TELECOM ITALIA S P A
Form 20-F
April 14, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

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

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: December 31, 2015

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from N/A to N/A

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report

Commission file number 1-13882

Telecom Italia S.p.A.

(Exact name of Registrant as specified in its charter)

Italy

(Jurisdiction of incorporation or organization)

Via Gaetano Negri 1, 20123 Milan, Italy

(Address of principal executive offices)

Piergiorgio PELUSO

Head of Administration, Finance and Control

Telecom Italia S.p.A.

Corso d Italia, 41, 00198 Rome, Italy

+39.06.36.88.1

piergiorgio.peluso@telecomitalia.it

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of each class	**Name of each exchange on which registered**
American Depositary Shares, each representing 10 Ordinary Shares (the **Ordinary Share ADSs**)	The New York Stock Exchange
Ordinary Shares (the **Ordinary Shares**)	The New York Stock Exchange*
	The New York Stock Exchange

American Depositary Shares, each representing 10 Savings Shares (the **Savings Share ADSs**)
Savings Shares (the **Savings Shares**) The New York Stock Exchange*

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

None

(Title of Class)

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

None

(Title of Class)

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

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

Ordinary Shares 13,499,911,771

Savings Shares 6,027,791,699

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

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

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

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

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

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

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

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

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

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INTRODUCTION

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

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

Unless otherwise indicated, any reference in this Annual Report to Consolidated Financial Statements is to the Consolidated Financial Statements for the year ended December 31, 2015 of the Telecom Italia Group (including the notes thereto) included elsewhere herein.

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

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

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

The forward-looking statements in this Annual Report include, but are not limited to, the discussion of the changing dynamics of the telecommunications marketplace, including the continuing developments in competition in all aspects of our businesses from new competitors and from new and enhanced technologies, our outlook for growth in the telecommunications industry both within and outside of Italy, including our outlook regarding developments in the telecommunications industry, and certain trends we have identified in our core markets, including regulatory developments.

Such statements include, but are not limited to, statements under the following headings: (i) Item 3. Key Information 3.1 Risk Factors , (ii) Item 4. Information on the Telecom Italia Group 4.1 Business 4.1.7 Updated Strategy (iii) Item 4. Information on the Telecom Italia Group 4.3 Regulation , (iv) Item 5. Operating and Financial Review and Prospects , (v) Item 8. Financial Information 8.2 Legal Proceedings and (vi) Item 11. Quantitative and Qualitative Disclosures About Market Risks , including statements regarding the likely effect of matters discussed therein.

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

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

- our ability to successfully implement our strategy in the future;

- a further deterioration of the economic environment in the principal markets in which we operate, including, in particular, our core Italian market;

- the impact of regulatory decisions and changes in the regulatory environment in Italy, Brazil and other countries in which we operate;

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

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

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Introduction

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

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

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KEY DEFINITIONS

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

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

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

In addition, we use the measure Accesses when considering certain statistical and other data for our domestic Italian business. Access refers to a connection to any of the telecommunications services offered by the Group in Italy. The following are the main categories of accesses:

· **Physical Accesses:** in the domestic fixed telephony business, includes retail accesses, as well as wholesale accesses directly managed by Telecom Italia, excluding OLOs, for which infrastructure is fully developed, and FWA-Fixed Wireless Accesses;

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

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

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

Item 2. Offer Statistics and Expected Timetable

PART I

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

Item 3. KEY INFORMATION

3.1 RISK FACTORS

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

We present below:

1) our main objectives as set out in our 2016-2018 three-year strategic plan (the **2016-2018 Plan** or the **Plan**); and

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

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

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

On February 16, 2016, we presented our updated Plan, which, following up on the previous strategic plan, provides for an acceleration of investments over the Plan period, with the primary aim of ensuring long-term growth for the Group.

The main strategic priorities in the Domestic (Italian) Market are:

· acceleration of investments, mainly those relating to innovative networks and services;

· completing the transition from traditional telecommunications company to digital telecommunications & platform company, an enabler of the country s digital life;

· in the Mobile segment, Telecom Italia will aim to accelerate the penetration of smart devices and to market bundle offers that generate a higher ARPU;

· in the Fixed segment, the Group plans to minimize the decrease of its customer base;

· convergence continues to be central to the Group s growth and innovative investments strategy;

· strengthening the position in multimedia entertainment;

· thanks to its ICT and cloud services, Telecom Italia also intends to continue helping Italian businesses enable their digital transformation process;

· maintaining strong financial discipline.

The main strategic priorities in the Brazilian Market are:

· strengthen Telecom Italia s market position by leveraging network quality, innovation and customer experience;

· protect value of prepaid customer base, shifting focus from lines market share to share of total revenue;

· increase share of mid/high value customers;

· shore up the corporate customer base;

· sustain network investment through the adoption of a prioritized approach and focus on 4G;

· focus on efficiency.

[1] CoSO Report-ERM Integrated Framework 2004.

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Item 3. Key Information **Risk Factors**

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

- a further deterioration of the economic environment in the principal markets in which we operate, including, in particular, our core Italian market;
- the impact of regulatory decisions and changes in the regulatory environment in Italy, Brazil and other countries in which we operate;
- the impact of political developments in Italy, Brazil and other countries in which we operate;
- our ability to successfully meet competition on both price and innovation capabilities of new products and services;
- our ability to develop and introduce new technologies which are attractive in our principal markets, to manage innovation, to supply value added services and to increase the use of our fixed and mobile networks;
- our ability to successfully implement our internet and broadband strategy;
- our ability to successfully achieve our financial targets (including debt reduction);
- the impact of fluctuations in currency exchange and interest rates and the performance of the equity markets in general;
- the outcome of litigation, disputes and investigations in which we are involved or may become involved;
- our ability to build up our business in adjacent markets and in international markets (particularly in Brazil), due to our specialist and technical resources;
- our ability to achieve the expected return on the investments and capital expenditures we have made and continue to make in Italy and Brazil;

- the amount and timing of any future impairment charges for our authorizations, goodwill or other assets;

- our ability to manage any business transformation plans and, as a consequence, reduce costs;

- any difficulties which we may encounter in our supply and procurement processes, including as a result of the insolvency or financial weaknesses of our suppliers; and

- the costs we incur due to unexpected events, in particular where our insurance is not sufficient to cover such costs.

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

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

STRATEGIC RISKS

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

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

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

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Item 3. Key Information **Risk Factors**

In Brazil, the market is affected by a macroeconomic environment that continues to deteriorate, resulting in shrinking domestic demand, rising inflation, and a sharp depreciation of the Brazilian Real. Should key macroeconomic indicators continue to worsen, we may not be able to achieve our strategic objectives, which are linked to improvements in domestic demand.

Telecommunications operators generally have faced challenging markets in recent years, principally as a result of factors such as a decline in voice traffic and significant pricing pressures resulting from increased competition among the operators.

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

Our strategy includes transitioning from a traditional telecommunications company to digital telecommunications & platform company: This strategy will require a broad review of Telecom Italia s processes and operating model and consideration of external variables related to this transition. Realization times related to the transition may be greater than expected, resulting in lower and / or delayed cost savings.

Risks associated with Telecom Italia s ownership chain

As of the date hereof, the largest single shareholder in the Company is Vivendi S.A. (**Vivendi**), which holds, directly and indirectly, a stake of approximately 24.90% of ordinary share capital. With a holding of this size, Vivendi can exercise significant influence over matters subject to a vote of the ordinary shareholders of the Company, such as nominations to the Board of Directors (the **Board**).

Competition Risks

Alternative infrastructure operators in Italy could pose a threat to us, particularly in the medium to long term.

The network development by Alt Net (Alternative network operators) on a standalone basis or through their partnership with the OLOs could adversely impact our businesses, assets and goodwill and, as a consequence, our economic and financial performance. In particular, the risks we face are:

· increasing competition in the National Wholesale Market, with potential losses with respect to our customer base and revenues.

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in geographical areas already affected by competition, a further loss of retail market share and, as a consequence, a loss of revenues;

· loss of retail market share in areas where competitors have not historically focused.

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

Strong competition exists in all of the principal telecommunications business areas in Italy in which we operate. Competition has become even more acute in recent years with the entry of international operators, that compete directly with us in the Italian market.

Moreover, convergence has enabled lateral competition from Information Technology (or IT), over-the-top (or OTT), Media and Devices/Consumer Electronic players. This competition may further increase due to the consolidation and globalization of the telecommunications industry in Europe, including Italy, and elsewhere.

The emergence of alternative infrastructure operators could pose a threat to us, particularly in the long term.

In 2015, price competition for traditional services in our core Italian market experienced a slowdown as compared to the prior two years. However, price competition in our principal lines of business has led, and could lead, to:

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

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

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

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

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

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

Historically, we have generated a substantial portion of our revenues from voice and SMS services, particularly in our mobile business in Italy, and the substitution of data services for these traditional voice and SMS volumes has had and is likely to continue to have a negative impact on our revenues and profitability.

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

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

The continuing development of Internet and broadband services constitutes a strategic objective for us. We aim to increase the use of our networks in Italy and abroad to offset the continuing decline of traditional voice services. Our ability to successfully implement this strategy may be negatively affected if:

- broadband coverage does not grow as we expect;
- competition grows to include players from adjacent markets or technological developments introducing new platforms for Internet access and/or Internet distribution;

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- we are unable to provide broadband/fiber connections superior to those of our competitors; and

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

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

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

We intend to continue focusing on Information Technology-Telecommunication (**IT-TLC**) convergence by addressing the ICT market, offering network and infrastructure management, as well as application management. In particular, as the market for cloud service continues to grow, the ICT market becomes a key element of our strategy.

We expect to experience increasing competition in this market as additional competitors (mainly telecommunications operators through acquisition and partnership with IT operators) also enter this market. If we fail to develop our market share or compete effectively, our revenues could be negatively affected.

Our business may be adversely affected if we fail to successfully implement our strategy with respect to next generation networks strategy.

One of our goals is to accelerate the roll-out of a new telecommunications network capable of providing customers with ultra-broadband connections, generally referred to as a next generation network (**NGN**).

However, implementation of ultra-broadband technologies is dependent on a number of factors, some of which are outside of our control, including the following:

- obtaining the necessary regulatory permissions and authorizations, and winning the relevant contracts for installation of NGN lines;

- our ability to apply innovative techniques in excavating for and laying fiber optic cables.

In areas not provided for under our development plan or where implementation of the ultra-broadband plan is conditioned upon the grant of public funds, in addition to those listed above, the following factor should be considered:

- the allocation of public funds at a local level;

- the fulfilment of the technical and economic conditions contained in the Agreement on the methods of access to the cabinets of Telecom Italia , signed by us, Fastweb and Infratel;

- the fulfilment of the technical and economic conditions related to the EuroSUD (a European funding telematic counter) tenders awarded to us; and

- the launch of the tenders for the grant of public funds in a time frame that is consistent with our projected timetable.

If we fail to achieve our objectives for the implementation of ultra-broadband coverage in a timely manner or at all, we may lose market share to our competitors in this strategically important segment, which may have adverse effects on the Group s business, financial condition and results of operations.

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

Changes in political conditions in Italy and in other countries where we have made significant investments (particularly in countries where the political situation is less predictable than in Western Europe) may have an adverse effect upon our business, financial condition, results of operations and cash flows.

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

In 2012, regulations relating to the special powers regarding strategic assets in the energy, transport and communications sectors were published and became effective (Law Decree n. 21 of March 15, 2012, adopted with modifications by Law n. 56 of May 11, 2012).

Following enactment of such regulation, art. 3 of Presidential Decree n. 85 of March 25, 2014 identified the following as strategic assets in the communications sector:

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

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

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

Presidential Decree n. 86 of March 25, 2014 sets out the procedures for handling of special powers in the communications sector.

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

· the power of the Italian Government to impose conditions and possibly to oppose the purchase, under certain conditions, by non-EU entities, of controlling shareholdings in companies which hold the aforementioned type of assets. Until the end of the 15-day period from the notice of the purchase, within which conditions may be imposed, or the power to oppose the initiative exercised, the voting rights (and any rights other than the property rights) connected to shares whose sale entails the transfer of control, will be suspended. The same rights will be suspended in the case of any non-compliance with or breach of the conditions imposed on the purchaser, for the whole of the period in which the non-compliance or breach persists. Any resolutions adopted with the determining vote of said shares or holdings, as well as the resolutions or acts adopted that breach or do not comply with the conditions imposed, will be null and void;

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

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

OPERATIONAL RISKS

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

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

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

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

In addition, our operations involve the processing and storage of large amounts of customer data on a daily basis and require an uninterrupted, accurate, permanently available, real-time and safe transmission and storage of customer and other data in compliance with applicable laws and regulations. The proper functioning of, including prevention of unauthorized access to, our networks, systems, computers, applications and data, such as customer accounting, network control, data hosting, cloud computing and other information technology systems is critical to our operations. We may be held liable for the loss, release, disclosure or inappropriate modification of the customer data stored on our equipment or carried by our networks. IT system failure, interruption of service availability, industrial espionage, cyber-attack or data leakage, in particular relating to customer data, could seriously limit our ability to service our clients, result in significant compensation costs for which indemnification or insurance coverage may be only partially available, result in a breach of laws and regulations under which we operate or lead to fines and could cause long-term damage to our business and reputation.

Our business depends on the upgrading of our existing networks.

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

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

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

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

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

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

If we, or another Group company, lose any of the legal proceedings to which we are a party, and are ordered to pay amounts greater than what we have recognized to cover potential liabilities, we may face adverse effects with respect to our and/or our Group s operations, financial position, income statement and cash flows.

The final outcomes of those proceedings are generally uncertain. As of December 31, 2015, we had, on a consolidated basis, recognized potential liabilities of 595 million euros. In recognizing these liabilities, we took into consideration the risks connected with each dispute and the relevant accounting standards, which require reserves to be recognized where liabilities are probable and can be estimated reliably. The provisions represent an estimate of the financial risk connected with the particular proceedings, in line with the relevant accounting standards. Nonetheless, we may be obligated to meet liabilities linked to unsuccessful outcomes for proceedings that were not taken into consideration when calculating those reserves and the provisions made may not be sufficient to fully meet such obligations through use of our reserves. Such a development could have adverse effects on our business, financial position, results of operations and cash flows.

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

Pursuant to applicable Italian regulation, we, as a host and provider of data transmission services, are required to inform competent authorities without delay of any alleged illegal or illicit activity of which we are aware by our customers. We must also provide the authorities with any information we have identifying such customers. Any failure to comply with this obligation could cause us to become involved in civil liability proceedings or could lead to an unfavorable public perception of our brand and services. Any such event could result in direct or indirect losses or legal and/or regulatory proceedings directed against us and could materially harm our reputation.

We are exposed to the risk of labor disputes, in particular as a result of our plan to restructure our labor costs.

We are currently undertaking a restructuring of portions of our workforce in an effort to better align increased standards of service and expanded expertise with greater efficiency in our personnel costs. To that end, on September 7, 2015, we entered into a union agreement that provides for a number of different measures to enable us to manage our workforce in line with our business plan. These measures include employment support schemes (e.g., the introduction of reduced hours and wages), known as *contratti di solidarietà* , voluntary relocation, early retirement measures and re-training.

In addition, on September 21, 2015 and October 27, 2015, we entered into agreements that provide for voluntary relocation and employment support schemes.

Relations between us and our workers/trade unions are not usually adversarial and strikes or protests involving a majority of workers are not common, but such occurrences carry a moderate risk of disruptions in work and/or reduced service. Generally, such occurrences would negatively impact customers.

FINANCIAL RISKS

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

As of December 31, 2015, our consolidated gross financial debt was 37,090 million euros, compared to 37,054 million euros on December 31, 2014. Our consolidated net financial debt was 28,475 million euros as of December 31, 2015, compared to 28,021 million euros on December 31, 2014. Our high leverage continues to be a factor in our strategic decisions as it has been for a number of years and the reduction of our leverage remains a key strategic objective. As a result, however, we are reliant on cost cutting and free cash flow to finance critical technology improvements and upgrades to our network, although we are taking steps to raise additional capital to support critical investment.

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

Although rating downgrades do not have an immediate impact on outstanding debt, except for outstanding debt instruments that specifically contemplate taking ratings into account for determining interest expense, or on its relative cost to us, downgrades could adversely impact our ability to refinance existing debt and could increase costs related to refinancing existing debt and managing our derivatives portfolio.

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

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

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

In the past, we have made substantial international investments, significantly expanding our operations outside of the Euro zone, particularly in Latin America.

Our non-current operating assets are located as follows:

- Italy: as of December 31, 2015 and December 31, 2014, respectively, 46,117 million euros (87.9 percent of total non-current operating assets) and 44,110 million euros (85.3 percent of total non-current operating assets); and

- Outside of Italy: as of December 31, 2015 and December 31, 2014, respectively, 6,357 million euros (12.1 percent of total non-current operating assets) and 7,618 million euros (14.7 percent of total non-current operating assets). Non-current operating assets outside of Italy are primarily denominated in Brazilian Real.

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

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

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Item 3. Key Information **Risk Factors**

Furthermore, as of December 31, 2015 and December 31, 2014, 30 and 40 percent, respectively, of our consolidated gross debt was subject to the accrual of interest at floating rates, net of derivative instruments hedging such risks. As of December 31, 2015, and December 31, 2014, we had derivative contracts in place for the management of our interest rate risk, including interest rate swaps, for notional amounts of 3,689 million euros and 5,320 million euros, respectively. Any changes in interest rates that have not been adequately hedged by derivative contracts may result in increased financial liabilities in connection with our floating rate debt, which may have adverse effects on the results of our operations and cash flows.

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

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

COMPLIANCE RISKS

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

Our fixed and mobile telecommunications operations, as well as our broadband services, are subject to regulatory requirements in Italy and our international operations are subject to regulation in their host countries. In Italy, we are the only operator subject to universal service obligations, which require us to provide fixed line public voice telecommunications services in non-profitable areas. As a member of the EU, Italy has adapted its regulatory framework for electronic communications services to the framework established by the EU Parliament and Council.

Pursuant to this regulatory framework, the Italian regulator in charge of supervising the telecommunications, radio and television broadcasting sectors (Autorità per le Garanzie nelle Comunicazioni **AGCom**) is required to identify operators with Significant Market Power (**SMP**) in the relevant markets subject to regulation. On the basis of market analyses proceedings (**Market Analyses**), AGCom imposes on Telecom Italia the remedies necessary to safeguard competition. Current remedies are mainly focused on the regulation of Telecom Italia s wholesale business, while the regulation of retail markets has been largely withdrawn, with the exception of price tests on retail access offers (for telephone, broadband and ultra-broadband access).

Within this regulatory framework, the main risks we face include:

· lack of predictability concerning both the timing of the regulatory proceedings and their outcome;

· AGCom decisions with retroactive effects (e.g., review of prices of past years following an administrative judgment); and

· underestimation by AGCom of the permitted regulatory return on capital invested.

A new round of Market Analyses should be conducted by AGCom every three years, in order to cope with the evolutions of market conditions and technology developments and set the rules for the subsequent three-year period. Meeting this schedule by AGCom is necessary to provide proper regulatory certainty and predictability.

However, the regulatory review process is not always carried out following the required schedule. For example, the third round of Market Analyses for the access markets was expected to be concluded at the beginning of 2013, in order to set the rules for the period 2013-2015. However, the third round was concluded in December 2015, producing a ruling for the period 2014-2017. This approach created a high level of uncertainty for market operators and this uncertainty led to uncertainties about the willingness to invest .

In addition, in the interconnection market, AGCom launched the third round of Market Analyses for fixed termination rates in April 2015 and as of April 8, 2016 the market analysis process is still in progress.

Regulatory uncertainty and regulatory changes imposed on us not only can adversely impact our revenues, but can also make it difficult to make important investment decisions. Regulation is a key factor in evaluating the likelihood of return on investments and therefore in deciding where to invest.

Moreover, rules and economic conditions are also uncertain and unstable due to a high level of disputes among operators that challenge AGCom decisions before Administrative Courts.

For example, the Council of State (Consiglio di Stato) published a number of judgments on fixed and mobile termination rates, as well as on wholesale access prices following complaints by some alternative operators. According to these judgments, AGCom has conducted a review of already established decisions that were considered to be closed (e.g., 2010-2012 access charges, leading to a change in the regulation and in prices, with retroactive effects).

Also, the Italian Antitrust Authority (Autorità Garante per la Concorrenza ed il Mercato **AGCM**) may intervene in our business, setting fines and/or imposing changes in our service provision operating processes and in our offers. For example, on March 27, 2013, AGCM initiated a proceeding about an alleged anti-competitive agreement among the companies providing network maintenance services to us, possibly aimed at artificially raising the underlying costs. Subsequently, AGCM extended the proceeding to us in order to determine whether we were involved in the agreement. We proposed a number of undertakings in order to make clear the correctness of our behavior. These proposed commitments included, inter alia, providing information, implementing of new procedures and certain additional measures. However, AGCM did not accept these undertakings. AGCM made its final decision on December 16, 2015 and imposed a fine of approximately 21.5 million euros on us. We appealed the decision to the Administrative Tribunal of Lazio (TAR) on February 22, 2016.

In December 2015, we began implementation of a new model that includes a number of structural changes in the provision of our bottleneck access services (on both copper and fiber networks), aimed at meeting the requirements and recommendations stated by AGCom, AGCM, our Supervisory Board (Organo di Vigilanza per la Parità di Accesso) and the Supreme Administrative Court (Consiglio di Stato) (the **New Equivalence Model**). The New Equivalence Model will improve the current equality of access guarantees by means of a greater symmetry in organization, processes, information systems and databases for the provision of bottleneck access services in order to decrease future regulatory and competition risks.

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

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

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

We operate under authorizations granted by government authorities.

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

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

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

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

Actual or perceived health risks or other problems relating to mobile handsets or transmission masts could lead to litigation or decreased mobile communications usage.

