30 months);
- the **Brazil Business Unit** reported a decrease of 149 million euros on the first nine months of 2013. This change reflected a negative exchange rate effect of 100 million euros. Excluding that effect, the decrease would have been 49 million euros. The capital expenditure is aimed at continued infrastructure development, in keeping with the objective of improving service quality.

Change in net operating working capital

The change in net operating working capital for the first nine months of 2014 was a decrease of 1,604 million euros (decrease of 1,590 million euros in the first nine months of 2013). In particular:

- the change in inventories had a positive impact of 11 million euros, whereas the management of trade receivables generated a negative impact of 314 million euros mainly connected to the changes in the volumes of sales to factoring companies;
- the change in trade payables (-1,039 million euros) was linked to a seasonal peak in payments of bills payable. Investment spending and external costs generally peak in the final quarter of the year, however the related cash flows are largely postponed to the following initial months of the following year due to the normal payment terms and contractually applicable conditions;
- other changes in operating receivables/payables (-262 million euros) also include the payment by Telecom Italia S.p.A. of the fines and related interest imposed by AGCM totaling around 105 million euros in relation to the A428 Antitrust Proceedings, as well as the negative impacts of around 80

million euros resulting from the prepayment of taxes on telecommunications operations by the Brazil Business Unit, which are paid in full in March.

With reference to 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 40 million euros, paid to employees of the companies of the Telecom Italia Group to allow them to subscribe to the 2014 Broad-based Share Ownership Plan.

Sale of investments and other disposals flow

This item amounted to 78 million euros in the first nine months of 2014 and was mainly due 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.
In the first nine months of 2013 this item had a negative balance of 33 million euros and mainly related to the sale of La7 S.r.l. to the Cairo Communication group on April 30, 2013, which had generated a net requirement of approximately 114 million euros; this impact was only partially offset by the proceeds deriving from the sale of the MTV Group to Viacom International Media Networks on September 12, 2013 for an amount of 11 million euros, by the proceeds from the sale of the EtecSA Cuba investment, and by the proceeds from other sales of tangible and intangible assets.

Financial investments flow

This item amounted to 31 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 of the controlling interest in Rete A S.p.A. by Persidera S.p.A. (formerly Telecom Italia Media Broadcasting - Media Business Unit), on June 30, 2014. The transactions 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 the first nine months of 2014, of net finance expenses (1,322 million euros) and income taxes (6 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)	9/30/2014 (a)	12/31/2013 (b)	Change (a-b)
Non-current financial liabilities			
Bonds	24,612	23,514	1,098
Amounts due to banks, other financial payables and liabilities	7,411	6,470	941
Finance lease liabilities	1,004	1,100	(96)
	33,027	**31,084**	**1,943**
Current financial liabilities (*)			
Bonds	1,270	2,513	(1,243)
Amounts due to banks, other financial payables and liabilities	1,653	3,413	(1,760)
Finance lease liabilities	172	193	(21)
	3,095	**6,119**	**(3,024)**
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale	28	27	1
Total Gross financial debt	**36,150**	**37,230**	**(1,080)**
Non-current financial assets			
Securities other than investments	(6)	(6)	–
Financial receivables and other non-current financial assets	(1,992)	(1,250)	(742)
	(1,998)	**(1,256)**	**(742)**
Current financial assets			
Securities other than investments	(1,199)	(1,348)	149
Financial receivables and other current financial assets	(362)	(283)	(79)
Cash and cash equivalents	(4,106)	(5,744)	1,638
	(5,667)	**(7,375)**	**1,708**
Financial assets relating to Discontinued operations/Non-current assets held for sale	(424)	(657)	233
Total financial assets	**(8,089)**	**(9,288)**	**1,199**
Net financial debt carrying amount	**28,061**	**27,942**	**119**
Reversal of fair value measurement of derivatives and related financial assets/liabilities	*(1,489)*	*(1,135)*	*(354)*
Adjusted net financial debt	**26,572**	**26,807**	**(235)**
Breakdown as follows:			
Total adjusted gross financial debt	**33,695**	**35,280**	**(1,585)**
Total adjusted financial assets	**(7,123)**	**(8,473)**	**1,350**
(*) of which current portion of medium/long-term debt:			
Bonds	*1,270*	*2,513*	*(1,243)*
Amounts due to banks, other financial payables and liabilities	*1,162*	*2,938*	*(1,776)*
Finance lease liabilities	*172*	*193*	*(21)*

The financial risk management policies of the Telecom Italia Group are directed towards diversifying market risks, hedging exchange rate risk in full and optimizing interest rate exposure by an 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.

Furthermore, in order to determine its exposure to interest rates, the Group defines an optimum composition for the fixed-rate and variable-rate debt structure and uses derivative financial instruments to achieve that 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.
The volatility of interest rates and exchange rates, which has been a prominent feature in financial markets since the fourth quarter of 2008, has significantly impacted the fair value measurement of derivative positions and the related financial assets and liabilities. In view of this and in order to present a more realistic analysis of net financial debt, in addition to the usual indicator (renamed "Net financial debt carrying amount"), a new indicator has also been presented called "Adjusted net financial debt", which excludes purely accounting and non-monetary effects deriving from the fair value measurement of derivatives (also including the effects of the introduction of IFRS 13 from January 1, 2013) and related financial assets and liabilities. The measurement of derivative financial instruments (which also have the objective of pre-setting the exchange rate and the interest rate of future variable contractual flows) and of derivatives embedded in other financial instruments, does not, in fact, require an actual cash settlement.

Sales of receivables to factoring companies
The sales of receivables to factoring companies finalized during the first nine months of 2014 resulted in a positive effect on net financial debt at September 30, 2014 of 1,037 million euros (1,434 million euros at December 31, 2013). On August 4, 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 September 30, 2014 were recognized for 25,882 million euros (26,027 million euros at December 31, 2013). Their nominal repayment amount was 24,687 million euros, down 198 million euros compared to December 31, 2013 (24,885 million euros).

The change in bonds during the first nine months of 2014 was 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. 1,500 million USD 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. 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 221 million USD during 2013.
(5) Net of buybacks by Telecom Italia S.p.A. of 722 million USD 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 September 30, 2014, the nominal amount is equal to 195 million euros and decreased by 3 million euros compared to December 31, 2013 (198 million euros).

Revolving Credit Facility and Term Loan
The following table shows the composition and the drawdown of the committed credit lines available at September 30, 2014:

(billions of euros)	9/30/2014		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 euros committed Revolving Credit Facility, the amount drawn down of 1.5 billion euros was repaid.
On the same date, the two RCFs became utilizable for 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 stand-by credit line expiring August 3, 2016 for 100 million euros from Banca Regionale Europea, drawn down for the full amount.

Maturities of financial liabilities and average cost of debt
The average maturity of non-current financial liabilities (including the current portion of medium/long-term financial liabilities due within 12 months) is 7.35 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 Condensed Consolidated Financial Statements at September 30, 2014 of the Telecom Italia Group.

Current financial assets and liquidity margin

The Telecom Italia Group's available liquidity margin amounted to 12,305 million euros at September 30, 2014 (net of 308 million euros related to Discontinued Operations), corresponding to the sum of Cash and cash equivalents and current Securities other than investments, totaling 5,305 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 will 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 4,106 million euros (5,744 million euros at December 31, 2013). The different technical forms used for the investment of liquidity as of September 30, 2014 can be analyzed as follows:

– Maturities: investments have a maximum maturity of three months;
– Counterpart 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 counterparts;
– Country risk: deposits have been made mainly in major European financial markets.

Securities other than investments amounted to 1,199 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 raising the return. They consist of 257 million euros of Italian treasury bonds purchased by Telecom Italia S.p.A.; 602 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 335 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 **third quarter of 2014 adjusted net financial debt** decreased by 786 million euros compared to June 30, 2014, as a result of positive cash flow generated and the proceeds from the sale of (IRES) tax credits which essentially neutralized the effects of the payment of income tax.

(millions of euros)	9/30/2014 (a)	6/30/2014 (b)	Change (a-b)
Net financial debt carrying amount	**28,061**	**28,837**	**(776)**
Reversal of fair value measurement of derivatives and related financial assets/liabilities	*(1,489)*	*(1,479)*	*(10)*
Adjusted net financial debt	**26,572**	**27,358**	**(786)**
Breakdown as follows:			
Total adjusted gross financial debt	**33,695**	**34,989**	**(1,294)**
Total adjusted financial assets	**(7,123)**	**(7,631)**	**508**

Consolidated Financial Statements – Telecom Italia Group

The Interim Report at September 30, 2014 of the Telecom Italia Group has been prepared in accordance with article 154–ter (Financial Reports) of Legislative Decree no. 58/1998 (Consolidated Law on Finance - TUF) as amended. This document also includes the Condensed Consolidated Financial Statements at September 30, 2014, prepared in compliance with the IFRS accounting standards issued by the IASB and adopted by the European Union, and, in particular, with IAS 34 Interim Financial Reporting.

The accounting policies and consolidation principles adopted in the preparation of the Condensed Consolidated Financial Statements at September 30, 2014 are the same as those adopted in the Telecom Italia Group Consolidated Financial Statements at December 31, 2013, to which the reader is referred, except for the application of the new standards and interpretations adopted by the Group since January 1, 2014. Moreover, as described in the notes to the Condensed Consolidated Financial Statements at September 30, 2014, the new standards and interpretations did not have any impact on the Group's consolidated financial statements.

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 item, into that calculation. 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 2014" 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 present Interim 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 the first nine months of 2014:

- *Rete 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 consequence Rete A is now part of the Group's scope of consolidation and has been fully consolidated with effect from June 30, 2014;*
- *TIMB2 S.r.l. (Media Business Unit): was established in May 2014 (Media Business Unit);*
- *Trentino NGN S.r.l. (Domestic Business Unit): on February 28, 2014 the Telecom Italia Group acquired the controlling stake in the company; consequently the company is now part of the Group's scope of consolidation.*

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

- *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 the first nine* *months of 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 is presented in two separate line items in the consolidated statements of financial position;*

- *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.*

Separate Consolidated Income Statements

(millions of euros)	3rd Quarter 2014	3rd Quarter 2013	9 months to 9/30/2014 (a)	9 months to 9/30/2013 (b)	Change (a-b) amount	%
Revenues	**5,421**	**5,676**	**15,972**	**17,564**	**(1,592)**	**(9.1)**
Other income	92	57	275	165	110	66.7
Total operating revenues and other income	**5,513**	**5,733**	**16,247**	**17,729**	**(1,482)**	**(8.4)**
Acquisition of goods and services	(2,330)	(2,487)	(6,887)	(7,785)	898	11.5
Employee benefits expenses	(724)	(683)	(2,320)	(2,334)	14	0.6
Other operating expenses	(296)	(272)	(855)	(989)	134	13.5
Change in inventories	(58)	16	(15)	109	(124)	–
Internally generated assets	138	132	418	410	8	2.0
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	**2,243**	**2,439**	**6,588**	**7,140**	**(552)**	**(7.7)**
Depreciation and amortization	(1,075)	(1,090)	(3,229)	(3,395)	166	4.9
Gains (losses) on disposals of non-current assets	–	7	35	(75)	110	–
Impairment reversals (losses) on non-current assets	–	–	(1)	(2,187)	2,186	–
Operating profit (loss) (EBIT)	**1,168**	**1,356**	**3,393**	**1,483**	**1,910**	**–**
Share of losses (profits) of associates and joint ventures accounted for using the equity method	–	-	(5)	–	(5)	–
Other income (expenses) from investments	–	–	15	2	13	–
Finance income	765	145	1,630	1,563	67	4.3
Finance expenses	(1,256)	(680)	(3,367)	(3,078)	(289)	(9.4)
Profit (loss) before tax from continuing operations	**677**	**821**	**1,666**	**(30)**	**1,696**	**–**
Income tax expense	(220)	(293)	(637)	(836)	199	23.8
Profit (loss) from continuing operations	**457**	**528**	**1,029**	**(866)**	**1,895**	**–**
Profit (loss) from Discontinued operations/Non-current assets held for sale	126	85	386	255	131	51.4
Profit (loss) for the period	**583**	**613**	**1,415**	**(611)**	**2,026**	**–**
Attributable to:						
Owners of the Parent	**442**	**505**	**985**	**(902)**	**1,887**	**–**
Non-controlling interests	141	108	430	291	139	47.8

Consolidated Statements of Comprehensive Income

In accordance with IAS 1 (*Presentation of Financial Statements*), the Consolidated statements of comprehensive income are presented below, which include the profit (loss) for the period as shown in the Separate Consolidated Income Statement, as well as all changes in in Equity other than transactions with Shareholders.

(millions of euros)		3rd Quarter 2014	3rd Quarter 2013	9 months to 9/30/2014	9 months to 9/30/2013
Profit (loss) for the period	(a)	583	613	1,415	(611)
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)		–	–	(129)	3
Net fiscal impact		–	–	35	(2)
	(b)	–	–	(94)	1
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)	–	–	(94)	1
Other components that subsequently will be reclassified in the Separate Consolidated Income Statements					
Available-for-sale financial assets:					
Profit (loss) from fair value adjustments		15	10	56	(21)
Loss (profit) transferred to the Separate Consolidated Income Statements		(4)	(9)	(19)	(8)
Net fiscal impact		(2)	2	(9)	8
	(e)	9	3	28	(21)
Hedging instruments:					
Profit (loss) from fair value adjustments		374	(56)	313	(528)
Loss (profit) transferred to the Separate Consolidated Income Statements		(414)	41	(513)	318
Net fiscal impact		10	5	55	60
	(f)	(30)	(10)	(145)	(150)
Exchange differences on translating foreign operations:					
Profit (loss) on translating foreign operations		(72)	(448)	(44)	(1,068)
Loss (profit) on translating foreign operations transferred to the Separate Consolidated Income Statements		–	–	–	–
Net fiscal impact		–	–	–	–
	(g)	(72)	(448)	(44)	(1,068)
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 will be reclassified subsequently to the Separate Consolidated Income Statement	(i=e+f+g+h)	(93)	(455)	(161)	(1,238)
Total other components of the Consolidated Statements of Comprehensive Income	(k=d+i)	(93)	(455)	(255)	(1,237)
Total comprehensive income (loss) for the period	(a+k)	490	158	1,160	(1,848)
Attributable to:					
Owners of the Parent		343	304	910	(1,621)
Non-controlling interests		147	(146)	250	(227)

Consolidated Statements of Financial Position

(millions of euros)		9/30/2014 (a)	12/31/2013 (b)	Change (a-b)
Assets				
Non-current assets				
Intangible assets				
Goodwill		30,023	29,932	91
Other intangible assets		5,941	6,280	(339)
		35,964	**36,212**	**(248)**
Tangible assets				
Property, plant and equipment owned		12,320	12,299	21
Assets held under finance leases		838	920	(82)
		13,158	**13,219**	**(61)**
Other non-current assets				
Investments in associates and joint ventures accounted for using the equity method		35	65	(30)
Other investments		43	42	1
Non-current financial assets		1,998	1,256	742
Miscellaneous receivables and other non-current assets		1,534	1,607	(73)
Deferred tax assets		1,001	1,039	(38)
		4,611	**4,009**	**602**
Total Non-current assets	**(a)**	**53,733**	**53,440**	**293**
Current assets				
Inventories		354	365	(11)
Trade and miscellaneous receivables and other current assets		5,979	5,389	590
Current income tax receivables		26	123	(97)
Current financial assets				
Securities other than investments, financial receivables and other current financial assets		*1,561*	*1,631*	*(70)*
Cash and cash equivalents		*4,106*	*5,744*	*(1,638)*
		5,667	7,375	(1,708)
Current assets sub-total		**12,026**	**13,252**	**(1,226)**
Discontinued operations/Non-current assets held for sale				
of a financial nature		424	657	(233)
of a non-financial nature		2,940	2,871	69
		3,364	**3,528**	**(164)**
Total Current assets	**(b)**	**15,390**	**16,780**	**(1,390)**
Total Assets	**(a+b)**	**69,123**	**70,220**	**(1,097)**

(millions of euros)		9/30/2014 (a)	12/31/2013 (b)	Change (a-b)
Equity and Liabilities				
Equity				
Equity attributable to owners of the Parent		17,882	17,061	821
Non-controlling interests		3,326	3,125	201
Total Equity	**(c)**	**21,208**	**20,186**	**1,022**
Non-current liabilities				
Non-current financial liabilities		33,027	31,084	1,943
Employee benefits		978	889	89
Deferred tax liabilities		372	234	138
Provisions		711	699	12
Miscellaneous payables and other non-current liabilities		747	779	(32)
Total Non-current liabilities	**(d)**	**35,835**	**33,685**	**2,150**
Current liabilities				
Current financial liabilities		3,095	6,119	(3,024)
Trade and miscellaneous payables and other current liabilities		7,584	8,649	(1,065)
Current income tax payables		28	20	8
Current liabilities sub-total		**10,707**	**14,788**	**(4,081)**
Liabilities directly associated with Discontinued operations/Non-current assets held for sale				
of a financial nature		28	27	1
of a non-financial nature		1,345	1,534	(189)
		1,373	**1,561**	**(188)**
Total Current Liabilities	**(e)**	**12,080**	**16,349**	**(4,269)**
Total Liabilities	**(f=d+e)**	**47,915**	**50,034**	**(2,119)**
Total Equity and Liabilities	**(c+f)**	**69,123**	**70,220**	**(1,097)**

Consolidated Statements of Cash Flows

(millions of euros)		9 months to 9/30/2014	9 months to 9/30/2013
Cash flows from operating activities:			
Profit (loss) from continuing operations		1,029	(866)
Adjustments for:			
Depreciation and amortization		3,229	3,395
Impairment losses (reversals) on non-current assets (including investments)		6	2,191
Net change in deferred tax assets and liabilities		260	411
Losses (gains) realized on disposals of non-current assets (including investments)		(35)	74
Share of losses (profits) of associates and joint ventures accounted for using the equity method		5	–
Change in employee benefits		(33)	(13)
Change in inventories		11	(99)
Change in trade receivables and net amounts due from customers on construction contracts		(314)	471
Change in trade payables		(651)	(966)
Net change in current income tax receivables/payables		391	13
Net change in miscellaneous receivables/payables and other assets/liabilities		(433)	(268)
Cash flows from (used in) operating activities	**(a)**	**3,465**	**4,343**
Cash flows from investing activities:			
Purchase of intangible assets on an accrual basis		*(1,018)*	*(1,375)*
Purchase of tangible assets on an accrual basis		*(1,622)*	*(1,662)*
Total purchase of intangible and tangible assets on an accrual basis		(2,640)	(3,037)
Change in amounts due to fixed asset suppliers		*(388)*	*(423)*
Total purchase of intangible and tangible assets on a cash basis		(3,028)	(3,460)
Acquisition of control of subsidiaries or other businesses, net of cash acquired		(8)	(8)
Acquisitions/disposals of other investments		(1)	–
Change in financial receivables and other financial assets		(635)	434
Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of		–	(108)
Proceeds from sale/repayment of intangible, tangible and other non-current assets		78	76
Cash flows from (used in) investing activities	**(b)**	**(3,594)**	**(3,066)**
Cash flows from financing activities:			
Change in current financial liabilities and other		969	(1,484)
Proceeds from non-current financial liabilities (including current portion)		3,349	2,764
Repayments of non-current financial liabilities (including current portion)		(5,594)	(3,885)
Share capital proceeds/reimbursements (including subsidiaries)		11	9
Dividends paid		(252)	(537)
Changes in ownership interests in consolidated subsidiaries		–	–
Cash flows from (used in) financing activities	**(c)**	**(1,517)**	**(3,133)**
Cash flows from (used in) Discontinued operations/Non-current assets held for sale	**(d)**	**(324)**	**98**
Aggregate cash flows	**(e=a+b+c+d)**	**(1,970)**	**(1,758)**
Net cash and cash equivalents at beginning of the period	**(f)**	**6,296**	**7,397**
Net foreign exchange differences on net cash and cash equivalents	**(g)**	(31)	(252)
Net cash and cash equivalents at end of the period	**(h=e+f+g)**	**4,295**	**5,387**