The effects of, and any damage caused by, exposure to an electromagnetic field were and are the subject of careful evaluations by the international scientific community, but until now there is no scientific evidence of harmful effects on health. We cannot rule out that exposure to electromagnetic fields or other emissions originating from wireless handsets will not be identified as a health risk in the future.

Our mobile communications business may be harmed as a result of these alleged health risks. For example, the perception of these health risks could result in a lower number of customers, reduced usage per customer or potential consumer liability. In addition, although Italian law already imposes strict limits in relation to transmission equipment, these concerns may cause regulators to impose greater restrictions on the construction of radio base station towers or other infrastructure, which may hinder the completion of network build-outs and the commercial availability of new services and may require additional investments.

We face the risk that our organizational policies and procedures embodied in the organizational model prepared pursuant to Legislative Decree 231/2001 may fail to prevent certain officers and employees from engaging in unlawful conduct, for which we would be jointly liable.

We have put in place an organizational model pursuant to Legislative Decree 231/2001, in order to create a system of rules capable of preventing certain forms of unlawful conduct by senior management, executives and employees generally that might result in liabilities for us. The organizational model has been adopted by us and our Italian subsidiaries.

The organizational model is continuously reviewed and must be kept updated to reflect changes in operations and in the regulatory environment. We have established a 231 steering committee to prepare and consider proposals for changes to the model, for submission to the Board for approval.

Notwithstanding the existence of this model or any updates that we may make to it, there can be no assurances that the model will function as designed, or that it will be considered adequate by any relevant legal authority. If the model is inadequate or deemed to be so, and we were held liable for acts committed by our senior management, executives and employees or are found otherwise non-compliant with the requirements of the legislation, we may be ordered to pay a fine, our authorizations, licenses or concessions may be suspended or revoked, and we may be prohibited from conducting business, contracting with the Italian public administration, or advertising goods and services. Such developments would have adverse effects on our business, results of operations, financial condition and cash flows.

3.2 EXCHANGE RATES

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

For convenience only (except where noted otherwise), certain euro figures have been translated into dollars at the rate (the Euro/Dollar Exchange Rate) of 1.00= U.S.$ 1.0859, using the last noon buying rate in The City of New York for cable transfers in foreign currencies as announced by the Federal Reserve Bank of New York for customs purposes (the **Noon Buying Rate**) on December 31, 2015.

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

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

The following table sets forth for the years 2011 to 2015 and for the beginning of 2016 certain information regarding the Noon Buying Rate for Dollars expressed in U.S.$ per 1.00.

Calendar Period	High	Low	Average(1)	At Period end
2011	1.4875	1.2926	1.3931	1.2973
2012	1.3463	1.2062	1.2859	1.3186
2013	1.3816	1.2774	1.3281	1.3779
2014	1.3927	1.2101	1.3297	1.2101
2015	1.2015	1.0524	1.1096	1.0859
2016 (through April 8, 2016)	1.1430	1.0743	1.1067	1.1406

Monthly Rates	High	Low	Average(1)	At Period end
October 2015	1.1437	1.0963	1.1228	1.1042
November 2015	1.1026	1.0562	1.0727	1.0562
December 2015	1.1025	1.0573	1.0889	1.0859
January 2016	1.0964	1.0743	1.0855	1.0832
February 2016	1.1362	1.0868	1.1092	1.0868
March 2016	1.1390	1.0845	1.1134	1.1390
April 2016 (through April 8, 2016)	1.1430	1.1374	1.1394	1.1406

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

The Ordinary Shares (the **Ordinary Shares**) and Savings Shares (the **Savings Shares**) of Telecom Italia trade on *Mercato Telematico Azionario* (**Telematico**), managed by Borsa Italiana S.p.A. (**Borsa Italiana**) in euro. Fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar equivalent of the euro price of the

Ordinary Shares and the Savings Shares and the price of the Ordinary Share American Depositary Shares (**Ordinary Share ADSs**) and the Savings Share American Depositary Shares (**Savings Share ADSs**), on the New York Stock Exchange (**NYSE**). Cash dividends are paid in euro. Exchange rate fluctuations will affect the U.S. dollar amounts received by owners of Ordinary Share ADSs and Savings Share ADSs upon conversion by the Depositary of cash dividends paid in euro on the underlying Ordinary Shares and Savings Shares. See Item 10. Additional Information 10.5 Description of American Depositary Receipts .

3.3 SELECTED FINANCIAL AND STATISTICAL INFORMATION

The selected financial data set forth below are consolidated financial data of the Telecom Italia Group as of and for each of the years ended December 31, 2015, 2014, 2013, 2012 and 2011, which have been extracted or derived, with the exception of amounts presented in U.S. dollars, financial ratios and statistical data, from the Consolidated Financial Statements of the Telecom Italia Group prepared in accordance with IFRS as issued by IASB and which have been audited by the independent auditor PricewaterhouseCoopers S.p.A.

In 2015, the Group applied the accounting policies on a basis consistent with those of the previous years, except for the new standards and interpretations adopted by the Group since January 1, 2015, described in the Note Accounting Polices of the Notes to the Consolidated Financial Statements included elsewhere herein.

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

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

			Year ended December 31,			
	2015(*)	**2015(*)**	**2014(*)**	**2013(*)**	**2012(*)(**)**	**2011(*)(**)**
	(millions of U.S. dollars, except percentages, ratios, employees and per share amounts)(1)	**(millions of euros, except percentages, ratios, employees and per share amounts)**				
Separate Consolidated Income Statement Data:						
Revenues	**21,412**	**19,718**	**21,573**	**23,407**	**25,759**	**26,772**
Operating profit (loss)	**3,215**	**2,961**	**4,530**	**2,718**	**1,709**	**(1,190)**
Profit (loss) before tax from continuing operations	**485**	**447**	**2,347**	**532**	**(293)**	**(3,253)**
Profit (loss) from continuing operations	**50**	**46**	**1,419**	**(579)**	**(1,379)**	**(4,676)**
Profit (loss) from Discontinued operations/Non-current assets held for sale	663	611	541	341	102	310
Profit (loss) for the year	**713**	**657**	**1,960**	**(238)**	**(1,277)**	**(4,366)**
Profit (loss) for the year attributable to Owners of the Parent(2)	*(78)*	*(72)*	*1,350*	*(674)*	*(1,627)*	*(4,811)*
Capital Expenditures	**5,643**	**5,197**	**4,984**	**4,400**	**4,639**	**5,556**
Financial Ratios:						
Operating profit (loss)/Revenues (ROS)(%)	15.0%	15.0%	21.0%	11.6%	6.6%	n.s.
Ratio of earnings to fixed charges(3)	1.17	1.17	2.18	1.27	0.84	(0.53)
Employees, average salaried workforce in the Group, including personnel with temporary work contracts:						
Employees (excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current	61,553	61,553	59,285	59,527	62,758	63,137

assets held for sale) (average number)						
Employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale (average number)	15,465	15,465	15,652	15,815	15,806	15,232
Basic and Diluted earnings per Share (EPS)(4):						
Ordinary Share	**0.00**	**0.00**	**0.06**	**(0.03)**	**(0.08)**	**(0.25)**
Savings Share	**0.00**	**0.00**	**0.07**	**(0.03)**	**(0.08)**	**(0.25)**
Dividends:						
per Ordinary Share(5)					0.020	0.043
per Saving Share(5)	0.0299	0.0275	0.0275	0.0275	0.031	0.054

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	2015 (millions of U.S. dollars, except employees)(1)	2015	As of December 31, 2014	2013	2012	2011
		(millions of euros, except employees)				
Consolidated Statement of Financial Position Data:						
Total Assets	**77,351**	**71,232**	**71,551**	**70,220**	**77,555**	**83,886**
Equity:						
Equity attributable to owners of the Parent	19,123	17,610	18,145	17,061	19,378	22,790
Non-controlling interests	4,043	3,723	3,554	3,125	3,634	3,904
Total Equity	**23,166**	**21,333**	**21,699**	**20,186**	**23,012**	**26,694**
Total Liabilities	**54,185**	**49,899**	**49,852**	**50,034**	**54,543**	**57,192**
Total Equity and liabilities	**77,351**	**71,232**	**71,551**	**70,220**	**77,555**	**83,886**
Share capital(6)	**11,565**	**10,650**	**10,634**	**10,604**	**10,604**	**10,604**
Net financial debt(7)	**30,921**	**28,475**	**28,021**	**27,942**	**29,053**	**30,819**
Employees, number in the Group at year-end, including personnel with temporary work contracts:						
Employees (excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale) (number at year-end)	65,867	65,867	66,025	65,623	83,184	84,154
Employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale (number at year-end)	16,228	16,228	16,420	16,575		

	2015	As of December 31, 2014	2013	2012	2011
			(thousands)		
Statistical Data:					
Domestic (Italy) Business Unit					
Physical accesses(8)	19,209	19,704	20,378	21,153	21,712

Of which physical accesses (retail)	*11,742*	*12,480*	*13,210*	*13,978*	*14,652*
Broadband accesses	8,890	8,750	8,740	8,967	9,089
Of which retail broadband accesses	*7,023*	*6,921*	*6,915*	*7,020*	*7,125*
Mobile lines	30,007	30,350	31,221	32,159	32,227
Brazil Business Unit					
Mobile lines(9)	66,234	75,721	73,431	70,376	60,083

(*) On November 13, 2013, Telecom Italia accepted the offer of Fintech Group to acquire the entire controlling interest of Telecom Italia Group in the Sofora Telecom Argentina group. The agreements made in connection with this transaction were subsequently modified in October 2014. As a result and in accordance with IFRS 5 (*Non-current Assets Held for Sale and Discontinued Operations*), starting with the fourth quarter of 2013, the Sofora Telecom Argentina group has been treated as Discontinued operations/Non-current assets held for sale. On March 8, 2016, the Telecom Italia Group completed the sale of Sofora Telecom Argentina group (for further details please see the Note Events Subsequent to December 31, 2015 of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report). The 2012 and 2011 comparative data have been appropriately restated.

(**) Starting from 2012, the Telecom Italia Group early adopted and retrospectively applied revised IAS 19 (Employee Benefits); therefore, the comparative figures for 2011 have been restated on a consistent basis. The adoption of IAS 19 does not have any effect on the Group s statement of financial position other than for certain reclassifications under Equity .

(1) For the convenience of the reader, Euro amounts for 2015 have been converted into U.S. dollars using the Euro/Dollar Exchange Rate in effect on December 31, 2015, of 1.00 = 1.0859 U.S.$.

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

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

· Earnings is calculated by adding:

profit (loss) before tax from continuing operations;

fixed charges (as defined below);

amortization of capitalized interest and debt issue discounts or premiums;

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

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

capitalized interest for the applicable period; and

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

· Fixed charges is calculated by adding:

interest expenses (both expensed and capitalized);

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

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

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

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

Ordinary Shares was:

- 14,889,773,009 for the year ended December 31, 2015 (such number includes the ordinary shares expected to be issued by Telecom Italia upon the conversion of the mandatory convertible bonds issued by Telecom Italia Finance S.A.);
- 14,851,386,060 for the year ended December 31, 2014 (such number includes the ordinary shares expected to be issued by Telecom Italia upon the conversion of the mandatory convertible bonds issued by Telecom Italia Finance S.A.);
- 13,571,392,501 for the year ended December 31, 2013 (such number includes the ordinary shares expected to be issued by Telecom Italia upon the conversion of the mandatory convertible bonds issued by Telecom Italia Finance S.A.);
- 13,277,621,082 for the year ended December 31, 2012; and
- 13,264,375,078 for the year ended December 31, 2011.

Savings Shares was:

- 6,026,677,674 for the year ended December 31, 2015;
- 6,026,120,661 for the years ended December 31, 2014, 2013, 2012 and 2011.

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

(5) Subject to approval, at the Annual Shareholders Meeting to be held on May 25, 2016, Telecom Italia s dividend coupons for the year ended December 31, 2015, will be clipped on June 20, 2016, and will be payable from June 22, 2016.

(6) Share capital represents share capital issued net of the accounting par value of treasury shares; accounting par value is the ratio of total share capital and the number of issued shares.

(7) Net Financial Debt is a Non-GAAP Financial Measure as defined in Item 10(e) of Regulation S-K under the 1934 Act. For further details please see Item 5. Operating and Financial Review and Prospects 5.2 Results of Operations for the Three Years Ended December 31, 2015 5.2.3 Non-GAAP Financial Measures .

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

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

3.4 DIVIDENDS

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

The following table sets forth the dividends per Ordinary Share and per Savings Share declared by Telecom Italia with respect to each of the last five fiscal years and the aggregate dividends paid in such years. Actual dividends paid are rounded to the nearest whole cent. No ordinary share dividend is being paid for the year ended December 31, 2015.

	Dividends on Ordinary Shares			Dividends on Savings Shares		
Year ended December 31,	**Euros per Share**	**U.S. Dollars per Share(1)**	**(millions of euros)**	**Euros per Share**	**U.S. Dollars per Share(1)**	**(millions of euros)**
2011	0.0430	0.0563	575.30	0.0540	0.0707	325.41
2012	0.0200	0.0260	267.59	0.0310	0.0403	186.81
2013				0.0275	0.0377	165.72
2014				0.0275	0.0299	165.72
2015(2)				0.0275	0.0314	165.76

(1) Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on the respective payment dates. For the year ended December 31, 2015, Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on April 8, 2016.

(2) Subject to approval at the Annual Shareholders Meeting to be held on May 25, 2016. Telecom Italia s dividend coupons for its Savings Shares for the year ended December 31, 2015, will be clipped on June 20, 2016, and will be payable from June 22, 2016.

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

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

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

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

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

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Item 3. Key Information **Dividends**

Pursuant to Italian law, in connection with the payment of dividends, participants of Monte Titoli are required to supply to the Italian tax authorities certain information concerning the identity of non-resident shareholders holding Ordinary Shares or Savings Shares. Shareholders are required to provide their Italian tax identification number, if any, or alternatively, in the case of legal entities, their name, country of establishment and address, or in the case of individuals, their name, address and place and date of birth, or in the case of partnerships, the information required for legal entities and the information required for individuals with respect to one of their representatives. In the case of Ordinary Share ADSs and Savings Share ADSs owned by non-residents in Italy, Telecom Italia understands that the provision of information concerning the Depositary, in its capacity as holder of record of the Ordinary Shares and Savings Shares, as the case may be, will satisfy these requirements.

The Depositary, in accordance with instructions from Telecom Italia, will provide information to beneficial owners of Ordinary Share ADSs and Savings Share ADSs, that are considered U.S. residents for purposes of applicable law. To the extent such owners wish to benefit from reduced withholding tax rates on dividends under an income tax treaty, claims for such benefits must be accompanied by the required information. See Item 10. Additional Information 10.6 Taxation .

Item 4. INFORMATION ON THE TELECOM ITALIA GROUP

4.1 BUSINESS

4.1.1 BACKGROUND

The legal name of the company is Telecom Italia S.p.A. and it is also known commercially under the brand Tim . Shareholders at the Annual Shareholders Meeting to take place on May 25, 2016 will be proposed an amendment to the company s bylaws, so that the company be also and alternatively named TIM S.p.A. .

Telecom Italia is a joint-stock company established under Italian law on October 29, 1908, with registered offices in Milan at Via Gaetano Negri 1. The telephone number is +39 (02) 85951. The company is recorded in the Milan Companies Register at number 00488410010, R.E.A. (Repertorio Economico Amministrativo) at number 1580695 and R.A.E.E. (Rifiuti di Apparecchiature Elettriche ed Elettroniche) register at number IT08020000000799.

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

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

After the effectiveness of the demerger of Telco S.p.A. (previously the largest shareholder of Telecom Italia and whose investors were Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A., Mediobanca S.p.A. and Telefónica S.A.) on June 24, 2015, Vivendi S.A. (Vivendi), an integrated media and content group based in France, increased its ownership stake in Telecom Italia to 14.9% of Ordinary Shares, becoming our largest shareholder. In the following months, Vivendi has increased its shareholding in the Company and, as of October 22, 2015, Vivendi held, directly and indirectly, 20.03% of the ordinary share capital of Telecom Italia.

At the Shareholders Meeting held on December 15, 2015, Vivendi s proposal to enlarge the Board of Directors of Telecom Italia from 13 to 17 members was approved, and four new Directors presented by Vivendi were appointed.

In December 2015 and February 2016, Vivendi further increased its shareholding in Telecom Italia, and, as of April 8, 2016, it holds, directly and indirectly, 24.90% of Ordinary Shares. Vivendi does not hold Savings Shares (or Savings Share ADSs). Vivendi does not have different voting rights in meetings of ordinary shareholders of Telecom Italia.

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

4.1.2 DEVELOPMENT

On February 16, 2016, Telecom Italia presented its 2016 2018 Plan. The 2016-2018 Plan sets out the primary strategic objectives of the Telecom Italia Group over the next three years as well as a number of strategic priorities to achieve these objectives.

For more details, please see 4.1.7 Updated Strategy .

4.1.3 BUSINESS

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

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

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

The principal changes in the scope of consolidation in 2015 are as follows:

- **INWIT S.p.A. Business Unit Domestic:** was established in January 2015 and in June 2015, the initial public offering for the ordinary shares of INWIT S.p.A. on the Electronic Stock Exchange organized and managed by Borsa Italiana S.p.A. was successfully completed;

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Item 4. Information On The Telecom Italia Group Business

- **Alfabook S.r.l. Business Unit Domestic**: on July 1, 2015 Telecom Italia Digital Solutions S.p.A. acquired 100% of the Alfabook S.r.l., which consequently entered the Group s scope of consolidation;

- **TIM Real Estate S.r.l. Business Unit Domestic**: was established in November 2015.

With the exception of the INWIT initial public offering, these changes did not have a significant impact on the Consolidated Financial Statements of the Telecom Italia Group at and for the year ended December 31, 2015.

The principal changes in the scope of consolidation in 2014 were as follows:

- **Telecom Italia Ventures S.r.l. Domestic Business Unit**: was established in July 2014;

- **Rete A Media Business Unit**: on June 30, 2014, Persidera S.p.A. (formerly called Telecom Italia Media Broadcasting S.r.l.) acquired 100% of the company Rete A; as a result Rete A entered the Group s scope of consolidation and was consolidated on a line-by-line basis. The merger of Rete A by absorption into Persidera was completed on December 1, 2014;

- **TIMB2 S.r.l. Media Business Unit**: was established in May 2014;

- **Trentino NGN S.r.l. Domestic Business Unit**: on February 28, 2014 the Telecom Italia Group acquired the controlling stake in the company Trentino NGN; consequently such company is now part of the Group s scope of consolidation.

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

For further details please see Item 5. Operating and Financial Review and Prospects 5.2 Results of Operations for the Three Years Ended December 31, 2015 5.2.2. Business Segment and Note Scope of Consolidation of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

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

Domestic Business Area

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

The Telecom Italia Sparkle group develops fiber optic networks for wholesale in Europe, the Mediterranean and South America.

INWIT S.p.A. was formed in 2015. The company operates in the electronic communications infrastructure sector, specifically relating to infrastructure for housing radio transmission equipment for mobile telephone networks, for Telecom Italia and other operators.

Olivetti operates in the area of office products and services for information technology (**IT**). It carries out solution provider activities to automate processes and business activities for small and medium-size enterprises, large corporations and vertical markets.

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

At December 31, 2015 the Telecom Italia Group had approximately 11.7 million physical accesses (retail) in Italy, a decrease of 0.7 million compared to December 31, 2014, within a market context characterized by a continuing trend of customers replacing fixed lines with mobile, resulting in a continuing fall in fixed line accesses.

The Wholesale customer portfolio in Italy was approximately 7.5 million accesses for telephone services at December 31, 2015 (an increase of 0.2 million accesses as compared to December 31, 2014).

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Item 4. Information On The Telecom Italia Group Business

The broadband portfolio in Italy was 8.9 million accesses at December 31, 2015 (consisting of approximately 7.0 million retail accesses and 1.9 million wholesale accesses), substantially stable compared to December 31, 2014 (8.8 million accesses).

In addition, the Telecom Italia Group had approximately 30.0 million mobile telephone lines in Italy at December 31, 2015, a decrease of approximately 0.3 million compared to December 31, 2014.

Brazil Business Area

The Telecom Italia Group operates in the mobile and fixed telecommunications sector in Brazil through the TIM Brasil group which offers mobile services using UMTS, GSM and LTE technologies. With the acquisitions of 700MHz and 2.5GHz radiofrequencies, the focus is on speeding up the development of 3G and 4G networks. Moreover, with the acquisitions of Intelig Telecomunicações, Tim Fiber RJ and Tim Fiber SP (now merged into Tim Celular S.A.), the portfolio of services has been expanded by offering fiber optic data transmission using full IP technology such as DWDM and MPLS and offering residential broadband services.

At December 31, 2015, the Telecom Italia Group had 66.2 million mobile telephone lines in Brazil (75.7 million at December 31, 2014).

4.1.4 Disposals and Acquisitions of Significant Equity Investments in 2015

For a description of disposals and acquisitions of significant equity investments in 2015 please see Note Scope of consolidation and Note Investments of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

4.1.5 Recent Developments During 2016

For a description of recent developments please see Item 8. Financial Information 8.2 Legal Proceedings and Note Events Subsequent to December 31, 2015 of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

4.1.6 Overview of the Telecom Italia Group s Major Business Areas

The following is a chart of the Telecom Italia Group s Business Units as of December 31, 2015:

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(*) Main subsidiaries: Telecom Italia S.p.A., INWIT S.p.A., Telenergia S.p.A., Telecontact Center S.p.A., TI Digital Solutions S.p.A. (merged into Olivetti S.p.A. on January 1, 2016), HR Services S.r.l. and TI Information Technology S.r.l.

(**) The merger of Telecom Italia Media S.p.A. into Telecom Italia S.p.A. was completed on September 30, 2015.
For further details about companies which are part of the various Business Units, please see Note List of companies of the Telecom Italia Group of the Notes to the Consolidated Financial Statements included elsewhere herein.

For the revenues, operating profit (loss) and number of employees of the Telecom Italia Group s Business Units please see Item 5. Operating and financial review and prospects 5.2 Results of operations for the three years ended December 31, 2015 5.2.5 Business unit financial data .

4.1.7 Updated Strategy

Strategic Priorities and Objectives for the 2016 2018 Plan

On February 16, 2016, Telecom Italia presented its updated 2016 2018 three-year strategic plan (the **Plan**), which, following up on the previous strategic plan, provides for an acceleration of investments over the Plan period, with the primary aim of ensuring long-term growth for the Group.

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

Domestic (Italian) market

The main strategic priorities in the Domestic (Italian) Market are:

- acceleration of investments, mainly those relating to innovative networks and services. Telecom Italia intends to increase coverage of the country with next generation networks and aims to reach, by the end of 2018, 84% of the population with fiber optics and 98% of the population with the LTE (4G) mobile network, asserting its position as an infrastructure development and digitization leader in the country;

- completing the transition from traditional telecommunications company to digital telecommunications & platform company, an enabler of the country s digital life: a business model based on innovative infrastructure and excellent customer service, increasingly aimed at disseminating premium services and digital content within a customizable platform, accessible anywhere and on any device;

- in the Mobile segment, in a competitive context characterized by greater attention to quality and a constant increase in the use of data, Telecom Italia will aim to accelerate the penetration of smart devices and to market bundle offers that generate a higher ARPU;

- in the Fixed segment, the Group plans to minimize the decrease of its customer base, mainly through the acceleration in the adoption of fiber optics;

- convergence continues to be central to the Group s growth and innovative investments strategy. Using its network infrastructure, the Group aims to offer premium services to customers via an integrated platform;

- strengthening the position in multimedia entertainment, which includes activities, among others, in the field of video, music, gaming and publishing;

- thanks to its ICT and cloud services, Telecom Italia also intends to continue helping Italian businesses enable their digital transformation process, with a differentiated approach depending on customer base characteristics, aiming to achieve a distinctive positioning in the vertical markets which our management deems to be of major interest;

- the Plan is also characterized by strong financial discipline, supported by efforts to increase efficiency, the sale of a share in Inwit, the increase in equity resulting from redemption of the Mandatory Convertible Bonds, as well as completion of the sale of Telecom Argentina, which occurred on March 8, 2016 (for further details, please see the Note Events Subsequent to December 31, 2015 of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report).

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

Brazil

The main strategic priorities in the Brazilian Market are:

· strengthen Telecom Italia s market position by leveraging network quality, innovation and customer experience;

· protect value of prepaid customer base, shifting focus from lines market share to share of total revenue;

· increase share of mid/high-value customers;

· shore up the corporate customer base;

· sustain network investment through the adoption of a prioritized approach and focus on 4G;

· focus on efficiency.

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

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

4.1.8 The Organizational Structure

Following the resignation as Chief Executive Officer of Mr. Marco Patuano, the Telecom Italia Board of Directors announced that the Company and Marco Patuano reached an agreement to terminate Mr Patuano s relationship as an employee and Director effective March 22, 2016. In line with the succession plan previously adopted, the Board of Directors conferred CEO powers to the Executive Chairman Giuseppe Recchi on an interim basis. On March 30, 2016, the Board of Directors of Telecom Italia, chaired by Giuseppe Recchi, and in agreement with the considerations of the Nomination and Remuneration Committee appointed Flavio Cattaneo as Chief Executive Officer, giving him executive powers.

For further details, please see Note Events subsequent to December 31, 2015 of the Notes to the Consolidated Financial Statements included elsewhere herein.

The following diagram highlights the organizational structure of the Telecom Italia Group as of March 30, 2016:

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4.2 BUSINESS UNITS

4.2.1 Domestic

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

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

INWIT S.p.A. was formed in 2015. The company operates in the electronic communications infrastructure business, specifically relating to infrastructure for housing radio transmission equipment for mobile telephone networks for Telecom Italia and other operators.

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

The Domestic Business Unit is organized as follows as of December 31, 2015:

(*) Main subsidiaries: Telecom Italia S.p.A., INWIT S.p.A., Telenergia S.p.A., Telecontact Center S.p.A., TI Digital Solutions S.p.A. (merged into Olivetti S.p.A. on January 1, 2016), HR Services S.r.l. and TI Information Technology S.r.l.

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

- **Core Domestic**: includes all telecommunications activities inherent to the Italian market. The sales market segments defined on the basis of the customer centric organizational model are as follows:

  - **Consumer**: comprises the aggregate of voice and Internet services and products managed and developed for persons and families in the Fixed and Mobile telecommunications markets and also public telephony;

- **Business**: 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** (INWIT S.p.A. and Support Structures): includes:

· **INWIT S.p.A.**: since April 2015, the company has been operating within the Operations area in the electronic communications infrastructure sector, specifically relating to infrastructure for housing radio transmission equipment for mobile telephone networks for Telecom Italia and other operators;

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

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

The organizational change initiated within Telecom Italia in November 2015, involving the establishment of the Wholesale Function through the progressive integration of the Open Access and National Wholesale Services Functions, is in the process of being implemented.

· **International Wholesale Telecom Italia Sparkle group**: 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 IT. It carries out solution provider activities to automate processes and business activities for small and medium-size enterprises, large corporations and vertical markets. Following approval of the restructuring plan of the Olivetti group on May 11, 2015 the business lines for which the plan contemplates a process leading to their disposal through divestment or termination have been included under Other Operations, beginning on January 1, 2015.

v **MARKETING CHANNELS AND DISTRIBUTION**

At December 31, 2015, as a result of the customer-centric approach, Telecom Italia utilized the following sales structure for each of its customer segments:

Distribution

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

- ***Consumer***

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

- the Push Channel consisting of an outbound telephone channel called Telesales with a network of 23 partners having a total of approximately 3,500 operators and the Agent channel with 100 Direct Agents and a network of 60 partners with approximately 1,000 sales agents;

- the Pull channel: consisting of the retail network of shops, dealers and large retailers, amounting to a total of approximately 5,300 retail points of sale (at December 31, 2015). Points of sale are geographically widespread and they are of different types: direct (flagship stores and 4G mall stores); franchisee; monobrand; multibrand; organized and specialized large-scale distribution.

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

- ***Business***

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

- ***Indirect Sales Channel***

The business distribution channels are made up of:

- *BP Business Partner* channel (approximately 72): a network focused on standard offers (Small market) with about 1,500 agents;
- *ISP Ict sales partner* channel (approximately 82): a network organized geographically focused on VAS and ICT products with 220 agents;
- *Outbound Call Center:* 9 partners focused on specific canvass and customer loyalty activities;
- *Senior Agent:* 114 Agents focused on medium enterprise customers;
- *Shops*: some specific shops (approximately 2,500) offering business products and assistance.

- ***Direct Sales Channel***

At the end of 2015 around 720 sales staff had a dedicated portfolio to manage and develop, supported by pre sales and post sales teams. The main activities include:

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

- ***National Wholesale Services***

The National Wholesale Services (**NWS**) division manages relationships with approximately 380 other telecommunications operators, who can be both customers and competitors of Telecom Italia. These customers purchase Telecom Italia network and professional services to build services for their own customers.

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

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

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

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

v CUSTOMER AND LINES

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

	As of and for the years ended December 31,		
	2015	**2014**	**2013**
DOMESTIC FIXED			
Physical accesses (thousand)(1)	19,209	19,704	20,378
Of which retail physical accesses (thousand)	*11,742*	*12,480*	*13,210*
Broadband accesses in Italy at year-end (thousand)(2)	8,890	8,750	8,740
Of which retail broadband accesses (thousand)	*7,023*	*6,921*	*6,915*
Network infrastructure in Italy:			
access network in copper (millions of km pair, distribution and connection)	115.6	115.2	114.9
access and carrier network in optical fiber (millions of km fiber)	10.4	8.3	6.7
Total traffic:			
Minutes of traffic on fixed-line network (billions):	76.9	84.2	91.2
Domestic traffic	*62.5*	*68.9*	*75.8*
International traffic	*14.4*	*15.3*	*15.4*
Broadband traffic (PBytes)(3)	4,126	3,161	2,533
DOMESTIC MOBILE			
Number of lines at year-end (thousand)	30,007	30,350	31,221
Change in lines (%)	(1.1)	(2.8)	(2.9)
Churn rate (%)(4)	23.4	24.2	30.4
Total traffic:			
Outgoing retail traffic (billions of minutes)	43.6	42.7	41.0
Incoming and outgoing retail traffic (billions of minutes)	66.1	62.7	57.5
Mobile browsing volumes (PBytes)(5)	182.6	133.9	98.1
Average monthly revenues per line(6) (euro)	12.1	12.1	13.1

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

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

(3) DownStream and UpStream traffic volumes.

(4) The data refers to total lines. The churn rate represents the number of mobile customers who discontinued service during the period expressed as a percentage of the average number of customers.

(5) National traffic excluding roaming.

(6) The values are calculated on the basis of revenues from services (including revenues from prepaid cards) as a percentage of the average number of lines.

v MAIN CHANGES IN THE REGULATORY FRAMEWORK

For the main regulatory events which occurred in 2015 that may have a significant impact on the operation of the Domestic Business Unit, please see Item 4. Information On The Telecom Italia Group 4.3 Regulation.

v COMPETITION

The market

In 2015, the Italian telecommunications market continued the trend, which started in the second half of 2014, of a slowdown in the competitive pressure that had been characterized by a significant use of pricing as a lever. As a consequence, there has been a slowdown of the ongoing decline in the traditional service components, particularly voice traffic.

The key element in the evolution of the market continues to be the increased penetration of broadband and ultra-broadband, particularly mobile, facilitated also by the greater spread of next-generation handsets.

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

The competition in the TLC market continues to be characterized by the following trends: the TLC market has opened the field to competition from non-traditional operators (in particular Over the Top companies (**OTTs**) and producers of electronic and consumer devices); on the other hand, telecommunication operators have the opportunity to develop new over the network services (mainly in the IT and Media fields).

Therefore, for telecommunications operators, in addition to facing competition from other traditional operators in the sector, including mobile virtual operators (**MVOs**), which has the greatest impact on market trends, there has also been increased competition from OTTs and device producers that operate entirely in the digital world.

As a result, the business models of legacy telecommunications operators have had to change to meet the challenges posed by new entrants and to exploit new opportunities:

- in Media, with the Web becoming increasingly important as a complementary distribution, broadcasters are increasingly under pressure from OTTs and from telecommunications and consumer electronics companies;
- in the IT market, the decline of traditional revenues is driving various players toward cloud computing, with the goal of protecting market share in their core businesses. Telecommunications operators are expected to strengthen in this sector, including through partnerships;
- in the Consumer Electronics market, producers can develop services that can be used through the Internet, building on handset ownership and management of the user experience, breaking the relationship between customers and TLC operators;
- OTTs have, for some time now, been leading the transformation of the methods of use of TLC services (including voice), increasingly integrating them with Media and IT.

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

- the development of innovative services in the IT market, specifically in cloud services;
- the development of new Digital Services, particularly referring to Entertainment (e.g., TV over IP), Smart Home, Digital Advertising, Mobile Payments and Digital Identity.

Competition in Fixed-Line Telecommunications

The fixed-line telecommunications market continues to see a significant decline in access and voice revenues due to the reduction in the number of accesses and rates and to the progressive shift of voice traffic to mobile. Additionally, data transmission revenues have continued to decline. On the other hand, broadband revenue has grown. In recent years, operators have been primarily focused on increasing broadband penetration and on voice business protection through the introduction of bundled voice, broadband and services deals, in a highly competitive environment that has created pricing pressure.

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

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

In 2015, the migration of customers from fixed-line to mobile telephony services continued, as well as the migration to alternative communications solutions (Voice Over IP, messaging applications and social network chat). This shift has been facilitated by the use of the Internet, the spread of broadband, personal computers and other connected devices and the enhanced quality of service.

At December 31, 2015, fixed accesses in Italy numbered approximately 20.2 million (including full-infrastructured OLOs and FWA-Fixed Wireless Access), a decline from 2014. The competition in the access market has led to a gradual reduction in Telecom Italia s market share.

In the broadband market, at December 31, 2015, fixed broadband customers in Italy reached a penetration rate on fixed accesses of about 74%.

The spread of broadband services is driven not only by the penetration of personal computers and of other connected devices (e.g., Smart TV), but also by the growing demand for speed and access to new IP-based services (Content particularly Video, social networking services, Voice over IP, etc.).

Competition in Mobile Telecommunications

The mobile market, saturated and mature in its traditional component of voice services, has continued to experience a decline in the number of lines. This development may be associated with a rationing by customers of second and third SIM cards. As of December 31, 2015, mobile lines in Italy numbered about 92.7 million, down by about 1.7% compared to 2014. However, penetration rates remain high at about 152% of the population).

The decreasing trend in revenues from components of traditional services such as voice and messaging continues, due to the competition among TLC operators and to the growing expansion of communication apps . However, in 2015, this trend has recorded a progressive improvement compared to 2013 and the first half of 2014. Mobile broadband continues to grow and, though it is unable to offset the drop in revenues from traditional services, represents the main strategic and business opportunity for the mobile TLC industry, also due to the launch of LTE ultra-broadband.

In 2015, the growth in mobile broadband customers continued, thanks to the development of the small screen component, with a high penetration rate on mobile lines, mainly due to the increasing spread of smartphones.

Alongside innovative services that have already been introduced and are under full-scale development, as in the case of mobile apps, there are other market environments, associated with the development of mobile broadband, with major potential for growth in the medium term, such as Internet of Things (the network of physical objects devices, vehicles, buildings and other items embedded with electronics, software, sensors, and network connectivity that enables these objects to collect and exchange data) and mobile payment.

Competition in the Italian mobile telecommunications market is mainly characterized by the presence of Telecom Italia and of the other operators who own their networks (Vodafone, Wind, H3G). Moreover, in August 2015, VimpelCom and CK Hutchinson announced an agreement for a joint venture between Wind and 3 Italia, subject to the required regulatory approvals.

In addition to these operators, the field also includes MVOs, among which PosteMobile is the most important player. These operators continue to enjoy significant growth rates as compared to network operators.

4.2.2 BRAZIL

The Telecom Italia Group operates in the mobile and fixed telecommunications sector in Brazil through the TIM Brasil group which offers mobile services using UMTS, GSM and LTE technologies. With the acquisitions of 700MHz and 2.5GHz radiofrequencies, the focus is on speeding up the development of 3G and 4G networks. Moreover, with the acquisitions of Intelig Telecomunicações in 2009 and of Tim Fiber RJ and Tim Fiber SP in 2011 (now merged into Tim Celular S.A.), the portfolio of services was expanded by offering fiber optic data transmission using full IP technology such as DWDM and MPLS and offering residential broadband services.

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

The Tim Brasil group s services cover an area which includes around 95% of Brazil s urban population. Tim Brasil group has approximately 66.2 million mobile lines which cover each of the Brazilian states and the Federal District. As of December 31, 2015, the market combined penetration reached approximately 126% of the Brazilian population and its combined market share totaled approximately 25.7%.

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

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

	As of and for the years ended December 31,		
	2015	**2014**	**2013**
Number of lines at year-end (thousands)(*)	66,234	75,721	73,431
MOU (minutes/months)(**)	119.5	135.8	147.7
ARPU (Reais)	16.7	17.7	18.6

(*) Estimates. Data includes company lines (active SIM cards used by the TIM Brasil group and its employees). The comparative data for prior year have been appropriately restated.

(**) Net of visitors.

v MARKETING

With the rapid change in the profile of consumption of telecommunications services by Brazilian users, TIM Brasil continued its efforts to innovate its offerings for all customer segments (Prepaid, Control and Postpaid) effectively eliminating different rates for calls within and outside the TIM Brasil network. This effort is intended to increase the convenience of the company s voice and data bundles in all segments. TIM Brasil took this step in order to reduce the usage of multiple SIM cards per user. This change aims to help TIM Brasil protect and increase the value of the prepaid customer base, where the company continues to be a leader, and grow its base of postpaid customers by providing more complete voice and data offers at reasonable prices, which could stimulate usage growth.

Although still preliminary, the first results of TIM Brasil s new offers are very encouraging in terms of attracting new clients, generating new gross additions, increasing ARPU and meeting projected margin targets. These new offers are helping to improve the results of Mobile Number Portability relative to all other operators, across customer segments, beginning from the launch month of the new portfolio.

v **DISTRIBUTION**

As of December 31, 2015, we had more than 13.1 thousand points of sales through premium shops and dealers (exclusive or multi-brand) and consolidated partnerships with large retail chains. This figure includes 182 of TIM Brasil s own stores. In addition to these retail stores, TIM Brasil customers have access to prepaid phone services through supermarkets, newsstands, and other small retailers, totaling more than 328,000 points of sale throughout Brazil.

For the corporate market, TIM Brasil has more than 465 third-party business partners focused on serving small and medium-size companies and a direct sales force team of 95 employees focused on large companies.

In order to serve the customer base of over 66.2 million customers, TIM Brasil maintains 16 customer care centers comprising around 14 thousand customer service representatives. Moreover, TIM Brasil has continuously invested in alternative customer service channels, developing solutions based on interactive voice response and self-service and mobile applications for iOS and Android.

v **MAIN CHANGES IN THE REGULATORY FRAMEWORK**

For the main regulatory developments which occurred in 2015 that may have an economic impact on the Brazil Business Unit, please see Item 4. Information On The Telecom Italia Group 4.3 Regulation .

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v **COMPETITION**

At the end of 2015, the Brazilian mobile market reached 257.8 million lines, 22.9 million lines (or 8.2%) lower than at the end of 2014, and a penetration rate of 125.7% of the population (138% in 2014). Consequently the churn rate in 2015 was 59.1% (49.6% in 2014).

* * *

Agreement for the sale of telecommunications towers

On November 21, 2014, TIM Brasil agreed to enter into a sale and leaseback transaction with American Tower do Brasil Cessão de Infraestruturas Ltda., or American Tower, pursuant to which TIM Brasil will sell to American Tower a maximum of 6,481 of its telecommunications towers for a total price of approximately 3 billion reais, and will lease back portions of those towers pursuant to a Master Lease Agreement, or MLA.

As of December 31, 2015, three tranches were transferred on: April 29, September 30 and December 16, 2015. A total of 5,483 towers (84.6% of the total) were transferred, and 2,498 million reais was received in cash. For further details please see 4.6 Description of Property, Plant and Equipment .

4.2.3 MEDIA

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

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

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

The merger of Rete A into Persidera was completed on December 1, 2014.

The merger of Telecom Italia Media S.p.A. into Telecom Italia S.p.A. was completed at the close of business on September 30, 2015, effective retroactively on January 1, 2015 for accounting and tax purposes.

As of December 31, 2015, the Business Unit was organized as follows:

At December 31, 2015, the three Digital Multiplexes of Persidera S.p.A. had reached a population coverage of 95.8% of the Italian population. The coverage of the two Digital Multiplexes of the former Rete A was 93.4% and 93.7%, respectively.

v MAIN CHANGES IN THE REGULATORY FRAMEWORK

For the main regulatory events which occurred in 2015 that may have an economic impact on Media Business Unit, please see Item 4. Information On The Telecom Italia Group 4.3 Regulation .

4.2.4 Discontinued Operations/Non-Current assets Held For Sale (Sofora Telecom Argentina group)

On March 8, 2016, the Telecom Italia Group completed the sale of Sofora Telecom Argentina group (for further details please see the Note Events Subsequent to December 31, 2015 of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report).

As of December 31, 2015, the Sofora-Telecom Argentina group was organized as follows (the main companies are indicated):

(*) Holding companies.

(**) Non-operating companies. The company s general ordinary and extraordinary shareholder s meeting held on April 21, 2015 (second tranche) approved the amendment of its corporate purpose. The company is currently analyzing new business opportunities to be developed.

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

4.2.5 COMPETITION

We face competition in all of our businesses.

For details please see Item 4. Information on the Telecom Italia Group 4.1 Business 4.1.7 Updated Strategy , Item 4. Information on the Telecom Italia Group 4.2.1 Domestic and Item 4. Information on the Telecom Italia Group 4.2.2 Brazil .

4.3 REGULATION

4.3.1 THE EU REGULATORY FRAMEWORK

Telecom Italia s operations within the European Union (EU) are subject to the EU framework on electronic communications regulation, which includes directives, regulations, recommendations and communications. As a Member State of the EU, Italy is required to transpose directives issued by the EU into national legislation. The regulations adopted by the European Commission (EC) have general application and are binding and directly applicable in each Member State without the need of further national implementation. Recommendations and communications, on the other hand, are not legally binding although they have to be taken into account by each Member State.

The European Commission (EC) began liberalizing the telecommunications market in the late 1980s and early 1990s. In Italy, as well as in all the main EU Member States, liberalization opened up competition for public voice telephony and public network infrastructure in 1998. National Regulatory Authorities (NRAs), independent bodies tasked with regulating and supervising the telecommunications sector and compliance with the EU framework, were created. In Italy, this body is known as the Autorità Garante per le Comunicazioni (AGCom).

The growing convergence between telecommunications, broadcasting and information technology led to a first revision and consolidation of the EU Regulatory Framework in 2002. Five Directives (the directives Framework , Access and Interconnection , Authorization , Universal Service and Users Rights Privacy and Data Protectio regulating all forms of fixed and wireless telecommunications, data transmission and broadcasting were adopted.

This legal framework was revised a second time in 2007, with the aim of defining a more consistent framework for the sector. The revision of the framework implemented in 2007 established a set of rules composed by the Better Regulation Directive (Directive 2009/140/EC, amending the Framework , Access and Authorization directives) and t Citizens Rights Directive (Directive 2009/136/EC amending the Universal Service and E-Privacy directives and t Regulation 2006/2004 on Consumer Protection Cooperation) and by Regulation no. 1211/2009, establishing the Body of European Regulators for Electronic Communications (BEREC), a body with consultative tasks. The new EU telecommunication rules were adopted on December 18, 2009, to be transposed into national laws by May 25, 2011.