Additional Cash Flow Information

(millions of euros)	9 months to 9/30/2014	9 months to 9/30/2013
Income taxes (paid) received	(6)	(431)
Interest expense paid	(4,132)	(2,124)
Interest income received	2,810	739
Dividends received	5	2

Analysis of Net Cash and Cash Equivalents

(millions of euros)	9 months to 9/30/2014	9 months to 9/30/2013
Net cash and cash equivalents at beginning of the period		
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 period		
Cash and cash equivalents - from continuing operations	4,106	4,869
Bank overdrafts repayable on demand – from continuing operations	(103)	(69)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale	292	587
Bank overdrafts repayable on demand – from Discontinued operations/Non-current assets held for sale	–	–
	4,295	**5,387**

Analysis of the main consolidated financial and operating items

Acquisition of goods and services

(millions of euros)	9 months to 9/30/2014	9 months to 9/30/2013	Change
Purchases of goods	1,524	1,704	(180)
Revenues due to other TLC operators and interconnection costs	1,798	2,256	(458)
Commercial and advertising costs	1,092	1,192	(100)
Power, maintenance and outsourced services	987	1,028	(41)
Rent and leases	559	571	(12)
Other service expenses	927	1,034	(107)
Total acquisition of goods and services	**6,887**	**7,785**	**(898)**
% of Revenues	*43.1*	*44.3*	*(1.2)pp*

Employee benefits expenses

(millions of euros)	9 months to 9/30/2014	9 months to 9/30/2013	Change
Employee benefits expenses - Italy	**2,017**	**2,047**	**(30)**
Ordinary employee expenses and costs	2,016	2,026	(10)
Restructuring expenses	1	21	(20)
Employee benefits expenses – Outside Italy	**303**	**287**	**16**
Total employee benefits expenses	**2,320**	**2,334**	**(14)**
% of Revenues	*14.5*	*13.3*	*1.2pp*

Average salaried workforce

(equivalent number)	9 months to 9/30/2014	9 months to 9/30/2013	Change
Average salaried workforce – Italy	47,495	48,852	(1,357)
Average salaried workforce – Outside Italy	11,676	10,890	786
Total average salaried workforce (1)	**59,171**	**59,742**	**(571)**
Non-current assets held for sale - Sofora - Telecom Argentina group	15,666	15,844	(178)
Total average salaried workforce - including Non-current assets held for sale	**74,837**	**75,586**	**(749)**

(1) Includes employees with temp work contracts: 9 average headcount in the first nine months of 2014 (4 in Italy and 5 outside Italy). In the first nine months of 2013 the average headcount was 25 (24 in Italy and 1 outside Italy).

Headcount at period-end

(number)	9/30/2014	12/31/2013	Change
Headcount – Italy	53,050	53,155	(105)
Headcount – Outside Italy	12,822	12,468	354
Total(1)	**65,872**	**65,623**	**249**
Non-current assets held for sale - Sofora - Telecom Argentina group	16,544	16,575	(31)
Total - including Non-current assets held for sale	**82,416**	**82,198**	**218**

(1) Includes employees with temp work contracts: 9 employees at September 30, 2014, and 4 employees at December 31, 2013.

Headcount at period-end – Breakdown by Business Unit

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(number)	9/30/2014	12/31/2013	Change
Domestic (*)	53,249	53,377	(128)
Brazil	12,507	12,140	367
Media	96	84	12
Other Operations	20	22	(2)
Total	**65,872**	**65,623**	**249**

(*) 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)	9 months to 9/30/2014	9 months to 9/30/2013	Change
Late payment fees charged for telephone services	51	48	3
Recovery of employee benefit expenses, purchases and services rendered	28	28	–
Capital and operating grants	18	17	1
Damage compensation, penalties and sundry recoveries	24	23	1
Other income	154	49	105
Total	**275**	**165**	**110**

Other operating expenses

(millions of euros)	9 months to 9/30/2014	9 months to 9/30/2013	Change
Write-downs and expenses in connection with credit management	264	292	(28)
Provision charges	60	73	(13)
TLC operating fees and charges	335	372	(37)
Indirect duties and taxes	87	98	(11)
Penalties, settlement compensation and administrative fines	60	23	37
Association dues and fees, donations, scholarships and traineeships	13	17	(4)
Sundry expenses	36	114	(78)
Total	**855**	**989**	**(134)**

Events Subsequent to September 30, 2014

For details of subsequent events see the specific Note “Events Subsequent to September 30, 2014” in the Telecom Italia Group Condensed Consolidated Financial Statements at September 30, 2014.

Business Outlook for the Year 2014

The telecommunications market continues to be characterized by a decline in traditional services (voice and accesses) and an increase in innovative services (broadband and broadband enabled services). The combined effect of these trends is expected to cause a further overall decline in the domestic market, albeit more limited than that seen in 2013, and growth in the Brazil market.

In this environment, the Telecom Italia Group – as announced in the 2014 - 2016 Plan – will continue to defend its market share and invest in the development of its infrastructure, with a sharp increase in investment in innovation, particularly in Ultra Broadband, to maintain revenues from traditional services and promote revenue growth from innovative services, in line with the Group financial policies. At the same time, the Telecom Italia Group will continue its process of restructuring and efficiency improvement of its industrial processes with the aim of structurally reducing its running costs, including through delayering and platform streamlining.

The initial results for 2014 confirm the cooling down and improvement in competition in the Mobile business, and an acceleration in the growth of ultrabroadband services. The ARPU on traditional services on the domestic market, both Mobile and Fixed, is still being diluted due to the repositioning of the Customer Base towards bundle offers that – against a short-term reduction in profitability – will however allow greater stabilization of expenditure and churn rate in the medium to long term. On the Fixed market this trend is also dictated by the need to respond, with commercial pricing actions, to competitive pressure, which is greater than expected.

Despite these trends, which continue to create uncertainty regarding the stability of the Revenues and the margins, for the current year, in keeping with the forecasts and dynamics of Telecom Italia’s 2014-2016 Three-Year Plan, we expect to see the gradual recovery of the operating performance – also through the plans and actions to reduce and contain costs – and financial results for the Group, which as a whole will remain in line and in keeping with the forecasts and operating performances set out in Telecom Italia’s 2014-2016 Three-Year Plan.

Lastly, with regard to the support measures designed to strengthen the Group's financial position, already set out in the 2014 – 2016 Plan, and in particular the initiatives aimed at generating the value from the towers of the mobile network in Italy and in Brazil, as well as the multiplexes of TI Media (or rather of the interest held by TI Media in Persidera S.p.A.), details can be found in the announcements already made to the market, and we confirm that the activities to implement those projects are currently under way and further announcements will be made to the market when definitive information is available.

Main risks and uncertainties

The business outlook for 2014 could be affected by risks and uncertainties caused by a multitude of factors, the majority of which are beyond the Group’s control. In particular, our business depends to a large extent on changes in background factors and the state of the economy and financial conditions, as well as the competitive scenario on the Italian and Brazilian markets. Despite some signs of improvement, the current year and the financial figures presented in this document continue to point to a general situation of weakness and uncertainty in the Group’s markets. It cannot therefore be ruled out

that this situations could have an adverse impact on the expected future results of our business and that, consequently, goodwill may be subject to impairment losses.
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..
Starting from July 2014, the Argentinian Government is in default due to having failed to honor certain commitments relating to its debt contracted in foreign currency. Although this situation is connected to 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 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 of Argentinian Pesos.
For information on the main risks affecting the business activities of the Telecom Italia Group, see the Annual Report 2013.

Main Commercial Developments of the Business Units of the Group

Domestic

Consumer

For the **Consumer Fixed-line** segment, commercial strategies in the third quarter of 2014 were focused on:

- accelerating the penetration of fiber-optic services over the fixed-line network, by expanding the coverage plan and through ad hoc promotional activities;
- defending the Voice/ADSL customer base, also in an adverse economic environment;
- stimulating purchasing on high-value ADSL full-flat deals to counter the decline in fixed-line usage.

In particular, for the **Fiber** offer, to sustain purchases on NGN deals and continue the drive towards full-flat deals, at the beginning of July a special temporary promotion was offered with a Samsung Tab 3 8.0 Tablet included at 1 euro. The offer was targeted at all customers subscribing to the TuttoFibra offer for a minimum period of 30 months.

In addition, the program to develop the fiber optic network also continued during the third quarter of 2014, increasing from 69 municipalities covered at the end of June to 96 at the beginning of October 2014.

In a macro-economic scenario of continuing stagnation, to combat terminations on VOICE and ADSL line, two new promotions were introduced from July to be offered as a retention incentive to customers showing signs of financial difficulty:

- **Internet Senza Limiti** at 20.90 euros per month for 12 months instead of 38.21 euros per month;
- **Tutto Voce** at 19.90 euros per month for 12 months instead of 29 euros per month.
- At the same time, in order to counter the erosion of the ADSL customer base and the decline in fixed-line telephony usage:
- the purchase promotions have been canceled on the Internet Senza Limiti deal, which is much less economical than the TUTTO deal;
- the promotion for the TUTTO deal has been reformulated, extending the duration from 6 to 12 months at 29 euros per month instead of 44.90 euros per month, to make it even more economical.

Lastly, to make the TUTTO deal even more attractive, a new offer called **TUTTO&TIMVision** was launched, which leverages its content and includes ADSL 7Mega, unlimited calls to Fixed-lines and Mobiles, plus all the entertainment of TIMVision (including decoder).

In the **Consumer Mobile** segment, we maintained our segment-based approach and business strategy geared towards maximizing the value of the fixed and mobile customer base, by offering converging customers unique benefits across the mass-market, with a strong focus on 4G deals in the first nine months of 2014.

In the **Mass Market** segment, in light of increasingly stiff competition throughout almost the whole of 2013 – which led to a rapid fall in the prices of mobile telecommunications services – Telecom Italia is leading the market towards a more rational pricing structure and customer acquisition policies.

Telecom Italia's strategy of using an inflation-based tariff policy is based on the use of points of differentiation such as:

- including **LTE** in the TIM Special portfolio, leveraging our technological leadership on 4G, both in terms of coverage and performance;
- including content as an element of differentiation to attract 'smart' customers (e.g., sport, entertainment, YouTube).

With this in mind, in August, in conjunction with the beginning of the Italian serie A soccer championship, for which Telecom Italia is the official sponsor, the **TIM Special LTE portfolio** was relaunched with the best matches from the Serie A TIM included for 3 months.

In the **Young segment**, we continued to adopt an inflation-based approach, executed by using an attractive entry price with a strong drive to promote modular components (data, voice), in order to increase profitability. We also increased the customizability of the deal with highly appealing content for

the target, such as 4G LTE navigation and data-free Facebook and Twitter use, together with data-free music streaming, which has always been part of the package.
In the **Premium segment**, the shift away from subsidies continued on from 2013, with a move towards concentrating benefits on higher-value deals.
In **Mobile Broadband** services, the promotion of 4G-LTE Internet services continued into the first nine months of 2014. In September, Telecom Italia increased the number of Italian municipalities where the new Internet services on the 4G-LTE network are available to 2,400, reaching an outdoor coverage of approximately 72% of the national population. We also continued the major push with the TIMVision business, which has become an integral part of TIM's new 4G portfolio: all 4G Internet packages offer a choice between TIMVision entertainment and sport, without any additional costs.
With regard to Internet 3G services, TIM gained significant recognition from the survey on the quality of the data connections conducted by AGCom (the National Regulatory Authority for Communications): TIM came first for average download speeds and equal first for average upload speeds, for 3G technology at a speed of 42.2 with Internet key.
On the convergence front, we continued to market the Smart deal with a stronger focus on the completeness of the deal, which – by combining it in a single bill at an attractive price – is able to cover the communication needs of all family, both inside and outside the home. We have also emphasized the concept of customization: the voice option, which offers unlimited minutes from fixed line, and additional mobile lines can be added to the basic deal. The modularity of the deal allows us to meet customer needs in full, while also proving overall profitability. The deal, which has achieved a very low churn rate in its initial months, is also meeting the expectations of improvement in customer loyalty.

Business
Telecom Italia's strategy in the business segment continued to evolve also in the third quarter of 2014 along two lines: simplifying the product/service range and internal processes, with a view to improving delivery; and fresh emphasis on innovation, convergence, and on IT, in order to support the core business.
The key focus has been to strengthen Telecom Italia's positioning as a major market player in Italy, able to steer the ICT needs of small and medium businesses, large corporations and public administrations by leveraging its widespread and highly qualified sales force and pushing cloud services to boost the use of core connectivity services, as well as accelerating the penetration of the Fiber offering on fixed line in order to stimulate the technological evolution of accesses, which represent the essential driver for the next generation services.
To that end, the action plans have focused on:

- repositioning products and services targeted at Small and Medium Businesses (SMB), with a view to consolidating the customer base for mobile services and stemming the loss of fixed-line customers;
- pushing fixed–mobile–IT convergence so as to boost the share of high-value customers in the customer base, by enhancing the range of innovative core products and services and IT services offered at the same price for customers;
- targeting high-end customers in both the private and public sectors, through tenders and framework agreements, in order to strengthen and increase Telecom Italia's share of the high-value market, by focusing on the innovative and complex ICT services and projects that showcase Telecom Italia as a leading telecommunications provider for its technologies and know-how, and expanding into industry sectors adjacent to consolidated business sectors.

For the **Mobile** offering, the development of the **Ultra Broad Band Mobile based on the LTE network** also continued in the third quarter of 2014. The commercial policy centered on a more rational, efficient and focused approach to pricing, while also expanding the range of offers with VAS and IT solutions. As in the previous quarter, prices remained essentially "stable", accompanied by "steady" business volumes. In the TIM Tutto range of services, which are characterized by the modularity of the offering, LTE technology was included on all the data options while keeping a suitable premium price. Data usage, which continued its sharp rise, was supported through the launch of a number of promotional deals that leverage the convergence with the fixed-line world (Insieme promotion).
For the Direct customers channel, we have also initiated a far-reaching review of our commercial approach to the market, mainly geared towards defending the customer base and reflecting the new service models already tested in other segments, such as: removing subsidies for handsets, pushing

prepaid and standard products and services, highly competitive pricing for mature core business services, and premium pricing for mobile broadband and LTE.
The Loyalty strategy has been enhanced by the introduction of new multichannel contact methods to go alongside traditional contact points, with a view to integrating and simplifying Customer management in order to improve the user experience. Indeed, the focus has been on strengthening our "one-to-one" approach to the Customer, through online offers, services and promotions, while also adopting loyalty policies through a partnership program with major companies from the Italian market.
In the **Fixed-line** business, Telecom Italia has strengthened its commercial operator 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, fixed-mobile traffic. This also strengthens the strategy of pushing fiber (**NGN**), which has been further completed by extension of the service coverage and developments on IT systems that will enable targeting of a wider range of customers (e.g. customers currently on ISDN solutions).
For **High-end customers**, in the third quarter of 2014 we continued to push the innovative **Nuvola IT Comunicazione Integrata** offering, which provides customers significant benefits in terms of recovering operating expenses through efficiency improvements, increased collaboration with the business community, mobility, and the push for 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. Specifically, for the range of Cloud services for SMB customers, also in the third quarter of 2014 we continued to invest in building the NuvolaStore Marketplace (cloud store marketplace) as a platform for providing a range of "best of breed" SaaS solutions for SMBs.

Brazil

Having launched deals with a maximum speed of 30 MB for 1 reais per day in the first quarter of 2014, in order to meet the data needs of prepaid customers more effectively, during the second quarter TIM Brasil launched the "**Infinity Web 100**" deal, which offers high-speed Internet connection to prepaid customers for both tablets and PCs though Internet keys. Subscribers receive 100 MB of Internet traffic per day for 1.99 reais. In the third quarter of 2014, TIM launched the TIM Day voice offer, which, at a cost of 0.75 reais per day, gives customers 300 minutes of talk time with another TIM customer. Under the offer, customers pay the first call and can then use the remaining minutes over the course of the day. If they go over the 300 minutes, the customers revert to the rate scheme in the Infinity plan. The offer is valid for both local and long-distance calls (using the code 41).

Infinity Turbo 7 + Express Top-Up

During the second quarter 2014, TIM Brasil continued to offer innovative services in the prepaid sector, creating a new daily deal for greater simplicity and to meet customers' needs. In May, TIM launched the **Infinity Turbo 7** package, which offers prepaid customers 300 minutes of on-net calls + 600 SMS (450 on-net + 150 off-net) + 10 MB data per day. The deal costs 7 reais and is valid for seven days from the date of activation. In April, TIM created an express top-up service – a new way to top up via Facebook that allows customers to top-up their own phone or send them to others through Facebook. The top-up is charged directly to a credit card, which must be registered in advance on the "Recarga Express" website.

Data Offering

In the third quarter of 2014, TIM continued to develop innovative products in order to increase the use of data. In August, the company announced its partnership with Wizard – one of the most well-known language school networks in Brazil – to offer TIM customers exclusive content on English language courses. The service, which is aimed at improving and facilitating English-language learning through practice and fun, is offered through three different plans where users can (i) access the material through SMS messaging or mobile website (1.99 reais per week); (ii) access voice content (2.99 reais per week); and (iii) access the TIM Wizard application (3.99 reais per week).

In July, TIM launched new plans for “Machine to Machine” (M2M) devices, also offering the services in 3G and 4G to meet the demand of more specific markets that require higher bandwidth and speed. The new plans offer capacity ranging from 20MB to 2.5GB per access. In order to develop this market, ANATEL has cut the cost of the FISTEL for these SIMs.

Broadband Offering

During the second quarter of 2014, TIM started marketing the “Live TIM Extreme” deal – a 1 GB ultrabroadband fixed-line package which is the fastest available in Brazil and 350 times the national average connection speed of 2.6MB (according to Akamai). The package offers 1 GB download speeds and 500 MB for uploads. Thanks to Fiber-to-the-Home (FTTH) technology, customers can download HD films in just a few seconds to all their devices, including notebooks, tablets and smartphones. The cost is 1,499.90 reais per month and the service is available across the Live TIM coverage area in the states of Rio de Janeiro and São Paulo.

During the second quarter, TIM Fiber launched the “Live TIM Blue Box” – a device providing access to Netflix, YouTube and free on air HD channels. This straightforward and easy-to-use media center offers customers the main sources of multimedia video content. Via an integrated system called “Blue Box do Seu Jeito”, the device recognizes the user’s preferences and highlights their favorite programs. Content can also be recorded to disk or pen drive, and viewings can be paused and resumed. Full launch is scheduled for the second half of the year, but TIM has already rolled it out to selected Live TIM users in Rio de Janeiro and São Paulo for beta testing and feedback.

In the third quarter, TIM and ZTE Corporation signed a major strategic cooperation agreement to accelerate technological innovation in the development of ultra broadband in Brazil. The two companies will work together in innovative ways to develop and test new access technologies, and establish a new level of ultrabroadband. The partnership also includes the construction of a center for research and innovation.

In the third quarter, TIM also began marketing a new level of fixed ultrabroadband, offering speeds of 70Mbps in download and 30 Mbps in upload. The plan costs 119.90 reais per month and includes a free Wi-Fi modem.

Handsets

During the second quarter of the year, TIM began selling Samsung Galaxy S5 handsets. In order to publicize the launch of the device, TIM organized dedicated events in nine cities. After the launch, the price was set at 2,299 reais for new postpaid customers. New and existing customers can also pay in 12 installments by credit card.

In the third quarter, TIM expanded its product range with three new smartphones: the second generation of Motorola’s Moto X and Moto G and LG’s G3. With prices ranging from 729 reais to 1,499 reais.

Principal changes in the regulatory framework

Domestic

Wholesale fixed markets

Telecom Italia Reference Offers for the year 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) – market 4 (Resolution 68/14/CIR);
- NGA bitstream, the VULA service and related accessory services - market 5 - (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, concerning the approval of 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; the deadline for the obtainment of contributions from the Operators was set at October 1, 2014.

Wholesale access services
With regard to the results of the public consultation launched for the 3rd cycle of analysis of the copper and fiber fixed-line access markets for the three-year period 2014-2016, on February 13, 2014 AGCom formally extended the deadline for the finalization of the process by a further 150 days via Resolution 65/14/CONS and on July 30, 2014 with the Resolution 366/14/CONS, the Authority announced a new 60 day extension.
On October 9, 2014, the Commission approved the new recommendation on relevant markets, removing the Retail Access Market (one of the three markets analyzed in the above procedure) and the Origination Market.

Retail fixed markets

Local, national and fixed-to-mobile calls and telephone line rental
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.
On September 11, 2014, Telecom Italia customers were notified of the content of the new rate amendment effective from November 1, 2014 that will concern Residential customers subscribing to the Telecom Italia Basic Offer. The amendment consists of the following changes:

- the monthly rental for GTN lines will increase from the current 17.54 euros per month (including VAT) to 18.54 per month (including VAT). There will however be 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 will be eliminated and a single price of 10 euro cents (including VAT) will be applied for each minute of conversation.

Universal Service
On September 4 this year, 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. The deadline for sending the documentation relating to the procedure has been extended to November 4 of this year.

Wholesale mobile markets

Mobile termination rates on H3G network
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* (council of state).
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.

AGCom fee
On March 5, 2014, the Administrative Court (TAR) of Lazio published its ruling, which fully upheld the pronouncement of the EU Court of Justice, which had been asked to make a preliminary ruling on the matter. It accepted the appeal of Telecom Italia concerning the cancellation of the resolutions with which AGCom had requested payment of 26.6 million euros for amounts that the Authority deemed to have been left unpaid for 2006-2010 and the amount due for the contribution relating to 2011 (24.2 million euros). The judgment of the Lazio TAR also affirmed the principle whereby the fees of operators of electronic communications networks and services only pay costs relating to activities unequivocally used for ex-ante regulation of this sector and that revenues connected to ex-ante regulation and obtained as fees from the companies must not exceed the overall costs directly pertaining to this regulatory activity. AGCom appealed against judgment before the Lazio TAR and requested a suspension, which was in any case rejected.
On March 14, 2014, the AGCom resolution was published setting out 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 judgment – even though the appeals are pending with the Consiglio di Stato – but it also expands the taxable base despite reducing the rate to 0.14%. On April 30, 2014, Telecom Italia paid, via reverse charge, and with reservations, an amount of 14.0 million euros calculated according to the parameters deriving from the judgment of the Lazio TAR, applying the AGCom rate for 2014 of 0.14%, and appealed Resolution 547/13/CONS before the Lazio TAR.

Antitrust
For details of the ongoing disputes relating to Proceedings A428, I757 and I761, see the note "Contingent liabilities, other information" in the Condensed Consolidated Financial Statements of the Telecom Italia Group at September 30, 2014.

Brazil

Anatel
On June 18, 2014, the National Telecommunications Agency (Anatel) approved the new Mobile Termination Rates (MTR), Fixed Termination Rates (FTR) and affiliated line rates (EILD) for the years 2016-2019. The 2019 rates are calculated using the Bottom-Up Long Run Incremental Cost (LIRC)

model. Regarding leased circuits, the benchmark values set out in the cost model will only be used by Anatel in the event of conflict between operators. 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. These reductions range from 24% to 45% in the first year (2016), from 40% to 48% in the second, third, and last year (2017-2019), reaching 0.017 reais, in 2019. The FTRs will undergo reductions of 63% to 73% approximately in the first year, or 21% to 50% in the second and third year and from 18% to 50% in the final year, depending on the area in question, reaching 0.005 reais in 2019. For leased circuits, the LRIC model will only be used from 2020 onwards.

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) – which was designed to standardize consumer protection and improve the rights of users of telecommunication services. Because of 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); (iii) voice and data packages from October 10, 2015: consumers must be warned when their usage is approaching 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 key aspects of it 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, as well as the conditions and duration for which service providers must keep user access logs. While we await the regulations implementing the law, it has been decided that operators cannot offer free access to certain types of content.

700 MHz

On September 30, 2014, Anatel concluded the auction for the allocation of 700 MHz frequencies, which provided TIM, Vivo, Claro and Algar the possibility of using this frequency to provide mobile services with Fourth Generation technology (4G), which will be added to the current 2.5 GHz radio frequency.

Anatel accepted the offer amounting to 1,947 million reais made by Tim Brasil group, which was thus awarded the right to use 700 MHz frequencies. The license will be formally allocated during the fourth quarter of 2014 and will result in the membership of the consortium that will carry out the cleaning up of the 700 MHz spectrum, currently used by television broadcasters, which should be completed by the end of 2019, according to a timetable set by the Ministry of Communications.

Media

Digital frequencies

AGCom adopted Decision 181/09/CONS, enacted in article 45 of Law 88/2009, setting forth 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 involves a review of the current allocations and the resolution of interference problems and international coordination issues, including replacing channel 60 UHF – assigned to Persidera – with channel 55 UHF. Channel 60 UHF has problems of international coordination with Malta and considerable problems due to interference with the adjacent frequencies used for mobile telephony (800 MHz LTE, former TV channels 61-69 UHF). The substitution should be completed by June 30, 2015.
In terms of the steps taken to address the findings of the EU Commission, in 2010 AGCom planned – via Resolution 497/10/CONS – a 'beauty contest' for the assignment of the user rights to digital dividend frequencies. The contest was however 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 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 euro. Cairo will use EI Towers for the construction, operation and maintenance of the network.
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.

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 assigned to broadcasting, can be assigned to broadband mobile services.
In view of this deadline, it is likely that the EU administrations 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, presumably taking place between 2016 and 2018, will most likely mirror the process in place for the "first" digital dividend for 800 MHz bandwidth, involving 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 sense, the agreement between TI Media and Gruppo Editoriale L'Espresso sets out the procedures whereby TI Media will be able to acquire the user rights for channel 55 UHF.
In particular, TI Media has reserved 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 submitted the report on the future use of the UHF spectrum to the European Commission. The report is the result of the work of the High Level Group on UHF formed in January 2014 and consisting of representatives of broadcasters, mobile operators and manufacturers.

Pascal Lamy proposes a “2020-2030-2025” time scale to meet 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 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 input to the new European Commission, which will take office at the end of 2014, in establishing the spectrum policy, also in view of the ITU-R World Conference 2015 (WRC-15), the outcome of which could possibly lead to more specific and stringent measures being adopted for the Member States.

Corporate Boards at September 30, 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, Piazza degli Affari 2 (transferred to Via G. Negri 1, Milan, with effect from October 31, 2014).
The board of directors also renewed the internal committees, without changing their duties, appointing the respective members as follows:

- **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 financial statements for 2014.
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

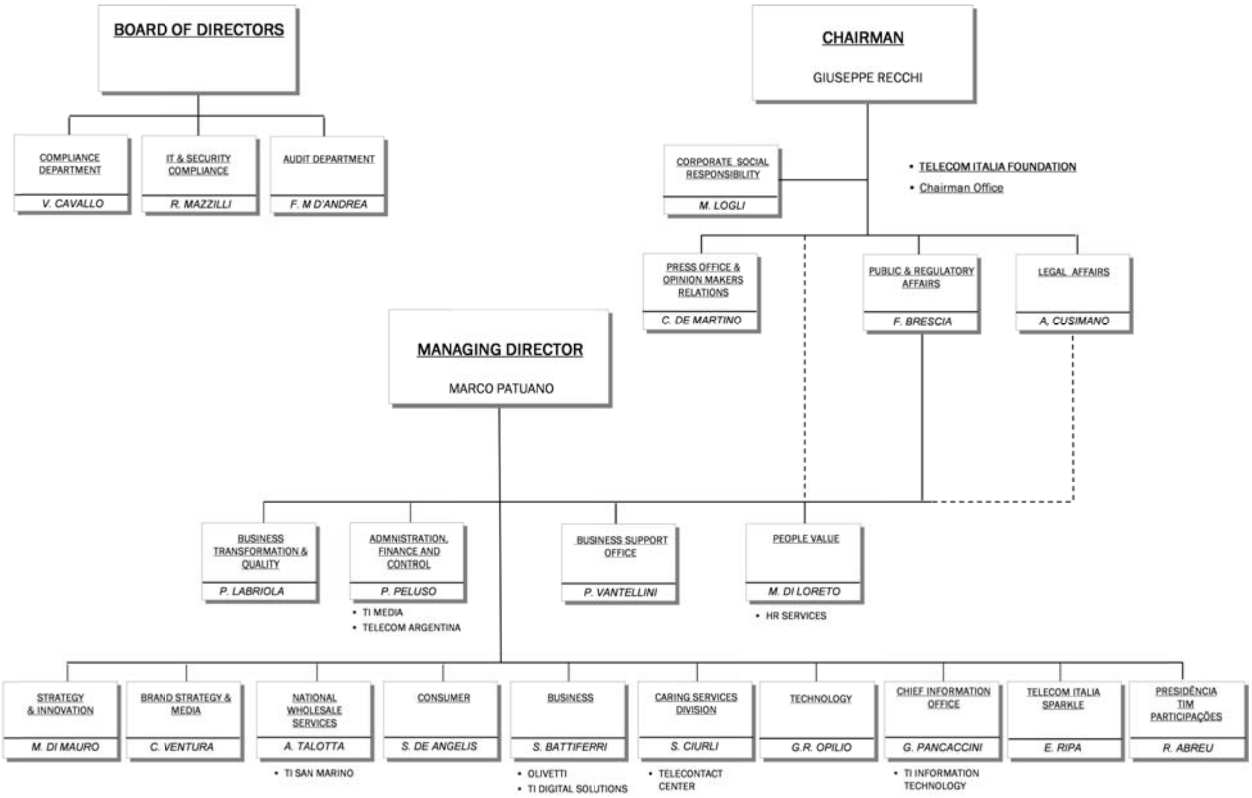
Independent Auditors

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 September 30, 2014



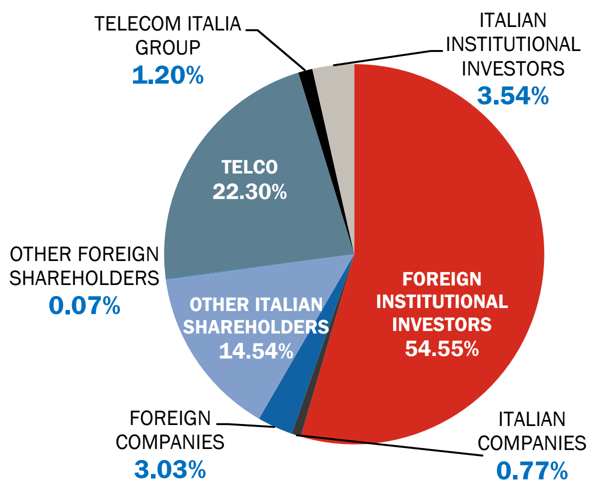
Information for Investors

Telecom Italia S.p.A. share capital at September 30, 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 September 2014 average prices)	16,436 million euros

Shareholders

Composition of Telecom Italia S.p.A. shareholders according to the Shareholders Book at September 30, 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 September 30, 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 and consequently on June 26, the board of directors of Telco approved the partial non-proportional demerger of the company, as a result of which there will be an allocation, in favor of four newly-established beneficially 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, and specifically: 14.77% the newco controlled by Telefónica, to 4.32% 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.

Completion of the transaction is subject to the obtainment of the necessary authorizations from the *Conselho Administrativo de Defesa Econômica* (CADE, Brazilian antitrust authority); *Agência Nacional de Telecomunicações* (Anatel, Brazilian regulatory authority); *Comision Nacional de Defensa de la Competencia* (CNDC, Argentine antitrust authority) and, to the extent applicable, by the Italian *Istituto per la Vigilanza sulle Assicurazioni* (Italian insurance supervisory authority).
As a result of the dilution of the Telco's holding in the ordinary share capital of Telecom Italia S.p.A., due to the issuance of new ordinary shares at the time of execution, with effect from July 31, 2014, of the Broad-Based Share Ownership Plan 2014, the percentages are to be considered updated as follows: 14.72% to the newco controlled by Telefónica, 4.30% to the newco of the Generali group, and 1.64% to each of the newcos controlled respectively by Intesa Sanpaolo and Mediobanca.

Major Holdings in Share Capital

At September 30, 2014, taking into account the results in the Shareholders Book, communications sent to Consob and the Company pursuant to Legislative Decree 58 dated February 24, 1998, art. 120 and other sources of information, the principal shareholders of Telecom Italia S.p.A. 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. communicated to 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 September 30, 2014.
- On October 1, 2014, Norges Bank communicated to Consob that it directly held a quantity of ordinary shares equal to 2.01% of total Telecom Italia S.p.A. ordinary shares.

Common Representative

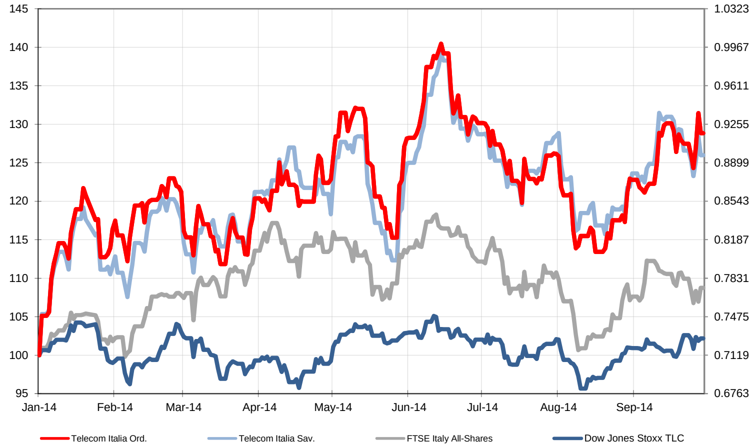
- The special meeting of the savings shareholders held on May 22, 2013 elected Dario Trevisan as the common representative for three financial years (up to the approval of the financial statements for the year ended December 31, 2015).
- By decree of April 11, 2014, the Milan Court confirmed the appointment 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", with a mandate for the three-year period 2012-2014.

Performance of the Stocks of the Major Companies in the Telecom Italia Group

Relative performance from January 1, 2014, to September 30, 2014

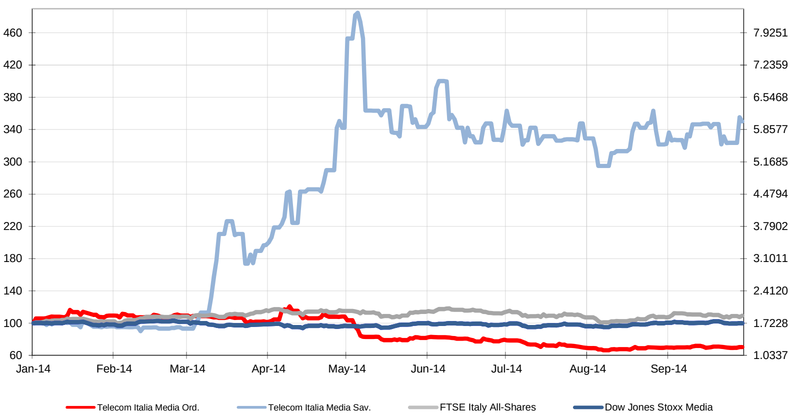
Telecom Italia S.p.A. vs. FTSE - All Shares Italia and DJ Stoxx TLC Indexes

Chart based on Telecom Italia ord. share price of EUR 0.7119 at January 2, 2014 – Stock market prices. Source: Reuters



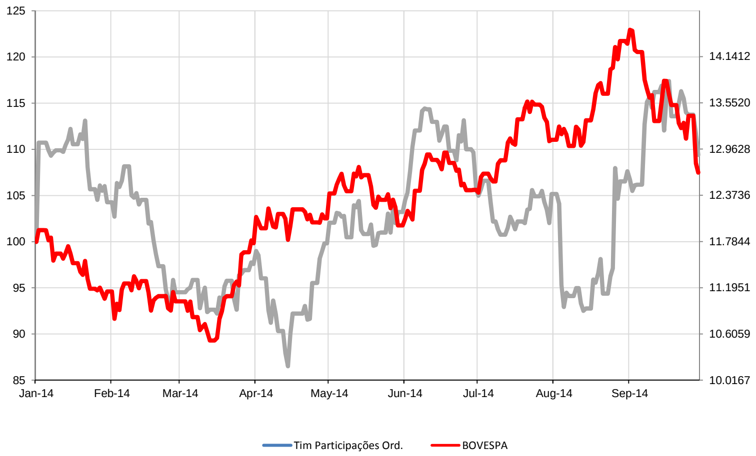
Telecom Italia Media S.p.A. vs. FTSE - All Shares Italia and DJ Stoxx Media Indexes

Chart based on Telecom Italia Media ord. share price of EUR 1.7228 at January 2, 2014 – Stock market prices. Source: Reuters.