The revised directives were transposed into the Italian legal framework by means of the Legge Comunitaria 2010 ; the Italian Government was delegated to adopt the measures to transpose the revised directives. The Legislative Decrees of May 28, 2012 (nos. 69 and 70) transposing the EU 2009 regulatory framework entered into force on June 1, 2012.

A Recommendation on relevant product and service markets susceptible of ex ante regulation completes this set of legal instruments with the definition of a list of relevant markets. The Recommendation identifies those product and service markets whose characteristics may be such as to justify the imposition of regulatory obligations set out in specific directives (EC explanatory note of October 9, 2014). The Recommendation currently in effect (no. 2014/710/UE) was published on October 9, 2014, following updates in 2003 and 2007. The number of relevant markets subject to ex ante regulation has been reduced over time from 18 to 4, following the growth of the competition in the whole sector (see Market Analyses).

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

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

In September 2013, the EC published a Recommendation on consistent non-discrimination obligations and costing methodologies to promote competition and enhance the broadband investment environment (no. 2013/5761). The Recommendation recommends to impose the Equivalence of Input (EoI) for the application of the regulatory remedy of non-discrimination and defines the criteria to lift price regulation of New Generation Access Network (NGAN) wholesale services when the following conditions are satisfied: (a) application of the principle of the EoI, (b) ability to technically and economically replicate retail offers and (c) presence of significant competitive constraints exerted by the legacy copper access network or by alternative networks.

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

The principle of cost recovery to be utilized by the NRA must respect the principle that prices will ensure that operators can cover efficiently incurred costs and receive an appropriate return on invested capital (Recommendation no. 2013/5761).

During 2013, the EC also began revising the regulatory context concerning: harmonization of the radio spectrum, rights of end users, net neutrality and intra-EU mobile roaming (the Telecom Single Market Regulation or TSM Regulation). After lengthy negotiations among the European Institutions and reduction of its scope, the TSM Regulation was approved in November 2015, covering intra-EU international roaming and Net Neutrality (see below).

The TSM Regulation, approved in November 2015, introduces new rules on intra-EU roaming by amending the roaming Regulation no. 531/2012 (the so-called Roaming III Regulation), which entered into force on July 1, 2012.

On May 6, 2015 the EC presented the Digital Single Market (DSM) Strategy for Europe.

The DSM Strategy sets out 16 key actions under 3 pillars which the EC will deliver by the end of 2016:

1. Better access to digital goods and services across Europe for consumers and businesses: breaking down of barriers to EU cross-border e-Commerce (e.g., differences in contract law among Member States, unjustified geo-blocking, high tariffs for cross-border parcel delivery, copyright rules and different VAT regimes);

2. Creating the right conditions and a level playing field for advanced digital networks and innovative services to flourish: promotion of high-speed, secure and trustworthy infrastructure and content services, supported by appropriate regulatory conditions for investment, fair competition and a level playing field;

3. Maximizing the growth potential of the digital economy: promotion of investment in ICT infrastructure and technology, such as Cloud computing and Big Data, and research and innovation to boost industrial competiveness, better public services, inclusiveness and skills.

The review of the regulatory framework for electronic communications is one of the 16 actions of the DSM Strategy and a key element for creating the right conditions for digital networks and services to flourish (second pillar of the Strategy).

The EC carried out a public consultation from September 11 to December 7, 2015. The public consultation focused on the original instruments for the regulatory framework (i.e., Framework Directive, Access Directive, Authorization Directive, Universal Service Directive), including the BEREC Regulation. The e-Privacy Directive (to be reviewed after the General Data Protection Regulation is adopted), the EU Roaming Regulation and the Broadband Cost Reduction Directive are not included.

The consultation covers all three main pillars of the framework, namely:

(a) the network pillar, intended to ensure a consistent and predictable regulatory environment that is supportive for infrastructure investments in both fixed and wireless networks;

(b) the service pillar, intended to foster a modern regulatory regime for electronic communication services in a world of diverse online services, and

(c) the governance pillar, intended to ensure that markets are regulated in a consistent manner across the EU, including with respect to access to spectrum.

The review will be preceded by a Regulatory Fitness and Performance Program (REFIT) evaluation aimed at assessing whether the current regulatory framework is fit for purpose .

The EC will present a legislative proposal to the European Parliament and EU Council in the second half of 2016.

The new framework will have to be subsequently transposed in the national legislation, therefore new rules will apply beyond 2020.

v International Roaming: current rules

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

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

2. the adoption of retail and wholesale price caps for voice, SMS and data services;

3. the unbundling/decoupling of the roaming services from the domestic services starting from July 2014 (decoupling solution). With the decoupling solution, the customer can buy roaming services separately from domestic services from an alternative roaming provider, which can be a Mobile Network Operator (**MNO**), a Mobile Virtual Network Operators (**MVNO**) or a reseller; and

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

The price caps established under the Roaming III Regulation are:

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

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

In December 2012, the EC published the implementing regulation (EU n. 1203/2012), indicating Single International mobile subscriber identity (**IMSI** reselling of all roaming services) and Local Break Out (**LBO** direct access to roaming data services of the visited network) as the decoupling solutions to be implemented by MNOs.

v ***New rules introduced by the TSM Regulation on International Roaming***

The TSM Regulation provides for the abolishing of any roaming service surcharge on top of domestic service prices for a limited traffic quantity, defined according to fair use rules, to be defined by the European Commission by the end of 2016.

For intra-EU traffic exceeding the fair use limits, operators will be allowed to levy a surcharge on top of domestic tariffs; such surcharge will be capped at the wholesale caps defined in the Roaming III Regulation.

From April 2016 (when the TSM provisions will start to apply) to June 2017, pending the review of the wholesale market required to make the Roam Like at Home regime economically sustainable, operators will be allowed to levy a surcharge on top of domestic tariffs (wholesale caps defined in the Roaming III Regulation) for all intra-EU roaming traffic.

The TSM Regulation abolishes the decoupling obligations according to the Single IMSI model (i.e., separate selling of roaming services from domestic mobile services) introduced by the Roaming III Regulation.

v ***New rules introduced by the TSM Regulation on Net Neutrality***

The TSM Regulation introduces new rules on Net Neutrality, which will apply starting in April 2016. In particular, the TSM Regulation:

· establishes the right of end-user access to distribute information and content, use and provide applications and services and use terminal equipment of their choice and forbids internet service providers from blocking or slowing down specific content, applications or services, except in a very limited set of circumstances;

· allows reasonable traffic management aimed at improving the quality of the network based on objectively different technical quality of service requirements for specific categories of traffic. However, such traffic management must be transparent, non-discriminatory and proportionate and it must not be based on commercial considerations;

· allows operators to offer services, other than internet access services, that are optimized for specific content, applications or services only if the network capacity is sufficient to provide them in addition to any internet access services provided and the offering of such services is not to the detriment of the availability or general quality of internet access services for end-users; and

· allows commercial practices such as zero rating[2] subject to monitoring by the National Regulatory Authority.

The TSM Regulation also places additional transparency obligations on providers of internet access services in addition to those already included in the 2009 Electronic Communications Regulatory Framework. Contracts for internet access services must include:

1. information on how applied traffic management measures could impact the quality of internet access, end-users privacy and the protection of personal data;

2. explanation as to how any volume limitation, speed and other quality of service parameters may in practice impact internet access;

3. explanation as to how any specialized services, to which the end-user subscribes, might in practice have an impact on the same end-user s internet access services;

4. for fixed networks: explanation of minimum, maximum and advertised download and upload speeds of internet access services;

5. for mobile networks: the estimated maximum and advertised download and upload speed of internet access services; and

6. explanation of the remedies available to consumers in case of any continuous or regularly occurring discrepancy between the actual and contractually agreed on performance of the internet access service.

4.3.2 THE ITALIAN REGULATORY FRAMEWORK

v ***The legal Basis***

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

- the Electronic Communications Code (**ECC**), which transposed into national law the EU Access, Authorization, Framework and Universal Service directives;

- the Data Protection Code ;

- the Consolidated Law on Radio-Television containing the principles regulating the organization of radio-television system and its convergence with different means of interpersonal and mass communications;

[2] Zero-rating (also called toll-free data or sponsored data) is the practice of mobile network operators (MNO), mobile virtual network operators (MVNO), and Internet Service Providers (ISP) not to charge end customers for data used by specific applications or internet services through their network, in limited or metered data plans. It allows customers to use provider-selected content sources or data services like an app store, without worrying about bill shocks, which could otherwise occur if the same data was normally charged according to their data plans and volume caps. This has especially become an option to market 4G networks, but has also been used in the past for SMS or other content services.

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

- Law 36 of February 22, 2001 aimed at protecting the population from the effects of the exposure to electric, magnetic and electromagnetic fields and the decree of the President of the Council of Ministers (Decreto del Presidente del Consiglio dei Ministri; the **DPCM**) of July 8, 2003, which sets up Exposure limits, attention values and quality goals to protect the population against electric, magnetic and electromagnetic fields generated by frequencies between 100 KHz and 300 GHz ;

- the Consumer Code ;

- Law June 18, 2009, no. 69 providing measures to simplify the procedures for the installation and development of optical fiber networks (Article 1 Broadband);

- Decree Law July 6, 2011, no. 98, enacted by Law July 15, 2011, no. 111 further simplifying the procedure for the installation of small mobile equipment (0.5 sq. meters of radiator area) and low power equipment (7 watt);

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

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

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

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

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

- Decree Law no. 133/2014 Sblocca Italia (enacted by Law no. 164/2014), introducing fiscal benefits in favor of operators installing ultra-broadband networks;
- Law no. 183/2014 (Legislative decree of the Italian Jobs Act) and its implementing Decree no. 148/2015, setting forth measures to reform the labor market and safety nets in order to secure a generational turnover;
- Decree of December 2, 2014 of the Ministry of Environment, implementing the Decree Law no. 179/2012, setting forth certain guidelines in the area of electromagnetic emissions. Two further decrees on this matter are expected to be published;
- Law no. 115 of 2015 (European Law 2014), amending the contribution fees paid to AGCom by the Operators;
- Law no. 124 of 2015 (Law on the restructuring of the Public Administration) establishing a reduction of payments to Operators for the mandatory services of the Judicial Authority; and
- Law no. 208/2015 (Legge di stabilità 2016) setting forth measures of specific interest in the communication sector concerning: i) the creation of the Fund for the Radio Spectrum re-organization within the Ministry of Economic Development (**MISE**); ii) the setting of the charges for the right of use of the digital television frequencies applied to the local and national operators; and iii) the tender for the frequencies 3.6 3.8 Ghz (C-band for fixed wireless and LTE).

The MISE is responsible for general policy in the electronic communications sector and AGCom is responsible for ensuring fair competition and protecting customers in the telecom market.

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

v *The Italian regulatory framework*

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

AGCom approved Telecom Italia s Undertakings, which are divided into 14 main Groups and pursue the following goals:

· offering additional guarantees of equal treatment amongst Telecom Italia s commercial divisions and other electronic communications operators (**Operators**) when they purchase wholesale access services from Telecom Italia;

· providing benefits to Operators and final users, through the improvement in the quality of the fixed access network and of related services;

· making the evolution of Telecom Italia s fixed access network more transparent for Operators; and

· ensuring competitive conditions in the migration towards new generation networks.

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

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

· cultural-behavioral domain providing for a Code of Conduct and for intensive training activities, carried out in order to spread the principles of internal-external equal treatment; and

· economic-regulatory domain regarding the service contracts and the transfer charges adopted to implement equality of economic treatment.

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

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

On November 5, 2015, Telecom Italia s Board approved a plan to introduce a new equivalence model, aimed at further strengthening the efficiency and effectiveness of the delivery (activation) and assurance (support) processes for its wholesale access services.

The new equivalence model aims to put Telecom Italia s sales divisions on equal footing, relative to one another and other operators, in order to achieve more effective internal and external equality of treatment and greater transparency in the management of line activation requests.

As an initial and immediate step in the process of implementing the equivalence model, Telecom Italia put in place an organizational structure that will affect Open Access and National Wholesale Services. Pursuant to this new organizational structure, these two functions will report hierarchically to the same manager of a newly created Wholesale department.

Telecom Italia intends to invest over 120 million euros to strengthen equality of access to its infrastructure. The process is expected to be implemented within 18 to 24 months, reflecting the most recent regulatory guidelines and providing for strong interaction among the various players in the ecosystem for the assessment of performance.

4.3.3 Market analyses

The EU regulatory framework (Art. 16 of the Framework Directive) obliges National Regulatory Authorities to carry market analyses before imposing obligations on individual operators having a Significant Market Power (**SMP**) according to the specific EU guidelines.

According to art. 14.2 of the Directive *an undertaking is deemed to have SMP when, either individually or jointly with others, it enjoys a position equivalent to dominance, which is a position of economic strength providing the company itself with the power to behave, to an appreciable extent, independently of competitors, customers and ultimately consumers* . Market shares are normally used as a proxy for market power: while undertakings with market shares of no more than 25% are not likely to enjoy a (single) dominant position, single dominance concerns normally arise in the case of undertakings with market shares of over 40%. Market shares in excess of 50% are in themselves, except in exceptional circumstances, evidence of the existence of a dominant position.

The basis of the market analyses is the Recommendation on relevant markets susceptible of ex ante regulation which identifies the relevant markets . The first version of the Recommendation was adopted in 2003 and contained a list of 18 relevant markets. In 2007 the EC adopted the second version and reduced the number of markets to 7 (both retail and wholesale markets): retail access at a fixed location (market 1) and, at wholesale level, call origination at a fixed location (market 2); call termination at a fixed location (market 3): wholesale (physical) network infrastructure access (including shared or fully unbundled access) at a fixed location (market 4); wholesale broadband access (market 5); wholesale terminating segments of leased lines (market 6) and voice call termination on mobile networks (market 7).

In October 2014, the EC adopted the third version which is currently in force and identifies only five wholesale markets susceptible to ex-ante regulation: call termination at fixed location (market 1), call termination on mobile networks (market 2), local access at fixed location (market 3a), central access at fixed location for mass-market products (market 3b), high-quality access at fixed location (market 4).

The market analyses carried out by NRAs are subject to the assessment of the EC which, to a certain extent, can challenge the NRAs findings, having a veto power on the definition of the market and on the identification of SMP operators. Vice-versa, the EC has no veto power for what concerns the imposition of the remedies, but can raise serious doubts following which the BEREC is requested to give an opinion. The EC, the BEREC and the NRA then must cooperate to find a solution within three months. Neither the EC nor BEREC are able to make a binding intervention. The NRA can decide not to amend or withdraw its decision on remedies but it must provide a reasoned justification .

Following a first round (2006-2007) and a second round (2007-2010) of market analyses, a third round was started by AGCom in 2012 (with two years of delay). As of April 8, 2016 the third round has not been completed. In particular, the market analyses of the fixed interconnection market are still ongoing, and with respect to the fixed access, the terminating segments of the leased lines markets and mobile call termination, the analyses were concluded in the second half of 2015 despite the proceedings being launched in September 2012, November 2013 and February 2014, respectively.

With respect to retail markets, despite the fact that they are not included in the current list of the EU relevant markets (Recommendation of 2014), the final AGCom decision of the market analysis on wholesale access markets, retained some obligations, such as the notification of retail charges prior to the commercial launch and the obligation to carry a replicability test of the retail offers (taking into account the most efficient network architecture that could be used by AltNets to compete in a specific context).

A description of the wholesale market analyses is summarized below together with the main recent developments regarding the electronic communications markets.

4.3.4 WHOLESALE MARKETS

v ***Wholesale fixed access markets***

In September 2012, AGCom launched the third round of market analysis on wholesale and retail access markets (markets 1, 4 and 5 of 2007 Recommendation) to set the remedies to be applied to copper and fiber networks (Decision 390/12/CONS). In March 2013, AGCom published Decision 238/13/CONS, covering the period from 2014 to 2016, and, on February 13, 2015, submitted for public consultation a change of Decision 238/13/CONS, extending the covered period to 2017 (Decision 42/15/CONS).

On December 22, 2015, AGCom published the final Decision (623/15/CONS) on market analyses.

The main features relate to the following items:

· **Non-discrimination**

The Decision provides for an increased level of non-discrimination. AGCom confirms the application of the Equality of Output (**EoO**) model with certain amendments. In particular, the Decision:

- introduces strict Service Level Agreements (**SLA**) and penalties;
- imposes specific access obligations to allow the provision of certain ancillary services, such as line activation and fault repair, by third parties in a competitive environment;
- introduces a new set of quality-of-service key performance indicators and objectives (KPIs and KPOs);
- simplifies and reduces certain differences, with respect to retail services, of the supply processes, e.g., by giving access to the same network and customer address databases (equivalence of network information) to various operators.

The decision also requires Telecom Italia to submit two options on the assurance and supply for the Local Loop Unbundling (**LLU**) and Sub-Loop Unbundling (**SLU**). This is a completely new obligation which may entail significant operative burdens and challenges. Specifically:

- pursuant to the first option, Telecom Italia keeps the coordination role for the external maintenance companies and for their relationships with the other operators;

· pursuant to the second option, the other operators may acquire full autonomy in the contractual relationships with external firms and, in addition, these firms may have direct access to Telecom Italia s network and information systems.

Ø **Price control and transparency**

In the final decision, access service charges are cost oriented, according to the Bottom-Up Long Run Incremental Costs model based on Current Costs Accounting (BU-LRIC CCA) methodology and taking into consideration a value of the regulated WACC of 8.77% (reduced from the former value of 9.36%).

For purposes of determining the charges for NGA services, AGCom used the BU-LRIC model as defined in the decision n. 238/13/CONS with some methodological improvements to account for network typology, in particular Fiber to the Curb (FTTC) and Fiber to the Home (FTTH) accesses.

AGCom did not introduce any geographic differentiation for Virtual Unbundling of the Local Access (VULA) in terms of price and regulation. Moreover, Telecom Italia is now obliged to propose a Reference Offer for AGCom s approval every year by July 31 for each wholesale service (the deadline for the issue of the Reference Offer has been anticipated of three months).

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The following tables show the new economic conditions:

Service	2013/14	2015	2016	2017
LLU (euro/month/line)	8.68	8.61	8.61	8.61
SLU (euro/month/line)	5.79	5.57	5.43	5.3
SA (euro/month/line)	0.86	0.73	0.73	0.73
WLR POTS (euro/month/line)	11.14	11.06	11.06	11.06
WLR ISDN (euro/month/line)	13.78	13.67	13.67	13.67
Bitstream shared (euro/month/line)	6.74	4.96	4.63	4.29
Bitstream naked (euro/month/line)	15.14	13.59	12.8	12.46
VULA FTTC shared (30 Mbps) (euro/month/line)	13.94	7.92	7.90	7.88
VULA FTTC shared (50 Mbps) (euro/month/line)	13.94	9.73	9.68	9.63
VULA FTTC naked (30 Mbps) (euro/month/line)	20.63	13.58	13.42	13.27
VULA FTTC naked (50 Mbps) (euro/month/line)	20.63	15.38	15.20	15.02
VULA FTTH (100 Mbits/10 Mbits) (euro/month/line)	24.9	23.15	22.64	22.12
VULA FTTH (40 Mbits/40 Mbits) (euro/month/line)	34.53	32.08	31.36	30.65
VULA FTTH (100 Mbits/100 Mbits) (euro/month/line)	86.49	81.37	79.57	77.77

NGA wholesale physical access Monthly fees (euro)	2013 (approved) (*)	2014 as 2013	2015	2016	2017
Miniduct access new infrastructures (*IRU 15 years euro/miniduct/meter*)	10.60	10.60	10.1	9.61	9.11
Miniduct access existing infrastructures (*IRU 15 years euro/miniduct/meter*)	6.44	6.44	6.36	6.29	6.21
Entries to buildings (*IRU 15 years euro/miniduct*)	385.46	385.46	382.70	379.95	377.19
Dark fibre primary section (*IRU 15 years/fiber*)	3,900.35	3,900.35	3,639.97	3,379.58	3,119.20
Dark fibre secondary section (*IRU 15 years/fiber*)	1,700.91	1,700.91	1,697.32	1,693.72	1,690.13
End to End service (euro/month/line)	65.10	65.10	61.53	57.96	54.39
Fibre terminating segment (euro/month/line)	5.96	5.96	5.84	5.72	5.60

(*) AGCom approved wholesale NGA prices for the year 2013 (Decisions 68/14/CIR, 69/14/CIR and 128/14/CIR).

Ø **Terminating segment of leased lines**

On October 28, 2013, AGCom launched the third round of market analysis on terminating segments of leased lines (market 6 of the 2007 Recommendation) and on November 17, 2014, the relevant public consultation was launched, which closed on January 16, 2015. Upon conclusion of the consultation, AGCom decided to maintain the same regulation as during the previous market analysis cycle, although with a modification of the 2015-2017 prices of Ethernet terminating lines and Plesiochronous Digital Hierarchy (**PDH**) and Synchronous Digital Hierarchy (**SDH**) terminating lines with speed <= 155Mbit/s (more specifically, a reduction of between RPI-6% and RPI-8.6% per annum- RPI Retail Price Index). PDH/SDH terminating line prices with speed > 155Mbit/s were set based on the pure cost orientation.

Specifically, AGCom s decision (published on August 3, 2015) does not introduce significant changes compared to the previous market analysis. In particular:

· Telecom Italia is regulated in the product sub-market (A) covering the provision of dedicated capacity between an end user and an alternative network operator s point of presence at a TI node;

· the other product sub-market (B) for dedicated capacity for Mobile Base Station (**BTS**) backhaul is competitive and therefore unregulated;

· Telecom Italia s trunk (inter-regional) segments of leased lines were deregulated in 2010 together with retail leased lines.