Tim Participações S.A. vs. BOVESPA Index (in Brazilian reais)

Chart based on Tim Participações ord. share price BRL 11.78 at January 2, 2014 – Stock market prices. Source: Reuters.



Telecom Italia S.p.A. ordinary and savings shares and Tim Participações S.A. ordinary shares are listed on the New York Stock Exchange (NYSE). The shares are listed through American Depositary Shares (ADS) representing, respectively, 10 Telecom Italia S.p.A. ordinary shares and 10 savings shares and 5 Tim Participações S.A. ordinary shares.

Rating at September 30, 2014

At September 30, 2014, the three rating agencies – Standard & Poor's, Moody's and Fitch Ratings – rated Telecom Italia as follows:

	Rating	**Outlook**
STANDARD & POOR'S	BB+	Negative
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.

Significant non-recurring events and transactions

The effect of non-recurring events and transactions on the results of the Telecom Italia Group is set out below.

The impact of non-recurring items on the separate consolidated income statement line items is as follows:

(millions of euros)	9 months to 9/30/2014	9 months to 9/30/2013
Operating revenues and other income:		
Other income	74	–
Acquisition of goods and services, other operating expenses, change in inventories:		
Sundry expenses	(2)	(85)
Employee benefits expenses:		
Restructuring expenses	(1)	(21)
Impact on Operating profit (loss) before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	**71**	**(106)**
Gains (losses) on disposals of non-current assets:		
Gains on disposals of non-current assets	38	4
Losses on disposals of non-current assets	–	(100)
Impairment reversals (losses) on non-current assets:		
Impairment loss on Core Domestic goodwill	–	(2,187)
Impact on Operating profit (loss) (EBIT)	**109**	**(2,389)**
Other income (expenses) from investments:		
Fair value measurement of the investment in Trentino NGN S.r.l.	11	–
Impact on profit (loss) before tax from continuing operations	**120**	**(2,389)**
Effect on income taxes on non-recurring items	(18)	6
Other income/(expenses) relating to Discontinued operations	(2)	(6)
Impact on profit (loss) for the period	**100**	**(2,389)**

Positions or transactions resulting from atypical and/or unusual operations

In the first nine months of 2014, the Telecom Italia Group did not perform any atypical and/or unusual transactions, as defined by Consob Communication DEM/6064293 of July 28, 2006.

Alternative Performance Measures

In this Interim Report at September 30, 2014 of the Telecom Italia Group, 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 financial condition. Such measures, which are also presented in other periodical financial reports (annual and interim) should, however, not be construed 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), 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 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	

- 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 periods 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). This method of presenting information is also used in presentations to analysts and investors. This Interim Report 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 Interim Report includes a table showing the amounts taken from the statement of financial position and used to calculate the Net Financial Debt of the Group.
  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 Group Condensed Consolidated Financial Statements at September 30, 2014

Contents

Telecom Italia Group Condensed Consolidated Financial Statements at September 30, 2014

Consolidated Statements of Financial Position

Assets

(millions of euros)	note	9/30/2014	12/31/2013
Non-current assets			
Intangible assets			
Goodwill	5)	30,023	29,932
Other intangible assets	6)	5,941	6,280
		35,964	**36,212**
Tangible assets	7)		
Property, plant and equipment owned		12,320	12,299
Assets held under finance leases		838	920
		13,158	**13,219**
Other non-current assets			
Investments in associates and joint ventures accounted for using the equity method		35	65
Other investments		43	42
Non-current financial assets		1,998	1,256
Miscellaneous receivables and other non-current assets		1,534	1,607
Deferred tax assets		1,001	1,039
		4,611	**4,009**
Total Non-current assets	**(a)**	**53,733**	**53,440**
Current assets			
Inventories		354	365
Trade and miscellaneous receivables and other current assets		5,979	5,389
Current income tax receivables		26	123
Current financial assets			
Securities other than investments, financial receivables and other current financial assets		1,561	1,631
Cash and cash equivalents		4,106	5,744
		5,667	7,375
Current assets sub-total		**12,026**	**13,252**
Discontinued operations/Non-current assets held for sale	8)		
of a financial nature		424	657
of a non-financial nature		2,940	2,871
		3,364	**3,528**
Total Current assets	**(b)**	**15,390**	**16,780**
Total Assets	**(a+b)**	**69,123**	**70,220**

Equity and Liabilities

(millions of euros)		note	9/30/2014	12/31/2013
Equity		9)		
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 period			5,523	4,753
Equity attributable to owners of the Parent			**17,882**	**17,061**
Equity attributable to Non-controlling interests			3,326	3,125
Total Equity	**(c)**		**21,208**	**20,186**
Non-current liabilities				
Non-current financial liabilities		10)	33,027	31,084
Employee benefits			978	889
Deferred tax liabilities			372	234
Provisions			711	699
Miscellaneous payables and other non-current liabilities			747	779
Total Non-current liabilities	**(d)**		**35,835**	**33,685**
Current liabilities				
Current financial liabilities		10)	3,095	6,119
Trade and miscellaneous payables and other current liabilities			7,584	8,649
Current income tax payables			28	20
Current liabilities sub-total			**10,707**	**14,788**
Liabilities directly associated with Discontinued operations/Non-current assets held for sale		8)		
of a financial nature			28	27
of a non-financial nature			1,345	1,534
			1,373	**1,561**
Total Current Liabilities	**(e)**		**12,080**	**16,349**
Total Liabilities	**(f=d+e)**		**47,915**	**50,034**
Total Equity and Liabilities	**(c+f)**		**69,123**	**70,220**

Separate Consolidated Income Statements

(millions of euros)	note	3rd Quarter 2014	3rd Quarter 2013	9 months to 9/30/2014	9 months to 9/30/2013
Revenues		**5,421**	**5,676**	**15,972**	**17,564**
Other income		92	57	275	165
Total operating revenues and other income		**5,513**	**5,733**	**16,247**	**17,729**
Acquisition of goods and services		(2,330)	(2,487)	(6,887)	(7,785)
Employee benefits expenses		(724)	(683)	(2,320)	(2,334)
Other operating expenses		(296)	(272)	(855)	(989)
Change in inventories		(58)	16	(15)	109
Internally generated assets		138	132	418	410
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)		**2,243**	**2,439**	**6,588**	**7,140**
Depreciation and amortization		(1,075)	(1,090)	(3,229)	(3,395)
Gains (losses) on disposals of non-current assets		–	7	35	(75)
Impairment reversals (losses) on non-current assets		–	–	(1)	(2,187)
Operating profit (loss) (EBIT)		**1,168**	**1,356**	**3,393**	**1,483**
Share of losses (profits) of associates and joint ventures accounted for using the equity method		–	–	(5)	–
Other income (expenses) from investments		–	–	15	2
Finance income		765	145	1,630	1,563
Finance expenses		(1,256)	(680)	(3,367)	(3,078)
Profit (loss) before tax from continuing operations		**677**	**821**	**1,666**	**(30)**
Income tax expense		(220)	(293)	(637)	(836)
Profit (loss) from continuing operations		**457**	**528**	**1,029**	**(866)**
Profit (loss) from Discontinued operations/Non-current assets held for sale	8)	126	85	386	255
Profit (loss) for the period		**583**	**613**	**1,415**	**(611)**
Attributable to:					
Owners of the Parent		**442**	**505**	**985**	**(902)**
Non-controlling interests		141	108	430	291

(euros)	9 months to 9/30/2014	9 months to 9/30/2013
Earnings per share:		
Basic and Diluted Earnings Per Share (EPS)		
Ordinary Share	0.05	(0.05)
Savings Share	0.06	(0.05)
of which:		
from Continuing operations		
ordinary share	0.04	(0.06)
savings share	0.05	(0.06)
from Discontinued operations/Non-current assets held for sale		
ordinary share	0.01	0.01
savings share	0.01	0.01

Consolidated Statements of Comprehensive Income

Note 9

(millions of euros)		3rd Quarter 2014	3rd Quarter 2013	9 months to 9/30/2014	9 months to 9/30/2013
Profit (loss) for the period	**(a)**	**583**	**613**	**1,415**	**(611)**
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)		–	–	(129)	3
Net fiscal impact		–	–	35	(2)
	(b)	**–**	**–**	**(94)**	**1**
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)**	**–**	**–**	**(94)**	**1**
Other components that subsequently will be reclassified in the Separate Consolidated Income Statements					
Available-for-sale financial assets:					
Profit (loss) from fair value adjustments		15	10	56	(21)
Loss (profit) transferred to the Separate Consolidated Income Statements		(4)	(9)	(19)	(8)
Net fiscal impact		(2)	2	(9)	8
	(e)	**9**	**3**	**28**	**(21)**
Hedging instruments:					
Profit (loss) from fair value adjustments		374	(56)	313	(528)
Loss (profit) transferred to the Separate Consolidated Income Statement		(414)	41	(513)	318
Net fiscal impact		10	5	55	60
	(f)	**(30)**	**(10)**	**(145)**	**(150)**
Exchange differences on translating foreign operations:					
Profit (loss) on translating foreign operations		(72)	(448)	(44)	(1,068)
Loss (profit) on translating foreign operations transferred to the Separate Consolidated Income Statements		–	–	–	–
Net fiscal impact		–	–	–	–
	(g)	**(72)**	**(448)**	**(44)**	**(1,068)**
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 will be reclassified subsequently to the Separate Consolidated Income Statements	**(i=e+f+g+h)**	**(93)**	**(455)**	**(161)**	**(1,238)**
Total other components of the Consolidated Statements of Comprehensive Income	**(k=d+i)**	**(93)**	**(455)**	**(255)**	**(1,237)**
Total comprehensive income (loss) for the period	**(a+k)**	**490**	**158**	**1,160**	**(1,848)**
Attributable to:					
Owners of the Parent		**343**	**304**	**910**	**(1,621)**
Non-controlling interests		147	(146)	250	(227)

Consolidated Statements of Changes in Equity

Changes in equity from January 1, 2013 to September 30, 2013

(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 period	Total	Equity attributable to Non-controlling interests	Total equity
	Equity attributable to owners of the Parent										
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 period:											
Dividends approved								(452)	**(452)**	(55)	**(507)**
Total comprehensive income (loss) for the period			(21)	(150)	(550)	1	1	(902)	**(1,621)**	(227)	**(1,848)**
Effect of equity transactions of TI Media								(23)	**(23)**	23	**–**
Telecom Argentina group buy-back of treasury shares								(39)	**(39)**	(6)	**(45)**
Other changes								(6)	**(6)**	(9)	**(15)**
Balance at September 30, 2013	**10,604**	**1,704**	**22**	**(533)**	**(46)**	**155**	**–**	**5,331**	**17,237**	**3,360**	**20,597**

Changes in Equity from January 1, 2014 to September 30, 2014, Note 9

(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 period	Total	Equity attributable to Non-controlling interests	Total equity
	Equity attributable to owners of the Parent										
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 period:											
Dividends approved								(166)	**(166)**	(128)	**(294)**
Total comprehensive income (loss) for the period			28	(145)	136	(94)		985	**910**	250	**1,160**
Effect of Rete A acquisition									**–**	40	**40**
Issue of equity instruments	30	21						7	**58**		**58**
Other changes						(72)		91	**19**	39	**58**
Balance at September 30, 2014	**10,634**	**1,725**	**67**	**(706)**	**(241)**	**(34)**	**–**	**6,437**	**17,882**	**3,326**	**21,208**

Consolidated Statements of Cash Flows

(millions of euros)		note	9 months to 9/30/2014	9 months to 9/30/2013
Cash flows from operating activities:				
Profit (loss) from continuing operations			1,029	(866)
Adjustments for:				
Depreciation and amortization			3,229	3,395
Impairment losses (reversals) on non-current assets (including investments)			6	2,191
Net change in deferred tax assets and liabilities			260	411
Losses (gains) realized on disposals of non-current assets (including investments)			(35)	74
Share of losses (profits) of associates and joint ventures accounted for using the equity method			5	–
Change in employee benefits			(33)	(13)
Change in inventories			11	(99)
Change in trade receivables and net amounts due from customers on construction contracts			(314)	471
Change in trade payables			(651)	(966)
Net change in current income tax receivables/payables			391	13
Net change in miscellaneous receivables/payables and other assets/liabilities			(433)	(268)
Cash flows from (used in) operating activities	**(a)**		**3,465**	**4,343**
Cash flows from investing activities:				
Purchase of intangible assets on an accrual basis		6)	*(1,018)*	*(1,375)*
Purchase of tangible assets on an accrual basis		7)	*(1,622)*	*(1,662)*
Total purchase of intangible and tangible assets on an accrual basis			(2,640)	(3,037)
Change in amounts due to fixed asset suppliers			*(388)*	*(423)*
Total purchase of intangible and tangible assets on a cash basis			(3,028)	(3,460)
Acquisition of control of subsidiaries or other businesses, net of cash acquired			(8)	(8)
Acquisitions/disposals of other investments			(1)	–
Change in financial receivables and other financial assets			(635)	434
Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of			–	(108)
Proceeds from sale/repayment of intangible, tangible and other non-current assets			78	76
Cash flows from (used in) investing activities	**(b)**		**(3,594)**	**(3,066)**
Cash flows from financing activities:				
Change in current financial liabilities and other			969	(1,484)
Proceeds from non-current financial liabilities (including current portion)			3,349	2,764
Repayments of non-current financial liabilities (including current portion)			(5,594)	(3,885)
Share capital proceeds/reimbursements (including subsidiaries)			11	9
Dividends paid			(252)	(537)
Changes in ownership interests in consolidated subsidiaries			–	–
Cash flows from (used in) financing activities	**(c)**		**(1,517)**	**(3,133)**
Cash flows from (used in) Discontinued operations/Non-current assets held for sale	**(d)**	8)	**(324)**	**98**
Aggregate cash flows	**(e=a+b+c+d)**		**(1,970)**	**(1,758)**
Net cash and cash equivalents at beginning of the period	**(f)**		**6,296**	**7,397**
Net foreign exchange differences on net cash and cash equivalents	**(g)**		(31)	(252)
Net cash and cash equivalents at end of the period	**(h=e+f+g)**		**4,295**	**5,387**

Additional Cash Flow Information

(millions of euros)	9 months to 9/30/2014	9 months to 9/30/2013
Income taxes (paid) received	(6)	(431)
Interest expense paid	(4,132)	(2,124)
Interest income received	2,810	739
Dividends received	5	2

Analysis of Net Cash and Cash Equivalents

(millions of euros)	9 months to 9/30/2014	9 months to 9/30/2013
Net cash and cash equivalents at beginning of the period		
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 period		
Cash and cash equivalents - from continuing operations	4,106	4,869
Bank overdrafts repayable on demand – from continuing operations	(103)	(69)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale	292	587
Bank overdrafts repayable on demand – from Discontinued operations/Non-current assets held for sale	–	–
	4,295	**5,387**

Note 1
Form, content and other general information

Form and content

Telecom Italia (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.
As of September 30, 2014, the registered offices of the Parent, Telecom Italia, were located at Piazza degli Affari 2, Milan, Italy (moved to Via G. Negri 1, Milan, Italy, with effect from October 31, 2014).
The duration of Telecom Italia S.p.A., 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, particularly the fixed and mobile domestic and international telecommunications sector.
The Telecom Italia Group condensed consolidated financial statements at September 30, 2014 have been prepared on a going concern basis (further details are provided in the Note “Accounting policies”) and in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and endorsed by the European Union (designated as “IFRS”), as well as the laws and regulations in force in Italy.
In particular, the Telecom Italia Group condensed consolidated financial statements at September 30, 2014 have been prepared in accordance with IAS 34 (Interim Financial Reporting) and, as permitted by this standard, do not include all the information that would be required in the annual financial statements; accordingly, these financial statements should be read together with the 2013 Telecom Italia Group consolidated financial statements.
For purposes of comparison, the consolidated statement of financial position at December 31, 2013, the separate consolidated income statement and the consolidated statement of comprehensive income for the third quarter 2013 and the first nine months of 2013, as well as the consolidated statement of cash flows and the consolidated statement of changes in equity for the first nine months of 2013 have been presented. Furthermore, following the classification of the Sofora - Telecom Argentina group as discontinued operations starting from the last quarter of 2013, the separate consolidated income statement for the third quarter 2013 and the first nine months of 2013, as well as the consolidated statement of cash flows for the first nine months of 2013 have been restated accordingly.
The Telecom Italia Group condensed consolidated financial statements are expressed in euro, rounded to the nearest million, unless otherwise indicated.
Publication of the Telecom Italia Group condensed consolidated financial statements at September 30, 2014 was approved by resolution of the Board of Directors’ meeting held on November 6, 2014.

Financial statement formats

The financial statement formats adopted are consistent with those indicated in IAS 1. In particular:

- the **Consolidated statement of financial position** has been prepared by classifying assets and liabilities according to 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 the industrial sector of reference.

The separate consolidated income statement includes, in addition to EBIT, or Operating profit (loss), the performance measure 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). EBITDA 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
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 period 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*).

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 (in the case of Telecom Italia the Board of Directors) to make decisions about resources 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 geographic location (Domestic and Brazil) for the telecommunications business and according to the specific businesses for the other segments; additionally, following the inclusion of the Sofora – Telecom Argentina group under Discontinued operations in the fourth quarter of 2013, the Argentina Business Unit is no longer shown.
The term "operating segment" is considered synonymous with "Business Unit".
The operating segments of the Telecom Italia Group are as follows:

- **Domestic:** includes domestic operations 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 (office products and services for Information Technology), as well as the relative 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 corresponding period of the previous year have been reclassified on a consistent basis;

- **Brazil**: includes mobile (Tim Celular) and fixed (Tim Celular and Intelig) telecommunications operations in Brazil;
- **Media:** performs network operator activities through Persidera S.p.A. (former 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 condensed consolidated financial statements at September 30, 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 more than twelve months).
In particular, consideration has been given to the following factors which management believes, at this time, are not such as to generate 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 exogenous nature) to which the Group and the various activities of the Telecom Italia Group are exposed:
  - changes in the general macroeconomic situation 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 disputes and litigations with regulatory authorities, competitors and other parties;
  - financial risks (interest rate and/or exchange rate trends, changes in the Group's credit rating by rating agencies);
- the mix between equity and debt capital considered optimal as well as the policy for the remuneration of equity, described in the 2013 consolidated financial statements in the paragraph devoted to the "Share capital information" under the Note "Equity";
- the policy for financial risk management (market risk, credit risk and liquidity risk), as described in the Note "Financial risk management" in the annual consolidated financial statements at December 31, 2013.

Accounting policies and principles of consolidation

The accounting policies and principles of consolidation adopted in the preparation of the condensed consolidated financial statements at September 30, 2014 have been applied on a basis consistent with those used for the annual consolidated financial statements at December 31, 2013, to which reference should be made, except for:
- the use of the new standards and interpretations adopted by the Group since January 1, 2014, hereinafter described;
- the changes required because of the nature of interim financial reporting.

Furthermore, in the condensed consolidated financial statements at September 30, 2014, the income tax expense for the first nine months of the individual consolidated companies is calculated according to the best possible estimate based on available information and on a reasonable forecast of performance up to the end of the tax period. Conventionally, the income tax liabilities (current and deferred) on the profit for the interim period of the individual consolidated companies are recorded net of advances and tax receivables (excluding receivables for which refunds have been requested) as well as deferred tax assets, and classified in "Deferred tax liabilities"; if the balance between deferred tax assets and deferred tax liabilities is an asset it is conventionally recognized in "Deferred tax assets".

Use of accounting estimates

The preparation of the condensed consolidated financial statements at September 30, 2014 and related disclosure 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.
With regard to the most important accounting estimates, please refer to those illustrated in the annual consolidated financial statements at December 31, 2013.

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 32 (*Financial Instruments: Presentation-Offsetting Financial Assets and Financial liabilities*)**
  On December 13, 2012, EU issued the Regulation n. 1256-2012 that endorsed in the EU certain amendments by IASB to IAS 32 (*Financial Instruments*: *Presentation)* 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 the condensed consolidated financial statements at September 30, 2014.

- **Amendments to IAS 36 (*Recoverable Amount Disclosures for Non-Financial Assets*)**
  On December 19, 2013, EU issued the Regulation no. 1374-2013 that endorsed in the EU certain amendments to IAS 36 (*Impairment of Assets*), entitled *Recoverable Amount Disclosures for Non-Financial Assets* (*Amendments to IAS 36)*, addressing 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 the amendments had no impact on the disclosure provided in these condensed consolidated financial statements.

- **Amendments to IAS 39 (*Novation of Derivatives and Continuation of Hedge Accounting*)**
  On December 19, 2013, EU issued the Regulation n. 1375-2013 that endorsed in the EU certain amendments to IAS 39 (*Financial Instruments: Recognition and Measurement)*, entitled *Novation of derivatives and continuation of hedge accounting* (*Amendments to IAS 39*). The amendments permit the continuation of hedge accounting in the event that a hedging derivative is novated as a result of the application of laws or regulations, in order to replace the original counterpart to guarantee the fulfillment of the obligation undertaken and if specific conditions are met. Similar relief is 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 the condensed consolidated financial statements at September 30, 2014.

- **IFRIC 21 (*Levies*)**
  On June 13, 2014, EU issued the Regulation n. 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.

The 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 this interpretation had no impact on the condensed consolidated financial statements at September 30, 2014.

New Standards and Interpretations issued by IASB but not yet endorsed by the EU

At the date of preparation of the accompanying condensed 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
Amendments to IAS 19 (*Employee Benefits*): Defined Benefit Plans - Employee Contributions	1/1/2015
Improvements to the IFRS (2010–2012 cycle)	1/1/2015
Improvements to the IFRS (2011-2013 cycle)	1/1/2015
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
IFRS 15 (*Revenue from Contracts with Customers*)	1/1/2017
IFRS 9 (*Financial Instruments*)	1/1/2018

The potential impacts arising from their application on the consolidated financial statements are currently being assessed.

Note 3
Scope of consolidation

The changes in the scope of consolidation at September 30, 2014 compared to December 31, 2013 are listed below.

Continuing operations:

Entry/merger of subsidiaries into the scope of consolidation:

Company		Business Unit	Month
Entry:			
Telecom Italia Ventures S.r.l.	New company	Domestic	July 2014
Rete A S.p.A.	Acquisition of control	Media	June 2014
TIMB 2 S.r.l.	New company	Media	May 2014
TRENTINO NGN S.r.l.	Acquisition of control	Domestic	February 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

Discontinued operations/Non-current assets held for sale:

Exit of subsidiaries from the scope of consolidation:

Company		Business Unit	Month
Exit:			
SPRINGVILLE S.A.	Sold	Argentina	February 2014

Other than that noted above, there were no changes in the scope of consolidation at September 30, 2014 compared to September 30, 2013.

The breakdown by number of subsidiaries and associates of the Telecom Italia Group is as follows:

	9/30/2014		
Companies:	**Italy**	**Outside Italy**	**Total**
subsidiaries consolidated line-by-line(*)	26	61	87
associates accounted for using the equity method	14	-	14
Total companies	**40**	**61**	**101**

	12/31/2013		
Companies:	**Italy**	**Outside Italy**	**Total**
subsidiaries consolidated line-by-line(*)	38	62	100
associates accounted for using the equity method	14	-	14
Total companies	**52**	**62**	**114**

	9/30/2013		
Companies:	**Italy**	**Outside Italy**	**Total**
subsidiaries consolidated line-by-line(*)	38	62	100
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.

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 merger was completed of the digital terrestrial network operator for TV transmission businesses controlled by Persidera S.p.A. - former Telecom Italia Media Broadcasting S.r.l. - and Rete A S.p.A. (Rete A), respectively.
Telecom Italia Media and Gruppo Editoriale L'Espresso hold 70% and 30%, respectively, of shares in Persidera, which in turn controls Rete A's entire share capital.
The merger between Persidera and Rete A, which own three and two digital multiplexes, respectively, has given rise to the largest independent network operator in Italy, with five digital multiplexes and nationwide high-coverage infrastructure, based on next generation technologies. The group resulting from the transaction will be the primary supplier for the leading non-integrated national and foreign television content providers operating on the Italian market. This transaction will also generate significant 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. During the year 2014 – and in any event within 12 months of the transaction – the provisional amounts of assets and liabilities recognized at the acquisition date may be adjusted retroactively to reflect their fair value at the acquisition date, with consequent recalculation of the value of goodwill. In addition to the value of the Assets acquired and the Liabilities assumed, goodwill has been recognized, of 21 million euros, calculated as detailed in the following table:

(millions of euros)		**Provisional amounts at fair value**
Valuation of consideration	**(a)**	**40**
Value of assets acquired	**(b)**	52
Value of liabilities assumed	**(c)**	(33)
Goodwill	**(a–b-c)**	**21**

Rete A – values at the acquisition date

(millions of euros)		Current values at fair value	Carrying Values
Goodwill		21	-
Other non-current assets		45	45
Current assets		7	7
of which Cash and cash equivalents		-	-
Total assets	**(a)**	**73**	**52**
Total non-current liabilities		6	6
of which Non-current financial liabilities		-	-
Total current liabilities		27	27
of which Current financial liabilities		21	21
Total liabilities	**(b)**	**33**	**33**
Net assets	**(a-b)**	**40**	**19**

If the acquisition had been completed on January 1, 2014, the condensed consolidated financial statements at September 30, 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.
The agreements between the shareholders of the company, signed after the acquisition of control by Telecom Italia, provide for the cancellation of receivables for unpaid called-up capital with a corresponding reduction of share capital, already approved on June 4, 2014 and in the process of being executed. As a result of this transaction, already considered in the table above, the ownership interest in Trentino NGN S.r.l. will increase to 98.9%.

(millions of euros)		Values at fair value
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	**(a-d)**	**-**

Trentino NGN – values at the date of acquisition of control

(millions of euros)		Current values at fair value	Carrying Values
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 condensed consolidated financial statements at September 30, 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 Interim Report.

Note 5
Goodwill

Goodwill shows the following breakdown and changes during the first nine months of 2014:

(millions of euros)	12/31/2013	Increase	Decrease	Impairments	Exchange differences	9/30/2014
Domestic	28,443					28,443
Core Domestic	28,028	3				28,031
International Wholesale	415		(3)			412
Brazil	1,468				70	1,538
Media	21	21				42
Other Operations	–					–
Total	**29,932**	**21**	**–**	**–**	**70**	**30,023**

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 ownership interest held in Telecom Italia San Marino.
The increase of 91 million euros consisted of 21 million euros relating to the Media Business Unit following the recognition of provisional goodwill resulting from the acquisition of control and consequent consolidation of Rete A S.p.A., and of 70 million euros due to the exchange differences relating to the goodwill of the Brazil Business Unit.

In accordance with IAS 36, goodwill is not amortized, but is tested for impairment annually or more frequently if specific events or circumstances indicate that it may be impaired. At September 30, 2014, Telecom Italia's market capitalization, even though it had increased significantly compared with December 31, 2013 (+26%), was still less than the Equity value. The Group therefore repeated the impairment testing. This process did not identify any impairment loss, at September 30, 2014, as the estimate of the recoverable amount of all the CGUs examined was higher than their carrying amount.

The impairment test at September 30, 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 (Core Domestic and International Wholesale); the recoverable amount of the Brazil and Media CGUs is instead based on market capitalization (fair value).
For the Core Domestic and International Wholesale CGUs the formal estimate of recoverable amount has been made using the same method adopted for the annual impairment test, updating the related inputs (expected earnings flows, cost of capital, long-term growth rate, capital expenditure rate). In particular the analytical forecasts of plan cash flows for the Core Domestic CGU are based on the period last quarter 2014-2018, while the analytical forecasts of plan cash flows for the International Wholesale CGU are based on the period last quarter 2014-2016. Both are based on the 2014 forecast figures.

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

The nominal growth rates used to estimate the terminal value are the following:

Core Domestic	**International Wholesale**
+0.0%	+0.0%

The growth rates for the CGUs of the Domestic segment are in line with the range of growth rates applied by the analysts who monitor Telecom Italia shares.
Since the growth rate in the terminal value is in relation to the level of capital expenditures (capex) necessary to sustain that growth, for 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 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, adjusted to take into account the financial structure (Core Domestic CGU beta coefficient = 1.17; International Wholesale CGU beta coefficient = 0.78 (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	7.30	7.30
WACC post tax – g	7.30	7.30
WACC pre tax	10.53	10.60
WACC pre tax – g	10.53	10.60

The differences between the value in use and the carrying amounts before impairment testing at September 30, 2014 for the two CGUs considered amounted to:

(millions of euros)	Core Domestic	International Wholesale
Difference between values in use and carrying amounts	+ 1,287	+ 87

For purposes of the sensitivity analysis of the results of the estimates of the value in use, four principal variables were considered: the WACC pre-tax discount rate, the growth rate in the terminal value (g), the compound annual growth rate of EBITDA in the period considered, 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	10.53	10.60
Long-term growth rate (g)	0	0
Compound Annual Growth Rate (CAGR) of EBITDA	- 0.83	- 0.89
Capital expenditures rate (Capex/Revenues)	from 17.84 to 18.99	from 6.14 to 6.96

Changes in key variables needed to render the recoverable amount equal to the carrying amount

	Core Domestic %	International Wholesale %
Pre-tax discount rate	0.33	1.12
Long-term growth rate (g)	- 0.46	- 1.16
Compound Annual Growth Rate (CAGR) of EBITDA	- 0.95	- 1.97
Capital expenditures rate (Capex/Revenues)	0.94	0.73

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. 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

This item decreased by 339 million euros compared to December 31, 2013. The breakdown and movements are as follows:

(millions of euros)	12/31/2013	Additions	Amortization	Impairment (losses) / reversals	Disposals	Exchange differences	Other changes	9/30/2014
Industrial patents and intellectual property rights	**2,332**	559	(982)			40	188	**2,137**
Concessions, licenses, trademarks and similar rights	**3,394**	60	(278)		(60)	45	22	**3,183**
Other intangible assets with a finite useful life	**257**	46	(144)			1	1	**161**
Work in progress and advance payments	**297**	353			(1)	1	(190)	**460**
Total	**6,280**	**1,018**	**(1,404)**	**–**	**(61)**	**87**	**21**	**5,941**

Additions in the first nine months of 2014 also included 226 million euros of internally generated assets (226 million euros in the first nine months of 2013).

Net other changes were essentially attributable to the effects of the acquisition of control of Rete A (Media Business Unit) on June 30, 2014.

Industrial patents and intellectual property rights at September 30, 2014 essentially consisted of applications software purchased outright and user license rights acquired, and related to Telecom Italia S.p.A. (1,176 million euros) and the Brazil Business Unit (935 million euros).

Concessions, licenses, trademarks and similar rights at September 30, 2014 mainly consisted of:

- unamortized cost of telephone licenses and similar rights (2,215 million euros for Telecom Italia S.p.A. and 586 million euros for the Brazil Business Unit). On September 30, 2014, Anatel accepted the offer amounting to 1,947 million reais made by Tim Brasil group, which was thus awarded the right to use 700 MHz frequencies through which it will be able to offer fourth Generation technology mobile services (4G). The license will be formally allocated during the fourth quarter of 2014 and will result in the membership of the consortium that will carry out the cleaning up the 700 MHz spectrum, currently used by television broadcasters;
- Indefeasible Rights of Use – IRU (265 million euros) mainly relating to companies of the Telecom Italia Sparkle group (International Wholesale);
- the television frequencies of the Media Business Unit (117 million euros) which already include the effects of the recent acquisition of Rete A whose frequencies amounted to approximately 20 million euros. The expiry of the user licenses for the frequencies used for digital terrestrial transmission held by Persidera (formerly Telecom Italia Media Broadcasting) 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.

Other intangible assets with a finite useful life at September 30, 2014 essentially consisted of 139 million euros of capitalized subscriber acquisition costs (SAC) connected with certain commercial deals offered by Telecom Italia S.p.A..
In this regard, from 2014, Telecom Italia's new market strategy is aimed at gradually ceasing to subsidize handsets in the "bundle deals". More specifically, 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. With this in mind, 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 the first nine months of 2013 the capitalized costs for subsidizing handsets (amortized over the term of the contract with the customer, from 24 to 30 months) amounted to 138 million euros.

Note 7
Tangible assets (owned and under finance leases)

Property, plant and equipment owned

This item increased by 21 million euros compared to December 31, 2013. The breakdown and movements are as follows:

(millions of euros)	12/31/2013	Additions	Depreciation	Impairment (losses) / reversals	Disposals	Exchange differences	Other changes	9/30/2014
Land	**135**			(1)	(3)			**131**
Buildings (civil and industrial)	**380**	5	(31)		(34)	2	5	**327**
Plant and equipment	**10,594**	1,103	(1,558)		(6)	110	446	**10,689**
Manufacturing and distribution equipment	**41**	5	(11)				2	**37**
Other	**454**	47	(132)		(2)	8	69	**444**
Construction in progress and advance payments	**695**	442			(1)	12	(456)	**692**
Total	**12,299**	**1,602**	**(1,732)**	**(1)**	**(46)**	**132**	**66**	**12,320**

Additions in the first nine months of 2014 included 192 million euros of internally generated assets (184 million euros in the first nine months of 2013).

Net other changes were essentially attributable to the effects of the acquisition of the control of Trentino NGN S.r.l. on February 28, 2014 and of Rete A S.p.A. on June 30, 2014.

Assets held under finance leases

This item decreased 82 million euros compared to December 31, 2013. Details on the composition and movements are as follows:

(millions of euros)	12/31/2013	Additions	Depreciation	Other changes	9/30/2014
Buildings (civil and industrial)	**883**	9	(90)	8	**810**
Other	**5**		(3)		**2**
Construction in progress and advance payments	**32**	11		(17)	**26**
Total	**920**	**20**	**(93)**	**(9)**	**838**

Note 8
Discontinued operations/Non-current assets held for sale

Starting from the fourth quarter of 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".

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 million USD.
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 million USD. As a result, the Telecom Italia Group's economic interest in Telecom Argentina was reduced 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:

- on October 29, 2014, the first closing took place and, as a result, 17% of the Sofora - Telecom Argentina group was sold. Against this closing a consideration was received – also including other related assets – for a total amount of 215.7 million USD. As a result, the Telecom Italia Group's economic interest in Telecom Argentina was reduced to 14.47%;
- the sale to Fintech 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 made on October 29, 2014 to Telecom Italia and Telecom Italia International on a debt security worth 600.6 million USD 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 shall 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.

- As noted above, under the agreements, Telecom Italia International N.V. has issued and Fintech has fully subscribed a debt note 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, a pledge was also made 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 in line with the prevailing market conditions, given the currency of the issue and its duration, as well as a guarantee regarding the future performance by Fintech.
  The debt note 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 note in advance in whole or in part, subject to a brief notice period.

Lastly, please note that, starting from the end of July 2014, the Argentinian Government is 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 showing any 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.

Furthermore, please note that the price for the sale of the 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 Argentine Peso.

The breakdown of the assets and liabilities of the Sofora - Telecom Argentina group is provided below:

(millions of euros)		9/30/2014	12/31/2013
Discontinued operations/Non-current assets held for sale			
of a financial nature		424	657
of a non-financial nature		2,940	2,871
Total	**(a)**	**3,364**	**3,528**
Liabilities directly associated with Discontinued operations/Non-current assets held for sale			
of a financial nature		28	27
of a non-financial nature		1,345	1,534
Total	**(b)**	**1,373**	**1,561**
Net carrying amount of the assets related to the disposal group	**(a-b)**	**1,991**	**1,967**
of which amounts accumulated through the Statements of Comprehensive Income		*(1,334)*	*(1,019)*
Net carrying amount of the assets related to the disposal group attributable to the Owners of the Parent		371	367
of which amounts accumulated through the Statements of Comprehensive Income		*(231)*	*(170)*
Net carrying amount of the assets related to the disposal group attributable to Non-controlling interests		1,620	1,600
of which amounts accumulated through the Statements of Comprehensive Income		*(1,103)*	*(849)*

The amounts accumulated in Equity through the Statements of comprehensive income relate to the "Reserve for exchange differences on translating foreign operations", and total -1,334 million euros (-1,019 million euros at December 31, 2013).