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In the same decisions AGCom confirmed the second round s obligations and imposed a set of regulatory remedies referring to sub-market (A) including: access to, and use of specific network facilities, transparency, including the publication of a Reference Offer on July 31 of every year; non-discrimination, accounting separation, cost accounting. In relation to the price control obligation, for the period 2015 2017, the price setting is based on a Network cap mechanism only for the following baskets of sub-market A:

- Terminating segment on PDH and speeds up to 155 Mbit/s and Terminating segment on Ethernet over SDH:
  - Access: RPI 6.0%;
  - Backhaul: RPI 8.6%.

Ø **Wholesale fixed interconnection markets**

With respect to the fixed call termination, origination and transit services (markets 2 and 3 of the 2007 Recommendation; market 2 has been removed from the 2014 Recommendation), AGCom withdrew its draft decision following the serious doubts letter sent by the EC while, in November 2013, AGCom approved the cost model to set the glide path for fixed interconnection rates for the period from July 1, 2013 to December 1, 2015.

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

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

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

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

Interconnection rates (July 2013 2015)

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

On April 20, 2015, AGCom launched a proceeding related to the third round of market analysis of the fixed voice termination market in order to regulate fixed interconnection rates. The data-gathering activities to fill out the AGCom qualitative-quantitative Questionnaire are completed and the related public consultation was launched on April 4, 2016.

Ø **Wholesale mobile markets**

Termination on mobile networks is susceptible to ex ante regulation pursuant to the Recommendation of 2014. In this respect, on February 11, 2014, AGCom launched the fourth round of a market analysis on mobile termination rates and on February 9, 2015, AGCom published a public consultation focused on the following items:

- the confirmation of the end of the price asymmetry in favor of H3G, starting from January 2014;
- the introduction of the same obligations applicable to the traditional Mobile Network Operators (**MNOs**), including price control, for all Full Mobile Virtual Network Operators (**MVNOs**); and
- the introduction of a moderate annual glide path, confirming the value of 0.98 eurocents/min for 2014 for all operators both MNOs and Full MVNOs) and proposing the mobile termination rates as follows:

Voice termination rates on mobile networks (2014-2017):

(eurocents/min)

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

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On September 30, 2015, AGCom published a final decision (no. 497/15/CONS). Specifically, AGCom:

· confirmed the four MNOs (Telecom Italia, Vodafone, Wind, H3G) and, for the first time, also the 4 full MVNOs (BT Italia, Lycamobile, Noverca, Postemobile) as having SMP;

· fixed, for the years 2014 2017, the efficient rate of termination not to exceed 0.98 eurocents/min, extending its application to MVNO in addition to mobile operators;

· confirmed the end of the price asymmetry in favor of H3G;

· explicitly excluded call termination rates for calls originating outside the European Economic Area (EEA) from the scope of price regulation, leaving these rates to be negotiated among parties; and

· set the WACC on the mobile network at the level of 10.25% (a different value than the WACC on fixed network).

4.3.5 Accounting separation and network cost accounting

SMP operators are required to have a transparent accounting system of their costs and to provide AGCom on a yearly basis with both a description and a report on their cost accounting system to assess their compliance with the requirements of the electronic telecommunications regulatory framework.

Moreover, SMP fixed and mobile operators must maintain an accounting system that separates the activities in each of the relevant wholesale and retail markets defined by AGCom according to the periodic Market Analyses.

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

Changes in the regulation on cost accounting and accounting separation follow rules set out in periodic Market Analyses.

Through Decision 623/15/CONS on fixed access Market Analyses for the period 2015 2017, AGCom set the average cost of capital employed (WACC) for fixed networks at 8.77% nominal pre tax. Telecom Italia asked to review this decision because it believes that this value is too low.

Through Decision 497/15/CONS on mobile termination for the period 2015 2017, AGCom set the WACC for the mobile network at 10.25% nominal pre tax.

The regulatory accounting report for the year 2012 was produced during 2013 and delivered to AGCom in November 2013. The audit was completed in 2015 by the auditor appointed by AGCom.

The regulatory accounting report for the year 2013 was produced during 2014 and delivered to AGCom in March 2015. The audit was completed in 2015 by the auditor appointed by AGCom.

The regulatory accounting report for the year 2014 was produced during 2015 and delivered to AGCom in January 2016.

4.3.6 Retail fixed Markets

v ***Retail Offers***

In May 2015, Telecom Italia launched a simplification of the tariff offers:

· the former basic offer for consumer customers was replaced with a flat offer that includes the line rental and unlimited calls (option Tutto Voce). The basic offer was retained for customers that opt for a single per minute charge for both national and fixed-to-mobile calls. In addition, in July 2015, the billing period was changed from every two months to monthly billing.

· Telecom Italia increased (i) the price of the standard offer for Business users from 22.50 euros to 24.90 euros per month and (ii) the charge of the ISDN lines, both single and multiple (Basic rate and Primary rate access). For voice call services, the new tariff is composed of a per minute charge of 5 eurocents and a call set-up fee of 30 eurocents.

In August 2015, Telecom Italia launched the TIM SMART offer. This new bundled offer is characterized by a modular structure (building blocks) that allows customers to build a package that best suits their needs by starting with a single basic block that can be complemented with additional options. This structure is technologically neutral, as the customer chooses the speed of access data and not the technology used. The technology is chosen by Telecom Italia based on the coverage available at each customer s location.

The basic block includes PSTN access and broadband access (up to 20 Mbit/s).

The basic option available are:

· TIM SMART Casa: traffic package with unlimited calls to all fixed and mobile numbers;

· TIM SMART Mobile: mobile subscription with a plafond of minutes and gigabytes included;

· TIM SMART Fibra: which enables the increase of access speed up to 100/20 Mbit/s (300/20 Mbit/s in FTTH areas).

4.3.7 QUALITY OF SERVICES

v ***The measures to test the quality of the data service on fixed networks***

AGCom Decision 244/08/CSP and its modifications, namely decision 151/12/CONS introduced the following obligations on quality measures:

· ISP measurements: the measures of the access quality of the most common retail offers are made by an independent body, in the geographical areas of the main towns, for each Internet Service Provider (**ISP**); and

· End-user measurements: allows a user to measure his own fixed broadband line performances with dedicated software called Ne.Me.Sys. Each customer can formally certify the quality of his own fixed-line broadband access using this software and can compare the results with the advertised performances. These results could be used by customers to terminate the contract with the ISP without penalties or to claim QoS parameters levels to be restored. If the results are lower than those advertised, the user may submit a complaint to the provider which is obliged to improve the quality within 30 days. The user may terminate the contract without penalties if a second measure confirms the parameters.

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

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

Decision AGCom 154/12/CONS established that drive test campaigns must be carried out every six months in the main towns. From 2014, 40 towns are involved (the two largest towns of each region).

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

The video streaming services has been tested since 2015.

To date, the results of the second half 2013 Campaign are available whilst those of the first half 2014 Campaign are being processed.

In 2013/2014 the data services accessible with the internet keys have been the subject of measurement, while in 2015 the measurement was made on the data services on smartphones. Finally, from 2015 measurements was extended to 4G networks.

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4.3.8 THE UNIVERSAL SERVICE

The Universal Service is a minimum set of services of a certain quality, which must be made available to all customers, regardless of their geographical location in Italy and must be offered at a reasonable price, taking into account specific national conditions. To date, Telecom Italia is the only operator obliged by the Code of Electronic Communications (art. 58) to provide the Universal Service under the Universal Service Obligation (**USO**) throughout Italy. Currently the services included in the USO are the provision of access at a fixed location and of telephone service, the directory inquiry service and the directories, the availability of public payphones, and the provision of specific measures for disabled users.

A Fund (The Universal service Fund), established by the Ministry of Communications, is used to finance the net cost for the provision of Universal Service sustained by the designated operator (Telecom Italia) by means of contributions paid by the other operators. All the main companies active in the sector, including Telecom Italia, must contribute to this fund.

The net cost of providing the USO is calculated as the difference between the company s cost when it is subject to the obligation of providing the USO and the cost incurred by the same company in the absence of the obligation.

It is AGCom s responsibility to verify the net cost of the USO provision and to assess whether this amount represents an unfair burden for the operator. The designated operator can receive compensation only if the burden is determined to be unfair.

AGCom assessed the net cost and authorized the funding mechanism until the year 2005 and did not recognize any contribution for the years 2006 and 2007.

In 2008, AGCom published a decision having retroactive effect, introducing a new methodology to calculate the net cost for the provision of USO, which led to a significant decrease of the amount to be financed.

Telecom Italia submitted the net cost calculations of the USO for the years 2008, 2009, 2010, 2011 and 2012 to AGCom. The audit of the 2008 and 2009 net costs was completed in March 2014, but AGCom has not yet issued a final decision.

Generally, the process of setting the USO contribution levels by the other operators is characterized by litigation and delays. Both Telecom Italia and the other operators have appealed each of AGCom s previous decisions.

The Council of State, with a decision published on October 2, 2015, rejected the retroactivity of the criteria introduced by AGCom s Decision 01/08/CIR, so the Italian NRA has been called upon to renew all the procedures for the years 2004 to 2007, applying the net cost calculation methodologies which were in effect at the time. The judgment of the Council of State may result in a reassessment of the net cost for the years 2004 2007.

Concerning past litigations, the Council of State, with a decision published on July 7, 2015, rejected the appeal filed by Telecom Italia against the decision of the Administrative Court (**TAR**) regarding the contributions for the years 1999-2000 and 2001-2003. The decision of the Council of State voided AGCom s Decision of 2010 establishing the renewal of the procedures for the years concerned.

Following the State Council decision, Vodafone requested that Telecom Italia refund the amounts paid for 1999-2000, 2002-2003 and subsequent periods. The Ministry of Economic Development asked Telecom Italia to settle all economic relations, taking into account the actions taken by Vodafone.

The Ministry of Economic Development is responsible for reviewing the scope and definition of the USO every two years and, in September 2014, together with AGCom, it opened a formal proceeding concerning the identification of the criteria for designating one or more operators responsible for providing the universal service. The proceeding is ongoing.

v ***Public Telephony***

In 2010, AGCom established that the criteria regarding the distribution of public payphones in Italy was no longer consistent with current social needs and removed any quantitative obligations for Telecom Italia (i.e. the obligation to install a specified number of payphones). As a consequence, Telecom Italia is authorized to remove the unprofitable coin-boxes after a consultation with city councils and interested citizens. At the end of 2015, the total number of public payphones was about 59,000.

4.3.9 CONTRIBUTION FEES FOR THE FUNCTIONING OF AGCOM

Telecom Italia and the other operators are obliged to pay contribution fees to fund the running costs of AGCom. These fees are calculated on the basis of each operator s revenues and they have given rise to a series of litigation proceedings and appeals among Telecom Italia, AGCom and other operators. The current situation is described below.

On March 5, 2015, Decision 567/14/CONS on the payment of the AGCom contribution for the year 2015 (calculated on the 2013 financial statement data) was issued. Notwithstanding the judgment of the TAR and the following judgment of the Council of State, AGCom confirmed the use of the regulatory reporting as payment calculation base and set the contribution rate at 1.15 per thousand, diverging from the rate of 2 per thousand applied to other markets under AGCom s supervision (e.g. media and publishing). Furthermore, the deadline for the payment was accelerated to April 1, 2015.

Telecom Italia, under reserve, paid 17.5 million euros, calculated on a revenues basis, applying the 2015 AGCom rate of 1.15 per thousand.

This payment for the 2015 contribution does not involve compliance by the Company with the long dispute between Telecom Italia and AGCom.

In October, AGCom published its second report on the 2014 overview of the administrative costs and of the total amount of the collected charges (2014 Annual Report) focused on the electronic communications sector. This last report highlights that AGCom collected from operators of the electronic communications sector amounts that are approximately euro 1.3 million higher than the costs incurred by AGCom in the same period.

On December 21, 2015, with Decision 691/15/CONS on the Contribution fee for the year 2014, AGCom requested Telecom Italia to provide within 60 days (February 20, 2016) an additional payment of approximately 9.4 million euros to integrate the amount already paid, under reserve, in 2014 (14.0 million euros); the additional payment has been done even if it does not involve compliance by the Company with the long dispute between Telecom Italia and AGCom.

With respect to the 2016 contribution fee, despite the judgment of the TAR and the subsequent judgment of the Council of State, AGCom confirmed the use of the total revenues from sales and services on the 2014 income statement as a payment basis and raised the contribution rate to 1.4 per thousand. (Decision 668/15/CONS of December 2015). On April 1, 2016 Telecom Italia, under reserve, paid 19.8 million euros calculated on a revenue basis, applying the 2016 AGCom rate of 1.4 per thousand.

4.3.10 BROADBAND AND DIGITAL DIVIDE

Over the last few years, the Government has introduced several measures aimed at fostering the development of fixed and mobile broadband and ultra-broadband networks through simplified procedures to build the relevant networks.

In this regard, of particular relevance is the recent D.Lgs. 33/2016, implementing Directive 61/20124, which provides:

- a lighter authorization procedure for the deployment of broadband and ultra-broadband networks;
- simplified rules for innovative digging techniques (mini-trenches) for the deployment of optical fiber equipment;
- a right of access for telecommunication operators to public utilities passive infrastructures and common parts of buildings for the installation of ultra-broadband networks;
- creation of a public infrastructure data base.

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Article 14 of Law 221/2012 has modified the criteria to measure the electromagnetic field allowing a higher flexibility for the installation of radio mobile equipment. The implementation of these criteria is subject to the adoption of guidelines (s.c. Linee Guida). As of today, the guidelines have been published only partially, thus limiting the scope of the legal reform.

v ***Italian Digital Agenda***

In March 2015, the Italian Government issued a strategic plan for ultra-broadband deployment throughout the country. In order to meet the European Digital Agenda goals (50% population with at least a 100 Mbps connection and 100% population covered with at least 30 Mbps) by 2020, the Government set the following strategic target:

- up to 85% of Italian population covered with at least 100 Mbps;
- at least 30 Mbps guaranteed to 100% of population; and
- at least 100 Mbps guaranteed to public sites (schools and hospitals in particular), industrial areas, the main tourist areas and logistic hubs;

based on:

- technological neutrality, open networks, fair access and non-discriminatory approach;
- lowering the entry level costs;
- infrastructure Data Base for a better use of existing infrastructure;
- a plan structured into clusters based on different competitive NGAN (New Generation Access Network); and
- harmonization of international electromagnetism limits.

In August 2015, the Inter-ministry Committee for Economic Programming (**CIPE**) issued the economic support levels for the years 2014 to 2020 to achieve the strategic plan for ultra-broadband, following EU Guidelines for the application of state aid rules in connection with the rapid deployment of broadband networks (2013/C 25/01).

On February 2016, MISE signed a Memorandum of Understanding with all Italian Regions, which provided:

- nearly 1.5 billion euros from CIPE to build in-market failure areas (Cluster C and Cluster D), a state-operated ultra-broadband network, by in-house company Infratel;

- an additional 1.9 billion euros of regional funding.

Following the EU Commission s approval on state aid rules, Infratel is expected to release a concession for realization, operations and management of this state-operated ultra-broadband network by May 2016.

This network will be operated at wholesale level with regulated prices that will be defined by AGCom prior to the bid.

4.3.11 Privacy and Data Protection

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

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

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

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

The data subject (any natural person that is the subject of the personal data) and the subscriber (any natural or legal person who or which is party to a contract with the provider of publicly available electronic communications services, or is the recipient of such services by means of pre-paid cards) shall receive preliminary information on the purposes and modalities of data processing.

Prior consent of the data subject is needed to process personal data, except in specific cases (i.e. obligations imposed by law or by a contract with the data subject). Furthermore, the data subject has the right to access his/her personal data and to obtain information on the purposes and methods of the processing.

v ***Italy s Privacy Provisions Related to Specific Processing Operations in the Electronic Communications Sector***

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

Notably, with respect to data retention, CSPs are allowed to retain traffic data for a six-month period in order to deal with disputes over billing and subscriber services. CSPs are also required to retain telephone and electronic communications traffic data for the purpose of detecting and preventing crimes. The data retention terms for crime prevention and prosecution provided by the Italian Data Protection Code are: 24 months for telephony traffic (fixed and mobile); 12 months for electronic communications traffic; and 30 days for unsuccessful call attempts. However, over the course of 2015 and 2016, Decree no. 7/2015, on urgent antiterrorism measures, and the subsequent Law no. 21/2016, introduced transitional rules according to which telephone and electronic communication traffic data, as well as unsuccessful call attempts, generated after April 21, 2015 must be retained until June 30, 2017. Such transitional provisions will cease to apply on July 1, 2017.

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

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

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

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

Under the Privacy Code, in case of a personal data breach, (a security breach leading, accidentally or not, to the destruction, loss, alteration, unauthorized disclosure of or access to personal data transmitted, stored or otherwise processed in the context of the provision of a publicly available communications service) the provider shall inform without delay the Italian Data Protection Authority (currently the Italian Data Protection Authority specified the term in 24 hours for the first communication and in other 3 days for the communication of further details). Moreover, where the breach is likely to adversely affect the personal data or privacy of a subscriber or other individuals, the provider must also inform them within 3 days.

v *Further relevant provisions*

On May 8, 2014, the Data Protection Authority adopted a general provision relating to Simplified Arrangements to Provide Information and Obtain Consent Regarding Cookies , requiring that concerned entities be compliant with the simplified arrangements, pursuant to Article 122 of the Privacy Code, by June 2, 2015.

Article 122 of the Privacy Code sets out that storing information, or accessing information already stored in the terminal equipment of subscriber/user (i.e. by cookies or similar tools such as web beacons, web bugs, clear GIFs or others), shall only be permitted on condition that the subscriber/user has given his prior consent after being informed by simplified arrangements. Subscriber/users prior consent is not necessary to install the technical cookies , which are those used exclusively with a view to carrying out the transmission of a communication on an electronic communications network, or insofar as this is strictly necessary to the provider of an information society service that has been explicitly requested by the contracting party or user to provide the said service .

Telecom Italia implemented the requested measures to comply with the above mentioned provision.

4.3.12 ANTITRUST ISSUES

v Antitrust in Italy

Ø Legislation on competition

Telecom Italia is subject to Italian competition law, and namely the Law of October 10, 1990 no. 287 (Provisions aiming at protecting competition and the market) which set up the AGCM, or Antitrust Authority .

The Antitrust Authority is responsible for:

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

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

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

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

In addition, the Antitrust Authority may:

(i) adopt interim measures; and

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

Ø Proceedings

During 2015 two antitrust proceedings involved Telecom Italia before AGCM:

- **Proceeding I 761 :** on December 23, 2015, AGCM notified Telecom Italia of a final decision determining the existence of a cartel composed of Telecom Italia and six companies involved in maintenance activities of the Telecom Italia network. Based upon these findings, AGCM imposed a 21.5 million euro administrative fine on Telecom Italia. On February 22, 2016, Telecom Italia appealed the AGCM decision to the Regional Administrative Court of Lazio;

- **Proceeding A428C :** on July 17, 2015, Telecom Italia received the filing from a proceeding concerning a possible infringement of the order contained in the A428 decision with reference to the abuse of dominant position related to the supply of wholesale services to OLOs (KO). The proceeding is expected to conclude on July 31, 2016.

v *Antitrust i*ssues at the European level

Ø Legislation on competition

Telecom Italia is subject to the European competition law. European competition policy was developed from rules set out in the Treaty on the Functioning of the European Union (TFEU or Treaty) and covers anticompetitive practices and abuse of dominance, mergers and state aid:

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

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

- mergers: the EC is responsible for reviewing mergers if the annual turnover of the combined businesses exceeds specified thresholds in terms of global and European sales. In such cases, the EC must be notified of the transaction. Transactions falling below these thresholds may be reviewed by the national competition authorities in the EU Member States; and

- state aids: public aid distorting competition and trade within the EU are prohibited (art. 107 of the Treaty). State aid is defined as an advantage in any form whatsoever conferred on a selective basis to undertakings by national public authorities. Therefore, subsidies granted to individuals or general measures open to all enterprises do not constitute State aid.

Furthermore, the EC Treaty provides that in some circumstances, government interventions are necessary for a well-functioning and equitable economy, stating some exceptions and sector specific rules. The Guidelines for the application of State aid rules in relation to rapid development of broadband networks establish that public funding of broadband projects is not considered state aid if one of three exemptions are used:

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

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

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

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

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

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

Ø Main Competition dossier before the European Commission

The main cases involving Telecom Italia and currently pending before the EC are:

- merger 3/Wind: On February 5, 2016, CK Hutchison Holdings Ltd. (CK Hutchison), parent company of Italian mobile operator 3 Italia, and VimpelCom Ltd. (VimpelCom), parent company of WIND, notified the EC (the body in charge of evaluating the merger) the creation of a 50/50 joint venture that would own and operate their telecommunications businesses in Italy. On March 30, 2016 the EC opened an in-depth investigation to assess whether the proposed joint venture between the telecommunications activities of Hutchison and VimpelCom in Italy is in line with the EU Merger Regulation. The EC must make a decision prior to August 10, 2016. Over the past few months, Telecom Italia has been working with the EC in response to formal requests for information on the matter;

- ultra-broadband State Aids: The Italian strategy for Next Generation Access Network , presented by the Government in March 2015, aims to develop a high-speed optical access network throughout the country, meeting the objectives of the European Digital Agenda. The amount of 2.2 billion euros of public funds have been assigned to the Program as of October 2015. The State Aids scheme must be approved by the EC. The discussions are currently (April 8, 2016) at the pre-notification phase.

4.3.13 TELECOMMUNICATION REGULATORY FRAMEWORK IN BRAZIL

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

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

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

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

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

In 2010 virtual mobile operators were allowed to enter the market upon commercial agreements with the established operators.

v **Authorizations**

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

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

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

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

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

v **Interconnection rules**

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

Until 2016, the interconnection charges for fixed network (**TU-RL**) amount to a percentage of retail prices for the incumbent operators. Alternative operators (including TIM) can apply asymmetrical interconnection rates exceeding up to 20% the one applied by the incumbents. From 2016, the fixed interconnection rates will follow a cost oriented approach.