The **assets of a financial nature** are broken down as follows:

(millions of euros)	9/30/2014	12/31/2013
Non-current financial assets	99	27
Current financial assets	325	630
Total	**424**	**657**

The **assets of a non-financial nature** are broken down as follows:

(millions of euros)	9/30/2014	12/31/2013
Non-current assets	2,373	2,322
Intangible assets	*771*	*825*
Tangible assets	*1,578*	*1,473*
Other non-current assets	*24*	*24*
Current assets	567	549
Total	**2,940**	**2,871**

The **liabilities of a financial nature** are broken down as follows:

(millions of euros)	9/30/2014	12/31/2013
Non-current financial liabilities	25	25
Current financial liabilities	3	2
Total	**28**	**27**

The **liabilities of a non-financial nature** are broken down as follows:

(millions of euros)	9/30/2014	12/31/2013
Non-current liabilities	483	491
Current liabilities	862	1,043
Total	**1,345**	**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)	9 months to 9/30/2014	9 months to 9/30/2013
Income statement effects from Discontinued operations/Non-current assets held for sale:		
Revenues	2,237	2,852
Other income	4	4
Operating expenses	(1,671)	(2,060)
Depreciation and amortization, gains (losses) on disposals and impairment losses on non-current assets	1	(443)
Operating profit (loss) (EBIT)	**571**	**353**
Finance income (expenses), net	25	54
Profit (loss) before tax from Discontinued operations/Non-current assets held for sale	596	407
Income tax expense	(206)	(144)
Profit (loss) after tax from Discontinued operations/Non-current assets held for sale	390	263
Other income statement impacts:		
Incidental costs and other minor entries connected to the sale of the Sofora - Telecom Argentina group	(2)	(2)
Other income/(expenses) connected to sales in previous years	(2)	(6)
Profit (loss) from Discontinued operations/Non-current assets held for sale	**386**	**255**

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)	9 months to 9/30/2014	9 months to 9/30/2013
Sofora - Telecom Argentina group	388	261
Other discontinued operations	(2)	(6)
Total	**386**	**255**

Furthermore, the consolidated statements of comprehensive income include the translation of foreign operations losses of the Sofora - Telecom Argentina group of 315 million euros in the first nine months of 2014 (415 million euros in the first nine months of 2013). Consequently, the overall result from Discontinued operations/Non-current assets held for sale was a positive 71 million euros in the first nine months of 2014 (a negative 160 million euros in the first nine months of 2013).

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Within the consolidated statements of cash flows the net impacts, expressed in terms of contribution to the consolidation, of the "Discontinued operations/Non-current assets held for sale" are broken down as follows:

(millions of euros) **Discontinued operations/Non-current assets held for sale**	**9 months to 9/30/2014**	**9 months to 9/30/2013**
Cash flows from (used in) operating activities	312	656
Cash flows from (used in) investing activities	(554)	(512)
Cash flows from (used in) financing activities	(82)	(46)
Total	**(324)**	**98**

Note 9
Equity

This item consisted of:

(millions of euros)	9/30/2014	12/31/2013
Equity attributable to owners of the Parent	17,882	17,061
Equity attributable to Non-controlling interests	3,326	3,125
Total	**21,208**	**20,186**

The composition of **Equity attributable to owners of the Parent** is the following:

(millions of euros)		9/30/2014		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 period		5,523		4,753
Reserve for available-for-sale financial assets	67		39	
Reserve for cash flow hedges	(706)		(561)	
Reserve for exchange differences on translating foreign operations	(241)		(377)	
Reserve for remeasurements of employee defined benefit plans (IAS 19)	(34)		132	
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 period	6,437		5,520	
Total		**17,882**		**17,061**

On the basis of the resolution passed by the shareholders' meeting held on April 16, 2014, the loss for the year 2013 shown in the financial statements of the Parent, Telecom Italia S.p.A., was covered by utilizing retained earnings (529 million euros) and reserves (499 million euros). An amount of 166 million euros was drawn from reserves for the payment of a preferred dividend to Savings Shareholders of 0.0275 euros for each saving share, gross of withholdings required by law.

The offer of ordinary shares to employees - for the maximum amount of 54 million shares as approved by the Board of Directors of March 6, 2014 in implementation of the mandate received from the Shareholders' Meeting of April 17, 2013 - took place from June 26 to July 10, 2014 and was subscribed by over 18,000 employees (around 34% of those entitled). The ordinary shares were offered for subscription at a price of 0.84 euros.
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.
Following this operation, the overall quantity of Telecom Italia ordinary shares issued is 13,470,955,451 and the share capital of Telecom Italia amounts to 10,723,391,861.60 euros.

Potential future changes in share capital

The table below shows future potential changes in share capital connected with the "Guaranteed Subordinated Mandatory Convertible Bonds due 2016, convertible into ordinary shares of Telecom Italia S.p.A." issued in November 2013 by Telecom Italia Finance S.A., with the authorizations to increase the share capital existing at September 30, 2014, and with the options and rights granted under equity compensation plans still outstanding at September 30, 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)	188,706	104	-	-
"Long Term Incentive Plan 2012" (capital increase in cash for Selected Management)	n.a.	4,299	n.a.	n.a.
"Long Term Incentive Plan 2012" (bonus capital increase for Selected Management)	n.a.	4,299	-	-
"Long Term Incentive Plan 2012" (bonus capital increase for Top Management)	n.a.	2,996	-	-
2014 Broad-Based Employee Share Ownership Plan (bonus capital increase)	17,970,642	9,884	-	-
2014-2016 Stock Option Plan	196,000,000	107,800	n.a.	n.a.
Total additional capital increases not yet approved (ordinary shares)		**129,382**		
2013 Guaranteed Subordinated Mandatory Convertible Bonds (ordinary shares)				
– principal	n.a.	1,300,000	n.a.	n.a.
– interest portion	n.a.	238,875	n.a.	n.a.
2013 Guaranteed Subordinated Mandatory Convertible Bonds (ordinary shares)		**1,538,875**		
Total		**1,668,257**		

(*) Amounts stated for capital increases connected with incentive plans and the "Guaranteed Subordinated Mandatory Convertible Bonds due 2016, convertible into ordinary shares of Telecom Italia S.p.A." are the "total estimated value" inclusive, where applicable, of any premiums.

In implementation of the resolution adopted on April 16, 2014 by the ordinary and extraordinary shareholders' meeting of Telecom Italia S.p.A., on June 26, 2014 the Board of Directors initiated the 2014-2016 Stock Option Plan aimed at three different categories of beneficiaries: Executive Directors, Top Management and Selected Management.

The Plan consists of the allocation to the Beneficiaries of Options for the purchase (through subscription or trading) of Telecom Italia Shares at a set price set at a ratio of one share for each option exercised. The Options, assigned through the letter of Assignment sent to each beneficiary in July 2014, will be exercisable at a variable amount based on the achievement of the performance objectives in the three-year period 2014-2016, consisting of the relative Total Shareholder Return (TSR) for Telecom Italia and the consolidated Free Cash Flow of the Group from the 2014-2016 industrial plan, each of which conditions 50% of the options. Beneficiaries identified after initial launch can be added to the plan up to the approval of the compensation report for the following year.

The Plan consists of a maximum of 196,000,000 options and to service the plan a specific authorization will be granted for a share capital increase against payment for a maximum amount of 196,000,000 newly-issued ordinary shares (with a maximum dilution of 1.01% with respect to total share capital and of 1.46% with respect to ordinary shares only as at December 31, 2013).

The options vested will be exercisable for a period of three years with effect from when the Board of Directors have ascertained the level of achievement of the objectives at December 31, 2016.

Note 10
Financial liabilities (non-current and current)

Non-current and current financial liabilities (gross financial debt) were broken down as follows:

(millions of euros)		9/30/2014	12/31/2013
Financial payables (medium/long-term):			
Bonds		23,198	22,060
Convertible bonds		1,414	1,454
Amounts due to banks		4,863	4,087
Other financial payables		357	356
		29,832	**27,957**
Finance lease liabilities (medium/long-term)		**1,004**	**1,100**
Other financial liabilities (medium/long-term):			
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature		2,055	2,026
Non-hedging derivatives		136	–
Other liabilities		–	1
		2,191	**2,027**
Total non-current financial liabilities	**(a)**	**33,027**	**31,084**
Financial payables (short-term):			
Bonds		1,200	2,503
Convertible bonds		70	10
Amounts due to banks		1,163	2,790
Other financial payables		358	400
		2,791	**5,703**
Finance lease liabilities (short-term)		**172**	**193**
Other financial liabilities (short-term):			
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature		123	207
Non-hedging derivatives		9	16
Other liabilities		–	–
		132	**223**
Total current financial liabilities	**(b)**	**3,095**	**6,119**
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale	**(c)**	**28**	**27**
Total Financial liabilities (Gross financial debt)	**(a+b+c)**	**36,150**	**37,230**

The subordinated fixed-rate equity-linked convertible bond issue of 1,300 million euros with mandatory conversion in Telecom Italia ordinary shares at maturity (2016), issued in November 2013 by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A., has been classified under Financial liabilities – Convertible bonds.

Gross financial debt according to the original currency of the transaction is as follows:

	9/30/2014		12/31/2013	
	(millions of foreign currency)	(millions of euros)	(millions of foreign currency)	(millions of euros)
USD	9,184	7,299	8,925	6,472
GBP	2,583	3,323	2,536	3,043
BRL	4,855	1,574	3,258	1,008
JPY	20,057	145	19,873	137
ARS	-	-	64	7
EURO		23,781		26,536
Total excluding Discontinued Operations		**36,122**		**37,203**
Discontinued operations		**28**		**27**
Total		**36,150**		**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)	9/30/2014	12/31/2013
Up to 2.5%	4,320	5,578
From 2.5% to 5%	6,370	6,042
From 5% to 7.5%	17,487	16,936
From 7.5% to 10%	3,567	4,503
Over 10%	583	468
Accruals/deferrals, MTM and derivatives	3,795	3,676
Total excluding Discontinued Operations	**36,122**	**37,203**
Discontinued operations	28	27
Total	**36,150**	**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)	9/30/2014	12/31/2013
Up to 2.5%	5,747	6,452
From 2.5% to 5%	9,986	9,051
From 5% to 7.5%	12,621	13,465
From 7.5% to 10%	2,814	4,022
Over 10%	1,159	537
Accruals/deferrals, MTM and derivatives	3,795	3,676
Total excluding Discontinued Operations	**36,122**	**37,203**
Discontinued operations	28	27
Total	**36,150**	**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)	2015	2016	2017	2018	2019	After 2019	Total
			maturing by 9/30 of the year:				
Bonds (*)	578	3,251	2,000	2,510	3,888	11,160	23,387
Loans and other financial liabilities	988	1,187	1,136	176	1,713	911	6,111
Finance lease liabilities	158	123	134	134	149	461	1,159
Total	**1,724**	**4,561**	**3,270**	**2,820**	**5,750**	**12,532**	**30,657**
Current financial liabilities	482						482
Total excluding Discontinued Operations	**2,206**	**4,561**	**3,270**	**2,820**	**5,750**	**12,532**	**31,139**
Discontinued operations	28						28
Total	**2,234**	**4,561**	**3,270**	**2,820**	**5,750**	**12,532**	**31,167**

(*) 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)	9/30/2014	12/31/2013
Non-current portion	23,198	22,060
Current portion	1,200	2,503
Total carrying amount	**24,398**	**24,563**
Fair value adjustment and measurements at amortized cost	(1,011)	(978)
Total nominal repayment amount	**23,387**	**23,585**

Convertible bonds relate entirely to the Mandatory Convertible Bond maturing in 2016, and are broken down as follows:

(millions of euros)	9/30/2014	12/31/2013
Non-current portion	1,414	1,454
Current portion	70	10
Total carrying amount	**1,484**	**1,464**
Fair value adjustment and measurements at amortized cost	(184)	(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 24,687 million euros, down 198 million euros compared to December 31, 2013 (24,885 million euros) as a result of the new issues, repayments and buybacks in the first nine months of 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 9/30/14 (%)	Market value at 9/30/14 (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	102.726	593
Euro	120	120	3 month Euribor + 0.66%	11/23/04	11/23/15	100	99.438	119
GBP	500	643.2	5.625%	6/29/05	12/29/15	99.878	103.987	669
Euro	771.6	771.6	5.125%	1/25/11	1/25/16	99.686	105.392	813
Euro	708	708	8.250%	3/19/09	3/21/16	99.740	110.379	781
Euro	400	400	3 month Euribor + 0.79%	6/7/07	6/7/16	100	99.874	399
Euro	1,000	1,000	7.000%	10/20/11	1/20/17	(a) 100.185	112.005	1,120
Euro	1,000	1,000	4.500%	9/20/12	9/20/17	99.693	107.504	1,075
GBP	750	964.9	7.375%	5/26/09	12/15/17	99.608	111.792	1,079
Euro	750	750	4.750%	5/25/11	5/25/18	99.889	108.813	816
Euro	750	750	6.125%	6/15/12	12/14/18	99.737	114.572	859
Euro	1,250	1,250	5.375%	1/29/04	1/29/19	99.070	111.511	1,394
GBP	850	1,093.5	6.375%	6/24/04	6/24/19	98.850	108.946	1,191
Euro	1,000	1,000	4.000%	12/21/12	1/21/20	99.184	105.805	1,058
Euro	1,000	1,000	4.875%	9/25/13	9/25/20	98.966	110.164	1,102
Euro	1,000	1,000	4.500%	1/23/14	1/25/21	99.447	108.114	1,081
Euro	(b) 195	195	6 month Euribor (base 365)	1/1/02	1/1/22	100	100	195
Euro	1,250	1,250	5.250%	2/10/10	2/10/22	99.295	112.728	1,409
GBP	400	514.6	5.875%	5/19/06	5/19/23	99.622	105.225	541
USD	1,500	1,192.1	5.303%	5/30/14	5/30/24	100	98.563	1,175
Euro	670	670	5.250%	3/17/05	3/17/55	99.667	100.091	671
Subtotal		16,850.6						18,140
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	122.229	1,589
JPY	20,000	144.8	3.550%	4/22/02	5/14/32	99.250	100.875	146
Euro	1,015	1,015	7.750%	1/24/03	1/24/33	(a) 109.646	129.460	1,314
Subtotal		2,459.8						3,049
Bonds issued by Telecom Italia Capital S.A. and guaranteed by Telecom Italia S.p.A.								
USD	(d) 765.2	608.1	5.250%	9/28/05	10/1/15	99.370	103.752	631
USD	1,000	794.7	6.999%	6/4/08	6/4/18	100	113.175	899
USD	1,000	794.7	7.175%	6/18/09	6/18/19	100	113.082	899
USD	1,000	794.7	6.375%	10/29/03	11/15/33	99.558	100.311	797
USD	1,000	794.7	6.000%	10/6/04	9/30/34	99.081	97.884	778
USD	1,000	794.7	7.200%	7/18/06	7/18/36	99.440	106.785	849
USD	1,000	794.7	7.721%	6/4/08	6/4/38	100	112.552	894
Subtotal		5,376.5						5,747
Total		24,686.9						26,936

(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 tables list the changes in bonds during the first nine months of 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 221 million USD during 2013.
(5) Net of buybacks by Telecom Italia S.p.A. of 722 million USD 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 (euro)	Repurchased nominal amount (euro)	Buyback price
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%

Medium/long-term **amounts due to banks** of 4,863 million euros (4,087 million euros at December 31, 2013) increased by 776 million euros. Short-term amounts due to banks totaled 1,163 million euros, decreasing 1,627 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 917 million euros for the current portion of medium/long-term amount due to banks.

Medium/long-term **other financial payables** amounted to 357 million euros (356 million euros at December 31, 2013). They included 182 million euros of payable due from Telecom Italia S.p.A. to the Ministry of Economic Development for the purchase of the rights of use for the 800, 1800 and 2600 MHz frequencies due in October 2016, and 146 million euros for Telecom Italia Finance S.A.'s loan of 20,000 million Japanese yen expiring in 2029. Short-term other financial payables amounted to 358 million euros (400 million euros at December 31, 2013), down 42 million euros. They included 120 million euros of the current part of the medium/long-term other financial payables, of which 102 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 1,004 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 172 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 2,055 million euros (2,026 million euros at December 31, 2013). Hedging derivatives relating to items classified as current liabilities of a financial nature totaled 123 million euros (207 million euros at December 31, 2013).

At September 30, 2014, **non-hedging derivatives** relating to items classified as non-current liabilities of a financial nature amounted to 136 million euros (zero million euros 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 September 30, 2014 the measurement of the option resulted in the recognition in the income statement of an expense of 199 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 9 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 September 30, 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 Bank 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 Bank 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, (1,550 million euros at 30 September 2014) 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 euros loan was signed, 300 million euros of which at direct risk (disbursed on September 30, 2014), while the remaining 50 million euros, guaranteed by the bank, at September 30, 2014 has not yet been disbursed.
As a result, as at September 30, 2014, the nominal amount of outstanding loans amounted to 2,750 million euros, of which 800 million euros at direct risk and 1,950 million euros secured.

EIB loans not secured by bank guarantees for a nominal amount equal to 500 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 1,950 million euros (in addition to the last loan amounting to 300 million euros, signed on July 30, 2014, even though it is at direct risk) must apply the following covenants:

- "Inclusion clause" (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 agreement signed on February 7, 2013 for an amount of 300 million euros, in the agreement signed on April 8, 2014 for an amount of 100 million euros, and in the agreement signed on July 30, 2014 for an amount of 300 million euros) under which in the event Telecom Italia commits to uphold in other loan contracts financial covenants which are not present or are stricter than those granted to the EIB, then the EIB will have the right to request the providing of guarantees or the modification of the loan contract in order to envisage an equivalent provision in favor of the EIB. The provision in question does not apply to subsidized loans until the remaining total amount of principal is above 500 million euros;
- "Network Event" (contemplated in the 300 million euros loan and in the 100 million euros loan guaranteed by SACE, both dated February 7, 2013, the 100 million euros loan dated April 8, 2014, and the agreement signed on July 30, 2014 for an amount of 300 million euros) according to which, against the disposal of the entire fixed network or of a substantial part of it (in any case more than half in quantitative terms) in favor of third parties or in case of disposal of the controlling interest in the company in which the network or a substantial part of it has previously been transferred, Telecom Italia shall immediately inform EIB, which shall have the option of requiring the provision of guarantees or amendment of the loan contract or an alternative solution.

The syndicated bank credit lines of Telecom Italia S.p.A. do not contain financial covenants (e.g. ratios such as Debt/EBITDA, EBITDA/Interests, etc.) which would oblige the Company to repay the outstanding loan if the covenants are not observed. Mechanisms are established for adjusting the cost of funding in relation to Telecom Italia's credit rating.
The syndicated credit lines 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.