In May 2012, ANATEL approved a new regulation which, from January 2014, requires the application of the Bill and Keep system for local fixed termination rates, *i.e.*, operators will take rights of tariffs generated on their networks, and no interconnection remuneration will be owed for local calls between two different networks.

The values of mobile interconnection rates (**VU-M**) are freely negotiated by operators. The National Regulatory Authority has, however, arbitration power in case of disagreement and it can determine a reference value according to criterion set up by regulation. From January 2013, the reference values set by ANATEL comply with a glide path which would lead to cost orientated values starting from 2016.

Interconnection agreements are subject to prior approval by ANATEL.

v **General Competition Plan (PGMC)**

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

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

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

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

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

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

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

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

The second analysis and definition of SMP operators was held in 2015 confirming the previous decision of 2012, leaving the remedies imposed on TIM Brasil unchanged. The review of the markets to be regulated and the remedies to apply to possible SMP operators are expected in 2016.

v **Main regulatory developments**

Ø **Cost models implementation**

In 2005, ANATEL issued a ruling for Accounting Separation and Cost Accounting . This ruling introduced the obligation to present the Accounting Separation and Allocation Document (Documento de Separação e Alocação de Contas **DSAC**) for license holders and groups holding SMP in the fixed and/or mobile network interconnection and wholesale leased lines markets (Exploração Industrial De Linha Dedicada **EILD**). Operators (TIM included) have been providing ANATEL with the requested information since 2006 for fixed services and since 2008 for mobile operators.

In August 2011, ANATEL launched a project called Modelo de Custos , setting up a consortium of consultants in charge of developing, within two years, the cost model for fixed and mobile networks for communications services.

In July 2014, ANATEL published the final decision regarding the costing models to set the wholesale reference values for the fixed and mobile access and interconnection services, as well as the maximum values for the Leased Lines (EILD Industrial Exploitation of the Dedicated Line).

ANATEL established that the fixed network usage charges (TU-RL) and mobile network reference values (VU-M) will be cost oriented starting from 2016 to reach the efficient cost level in 2019. For EILD, the efficient cost level must be reached in 2020.

Ø **Mobile interconnection rate glide path**

In November 2012, TIM Brasil (as well as certain other mobile operators) was identified by ANATEL as having Significant Market Power (SMP) in the wholesale mobile termination markets. The remedies applied to SMP mobile operators include a glide path on mobile termination rate (called VU-M, Value to Use the Mobile network), based on a price cap system with a decrease of almost 50% from 2013 to 2015; current termination charge is approximately 0.17 R$/min.

In July 2014, ANATEL published the final decision regarding the cost model and the reference values of the mobile termination rates that will apply from 2016 to 2019 for the operators with SMP. Following the so-called glide path , the reference value of the MTR will be reduced by 40% in 2016 to approximately 0.10 reais minute and 45% in the following years: approximately 0.06 reais per minute in 2017; approximately 0.03 reais per minute in 2018; and approximately 0.02 reais per minute in 2019.

Between operators with SMP a full billing scheme is applied (i.e. each operator charges the total amount of the traffic terminated on its network). Conversely, between SMP and non SMP operators, an asymmetric scheme applies (so called partial bill&keep): each operator only pays the portion of the terminated traffic on the other network that exceeds a threshold percentage determined by the regulator with respect of the total traffic exchanged at the interconnection. Until February 2015, this threshold was set at 80% (i.e., a non SMP operator pays only if the terminated traffic on the SMP operator network is more than 80% of the total traffic exchanged at the interconnection).

According to the previous rules, by February 2015, the partial bill & keep threshold between SMP and non SMP operators would have decreased to 60% and from February 2016 the full billing scheme would have been adopted. To harmonize the evolution of the values of mobile interconnection with the introduction of cost-oriented values, in February 2015 the regulatory authority (ANATEL) postponed to 2019 the introduction of the full billing scheme in the interconnection between operators with market power and without market power, with a progressive decrease of the mentioned threshold over the next years.

Ø **Allocation of the 700 MHz band**

The auction for the allocation of the 700MHz band (698-806 MHz), for the provision of the fourth generation mobile services and high speed internet was held in September 2014.

TIM Brasil, Claro (Telmex group) and Vivo (Telefonica group) were granted three of the four auctioned national blocks of 10 + 10 MHz; the fourth block remained unsold as the fourth national operator Oi did not participate to the bid. TIM Brasil paid 1,947 million reais.

The frequencies will be available, in every Brazilian town, only a year after the complete switch-off of analogue television channels operating in the band and the transition to the digital TV whose channels will be allocated in the lower bands. The analogue TV switch-off is planned to be carried out from November 2015 to November 2018.

In the States of São Paulo and Rio de Janeiro, the frequencies will be available at the end of 2018, after the complete switch-off of analogue television in those States.

Bid winners are required to cover the costs of the implementing measures to overcome any spectrum interference and the expenses resulting from the reallocation of Digital TV channels. The amount of these costs for each national operator is about 297 million euros.

Ø **Consultation by the Brazilian Ministry of Communications on the revision of the Legal/Regulatory Framework**

The consultation relates to a proposal to reform the General Law of Telecommunications of 1997, to account for new market conditions, competition, technology and development of communications services. The reform would be designed to overcome the existence of Concessionaries (Oi, Telefonica and Embratel Telmex) for the supply of services deemed to be of a public nature .

Overcoming Concessions would eliminate the current obligation of Concessionaires to return to the state, at the end of the concession, the assets used for the supply of public services. Overcoming Concessions, however, may require identifying alternative solutions to ensure universal access.

4.3.14 BROADCASTING REGULATORY FRAMEWORK IN ITALY

Following the sale of La7 S.r.l. and MTV Italia S.r.l. and the business combination with Rete A S.p.A., the Group operates as a national digital terrestrial network operator with Persidera S.p.A., the former Telecom Italia Media

Broadcasting S.r.l..

Persidera is a pure network operator, not integrated with any content provider. It offers digital terrestrial capacity through five national terrestrial networks (5 MUXes) hosting more than 40 independent TV channels and seven independent radio stations.

v ***Broadcasting frequencies***

In response to the EU infringement procedure 2005/5086, in 2008 the Government approved the Law no. 101/08, replacing the special licensing regime for digital terrestrial network operators with an authorization regime compliant with EU Directives.

Following these modifications, all network operators licenses were converted into general authorizations with a 20-year duration.

The EC approved the changes introduced by Law no. 101/08, but asked for more spectrum resources to be assigned to new entrants (the digital dividend). In response to these further requests, AGCom resolution 181/09/CONS set up the criteria for the complete digital conversion of the terrestrial television networks (switch-off).

In this conversion, Telecom Italia Media Group (**TIMB**) was assimilated to RAI and Mediaset, and TIMB was wrongly assigned only three out of the four networks managed by the Group before the switch-off, even if all other network operators were assigned networks on a one-to-one basis. On June 28, 2012, MISE formally assigned to TIMB the digital rights for three national MUXes with the duration of 20 years (December 2032).

Law no. 44/12 replaced the beauty contest for the digital dividend assignment, as defined by AGCom in resolution 497/10/CONS, with an economic bid for the assignment of three national MUXes. The tender was launched in 2014 on the basis of AGCom resolution 277/13/CONS and Cairo Group was awarded one MUX for 31.626 million euros. TIMB, incorrectly assimilated to RAI and Mediaset, was not entitled to participate in this bid.

TIMB set up a lengthy litigation on (i) the analogue-to-digital conversion criteria and (ii) against the beauty contest repeals. The Regional Administrative Court of Lazio rejected the appeals and TIMB appealed before the Council of State. The Council of State suspended the appeals and called for an intervention by the EU Court of Justice on both proceedings.

v ***Administrative contributions and frequency rights fees***

Since 2014 administrative contributions and digital frequency fees due by Persidera must follow art. 34 and art. 35 of Decree 259/03. The previous regime for analogue broadcasters, in force until 2013, included concession fees, equal to 1% of revenues.

Law no. 115/2015 set up the values for broadcasting operators administrative contributions and backbone frequency fees. Persidera has to pay approximately 250,000 euros a year.

In response to objections by the EU Commission in connection with the advantages conferred upon vertically integrated incumbent operators RAI and Mediaset by AGCom s criteria set forth in Resolution 494/14/CONS, Law 302/2015 (Stability Law 2016) requested MISE to define TV frequency fees on a transparent, proportionate and non-discriminatory basis, taking into account the market value of frequencies rewarding mechanisms for non-vertically integrated operators and for the use of innovative technologies (e.g. DVB-T2). This new framework, which repealed AGCom resolution 494/14/CONS, is expected to reduce Persidera s fees from 13 million euros of resolution 494/14/CONS to a more reasonable amount.

v ***700 MHz***

On February 2, 2016, the Commission issued a proposal to coordinate the use of the 700 MHz band for mobile services by June 2020. This proposal will have to be approved by the European Parliament and the European Council.

The proposal sets the following goals:

· December 31, 2017 for the conclusion of bilateral cross-border coordination.

· June 30, 2017 for the adoption of a transitional roadmap.

With respect to the sub-700 MHz band (470-694 MHz), the proposal set a long-term priority for the distribution of audiovisual media services to the general public, along with a flexible approach for spectrum use to allow for different levels of digital terrestrial television (DTT) uptake in Member States.

This means allowing the use of technologies other than traditional broadcast for TV services in the UHF band (the Decision restricts mobile services to downlink only). The Commission, therefore, anticipates that the discussion at the ITU level will be postponed until 2023.

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

The proposal would have a strong impact on the entire sector of the Italian broadcast operators, whose frequency rights will expire in 2032.

Member States will have 8 weeks to express their feedback on the proposal.

The Italian Government requested a more flexible timeline for 700 MHz band release, in line with Lamy Report, which set the date at 2020, with two years of flexibility in order to account for the different situation of DTT platforms in Member State.

No steps have been taken in Italy thus far to define the roadmap for the release of 700 Mhz band. Stability Law 2016 has set a fund of 276,000 euros at the MISE for conducting studies.

v ***CH 55***

If technical and regulatory conditions are satisfied, as part of the agreement signed with Gruppo Editoriale l Espresso , TIM can acquire the right of use of the UHF channel 55 (742-750 MHz) assigned to MUX TIMB2. TIM has reserved two different purchase options: (i) the purchase of the right to use the UHF channel 55 or (ii) the purchase of the entire participation in the share capital of TIMB2 S.r.l, a company established in 2014, which would be awarded this right of use. Both options may be exercised during the period between June 30, 2016 and June 30, 2019. UHF channel 55 trading to TIMB2 S.r.l. would be associated with a lease agreement from TIMB2 to Persidera in order to guarantee transmission services continuity.

The above operations will be put into effect without the need for authorization from the competent authority as an intra-group agreement.

4.4 TRANSACTIONS WITH U.S. SANCTIONED COUNTRIES

In accordance with our Code of Ethics and Conduct, we seek to comply with all applicable international trade laws including applicable sanctions and embargoes. Below we discuss our activities related to certain countries that are targets of U.S. economic sanctions: Iran, Sudan and Syria (the Designated Countries).

Activities relating to the Designated Countries

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

(i) Roaming Agreements with local mobile phone operators:

- Taliya, KFZO-TKC (former Payam Kish), Rightel Communication, Irancell (MTN) and Mobile Company of Iran (MCI) in Iran;
- ZAIN SD (former Mobitel), MTN Sudan and Areeba, in Sudan; and
- MTN Syria (former Spacetel Syria 94 and former Areeba), and Syriatel Mobile Telecom SA (**Syriatel**), in Syria.

(ii) International Carrier Agreements for the delivery of voice and data traffic from such countries to our networks and from our networks to such countries including in connection with our roaming agreements. To this end, our subsidiary Telecom Italia Sparkle S.p.A. (TI Sparkle) directly and through its subsidiaries has agreements with Telecommunication Company of Iran in Iran; Sudan TLC, Sudatel, ZAIN Sudan and Canartel in Sudan; and Syrian TLC in Syria.

In addition TI Sparkle has an agency agreement with Cypress Corporation DFZCO (a company incorporated in the free zone of the Dubai airport) that promotes the use of voice services towards Syrian Telecom Establishment (STE), a company reportedly affiliated with the government of Syria. The agreement provides that we pay this agent based on a fee that is a percentage of revenues we earn.

In addition, also Telecom Italia S.p.A. has entered into certain agreements for the provision of TLC services (marine radio traffic) with Telecommunication Company of Iran (TCI) for services to Islamic Republic of Iran Shipping Lines.

(iii) Commercial Sale and Other Agreements.

In quantitative terms, the impacts of all such agreements (roaming, international carrier, commercial sale and other) on the Telecom Italia Group consolidated financial statement line items are as follows:

	Year ended December 31, 2015(*) (thousands of euros)
Revenues	10,112
Expenses	12,328
Receivables	18,086
Payables	20,269

(*) Data includes relevant information for Sofora Telecom Argentina group that, starting with the last quarter of 2013, was classified as a discontinued operation and therefore was no longer fully consolidated. On March 8, 2016, the Telecom Italia Group completed the sale of the Sofora Telecom Argentina group (for further details please see the Note Events Subsequent to December 31, 2015 of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report).

Item 4. Information On The Telecom Italia Group Transactions With U.S. Sanctioned Countries

Roaming Agreements

We operate one of the largest mobile networks in Italy. Through our foreign subsidiaries, we also have large mobile operations in Brazil (Tim Participações S.A. through its subsidiary TIM Celular S.A.). Until March 8, 2016, we had operations in Argentina and Paraguay (Telecom Argentina S.A. through its subsidiaries Telecom Personal S.A. and Núcleo S.A., respectively). Through roaming agreements a mobile subscriber is able to use his or her mobile phone on a network different from such mobile subscriber s home network. The following is the definition of roaming:

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

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

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

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

The calls made and received by our customers who use the services of the Foreign Network are billed by the Foreign Network to us at the roaming rate agreed upon in the applicable roaming agreement. Then, we will bill our end customers according to the specific tariff plan of the subscription they have signed with us. Likewise, we bill the Foreign Network at the roaming rate agreed upon in the applicable roaming agreement. The Foreign Network will bill its clients for the calls made and received using our networks according to their specific offer to their customer base. Roaming contracts do not, generally, contemplate other fees or disbursements.

The purpose of all of these roaming agreements is to provide our customers with coverage in areas where we do not own networks. In order to remain competitive and maintain such coverage, we intend to continue maintaining these agreements.

In 2015, our total revenues from roaming agreements with networks of the Designated Countries are detailed as follows:

	Year ended December 31, 2015 (thousands of euros)
Iran	423
Sudan	20
Syria	9
Total revenues from roaming agreements	**452**

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Item 4. Information On The Telecom Italia Group **Transactions With U.S. Sanctioned Countries**

In 2015, our total charges from roaming agreements with networks of the Designated Countries are detailed as follows:

	Year ended December 31, 2015 (thousands of euros)
Iran	450
Sudan	49
Syria	9
Total charges from roaming agreements	**508**

As of December 31, 2015, our total receivables from roaming agreements with networks of the Designated Countries are detailed as follows:

	As of December 31, 2015 (thousands of euros)
Iran	642
Sudan	127
Syria	23
Total receivables from roaming agreements	**792**

As of December 31, 2015, our total payables from roaming agreements with networks of the Designated Countries are detailed as follows:

	As of December 31, 2015 (thousands of euros)
Iran	1,502
Sudan	218
Syria	52
Total payables from roaming agreements	**1,772**

The amounts of revenues, charges, receivables and payables are de minimis when compared to our consolidated revenues, operating expenses, trade receivables and trade payables, respectively.

International Carrier Agreements with the Designated Countries

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

The purpose of these agreements is to allow the uninterrupted exchange of international traffic. Consequently, we intend to continue maintaining these agreements.

In 2015, our total revenues from traffic from networks located in the Designated Countries to our networks are detailed as follows:

	Year ended December 31, 2015 (thousands of euros)
Iran	709
Sudan	3,704
Syria	4,206
Total revenues from traffic	**8,619**

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Item 4. Information On The Telecom Italia Group **Transactions With U.S. Sanctioned Countries**

In 2015, our total charges from traffic to networks in the Designated Countries from our networks are detailed as follows:

	Year ended December 31, 2015 (thousands of euros)
Iran	3,910
Sudan	3,704
Syria	4,206
Total charges from traffic	**11,820**

As of December 31, 2015, our total receivables from traffic from networks located in the Designated Countries to our networks are detailed as follows:

	As of December 31, 2015 (thousands of euros)
Iran	4,344
Sudan	5,980
Syria	4,563
Total receivables from traffic	**14,887**

As of December 31, 2015, our total payables from traffic to networks in the Designated Countries from our networks are detailed as follows:

	As of December 31, 2015 (thousands of euros)
Iran	2,645
Sudan	3,704
Syria	12,148
Total payables from traffic	**18,497**

Such amounts of revenues, charges, receivables and payables are de minimis with respect to our consolidated revenues, operating expenses, trade receivables and trade payables, respectively.

Commercial Sale and Other Agreements

TI Sparkle provides institutional access to Internet by means of Seabone IP ports and data transmission capacity through international cable systems to Syria and Sudan.

With respect to 2015, Olivetti group has receivables from Syrena Smart Technologies (a company in Syria), totaling 96 thousand euros relating to the supply of office automation equipment.

In 2015, our total revenues from Commercial Sale and Other Agreements with the Designated Countries are detailed as follows:

	Year ended December 31, 2015 (thousands of euros)
Iran	
Sudan	25
Syria	1,016
Total revenues from commercial sale and other agreements	**1,041**

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As of December 31, 2015, our total receivables from Commercial Sale and Other Agreements with the Designated Countries are detailed as follows:

	As of December 31, 2015 (thousands of euros)
Iran	502
Sudan	13
Syria	1,796
Total receivables from commercial sale and other agreements	**2,311**

* * *

Disclosure pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 (ITRSHRA)

Other than the disclosure above on activities related to the Designated Countries, to our knowledge, none of our sales of products and services are required to be disclosed pursuant to ITRSHRA Section 219.

4.5 GLOSSARY OF SELECTED TELECOMMUNICATIONS TERMS

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

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

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

4G (fourth-generation Mobile System). Fourth-generation protocols that are designed to provide, in addition to the usual voice and other services of 3G, mobile broadband Internet access, for example to laptops with wireless modems, to smartphones, and to other mobile devices. Potential and current applications include mobile web access, IP telephony, gaming services, high-definition mobile TV, video conferencing, 3D television, and cloud computing applications.

5G (fifth-generation Mobile System). 5G indicates the fifth generation of mobile network that will be introduced starting in 2020. At a worldwide level, the ITU Commission (International Telecommunication Union) began to set out the first Standards on 5G future connectivity and the first field trials will be launched in 2018, during the Olympic Winter Games .

The main elements of the 5G network will be:

- bit-rate significantly higher than 4G (capacity up to 10 Gbit/s) to ensure greater efficiency and quality of service, such as video download and live streaming;
- possibility of connecting simultaneously to hundreds of thousands of objects (Internet of Things): wearable technologies, automatic systems for traffic control, assisted driving for vehicles, home automation.
- ultra-low latency (high-speed in data transmission in the order of milliseconds);
- ability to connect moving vehicles at higher speeds.

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

ADSL (Asymmetric Digital Subscriber Line). A modem technology that converts existing twisted-pair telephone lines into high-speed digital access lines for asymmetric multimedia data transfer. ADSL can receive up to 6 Mbps, and as much as 832 Kbps or more in both directions. This allows expanding existing access speed capacity by a factor of 50 or more without new cabling.

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

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

ATM. Asynchronous Transfer Mode is a networking technology that transfers data in packets or cells of a fixed size.

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

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

Bit-stream access. Wholesale broadband access service where access is provided to the XDSL network of Telecom Italia in addition to a corresponding transmission capacity to a third-party operator.

Bottom-up. The bottom-up approach develops a cost accounting model beginning with the expected demand in terms of subscribers and/or traffic. It then assesses the network design and related costs based on the network engineering model.

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

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

BSC (Base Station Controller). Control node of the 2G radio access network and interface with the MSC switching exchange. It has the task of supervising and controlling radio resources, both during the phase when a call or a data connection is being set up and during the maintenance phase.

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

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

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

Carrier. Company that makes available the physical telecommunication network.

CCA. In a current cost accounting (CCA) approach, the operator s asset base is annualized based on the gross replacement cost of the assets. CCA belongs to the family of constant annualization methodologies where the depreciation share is stable and the cost of capital share decreases over time, resulting in decreasing annuities. Nevertheless, unlike historical cost accounting, in current cost annualization methods the amortization is adjusted according to variations in the price of the assets being considered due to technical progress and general variations in price (inflation).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ethernet: Family of computer networking technologies for local area networks (LANs) and metropolitan area networks (MANs).

Exchange. See Switch.

FTT HOME, FTT CURB, FTT (*Fiber to the*). It is the term used to indicate any network architecture that uses fiber optic cabling to replace traditional copper cables used in telecommunications networks either in part or in full. The various technological solutions differ in the point of the distribution network where the fiber

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connection is made, with respect to the end-user s location. In the case of **FTT Curb** (Fiber to the Curb) the fiber connection reaches the equipment (distribution cabinet) located on the sidewalk, from where copper connections are run to the customer; in the case of **FTTHome** (Fiber to the Home), the fiber connection terminates inside the customer premises.

FWA (Fixed Wireless Access). FWA is a variant of wireless broadband, where a radio link is used instead of cable or fiber for the transmission of voice and data.

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

GGSN (Gateway GPRS Support Node). Node that acts as a gateway for data traffic between mobile networks (2G and 3G) and the Internet network or private networks.

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

GPRS (General Packet Radio System). System to send and receive data packets (which may contain images and other information) over 2G cellular networks.

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

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

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

HLR (Home Location Register). Database where customer data is recorded.

Home Access Gateway Access Gateway Home gateway Residential Gateway. Home networking device that is used to concentrate voice/data/video traffic of customers for private TLC networks and to connect devices in the home to the Internet or other WAN.

Housing. Leasing of physical space to customers managed within a data center for the installation of their own equipment or servers.

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

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

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

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

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

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

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

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

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

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

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

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

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

Jitter. In electronics and telecommunications, jitter indicates the variation of one or more characteristics of a signal, such as amplitude, frequency and phase. The causes leading to jitter must be kept at the center of the design of electronic systems and components in which signal integrity is a strict constraint.

Lambda. Represents the single optical channel on which a signal is transmitted in fiber-optic networks.

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

LLU (Local Loop Unbundling). Service by which alternative operators (other than Telecom Italia, the incumbent) can lease the local loop, i.e., the wire connection between the Telecom Italia local exchange and the customer s premises.

Local Loop. Twisted pair of copper wires through which the telephone connection reaches users; it is the foundation of traditional telephone lines and it is often called the last mile .

LRIC (Long run incremental cost). Long run incremental cost is the cost of producing a specific additional increment of a given service in the long run (the period over which all costs are variable) assuming at least one other increment is produced. It includes all the directly assignable variable economic costs of a specific increment of service, which is usually less than the whole service.

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

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

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

MGW (Media GateWay). Equipment that processes voice and video traffic adapting codings between different technologies (e.g. from circuit to packet).

MPLS (Multi Protocol Label Switching). See IP/MPLS.

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

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

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

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

Naked DSL. A digital subscriber line without an analog or ISDN telephony service.

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

Network cap. See Price cap.

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

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

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

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

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

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

N-play offering. Offerings to customers which bundle two or more of the following services: fixed voice, fixed broadband/fiber, video, mobile.

OLOs (Other Licensed Operators). Companies other than the incumbent operator that operate telecommunications systems in a national market.

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

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

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

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

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

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

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

PCS. Personal communications services.

Peering. An interconnection between two Autonomous Systems (administratively separate networks) belonging to separate Internet Service Providers that allows providers to exchange traffic between their respective networks.

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

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

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

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

Price-cap or network cap. Under price-cap, a regulator sets a cap on the price that the regulated operator may charge for a given service or basket of services. The cap may be set based on a top-down or bottom-up approach and may evolve according to several economic factors. The basic formula employed to set price caps is CPI X, where the expected efficiency savings X are subtracted from the rate of inflation, measured by the Consumer Price Index. This price control methodology is intended to provide incentives for efficiency savings, as any savings above the predicted rate X can be kept by the operator and passed on to shareholders. In Europe, price-caps are generally reviewed every three years, corresponding to the length of validity of market analysis.

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

RNC (Radio Network Controller counterpart of BSC in GSM). Equipment that monitors and controls 3G network radio resources, both during the call set-up phase and during the maintenance phase (for example, handover between different cells). Furthermore, it handles connectivity to and from: Node B, MSC*, and other RNC.

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Roaming. A service that enables GSM mobile users to automatically access networks of operators other than the one with which they signed their initial contract. The roaming service is active when wireless is used in a foreign country (belonging to the GSM network).

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

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

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

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

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

Shared Access. Shared access to the user s twisted pair with another TLC service provider by using separately voice and non-voice band frequency spectrum. This mode allows keeping voice telephony with an operator (Telecom Italia or others) and have ADSL on the proprietary network of the shared access operator, i.e., not passing over the Telecom Italia network but directly through the DSLAM of the operator.

SLU (Sub Loop Unbundling). It is a type of unbundled access whereby the sub-section of the local loop from the street cabinet to the customer s premises is unbundled. In practice this often means that the competitor places a small street cabinet with a DSLAM, next to a local copper aggregation cabinet of the incumbent operator and uses a tie cable to connect to the local loop.

Smartphone. Electronic device that combines the functions of a mobile phone and a handheld computer equipped with a complete operating system.

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

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

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

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

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

Tablet. Portable computer with compact dimensions whose screen can be used to write or give commands with the touch of your fingers or using a specially designed stylus.

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

TRX. Radio transceivers located in BTS.

ULL (Unbundling of the Local Loop). See LLU.

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

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

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

Unbundling. See LLU.

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

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

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

VOD (Video On Demand). TV-program offering on user s request, with payment of a fee for each purchased program (a movie, a soccer match, etc). Broadcast is specifically for cable and satellite TV.

VoIP (Voice Over IP). A technology that allows transmission of voice communications over an Internet connection or another dedicated network using the Internet Protocol (IP) data networks (such as IP-based LANs, intranets or the Internet) instead of a conventional phone line.

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

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

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

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

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

WLR (Wholesale Line Rental). The wholesale resale of access to its public telephone fixed network by the Incumbent to alternative operators (usually in conjunction with a wholesale call product such as Carrier Preselection); in this way alternative operators can provide to customers both access and traffic services and produce a single bill covering both services.

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

4.6 DESCRIPTION OF PROPERTY, PLANT AND EQUIPMENT

General

As of December 31, 2015 and 2014, property, plant and equipment owned and leased are detailed as follows:

	As of December 31, 2015				As of December 31, 2014			
	Owned	Leased	Total property, plant and equipment	% of total property, plant and equipment	Owned	Leased	Total property, plant and equipment	% of total property, plant and equipment
	(millions of euros, except percentage)							
Land	171	16	187	1.3	131		131	1.0
Civil and industrial buildings	444	1,880	2,324	15.6	320	813	1,133	8.5
Plant and equipment	10,909	284	11,193	75.3	10,912		10,912	81.5
Manufacturing and distribution equipment	41		41	0.3	40		40	0.3
Other	378	7	385	2.6	440	2	442	3.3
Construction in progress and advance payments	716	21	737	5.0	701	28	729	5.4
Total	**12,659**	**2,208**	**14,867**	**100.0**	**12,544**	**843**	**13,387**	**100.0**

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

REAL ESTATE (LAND, CIVIL AND INDUSTRIAL BUILDINGS)

As of December 31, 2015, the Company owned many buildings located throughout Italy. Specialized buildings for telecommunications services account for the majority of properties both in number and book value. Such buildings house mainly exchange equipment and transmission equipment, and are used as part of our continuing telecommunications operations. General purpose properties consist chiefly of offices, depots and computer centers.

At the end of 2014, Telecom Italia launched a major real estate project, aimed at restructuring the use of space for industrial usage in a manner consistent with the evolution of next-generation networks and optimizing the number of properties used as offices through the creation of functional centers that adopt a modern and more efficient space utilization, requalifying the workplace in a way that encourages exchange, communication and relationships between colleagues as a way of stimulating changes, dynamism and initiatives.

This real estate project provides for a path of restructuring, termination and renegotiation of contracts, to achieve efficiency and savings, mainly through the extension of terms and lower rents.

Properties of strategic importance have been identified, in relation to their current use and to significant investments in technology and real estate planned to support the technological evolution of the network and new ICT services.

In particular, in 2015, the company purchased five strategic buildings and renegotiated and/or renewed approximately 750 leases. Over half of the renegotiated property rental contracts were previously accounted for using the operating lease method, however, as a result of the changes to the relevant contracts, they have been recognized in the statement of financial position at December 31, 2015 using the financial method (Tangible assets held under finance leases).

Real Estate Project		**As of December 31, 2015**
Renegotiated property rental contracts	approximate No.	750
Average remaining term of the renegotiated contracts	years	21
Increase in Tangible assets under lease/Financial payables for leases	million euros	1,178
Property acquired in ownership or through buyback clause	No.	5

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Item 4. Information On The Telecom Italia Group Description Of Property, Plant And Equipment

We currently expect to complete the above-mentioned real estate project, in respect of the remaining medium and small properties, with the aim to get a reduction in rental costs in the next few months.

NETWORK INFRASTRUCTURE (PLANT AND EQUIPMENT)

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

Domestic (Italian) Fixed Network

At December 31, 2015, the domestic fixed network had the following figures:

Central Offices	approximately 10,380
Switching areas	578
Gateway areas (TDM)	33
Aggregation areas	12
Copper network	115.6 millions of kilometers-pair
Fiber optic access/carrier network	10.4 millions of kilometers-fiber
Long Distance VC4	5,420
Long Distance Lambda (l)	570 l a 1Gbps, 69 l at 2.5 Gbps and 916 l at 10 Gbps
BroadBand/ADSL network	9,597 Central Offices covered
Main PoP data networks	32

Fixed Voice network. The Fixed Voice Network dedicated to serving traditional voice (**TDM**) consists of 607 main local switches (**SGU**). Concerning the OLO interconnection, local switches are divided in 33 gateway areas.

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

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

In terms of cable infrastructures, the fixed network includes 115.6 million km of copper pairs, mainly in the distribution network, and also 10.4 million km of fiber, both in access and trunk network.

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

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

The fixed long-distance transport network routes 5,420 VC-4 on the SDH Arianna, Phoenix, Phoebe, Kosmos networks. It supports also 570 lambda at 1 Gbps, 69 at 2.5 Gbps point to point optical channels and 916 10 Gbps point to point optical channels on the optical DWDM systems and on the **Kaleidon** network.

Kaleidon is the new national optical transport platform that allow to set up a completely photonic optical mesh network. Kaleidon supports optical channels at 40 Gbit / s and 100 Gbit / s with protection and restoration mechanisms at photonic level.

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

The OPB network supports:

· Internet traffic of residential, business and Wholesale customers;

- VPN traffic (Virtual Private Network) of business customers;
- Voice traffic;
- Video traffic;
- Mobile data traffic.

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

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

In 2015, the xDSL services for residential and business customers (retail and wholesale) covers more than 99.1% of the population and have been extended to 7,694 towns, including S. Marino (compared to 7,556 at the end of 2014).

At the end of 2015, 9,597 local switching areas were covered by ADSL technology (compared to 9,450 at the end of 2014).

NGAN (Next Generation Access Network). In 2015 Telecom Italia continued to deploy a **NGAN** , based on optical fiber cables. NGAN deployment started in 2009 in Milan based on Fiber-To-The-Home (**FTTH**) architecture. Since 2012 the deployment has been extended to the main cities with Fiber-To-The-Cabinet (**FTTCab**) architecture using fiber to street cabinets equipped with VDSL2 cards.

In 2015, Telecom Italia continued deployment of FTTCab and initiated a project to bring FTTH to 100 cities (and other 58 BUL[1] cities), with the aim of improving ultra-broadband service to 100 Mbit/s and to more than 300 Mbit/s for FTTH.

More than 10,100,000 households had been reached by the end of 2015, mainly in the distribution areas of approximately 2,200 central offices. The NGAN coverage in FTTH/DP/Cab is approximately 42% of reached households at the end of 2015 (the reached households in FTTH/FTTDP are more than 1,700,000 with a coverage of approximately 7%).

At the end of 2015, 57,400 cabinet NGAN were reached with fibre optic cables (of which 45,900 cabinets were installed with completely active and saleable service).

Domestic (Italian) Mobile Network

The domestic mobile network consists of:

· GSM network (2G: second generation network);

· UMTS network (3G: third generation network);

· LTE network (4G: fourth generation network).

On December 31, 2015 Telecom Italia domestic mobile network had the following figures:

GSM/EDGE network

· 18,085 BTS (Base Transceiver Station) GSM radio station (18,093 BTS at the end of 2014) -0.04%;

    · 978 of them are µBTS;

· 902,721 radio channels (893,622 at the end of 2013) +1 %;

· 98 BSC (Base Station Controller) (98 at the end of 2014);

[1] BUL is an italian acronym (Banda UltraLarga) referring to a public funding project aimed at development of ultrabroadband infrastructure

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- GSM Core Network: Since the Circuit Switched Core Network is common to GSM and UMTS (Dual Access architecture), its description is given below. Note also that the equipment described at end 2014 (10 TR STP TDM, 13 MSC/GTW) have been decommissioned and their functions are performed by the equipment described below (IP-STP, TSC, transit MGW)

UMTS/HSPA network

- 17,245 node B UMTS radio base station (15,702 node B at the end of 2014) +9.8%;
- 2,541,383 radio channels (2,315,945 radio channels at the end of 2014) +9.7%;
- 144 RNC (Radio Network Controller); +16 new RNC compared to total at the end of 2014;
- GSM/UMTS Core Network: 52 MSC-server (Mobile Switching Center/Gateway), 96 access MGW (Media Gateway), 13 transit MGW, 4 IP STP (Signalling Transfer Point), 6 TSC-server (Transit Switching Center), 42 HLR (Home Location Register), 4 GGSN (Gateway GPRS Support Node), 30 SGSN (Serving GPRS Support Node).

Note that decommissioning of GGSNs (-19 compared to end of 2014) is part of the ongoing convergence of Packet Switched Core Network onto the LTE EPC (Evolved Packet Core).

In 2014 Telecom Italia continued the implementation plan to distribute the High Speed Downlink Packet Access (**HSDPA**) and the High Speed Uplink Packet Access (**HSUPA**); these systems aim to increase the overall data transmission speed offered by UMTS.

In particular HSDPA at the 42 Mbit/s speed covers more than 80% of the resident population.

LTE network

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

The three bands are used for LTE deployment to provide ultrabroadband services to mobile customers. Moreover, on September 2015, Telecom Italia has acquired a frequency block in the 1500 MHz band, specifically devoted to mobile ultrabroadband.

At the end of 2015, the LTE network coverage is higher than 88% of the national population.

- 9,342 enode B (6,678 at the end of 2014) +39.9%;

- LTE core network is undergoing a technological upgrade and currently includes: 12 SPGW (Packet Data Network/Serving Gateway), of which 8 are new equipment and 4 are legacy, 12 MME (Mobility Management Entity) of which 6 are new equipment and 6 are legacy, 2 monolithic HSS (Home Subscriber Server), 3 HSS Front End and 3 CUDB (Centralized User Database) according to Data Layered Architecture .

International Fixed Network

Telecom Italia Sparkle provides connectivity services (voice, mobile data, IP and managed bandwidth) and Cloud and Data Center services (IaaS, Disaster Recovery, enhanced colocation) to national and international wholesale customers and to multinational corporates (MNCs) relying on an international network made of a proprietary cross-border backbone and bilateral connections. The coverage of the Mediterranean and of Central and South America is provided by the interconnection with LANMED NAUTILUS regional backbones.

Item 4. Information On The Telecom Italia Group Description Of Property, Plant And Equipment

Telecom Italia Sparkle international backbone spans 450,000 km covering all of the major regions worldwide and connects over 500 international voice operators. The cross-border backbone integrates 4 regional networks:

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

In detail:

- **Pan European Backbone.** Proprietary high speed optical network built over a fiber optic backbone spanning the main European countries: Italy, France, United Kingdom, Netherlands, Belgium, Germany, Switzerland, Austria, Spain, Czech Republic, Slovakia and Romania. The overall length is about 55,000 km;
- **Latin American backbone.** High-capacity backbone based on fiber optic ring networks, both terrestrial and submarine, with an overall length of about 36,000 km, including the Miami-New York section. The ring connects the main cities of South and Central America to North America;
- **Mediterranean backbone**. Submarine ring network with a highly reliable configuration complemented by terrestrial fiber extensions from Istanbul and Athens to Sofia. The total length is over 10,000 km and connects the major markets of the Mediterranean and Balkans area: Italy, Greece, Cyprus, Turkey, Israel and Bulgaria;
- **USA backbone**. Proprietary high capacity terrestrial backbone with POPs in: Newark, New York, Miami, Jacksonville, Ashburn, Atlanta, Chicago, Palo Alto, Los Angeles and Dallas.

Telecom Italia Sparkle network is an integrated multi-service backbone based on an IP-MPLS core handling differentiated classes of services. The transport layer is based over DWDM with 10, 40 and 100 Gbps optical lambdas while voice services are provided by Class 4 switches. Traffic protection is implemented by MS SPRING, SNCP, OTN, MSP 1+1 and meshed technologies.

In 2015, the new 100 Gbps optical backbone was deployed over the Frankfurt-Amsterdam, Kehl-Paris, Milan-Marseille-Paris and Milan-Verona-Salzburg-Munich-Frankfurt routes, the latter being the third one available between Milan and Frankfurt and allowing the increase of network resiliency and enabling shared protection for managed bandwidth services.

To keep up with increasing IP and Managed Bandwidth sales in Sicily, the Italian backbone was upgraded with 100 Gbps technology and a new network layer was built to provide automatic restoration with shared protection.

Capacity upgrades were carried out on all of the major routes of the IP backbone with 100 Gbps links deployed between Milan and Palermo, Catania, Paris and Frankfurt in order to keep links usage below 67%, in accordance with the new network targets. In the IP core layer, new equipment was deployed in Milan and Frankfurt to further increase capital expenditures efficiency and network scalability. In the IP edge layer, new routers were added in the Rome, Palermo, Miami, Milan, Rome and Paris POPs. Upgrades were carried out on the IP backbone on the transatlantic route connecting the UK to the US, on the US backbone among all of the major POPs and between Singapore and Palermo. In 2015, several IP customers were connected at the 100 Gbps level in Milan, Palermo, Miami, London, Frankfurt and Paris.

In Singapore, new equipment with 100 Gbps capability was deployed over the Tuas-Equinix and Equinix-Ansar fiber optic rings.

As for mobile data and voice services, capabilities were upgraded to handle increasing signaling and voice traffic volumes.

In Palermo the new Sicily Hub data center was completed to increase focus on the colocation offering and to enable the interconnection with the new SeaMeWe-5 submarine cable scheduled for 2016.

With reference to Multinational Corporate Customers, new edge routes were deployed in Frankfurt and Milan along with the 10 Gbps transformation of the main routes of the MNCs backbone.

Mediterranean Backbone

In 2015, upgrades at the 100 Gbps level were completed on the submarine system linking Italy to Greece and Israel. The new Athens-Sofia fiber was brought into service with a 100 Gbps DWDM platform. The Athens data center was also upgraded with over 100 new cabinets available.

Latin American Backbone

In 2015 the PCCS (Pacific Caribbean Cable System) infrastructure from Puerto Rico to Jacksonville and from Panama to Puerto Rico was brought into service complemented by the 100 Gbps fiber backhaul from Jacksonville to Miami.

Upgrades at 100 Gbps level were completed on the SAC (South American Crossing) and TAC (Trans Andean Crossing) systems. New edge routers were deployed in Rio de Janeiro, Buenos Aires and Santiago along with upgrade of the major routes in the IP backbone. A new metro ring was brought into service in Sao Paulo to connect the submarine systems with the main data centers increasing the available capacity, network performance and resiliency.

Brazilian Network

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

The investments of TIM Brasil group prioritized projects for (i) the expansion of its fiber optic network (ii) the optimization of the use of the network, with adjustments to improve the signal quality in the current coverage areas and (iii) the mapping of the main causes of interruptions and failures of the network, as well as the necessary measures to prevent these events, ensuring call and data connection quality, for greater user access capability.

As of December 31, 2015, TIM Brasil group had 963 mobile switches for voice capacity, 239 thousand TRXs, 12,365 of them Node B. The TIM Brasil group volume of investments allowed the Group to achieve, as of 2015, the milestone of 411 cities covered with 4G technology, reaching 59% of the urban population of the country, making TIM Brasil the leader in 4G coverage in terms of number of cities and percentage of the population covered. In addition, in 2015, the TIM Brasil group added nearly 500 new cities in Brazil to its 3G coverage area and, as of December 31, 2015, has reached approximately 70,000 kilometers of fiber optic cable networks.

In 2015, the TIM Brasil group concluded the sale of the first three blocks of telecommunications towers to American Tower do Brasil. The transaction involved the simultaneous execution of a finance lease for the portion of the towers used by the TIM Brasil group, recorded as a financial debt for leases.

TIM Brasil Transfer of telecommunications towers

Towers object of the transfer agreement	No.	6,481
Towers transferred in 2015	No.	5,483

	2015	
	millions of reais	**millions of euros**
Summary of the impacts of the transfers on 2015:		
Total consideration received	2,498	676
Increase in Financial payables for lease back	(1,245)	(337)
Reduction/(increase) in net financial debt	**1,253**	**339**
Increase in Tangible assets under lease	1,245	337
Net gain through income statement, after taxes	**839**	**227**

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Item 4A. Unresolved Staff Comments

Item 4A. UNRESOLVED STAFF COMMENTS

None.

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Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

5.1 CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

Revenue recognition

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

- *Revenues from services rendered*

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

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

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

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

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

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

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

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

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

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

Allowance for doubtful accounts

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

Accounting for tangible and intangible non-current assets

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

Acquisition accounting, goodwill and purchase price allocation

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

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

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

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

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

- the definition of the purchase price;
- the identification of the assets acquired and liabilities assumed in the acquisition;
- the valuation of these assets and liabilities in the purchase price allocation; and
- the assessment of whether selected assets have a finite or indefinite useful life.

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

Impairment of assets

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

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

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

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

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

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

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

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

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

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

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

Based on the impairment test conducted as of December 31, 2015 the Core Domestic, International Wholesale and Persidera CGUs recoverable amounts exceeded the carrying amounts. For the Brazil CGU, an impairment loss of 240 million euros was recognized in 2015 to adjust the carrying amount to the recoverable amount. An increase in the discount rate used in the discounted cash flow for Brazil CGU of 0.5% would result in an additional impairment of 220 million euros. Management has determined that there are no reasonable possible changes to other key assumptions (i.e. growth rate and Capex/Revenues ratio) that could cause an additional material impairment.

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

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

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

Financial assets

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

Derivative financial instruments

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

Provision for employee severance indemnity

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

Under IAS 19 (*Employee Benefits*), the employee severance indemnity is considered a Defined benefit plan . Starting from 2007, Italian Law introduced for employees the choice to direct their accruing indemnity either to supplementary pension funds or leave the indemnity as an obligation of the Company. Companies that employ at least 50 employees are required to transfer the employee severance indemnity to the Treasury fund managed by INPS, the Italian Social Security Institute.

Consequently, the Group s obligation to INPS and the contributions to supplementary pension funds, under IAS 19, are classified as a Defined contribution plan .

The obligation for the employee severance indemnity classified as a defined benefit plan is determined in accordance with actuarial methods. In the event that changes in assumptions are required, the future amounts of the post-employment benefit may be materially affected. A critical assumption to this accounting is the discount rate. Other assumptions include factors such as expected retirement date, mortality rate and estimates of inflation.