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:

- Revolving Credit Facility ("2017 RCF") signed on May 24, 2012 for an amount of 4 billion euros and expiring on May 24, 2017 and Revolving Credit Facility ("2018 RCF") signed on March 25, 2013 for an amount of 3 billion euros and expiring on March 26, 2018:
  In the event of a change in control, Telecom Italia shall inform the agent within five business days and the agent, on behalf of the lending banks, shall negotiate, in good faith, how to continue the relationship. None of the parties shall be obliged to continue such negotiations beyond the term of 30 days, at the end of which, in the absence of an agreement with a single bank, the latter may request repayment of the amount disbursed and elimination of the amount relating to its commitment. Conventionally, no change of control is held to exist in the event control, pursuant to art. 2359 of the Italian Civil Code, is acquired (i) by shareholders who at the date of signing the agreement held, directly or indirectly, more than 13% of the voting rights in the shareholders' meeting, or (ii) by the investors (Telefónica S.A., Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A. and Mediobanca S.p.A.) which had signed a shareholders' agreement on April 28, 2007 regarding the Telecom Italia shares, or (iii) by a combination of parties belonging to the two categories;
- *Bonds:*
  - fixed rate guaranteed subordinated *equity-linked* mandatory convertible bonds, convertible into Telecom Italia S.p.A.ordinary shares, issued by Telecom Italia Finance S.A. (the "Issuer") and guaranteed by Telecom Italia S.p.A. (the "Guarantor"). The trust deed established that if there is a change of control, the Issuer must provide immediate notification of this to the Trustee and the 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 2.75 billion euros:
  - the contracts signed by Telecom Italia with the EIB, for an amount of 1.75 billion euros, carry the obligation of promptly informing the bank about changes regarding the bylaws or the allocation of share capital among the shareholders which can bring about a change in control. Failure to communicate this information to the bank shall result in the termination of the contract. The contract shall also be terminated when a shareholder, which, at the date of signing the contract does not hold at least 2% of the share capital, comes to hold more than 50% of the voting rights in the ordinary shareholders' meeting or, in any case, a number of shares such that it represents more than 50% of the share capital. Whenever, in the bank's reasonable opinion, this fact could cause a detriment to the bank or could compromise the execution of the loan project, the bank has the right to ask Telecom Italia to provide guarantees or modify the contract or find an alternative solution. Should Telecom Italia not comply with the requests of EIB, the bank has the right to terminate the contract;
  - the contracts signed by Telecom Italia with the EIB in 2011, 2013 and in 2014, for an amount of 1,100 million euros, carry the obligation of promptly informing the bank about changes involving its bylaws or shareholder structure. Failure to communicate this information to the bank shall result in the termination of the contract. With regard to the contracts in question, a Change of Control is generated if a subject or group of subjects acting in concert acquires control of

Telecom Italia, or of the entity that, directly or indirectly, controls Telecom Italia. No change of control is held to exist in the event control is acquired, directly or indirectly (i) by any shareholder of Telecom Italia that at the date of the contract holds, directly or indirectly, at least 13% of the voting rights in the shareholders' meeting, or (ii) by the investors Telefónica S.A., Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A. or Mediobanca S.p.A. or their subsidiaries. Under the assumption that there is a change in control, the bank has the right to ask for the early repayment of the loan.

- Loan contracts in general: 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.

Lastly, at September 30, 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 drawdown of the committed credit lines available at September 30, 2014:

(billions of euros)	9/30/2014		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 euros committed Revolving Credit Facility, the amount drawn down of 1.5 billion euros was repaid.
On the same date, the two RCFs became utilizable for 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 stand-by credit line expiring August 3, 2016 for 100 million euros from Banca Regionale Europea, drawn down for the full amount.

Telecom Italia Rating at September 30, 2014

At September 30, 2014, the three rating agencies — Standard & Poor's, Moody's and Fitch Ratings — rated Telecom Italia as follows:

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

Note 11
Net financial debt

The following table shows the net financial debt at September 30, 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)		9/30/2014	12/31/2013
Non-current financial liabilities		33,027	**31,084**
Current financial liabilities		3,095	**6,119**
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale		28	**27**
Total Gross financial debt	**(a)**	**36,150**	**37,230**
Non-current financial assets (°)			
Non-current financial receivables for lease contract		(100)	(58)
Non-current hedging derivatives		(1,753)	(1,018)
	(b)	**(1,853)**	**(1,076)**
Current financial assets			
Securities other than investments		(1,199)	(1,348)
Financial receivables and other current financial assets		(362)	(283)
Cash and cash equivalents		(4,106)	(5,744)
Financial assets relating to Discontinued operations/Non-current assets held for sale		(424)	(657)
	(c)	**(6,091)**	**(8,032)**
Net financial debt as per Consob communication DEM/6064293/2006	**(d=a+b+c)**	**28,206**	**28,122**
Non-current financial assets (°)			
Securities other than investments		(6)	(6)
Other financial receivables and other non-current financial assets		(139)	(174)
	(e)	**(145)**	**(180)**
Net financial debt(*)	**(f=d+e)**	**28,061**	**27,942**
Reversal of fair value measurement of derivatives and related financial assets/liabilities	(g)	(1,489)	(1,135)
Adjusted net financial debt	**(f+g)**	**26,572**	**26,807**

(°) At September 30, 2014 and at December 31, 2013, "Non-current financial assets" (b+e) amount to 1,998 million euros and 1,256 million euros, respectively.
(*) 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 ".

Note 12
Supplementary disclosures on financial instruments

The measurement at fair value of the financial instruments of the Group is classified according to the three levels set out in IFRS 7. In particular, the fair value hierarchy introduces three levels of input:

- Level 1: quoted prices in active market;
- Level 2: prices calculated using observable market inputs;
- Level 3: prices calculated using inputs that are not based on observable market data.

The tables below provide some of the supplementary disclosures on financial instruments, including the table relating to the fair value hierarchy level for each class of financial asset/liability at September 30, 2014 (excluding 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**
Financial assets Available-for-Sale	**AfS**
Financial Assets/Liabilities Held for Trading	**FAHfT and FLHfT**
Financial Liabilities at Amortized Cost	**FLAC**
Hedge Derivatives	**HD**
Not applicable	**n.a.**

Fair value hierarchy level for each class of financial asset/liability at 9/30/2014

(millions of euros)		IAS 39 Categories	note	Carrying amount in financial statements at 9/30/2014	Hierarchy Levels Level 1 (*)	Level 2 (*)	Level 3 (*)
ASSETS							
Non-current assets							
Other investments		AfS		43	3	14	
Securities, financial receivables and other non-current financial assets							
of which securities		AfS		6	6		
of which hedging derivatives		HD		1,753		1,753	
of which non-hedging derivatives		FAHfT		102		102	
	(a)			1,904	9	1,869	-
Current assets							
Securities							
of which available-for-sale financial assets		AfS		1,199	1,199		
Financial receivables and other current financial assets							
of which hedging derivatives		HD		263		263	
of which non-hedging derivatives		FAHfT		11		11	
	(b)			1,473	1,199	274	-
Total	(a+b)			3,377	1,208	2,143	-
LIABILITIES							
Non-current liabilities							
of which hedging derivatives		HD	10)	2,055		2,055	
of which non-hedging derivatives		FLHfT	10)	136			136
	(c)			2,191	-	2,055	136
Current liabilities							
of which hedging derivatives		HD	10)	123		123	
of which non-hedging derivatives		FLHfT	10)	9		9	
	(d)			132	-	132	-
Total	(c+d)			2,323	-	2,187	136

(*) Level 1: quoted prices in active markets.
Level 2: prices calculated using observable market inputs.
Level 3: prices calculated using inputs that are not based on observable market data.

Fair value measurements with unobservable inputs

The accounting of "Guaranteed Subordinated Mandatory Convertible Bonds due 2016, convertible into ordinary shares of Telecom Italia S.p.A.", issued by the subsidiary Telecom Italia Finance S.A. for a total of 1.3 billion euros, entailed the separate recognition in accounts of the option embedded in the financial instruments, distinctly from the debt liability itself.

The carrying amount of the embedded option was measured as the net carrying 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.

Specifically, volatility should be considered an unobservable input due to the lack of market data (stock exchange listing of the bond option) for a time horizon equal to the duration of the option. The figure is, therefore, an assumption based on the volatility implied by the price of the financial instrument, as negotiated at the issue stage, and market volatility for the nearest time horizon.

The following table shows the impact on the income statement of that valuation.

(millions of euros)	9/30/2014
Asset value at December 31, 2013	63
Transfers to/from Level 3	-
Profit (loss) recognized in the Consolidated Separate Income Statement	(199)
Profit (loss) recognized in other components of the Consolidated Comprehensive Income Statement	-
Asset value at September 30, 2014	**(136)**

The loss from the fair value adjustment at September 30, 2014 has been recognized under finance expenses.

The price of an option is sensitive to its volatility, in that the higher the volatility, the higher the price of the option. Reported below is a sensitivity analysis of the net carrying amount of the embedded option in relation to a series of changes expressed in percentage point terms of volatility.

(millions of euros)

Change in volatility of Telecom Italia S.p.A. ordinary shares	*-10 p.p.*	*-8 p.p.*	*-5 p.p.*	*+5 p.p.*	*+8 p.p.*	*+10 p.p.*
Change in the net carrying amount of the embedded option	*+4*	*+3*	*+1*	*-*	*-*	*-*
Net carrying amount of the embedded option	***(132)***	***(133)***	***(135)***	***(136)***	***(136)***	***(136)***

In the first nine months of 2014 no changes were made to the measurement technique.

Note 13
Contingent liabilities, other information

The most significant arbitration cases and legal or fiscal disputes in which the Telecom Italia Group is involved at September 30, 2014 are described below.
The Telecom Italia Group has posted liabilities totaling 176 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

For the following disputes and pending legal actions no significant facts have emerged with respect to what was published in the 2013 Annual Report:

- International tax and regulatory disputes
- Investigation by the Public Prosecutor's Office of Monza
- Administrative offence charge pursuant to Legislative Decree 231/2001 for the Telecom Italia Security Affair.

Telecom Italia Sparkle – Relations with I-Globe, Planetarium, Acumen, Accrue Telemedia and Diadem: investigation by the Rome Public Prosecutor's Office

On August 4, 2014, the Rome Court filed the grounds for the judgement, the ruling of which was pronounced on October 17, 2013. The Court fully acquitted the three former managers of Telecom Italia Sparkle from the charges of transnational conspiracy for the purpose of tax evasion and false declarations through the use of invoices of 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 acknowledged the correctness of their actions.
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 filed an application for the release of the seizure concerning:

- the sum of 10 million euros (seized at the time for precautionary reasons related to the proceedings);
- the return of the surety of 72,234,003.35 euros, issued at the time in favour of the Judicial Authority as guarantee of any obligations arising from the application of Legislative Decree no. 231/2001 (if found guilty of a crime pursuant to Legislative Decree no. 231/2001, in addition to administrative fines payable and any interdiction, Telecom Italia Sparkle may also be subject to possible confiscation of the proceeds of the offence which, in the charges brought at the time by the Public Prosecutors, would amount to that sum).

In granting the aforementioned requests the Judicial Authority, in a ruling in June 2014, ordered the release, and the return of the whole sum of the surety and return of the sum of 8,451,000 euros, maintaining the seizure of the sum of 1,549,000 euros, which corresponds to the maximum fine payable for the administrative offence of which the Company is accused.
An overall amount of approximately 72 million euros had been posted in the 2009 consolidated financial statements. Such amount has been released, short of 1.5 million euros which are still under seizure, as above.

So far as fiscal risk is concerned, following the notice served on February 13, 2014 by the Lazio Regional Office, relative to three penalty notices for violations of rules regarding income tax for the years 2005, 2006 and 2007, without prejudice to that already illustrated in the annual financial report, it is hereby stated that Telecom Italia Sparkle has appealed to the Provincial Tax Commission on April 10, 2014.

Official report of findings for Telecom Italia International N.V.

On June 2014, following a tax audit carried out by Guardia di Finanza in Milan, Italy, for longer than one year, the subsidiary Telecom Italia International N.V, incorporated in The Netherlands, has received an official report of findings for the years from 2005 to 2012. In the report the Guardia di Finanza claims that the above mentioned subsidiary should be considered resident of Italy for Italian tax purposes, based on considerations related to the Company's alleged, effective place of management.
It is worth highlighting that the report of finding does not represent – on its own – an assessment notice, since it is subject to the evaluations from the Italian Revenue Service, i.e. the Italian Agenzia delle Entrate (also taking into account the observations coming from the taxpayer). At a later stage, following such autonomous evaluations, the Agenzia delle Entrate will have to take its own decisions on the report of findings, either maintaining all or part of such findings within an assessment notice, or even not.
The Company believes, supported by authoritative professional opinions, that the claim is unfounded and has presented to the Agenzia delle Entrate its observations referring to the report of findings.

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 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.
On May 8, 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.

Of the disputes with the aforementioned characteristics, no significant facts have emerged for those listed below with respect to what was published in the 2013 Annual Report:

- Dispute relative to "Adjustments on license fees" for the years 1994-1998
- VODAFONE
- *Irregular sale of handsets to companies in San Marino - Investigation by the Public Prosecutor's Office of Forlì*
- POSTE
- *Brazil – Docas/JVCO arbitration*
- *Others – Telecom Argentina*
- TELETU

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 agreement 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 which Telecom confirmed its proposal.
The proceedings are now in the final stage. On 1st August the deadline for the completion of the preliminary investigation was postponed until December 31, 2014. The preliminary investigation phase closed on October 8, 2014. The decision is now pending.

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. The investigation aims to establish if an agreement exists that is prohibited pursuant to article 101 of the TFUE. 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.
In October 2014 Telecom appealed against this extension measure to the Administrative Court (TAR) of Lazio.

WIND

In October 2014 the following cases pending before the Milan Court brought by the operator WIND were settled by mediation:

- compensatory judgment initiated with a writ of summons dated January 2012 for the compensation for alleged damages (quantified at around 90 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);
- judgment brought with a writ of summons dated June 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.

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.

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 party.

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 will file an appearance challenging the claims of the other party.

Greece – DELAN

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 new name of TIM Hellas, a Greek subsidiary sold to the Telecom Italia Group in 2005). 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.
At the start of 2014 the parties moreover reached a settlement agreement to settle the dispute in arbitration and any other dispute in any way connected to the mentioned sale contract. The agreement, subject to the suspensive condition of settlement of the underlying appeal case between Wind Hellas and Carothers, essentially laid down that Telecom Italia International would pay, as full, final and integral settlement of any claim by Wind Hellas, a percentage of the value of said settlement, for a maximum of 31.8 million euros. In June, Wind Hellas announced that the condition had been fulfilled, following which Telecom Italia International paid the entire aforementioned amount that had been almost entirely set aside in the consolidated Financial Statements at 31 December 2013.
Upon the request of the parties, on 31 July 2014, the ICC Court declared the end of the arbitration procedure.

Brazil - Opportunity Arbitration

In late May 2012, Telecom Italia and Telecom Italia International N.V were served with an arbitration brought by the Opportunity group, claiming restoration of damages allegedly suffered as a consequence of the presumed breach of a certain settlement agreement 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, activities of former employees of the Security Department of Telecom Italia.

In August 2013 the Opportunity group filed a Statement of Claim, defining in detail its claims against Telecom Italia and Telecom Italia International and, in particular, specifying the facts cited and indicating the sources of proof, also in relation to quantification of the damages. On March 26, 2014 Telecom Italia and Telecom Italia International filed the Statement of Defense and Counterclaim rejecting the arguments of Opportunity and challenging its claims; the defendants also formulated a counterclaim for damages for breach of contract by Opportunity.

Once the preliminary investigation phase was complete, in July 2014 Opportunity filed the Statement of Reply and Defense to Counterclaim, confirming its claim for compensation for damages and contesting the counterclaim. In September, Telecom Italia and Telecom Italia International countered with the additional Statement of Rejoinder, reiterating their requests to the Arbitration Court, which was followed by Opportunity's challenge on the above point of the counterclaim in the Statement of Rejoinder to the Counterclaim.

The hearing for the pleading is scheduled for November 2014.

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 with an action rejected by the court in September 2014.

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 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”. Discussion of the case started in May 2014.

***

With regard to the criminal proceedings for the offence of "preventing the public supervisory authorities from performing their functions” against a former Executive Director (Mr. Riccardo Ruggiero) and two former managers related, in the charge, to the communication to AGCom of a customer base deemed to have been altered both by false extensions of 5,130,000 SIM cards topped up with 0.01 euros, and by activating 1,042,447 SIM cards deemed irregular and not topped up in the twelve months after activation, in November 2013 the 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 then proposed an appeal to the Court of Cassation against the judgment that there was "no case to answer", and on May 6, 2014 the Court ruled this appeal inadmissible.

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".

On September 22, 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 Finance Law (TUF).

The Company is analysing the documentation supporting the charge in order to prepare its defence and relies on the soundness of its supporting reasoning. The possible sanctions, in any case subject to appeal, would not result in a material impact on the company.

Olivetti – Asbestos exposure

On September 17, 2014 the Ivrea Public Prosecutor's Office closed the investigation on the presumed exposure to asbestos of some 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".

An examination of the notice of completion of the investigations pursuant to art. 415 bis of the Italian Code of Criminal Procedure reveals that the current subjects under investigation are 39 former Managers and Executives of the Companies mentioned above and that the investigations covered a period ranging from the early '60s to the end of the '90s.

At present the company plays no role in the criminal proceedings as it is currently not involved in the proceedings.

Note 14
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	
	9 months to 9/30/2014	9 months to 9/30/2013	9 months to 9/30/2014	9 months to 9/30/2013	9 months to 9/30/2014	9 months to 9/30/2013	9 months to 9/30/2014	9 months to 9/30/2013	9 months to 9/30/2014	9 months to 9/30/2013	9 months to 9/30/2014	9 months to 9/30/2013
Third-party revenues	11,308	12,183	4,614	5,273	50	108	–	–	–	–	15,972	17,564
Intragroup revenues	28	31	3	7	1	–	–	–	(32)	(38)	–	–
Revenues by operating segment	**11,336**	**12,214**	**4,617**	**5,280**	**51**	**108**	**–**	**–**	**(32)**	**(38)**	**15,972**	**17,564**
Other income	263	146	12	15	–	4	–	1	–	(1)	275	165
Total operating revenues and other income	**11,599**	**12,360**	**4,629**	**5,295**	**51**	**112**	**–**	**1**	**(32)**	**(39)**	**16,247**	**17,729**
Acquisition of goods and services	(4,196)	(4,402)	(2,688)	(3,321)	(24)	(87)	(5)	(6)	26	31	(6,887)	(7,785)
Employee benefits expenses	(2,034)	(2,045)	(279)	(263)	(5)	(24)	(2)	(2)	–	–	(2,320)	(2,334)
of which: accruals to employee severance indemnities	–	–	–	–	–	–	–	–	–	–	–	–
Other operating expenses	(400)	(489)	(452)	(490)	(3)	(8)	(1)	(3)	1	1	(855)	(989)
of which: write-downs and expenses in connection with credit management and provision charges	(199)	(229)	(123)	(131)	(2)	(5)	–	–	–	–	(324)	(365)
Change in inventories	(18)	62	3	46	–	1	–	–	–	–	(15)	109
Internally generated assets	345	345	68	59	–	–	–	–	5	6	418	410
EBITDA	**5,296**	**5,831**	**1,281**	**1,326**	**19**	**(6)**	**(8)**	**(10)**	**–**	**(1)**	**6,588**	**7,140**
Depreciation and amortization	(2,485)	(2,648)	(724)	(723)	(21)	(26)	–	–	1	2	(3,229)	(3,395)
Gains (losses) on disposals of non-current assets	35	4	–	–	–	(97)	–	18	–	–	35	(75)
Impairment reversals (losses) on non-current assets	(1)	(2,187)	–	–	–	–	–	–	–	–	(1)	(2,187)
EBIT	**2,845**	**1,000**	**557**	**603**	**(2)**	**(129)**	**(8)**	**8**	**1**	**1**	**3,393**	**1,483**
Share of losses (profits) of associates and joint ventures accounted for using the equity method	(5)	–	–	–	–	–	–	–	–	–	(5)	–
Other income (expenses) from investments											15	2
Finance income											1,630	1,563
Finance expenses											(3,367)	(3,078)
Profit (loss) before tax from continuing operations											**1,666**	**(30)**
Income tax expense											(637)	(836)
Profit (loss) from continuing operations											**1,029**	**(866)**
Profit (loss) from Discontinued operations/Non-current assets held for sale											386	255
Profit (loss) for the period											**1,415**	**(611)**
Attributable to:												
Owners of the Parent											**985**	**(902)**
Non-controlling interests											430	291

Revenues by Operating Segment

(millions of euros)	Domestic		Brazil		Media		Other Operations		Adjustments and eliminations		Consolidated Total	
	9 months to 9/30/2014	9 months to 9/30/2013	9 months to 9/30/2014	9 months to 9/30/2013	9 months to 9/30/2014	9 months to 9/30/2013	9 months to 9/30/2014	9 months to 9/30/2013	9 months to 9/30/2014	9 months to 9/30/2013	9 months to 9/30/2014	9 months to 9/30/2013
Revenues from equipment sales - third party	609	589	709	852	–	–	–	–	–	–	1,318	1,441
Revenues from equipment sales - intragroup	–	1	–	–	–	–	–	–	–	(1)	–	–
Total revenues from equipment sales	**609**	**590**	**709**	**852**	**–**	**–**	**–**	**–**	**–**	**(1)**	**1,318**	**1,441**
Revenues from services - third party	10,687	11,612	3,905	4,421	50	108	–	–	–	–	14,642	16,141
Revenues from services - intragroup	28	30	3	7	1	–	–	–	(32)	(37)	–	–
Total revenues from services	**10,715**	**11,642**	**3,908**	**4,428**	**51**	**108**	**–**	**–**	**(32)**	**(37)**	**14,642**	**16,141**
Revenues on construction contracts - third party	12	(18)	–	–	–	–	–	–	–	–	12	(18)
Revenues on construction contracts-intragroup	–	–	–	–	–	–	–	–	–	–	–	–
Total revenues on construction contracts	**12**	**(18)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**12**	**(18)**
Total third-party revenues	11,308	12,183	4,614	5,273	50	108	–	–	–	–	15,972	17,564
Total intragroup revenues	28	31	3	7	1	–	–	–	(32)	(38)	–	–
Total revenues by operating segment	**11,336**	**12,214**	**4,617**	**5,280**	**51**	**108**	**–**	**–**	**(32)**	**(38)**	**15,972**	**17,564**

Capital Expenditures by Operating Segment

(millions of euros)	Domestic		Brazil		Media		Other Operations		Adjustments and eliminations		Consolidated Total	
	9 months to 9/30/2014	9 months to 9/30/2013	9 months to 9/30/2014	9 months to 9/30/2013	9 months to 9/30/2014	9 months to 9/30/2013	9 months to 9/30/2014	9 months to 9/30/2013	9 months to 9/30/2014	9 months to 9/30/2013	9 months to 9/30/2014	9 months to 9/30/2013
Purchase of intangible assets	634	881	384	481	–	13	–	–	–	–	1,018	1,375
Purchase of tangible assets	1,158	1,144	459	511	5	7	–	–	–	–	1,622	1,662
Total capital expenditures	**1,792**	**2,025**	**843**	**992**	**5**	**20**	**–**	**–**	**–**	**–**	**2,640**	**3,037**

Headcount by Operating Segment

(number)	Domestic		Brazil		Media		Other Operations		Consolidated Total	
	9/30/2014	12/31/2013	9/30/2014	12/31/2013	9/30/2014	12/31/2013	9/30/2014	12/31/2013	9/30/2014	12/31/2013
Headcount (*)	**53,249**	**53,377**	**12,507**	**12,140**	**96**	**84**	**20**	**22**	**65,872**	**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	
	9/30/2014	12/31/2013	9/30/2014	12/31/2013	9/30/2014	12/31/2013	9/30/2014	12/31/2013	9/30/2014	12/31/2013	9/30/2014	12/31/2013
Non-current operating assets	44,034	44,878	6,383	5,971	255	207	6	7	(22)	(25)	50,656	51,038
Current operating assets	4,388	4,070	1,923	1,681	34	17	11	12	(33)	(26)	6,323	5,754
Total operating assets	48,422	48,948	8,306	7,652	289	224	17	19	(55)	(51)	56,979	56,792
Investments accounted for using the equity method	35	65	–	–	–	–	–	–	-	–	35	65
Discontinued operations/Non-current assets held for sale											3,364	3,528
Unallocated assets											8,745	9,835
Total Assets											**69,123**	**70,220**
Total operating liabilities	7,762	8,532	2,231	2,423	48	36	13	23	(53)	(48)	10,001	10,966
Liabilities directly associated with Discontinued operations/Non-current assets held for sale											1,373	1,561
Unallocated liabilities											36,541	37,507
Equity											21,208	20,186
Total Equity and Liabilities											**69,123**	**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	
		9 months to 9/30/2014	9 months to 9/30/2013	9 months to 9/30/2014	9 months to 9/30/2013	9/30/2014	12/31/2013
Italy	(a)	11,131	12,061	10,426	11,325	43,863	44,670
Outside Italy	(b)	4,841	5,503	5,546	6,239	6,793	6,368
Total	**(a+b)**	**15,972**	**17,564**	**15,972**	**17,564**	**50,656**	**51,038**

c) Information about major customers

None of the Telecom Italia Group's customers exceeds 10% of consolidated revenues.

Note 15
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.

With regard to transactions with related parties, on August 4, 2014, the threshold for the equivalent-value ratio of significant transactions – set at 3.5% of the consolidated equity of Telecom Italia (which corresponded to about 722 million euros at June 30, 2014, the reporting date of the latest periodic accounting document published) – was exceeded as a result of the execution of a series of sales of tax receivables during 2014, together with sales of trade receivables with advances to companies of the Intesa Sanpaolo Group, which is a related party of Telecom Italia according to the related parties procedure adopted by the Company (available for consultation on the Company's website at the following address www.telecomitalia.com, section Governance – channel governance system).

As a result of the exceeding of the threshold for significant transactions, pursuant to Article 5 of Consob Regulation 17221/2010, on August 14, 2014 an information document was published, available at the link http://www.telecomitalia.com/content/dam/telecomitalia/it/archivio/documenti/governance/verbali_atti_relazioni/2014/Documento-informativo-cessione-crediti-commerciali-IRES-12-agosto-clean-finale-ita.pdf.

Related party transactions, when not dictated by specific laws, were conducted at arm's length. The transactions were subject to the above-mentioned internal procedure, which establishes procedures and time scales for verification and monitoring.

The effects on the individual line items of the separate consolidated income statements for the first nine months of 2014 and 2013 are as follows:

SEPARATE CONSOLIDATED INCOME STATEMENT LINE ITEMS 9 MONTHS TO 9/30/2014

(millions of euros)	Total	Related Parties							
		Subsidiaries, 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	15,972	7	529			**536**	(123)	**413**	2.6
Other income	275		6			**6**		**6**	2.2
Acquisition of goods and services	6,887	20	320			**340**	(66)	**274**	4.0
Employee benefits expenses	2,320		8	63	9	**80**	(5)	**75**	3.2
Finance income	1,630		74			**74**		**74**	4.5
Finance expenses	3,367	6	122			**128**		**128**	3.8
Profit (loss) from Discontinued operations/Non-current assets held for sale	386	(5)	57			**52**			

(*) Other related parties both through directors, statutory auditors and key managers and as participants in shareholders' agreements pursuant to Article 122 of the Consolidated Law on Finance.

SEPARATE CONSOLIDATED INCOME STATEMENT LINE ITEMS 9 MONTHS TO 9/30/2013

(millions of euros)	Total	Related Parties							
		Subsidiaries, 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	**17,564**	8	684			**692**	(163)	**529**	3.0
Acquisition of goods and services	**7,785**	22	473			**495**	(103)	**392**	5.0
Employee benefits expenses	**2,334**		10	62	16	**88**	(7)	**81**	3.5
Finance income	**1,563**		51			**51**		**51**	3.3
Finance expenses	**3,078**	12	60			**72**		**72**	2.3
Profit (loss) from Discontinued operations/Non-current assets held for sale	**255**	(2)	55			**53**			

(*) Other related parties both through directors, statutory auditors and key managers and as participants in shareholders' agreements pursuant to Article 122 of the Consolidated Law on Finance.

The effects on the individual line items of the consolidated statement of financial position at September 30, 2014 and at December 31, 2013 are as follows:

CONSOLIDATED STATEMENT OF FINANCIAL POSITION LINE ITEMS AT 9/30/2014

(millions of euros)	Total	Related Parties						
		Subsidiaries, 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	(1,998)	**(5)**	**(290)**		**(295)**		**(295)**	14.8
Securities other than investments (current assets)	(1,199)		(53)		**(53)**		**(53)**	4.4
Financial receivables and other current financial assets	(362)		(20)		**(20)**		**(20)**	5.5
Cash and cash equivalents	(4,106)		(136)		**(136)**		**(136)**	3.3
Current financial assets	(5,667)		**(209)**		**(209)**		**(209)**	3.7
Discontinued operations/Non-current assets held for sale of a financial nature	(424)							
Non-current financial liabilities	33,027	**34**	**206**		**240**		**240**	0.7
Current financial liabilities	3,095	**48**	**75**		**123**		**123**	4.0
Liabilities directly associated with Discontinued operations/Non-current assets held for sale of a financial nature	28							
Total net financial debt	28,061	**77**	**(218)**		**(141)**		**(141)**	(0.5)
Other statement of financial position line items								
Trade and miscellaneous receivables and other current assets	5,979	6	154		**160**	(21)	**139**	2.3
Discontinued operations/Non-current assets held for sale of a non-financial nature	2,940		21		**21**			
Miscellaneous payables and other non-current liabilities	747		1		**1**		**1**	0.1
Trade and miscellaneous payables and other current liabilities	7,584	26	159	26	**211**	(17)	**194**	2.6
Liabilities directly associated with Discontinued operations/Non-current assets held for sale of a non-financial nature	1,345	7	10		**17**			

(*) Other related parties both through directors, statutory auditors and key managers and as participants in shareholders' agreements pursuant to Article 122 of the Consolidated Law on Finance.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION LINE ITEMS AT 12/31/2013

(millions of euros)	Total	Related Parties						
		Subsidiaries, 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 shareholders' agreements pursuant to Article 122 of the Consolidated Law on Finance.

The effects on the individual line items of the consolidated statements of cash flows for the first nine months of 2014 and 2013 are shown below:

CONSOLIDATED STATEMENT OF CASH FLOWS LINE ITEMS 9 MONTHS TO 9/30/2014

(millions of euros)	Total	Related Parties						
		Subsidiaries, 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	**2,640**	94	10		**104**		**104**	3.9

(*) Other related parties both through directors, statutory auditors and key managers and as participants in shareholders' agreements pursuant to Article 122 of the Consolidated Law on Finance.

CONSOLIDATED STATEMENT OF CASH FLOWS LINE ITEMS 9 MONTHS TO 9/30/2013

(millions of euros)	Total	Related Parties						
		Subsidiaries, 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	**3,037**	94	8		**102**		**102**	3.4
Dividends paid	**537**		62		**62**		**62**	11.5

(*) Other related parties both through directors, statutory auditors and key managers and as participants in shareholders' agreements pursuant to Article 122 of the Consolidated Law on Finance.

Remuneration to Key Managers

In the first nine months of 2014, the total remuneration recorded on the accrual basis by Telecom Italia S.p.A. or by subsidiaries of the Group in respect of Key Managers amounts to 9.4 million euros (15.7 million euros in the first nine months of 2013), detailed as follows:

(millions of euros)	9 months to 9/30/2014	9 months to 9/30/2013
Short-term remuneration	6.4	9.1
Long-term remuneration	0.1	0.9
Employment termination benefit incentives		5.1
Share-based payments (*)	2.9	0.6
	9.4	**15.7**

(*) These refer to the fair value of the rights, accrued to September 30, under Telecom Italia S.p.A.'s share-based incentive plans (LTI and SOP Plans).

The amounts shown in the table for the first nine months of 2014 do not include the effects of the cancellation of the assessments pertaining to the 2011 LTI Plan carried out in 2011, 2012 and 2013, due to the failure to achieve the three-year performance targets. These are broken down below:

- Long-term remuneration of -1.4 million euros
- Share-based payments of -1.2 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 the first nine months of 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 155,000 euros (430,000 euros for the first nine months of 2013).

In the first nine months of 2014, "Key Managers", that is, 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, are 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
Simone Battiferri		Head of Business
Franco Brescia		Head of Public & Regulatory Affairs
Antonino Cusimano		Head of Corporate Legal Affairs
Mario Di Loreto		Head of People Value
Giuseppe Roberto Opilio		Head of Technology
Piergiorgio Peluso		Head of Administration, Finance and Control
Luca Rossetto	(2)	Head of Consumer
Stefano De Angelis	(3)	
Alessandro Talotta		Head of National Wholesale Services
Paolo Vantellini		Business Support Officer

(1) from April 16, 2014

(2) up to August 12, 2014

(3) from August 13, 2014

Note 16
Events subsequent to September 30, 2014

Amendment agreements of the contract for the sale of the interest in the Sofora - Telecom Argentina group

On October 24, 2014, pursuant to the mandate of its Board of Directors, Telecom Italia accepted an offer from the Fintech group to amend and restate the original existing agreement, signed on 13 November, 2013, for the acquisition of Telecom Italia's entire interest in Telecom Argentina, held by Telecom Italia and Telecom Italia International through Sofora Telecomunicaciones and Nortel Inversora, and other related assets. The total aggregate consideration and payments contemplated by the agreement remains unchanged at 960 million USD.

Under the amended agreement, the sale of the 51% controlling interest in Sofora is conditional upon obtaining regulatory approval by the Argentine Secretaría de Comunicaciones. The sale is expected to take place within the next two and a half years. In the interim, a 17% non-controlling in Sofora has been sold to Fintech during October 2014.

Of the total amount resulting from the transaction:

- 113.7 million USD has already been received in 2013, as per the original agreement with Fintech,
  - in part in respect of the sale to Fintech of liquid assets held at the time by Tierra Argentea (a company controlled by Telecom Italia) and
  - in part in respect of amounts already reserved for dividends by Sofora;
- 215.7 million USD has been paid as consideration for the sale, which took place on October 29, 2014, to Fintech of a 17% non-controlling interest in Sofora held by Telecom Italia International and other related assets;
- an additional 550.6 million USD will be paid as the price for the sale of the 51% controlling interest in Sofora, held by Telecom Italia and Telecom Italia International.

The remaining 80 million USD will be paid, with portions paid only following closing of the sale of Telecom Italia's 51% controlling interest in Sofora to Fintech, pursuant to additional agreements related to the transaction, including an agreement to continue providing the Telecom Argentina group technical support and other services for up to three years, the waiver by Telecom Italia of certain rights under, as well as amendments to the current shareholder agreement relating to Telecom Argentina with the Werthein group.

If the sale of 51% of Sofora to Fintech is not completed within two and a half years, Telecom Italia may then elect to either

(i) terminate the agreement with Fintech and receive a six-month call option to purchase (or designate a Telecom Italia Group company to purchase) the 17% non-controlling in Sofora previously sold to Fintech pursuant to an agreed formulation or

(ii) pursue a sale of its 51% controlling interest in Sofora to a third party purchaser, subject to applicable regulatory approval and as to which Fintech has agreed to guarantee that Telecom Italia will receive an overall amount of at least 630.6 million USD. If the consideration for the, duly approved, sale exceeds the maximum guaranteed by Fintech, the difference will be split between Telecom Italia and Fintech according to an agreed formula.

If Telecom Italia is unable to complete a sale to a third party buyer within a further two and a half years, the agreement with Fintech will be terminated, Fintech will pay Telecom Italia an amount of 175 million USD and Telecom Italia will receive a six-month call option to purchase (or designate a Telecom Italia Group company to purchase) the 17% non-controlling in Sofora previously sold to Fintech.

Telecom Italia has received certain guarantees of performance under the agreements with Fintech, secured by the pledge of collateral by Fintech with a value of 600.6 million USD. In connection with this arrangement, on October 29, 2014, Telecom Italia International has issued a note subscribed by Fintech, which has been pledged by Fintech to Telecom Italia and Telecom Italia International. 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 S.p.A.) and its fully owned subsidiary (Telecom Italia International N.V.), 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 has been scrutinized by the Telecom Italia Control and Risk Committee.
The cash proceeds from the note of 600.6 million USD will increase the liquidity position of the Telecom Italia Group, without changing its Net Financial Position.
The majority of Sofora's Board of Directors will continue to be appointed by Telecom Italia Group until receipt of Argentine regulatory approval and closing of the sale of Telecom Italia's controlling interest in Sofora. No material change in the corporate governance of the Argentinean companies is foreseen.
At September 30, 2014, Telecom Italia held an economic interest of 19.3% in the Sofora - Telecom Argentina group, which posted revenues for 2013 of 27.3 billion Argentinean pesos (3.7 billion euros) with an EBITDA Margin of 27.6%.

Auction for mobile telephony frequencies in Argentina

The auction procedures, announced by the Secretaria de Comunicaciones for the allocation of the frequency bands to be used for the Servicio de Comunicaciones Personales ("PCS"), the Servicio de Radiocomunicaciones Movil Celular ("SRMC") and the Servicio de Comunicaciones Moviles Avanzadas ("SCMA") were carried out on October 31, 2014.

The four companies that had pre-qualified participated in this competition: Telecom Personal S.A., Telefonica Moviles Argentina S.A., Arlink S.A. and AMX Argentina S.A..

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

- one Lot for the SRMC service (3G),
- two Lots for the PCS service (3G),
- one Lot for the SCMA service (4G)

Telecom Personal offered a total amount of 658 million US dollars to acquire these frequency lots.
In accordance with the provisions of the Auction, within twenty days after the auction, the *Secretaria de Comunicaciones* will issue an administrative order awarding the frequency bands.

Declaration by the Manager Responsible for Preparing the Corporate Financial Reports

The manager responsible for preparing the corporate financial reports declares, pursuant to paragraph 2, art. 154-bis of the Consolidated Law on Finance, that the accounting disclosure contained in the Interim Report at September 30, 2014 of the Telecom Italia Group corresponds to the Company's documents, accounting records and entries.

The Manager Responsible for Preparing
the Company's Financial Reports

Piergiorgio Peluso