Provisions and contingent liabilities

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

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

Income tax expense and deferred tax assets

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

5.2 RESULTS OF OPERATIONS FOR THE THREE YEARS ENDED DECEMBER 31, 2015

5.2.1 SIGNIFICANT TRENDS IMPACTING OUR CORE BUSINESSES

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

Domestic Business Unit

During 2015, Telecom Italia launched a major renewal plan for its identity and corporate structure aimed at consolidating leadership and supporting future growth of the Group. The fixed-mobile convergence is the focus of the telecommunications industry, as a result of increasing use of smartphones and the development of digital platforms.

Since the beginning of 2016, Telecom Italia focused its commercial offerings under the brand TIM , which combines the strength of Telecom Italia and the innovation of TIM for a customer quality experience through service and digital content.

A strong emphasis was given to acceleration of the development of fixed and mobile ultra-broadband networks, resulting in an overall capital expenditure of 3 billion euros, through which Telecom Italia/TIM has confirmed its status as the lead player in the digitization of Italy. The diffusion of premium digital content and services with a particular focus on the video sector is the basis of the capital expenditure program implemented. This included a strong boost to TIMvision, the integrated platform branded by TIM, which had over 500,000 customers at the end of 2015, due also in part to the agreements signed with major producers of international content.

In response to the progressive growth of data consumption from fixed and mobile broadband and in order to shore up the customer base, a new portfolio of services and content, with a focus on bundled and lock-up offers, was launched.

In order to address these underlying macro trends in our business, the main strategic priorities and objectives of Telecom Italia in the domestic (Italian) market are as follows:

- acceleration of investments, mainly those relating to innovative networks and services;
- completing the transition from traditional telecommunications company to digital telecommunications & platform company, an enabler of the country s digital life;
- in the Mobile segment, Telecom Italia will aim to accelerate the penetration of smart devices and to market bundle offers that generate a higher ARPU;
- in the Fixed segment, the Group plans to minimize the decrease of its customer base;

· convergence continues to be central to the Group s growth and innovative investments strategy;

· strengthening the position in multimedia entertainment;

· thanks to its ICT and Cloud services, Telecom Italia also intends to continue helping Italian businesses enable their digital transformation process;

· maintaining strong financial discipline.

Brazil Business Unit

In Brazil, the market was affected by a further deterioration in the macroeconomic climate, which caused a contraction in domestic demand, higher inflation and a depreciation of the reais from 3.22 reais per euro at the end of 2014 to 4.25 reais per euro at December 31, 2015. These factors contributed to a general slowdown in growth in the mobile market.

Against this background, the TIM Brasil group maintained its hold on market share in the Mobile segment and saw an increase in its postpaid customer base. However, revenues fell as a result of a more rapid migration from traditional voice-SMS services to an emerging data/internet solution and further reductions in mobile termination rates (MTR), which have been ongoing since late February 2015. The negative trend in mobile revenues was partly mitigated by a growth of Fixed revenues, particularly in the wholesale business segment of the subsidiary Intelig and TIM Broadband Live.

To support network traffic and the advent of new technologies, high levels of investments are necessary to ensure the scale and quality of services provided. The TIM Brasil group keeps focusing on the strategic importance of developing a robust data infrastructure for data growth, focusing particularly on 4G technology, which provides better quality of service and increased efficiency in network costs.

5.2.2 Business Segments

The Telecom Italia Group reports its financial results on the basis of the following operating segments:

- **Domestic**: includes operations in Italy for voice and data services on fixed and mobile networks for final customers (retail) and other operators (wholesale), the operations of the Telecom Italia Sparkle group (International wholesale), the operations of the Olivetti (products and services for Information Technology), the operations of INWIT S.p.A. (a company operating in the electronic communications infrastructure business) and the units supporting the Domestic sector;

- **Brazil**: includes mobile (TIM Celular) and fixed (TIM Celular and Intelig) telecommunications operations in Brazil;

- **Media:** through Persidera S.p.A. it operates in the management of Digital Multiplexes, as well as the provision of accessory services and digital signal broadcasting platforms to third parties;

- **Other Operations**: includes finance companies and other minor companies not strictly related to the core business of the Telecom Italia Group.

The principal changes in the scope of consolidation in 2015 were as follows:

- **INWIT S.p.A. Business Unit Domestic:** was established in January 2015;

- **Alfabook S.r.l. Business Unit Domestic**: on July 1, 2015 Telecom Italia Digital Solutions S.p.A. acquired 100% of the company, which consequently entered the Group s scope of consolidation;

- **TIM Real Estate S.r.l. Business Unit Domestic**: was established in November 2015.

Other than the INWIT initial public offering, these changes did not have a significant impact on the Consolidated Financial Statements of the Telecom Italia Group as at and for the year ended December 31, 2015.

The principal changes in the scope of consolidation in 2014 were as follows:

- **Telecom Italia Ventures Domestic Business Unit**: was established in July 2014;

- **Rete A Media Business Unit**: on June 30, 2014 Persidera S.p.A. (formerly called Telecom Italia Media Broadcasting S.r.l.) acquired 100% of the company. As a result Rete A entered the Group s scope of consolidation and was consolidated on a line-by-line basis. The merger of Rete A by absorption into Persidera was completed on December 1, 2014;

- **TIMB2 S.r.l. Media Business Unit**: was established in May 2014;

- **Trentino NGN S.r.l. Domestic Business Unit**: on February 28, 2014 the Telecom Italia Group acquired the controlling stake in the company; consequently the company is now part of the Group s scope of consolidation.

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

For a description of certain of these businesses, see Item 4. Information on the Telecom Italia Group 4.2 Business Units .

5.2.3 NON-GAAP FINANCIAL MEASURES

In this Annual Report on Form 20-F, in addition to figures presented in accordance with IFRS as issued by IASB, we disclose figures derived from IFRS that are non-GAAP financial measures (**Non-GAAP Measures**).

Such financial data is considered Non-GAAP financial measures as defined in Item 10(e) of Regulation S-K under the 1934 Act.

In this Annual Report the Non-GAAP Measure used relates to Net Financial Debt.

Net Financial Debt is a Non-GAAP financial measure as defined in Item 10(e) of Regulation S-K under the 1934 Act, but is widely used in Italy by financial institutions to assess liquidity and the adequacy of a company s financial structure. We believe that Net Financial Debt provides an accurate indicator of our ability to meet our financial obligations (represented by gross debt) by our available liquidity, represented by the other items shown in the reconciliation table. Net Financial Debt allows us to show investors the trend in our net financial condition over the periods presented. The limitation on the use of Net Financial Debt is that it effectively assumes that gross debt can be reduced by our cash and other liquid assets. In fact, it is unlikely that we would use all of our liquid assets to reduce our gross debt all at once, as such assets must also be available to pay employees, suppliers, and taxes, and to meet other operating needs and capital expenditure requirements. Net Financial Debt and its ratio to equity (including Non-controlling Interest), or leverage, are used to evaluate our financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether our financial structure is adequate to achieve our business plan and our financial targets. Our management believes that our financial structure is sufficient to achieve our business plan and financial targets. Our management monitors the Net Financial Debt and leverage or similar measures as reported by other telecommunications operators in Italy and outside Italy, and by other major listed companies in Italy, in order to assess our liquidity and financial structure relative to such companies. We also monitor the trends in our Net Financial Debt and leverage in order to optimize the use of internally generated funds versus funds from third parties. Net Financial Debt is reported in our Italian Annual Report to shareholders and is used in presentations to investors and analysts. Net Financial Debt is calculated as follows:

	As of December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
	(millions of euros)				
Non-current financial liabilities	30,518	32,325	31,084	34,091	35,860
Current financial liabilities	6,224	4,686	6,119	6,150	6,091
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale	348	43	27		
Gross financial debt (A)	**37,090**	**37,054**	**37,230**	**40,241**	**41,951**
Non-current financial assets (B)	**(2,989)**	**(2,445)**	**(1,256)**	**(2,496)**	**(2,949)**
Current financial assets:					
Securities other than investments	(1,488)	(1,300)	(1,348)	(754)	(1,007)

Financial receivables and other current financial assets	(352)	(311)	(283)	(502)	(462)
Cash and cash equivalents	(3,559)	(4,812)	(5,744)	(7,436)	(6,714)
Total current financial assets (C)	**(5,399)**	**(6,423)**	**(7,375)**	**(8,692)**	**(8,183)**
Financial assets relating to Discontinued operations/Non-current assets held for sale (D)	**(227)**	**(165)**	**(657)**		
Financial assets (E=B+C+D)	**(8,615)**	**(9,033)**	**(9,288)**	**(11,188)**	**(11,132)**
Net financial debt (A+E)	**28,475**	**28,021**	**27,942**	**29,053**	**30,819**

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5.2.4 OVERVIEW OF 2015 RESULTS OF OPERATIONS

In 2015, the following characterized the results in our domestic (Italian) market:

Domestic. There was a reduction in rate of decline of domestic revenues relative to prior years. This was a result of a slowdown in the contraction of demand for traditional services and the growth of innovative services. In particular, our competitive positioning in the Mobile segment continued to improve, with revenue returning to growth in the fourth quarter of 2015 relative to the fourth quarter of 2014. This was driven by greater mobile Internet coverage and a steady hold on market share. In the Fixed segment, the recovery in revenues was driven by a positive trend in broadband ARPU, steady growth in the number of ADSL customers with premium bundle/flat deals, and the development of ICT services.

Lastly, in 2015, the Group initiated a restructuring process with the transfer of a set of telecommunication towers in Italy from Telecom Italia to its subsidiary INWIT and the stock exchange listing of INWIT (for further details, please see -5.2.7 Results of operations of business units for the year ended December 31, 2015 compared with the year ended December 31, 2014).

In 2015, the following characterized the results in our Brazil Business Unit:

Brazil. The mobile Brazilian telecommunication market was characterized by a shrinking voice market and an emerging data/internet market. TIM Brasil s subscriber base reached 66.2 million lines at the end of 2015, down 12.5% relative to 2014. In 3G technology, total customer base reached 37.5 million users, flat as compared to 2014. Penetration of 4G devices increased with the 4G base reaching 7.1 million users at the end of 2015. Overall smartphone penetration reached 68% of the customer base, a significant growth when compared to 49% at the end of 2014. At the end of 2015, there were 31.8 million unique data users reached, approximately 48% of total customer base.

The strong competitive movement in the market indicates that there will be greater pressure on margins due to commercial expenses related to advertising, commissions and benefits that TIM Brasil will have to incur. The telecommunications industry is a capital-intensive one. To support the increase in network traffic and the development of new technologies in the coming years, high levels of investment are necessary.

In 2015, the TIM Brasil group concluded the sale of the first three blocks of telecommunications towers to American Tower do Brasil (for further details, please see Item 4. Information on the Telecom Italia Group 4.6 Description of Property, Plant and Equipment).

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tem 5. Operating And Financial Review And Prospects Results Of Operations For The Three Years Ended December 31, 20

The following table sets forth our consolidated income statement for the years ended December 31, 2015, 2014 and 2013.

On November 13, 2013, Telecom Italia accepted the offer of Fintech Group to acquire the entire controlling interest of Telecom Italia Group in the Sofora Telecom Argentina group. The agreements were subsequently modified in October 2014. As a result and in accordance with IFRS 5 (*Non-current Assets Held for Sale and Discontinued Operations*), starting from the fourth quarter of 2013, the Sofora Telecom Argentina group was treated as Discontinued operations/Non-current assets held for sale. On March 8, 2016, the Telecom Italia Group completed the sale of Sofora Telecom Argentina group (for further details please see the Note Events Subsequent to December 31, 2015 of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report).

	Year ended December 31,		
	2015	**2014**	**2013**
	(millions of euros)		
Revenues	19,718	21,573	23,407
Other income	287	401	324
Total operating revenues and other income	**20,005**	**21,974**	**23,731**
Acquisition of goods and services	(8,533)	(9,430)	(10,377)
Employee benefits expenses	(3,589)	(3,119)	(3,087)
Other operating expenses	(1,491)	(1,175)	(1,318)
Change in inventories	(44)	(52)	48
Internally generated assets	656	588	543
Depreciation and amortization	(4,135)	(4,284)	(4,553)
Gains (losses) on disposals of non-current assets	336	29	(82)
Impairment reversals (losses) on non-current assets	(244)	(1)	(2,187)
Operating profit (loss)	**2,961**	**4,530**	**2,718**
Share of profits (losses) of associates and joint ventures accounted for using the equity method	1	(5)	
Other income (expenses) from investments	10	16	(3)
Finance income	2,756	2,400	2,003
Finance expenses	(5,281)	(4,594)	(4,186)
Profit (loss) before tax from continuing operations	**447**	**2,347**	**532**
Income tax expense	(401)	(928)	(1,111)
Profit (loss) from continuing operations	**46**	**1,419**	**(579)**
Profit (loss) from Discontinued operations/Non-current assets held for sale	611	541	341
Profit (loss) for the year	**657**	**1,960**	**(238)**

Attributable to:			
Owners of the Parent	*(72)*	*1,350*	*(674)*
Non-controlling interests	*729*	*610*	*436*

5.2.5 BUSINESS UNIT FINANCIAL DATA

The table below sets forth revenues, operating profit (loss), capital expenditures and number of employees by Business Units, for the periods indicated.

On November 13, 2013, Telecom Italia accepted the offer of Fintech Group to acquire the entire controlling interest of Telecom Italia Group in the Sofora Telecom Argentina group. The agreements were subsequently modified in October 2014. As a result and in accordance with IFRS 5 (*Non-current Assets Held for Sale and Discontinued Operations*), starting from the fourth quarter of 2013, the Sofora Telecom Argentina group was treated as Discontinued operations/Non-current assets held for sale. On March 8, 2016, the Telecom Italia Group completed the sale of Sofora Telecom Argentina group (for further details please see the Note Events Subsequent to December 31, 2015 of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report).

Starting from 2014, the Domestic Business Unit 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 2013 have been restated on a consistent basis.

Furthermore, following approval of the restructuring plan for the Olivetti group on May 11, 2015, the Olivetti business lines that will be abandoned through divestment or termination in accordance with the plan have been included under Other Operations.

		Domestic	Brazil	Media	Other Operations	Adjustments and eliminations	Consolidated Total
		(millions of euros, except number of employees)					
Revenues (1)	2015	15,001	4,636	82	49	(50)	19,718
	2014	15,303	6,244	71		(45)	21,573
	2013	16,388	6,945	124		(50)	23,407
Operating profit (loss)				14		4	
	2015	2,359	636	6	(52)	3	2,961
	2014	3,738	795		(12)		4,530
	2013	1,985	858	(132)	1	6	2,718
Capital expenditures on an accrual basis				8			
	2015	3,900	1,289	6			5,197
	2014	2,783	2,195				4,984
	2013	3,031	1,349	20			4,400

Number of employees at year-end (2)	2015	52,644	13,042	64	117	65,867
	2014	53,076	12,841	89	19	66,025
	2013	53,377	12,140	84	22	65,623

(1) Revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

(2) The number of employees at year-end excludes employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale, and includes personnel with temporary work contracts.

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5.2.6 Year Ended December 31, 2015 compared With Year Ended December 31, 2014

v **REVENUES**

Revenues declined by 1,855 million euros, or 8.6%, from 21,573 million euros in 2014 to 19,718 million euros in 2015.

The table below sets forth for the periods indicated gross revenues by Business Unit and consolidated revenues.

	Year ended December 31,					
	2015		2014		Changes	
	Revenues(1) (a)	% of Consolidated revenues	Revenues(1) (b)	% of Consolidated revenues	(a-b)	%
	(millions of euros, except percentages)					
Domestic	15,001	76.1	15,303	70.9	(302)	(2.0)
Core Domestic	*13,858*	*70.3*	*14,205*	*65.8*	*(347)*	*(2.4)*
International Wholesale	*1,314*	*6.7*	*1,244*	*5.8*	*70*	*5.6*
Olivetti	*172*	*0.9*	*227*	*1.1*	*(55)*	*(24.2)*
Brazil	4,636	23.5	6,244	28.9	(1,608)	(25.8)
Media and other operations(2)	131	0.7	71	0.3	60	
Adjustments and eliminations	*(50)*	*(0.3)*	*(45)*	*(0.1)*	*(5)*	
Total Revenues	**19,718**	**100.0**	**21,573**	**100.0**	**(1,855)**	**(8.6)**

(1) Revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

(2) The Other Operations of the Telecom Italia Group consist of the financial companies and other minor companies not associated with the core business of the Telecom Italia Group.

The **Domestic Business Unit** (divided into Core Domestic, International Wholesale and Olivetti), recorded a decline in revenues for 2015 of 302 million euros (-2.0%), compared to 2014, but with an improvement in revenues from services (quarters 2015 compared to quarters 2014: fourth quarter -1.1%, third quarter -1.5%, second quarter -1.7%, first quarter -3.3%). There were, however, positive signs over the course of 2015, with the decline in revenues, as compared to 2014, becoming smaller from quarter to quarter. This development is mainly due to an improvement in competition conditions, which permitted for an acceleration of growth for connection and content services for broadband and ultra-broadband networks, a steady hold on market share and a steady reduction in the declines of ARPU with respect to traditional services, mainly in the Mobile segment, which posted a positive performance in the fourth quarter of 2015, both in terms of total revenues (+0.7%) and revenues from services (+0.1%), as compared to the same period of 2014.

In 2015, the **Brazil Business Unit** generated revenues of 4,636 million euros (17,139 million reais), a decline of 1,608 million euros (2,359 million reais), or -25.8%, from 6,244 million euros in 2014 (19,498 million reais). The decline was mainly due to a decline in revenues from services, which was caused by further reductions in mobile termination rates and a contraction in revenues from traditional voice and SMS services. These declines were only partially offset by an increase in revenue generated by the innovative component.

Furthermore, revenues from product sales were 475 million euros in 2015 (1,755 million reais) compared to 1,016 million euros in 2014 (3,173 million reais), a decrease of 541 million euros, or 53.2%, likely reflecting the impact of the Brazilian macroeconomic crisis.

v **OTHER INCOME**

The following table sets forth other income for the years ended December 31, 2015 and 2014:

	Year ended December 31,			
	2015	2014	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
Late payment fees charged for telephone services	59	64	(5)	(7.8)
Recovery of employee benefit expenses, purchases and services rendered	32	27	5	18.5
Capital and operating grants	33	26	7	26.9
Damage compensation, penalties and sundry recoveries	25	36	(11)	(30.6)
Other income	138	248	(110)	(44.4)
Total other income	**287**	**401**	**(114)**	**(28.4)**

Other Income declined by 114 million euros relative to 2014. In 2014, other income included the full release of the remaining risk provisions, for an amount of 84 million euros, already allocated in the 2009 consolidated financial statements, with respect to the alleged administrative offense pursuant to Legislative Decree 231/2001, in connection with the Telecom Italia Sparkle affair .

v **OPERATING EXPENSES**

Our operating expenses amounted to 17,044 million euros in 2015, a decrease of 400 million euros, or 2.3% compared to 17,444 million euros in 2014.

The components of our operating expenses include the following:

· **Acquisition of goods and services** amounted to 8,533 million euros in 2015, a decrease of 897 million euros compared to 2014 (9,430 million euros). The decline was mainly due to the Brazil Business Unit, which experienced a decline of 1,149 million euros (including a negative exchange rate effect of 558 million euros). The Domestic Business Unit, on the other hand, reported an increase of 215 million euros, mainly due to higher purchases of equipment and handsets, related to the increase of product sales. In 2015, this item also included approximately 102 million euros for special projects and agreements.

The following table sets forth the acquisition of goods and services for the years ended December 31, 2015 and 2014:

	Year ended December 31,		
	2015	2014	Changes

	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
Purchase of goods	1,811	2,231	(420)	(18.8)
Portion of revenues to be paid to other operators and interconnection costs	2,080	2,403	(323)	(13.4)
Commercial and advertising costs	1,399	1,473	(74)	(5.0)
Power, maintenance and outsourced services	1,272	1,336	(64)	(4.8)
Rent and leases	699	742	(43)	(5.8)
Other service expenses	1,272	1,245	27	2.2
Total acquisition of goods and services	**8,533**	**9,430**	**(897)**	**(9.5)**
% on Revenues	*43.3*	*43.7*		

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· **Employee benefits expenses**

The following table sets forth employee benefits expenses for the years ended December 31, 2015 and 2014:

	Year ended December 31,			
	2015	2014	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
Employee benefits expenses Italian companies:				
Ordinary employee expenses and costs	2,769	2,697	72	2.7
Corporate restructuring expenses	446	8	438	n.s.
Total employee benefits expenses Italy	**3,215**	**2,705**	**510**	**18.9**
Employee benefits expenses Outside Italy				
Ordinary employee expenses and costs	374	410	(36)	(8.8)
Corporate restructuring expenses		4	(4)	
Total employee benefits expenses Outside Italy	**374**	**414**	**(40)**	**(9.7)**
Employee benefits expenses	**3,589**	**3,119**	**470**	**15.1**
% on Revenues	*18.2*	*14.5*		

Employee benefits expenses in 2015 totaled 3,589 million euros compared to 3,119 million euros in 2014, an increase of 470 million euros. The change was due to:

an increase of 72 million euros in the Italian component of ordinary employee expenses, mainly due to the increased contractual minimums established in the TLC National Collective Labor Agreement signed on February 1, 2013, which resulted in the addition of pay-scale points in April and October 2014, and the growth in the average workforce by 1,842 employees compared to 2014. In particular, the Solidarity Contracts applied by the Parent and T.I. Information Technology which entailed a reduction in working hours and a reduction in the average workforce came to an end in April 2015, resulting in an increase of 2,062 average employees compared to 2014;

the recognition for 446 million euros of charges and provisions to Employee Benefits and other minor items. In particular, the Parent and other Group companies signed specific agreements with the trade unions in 2015 for the application of regulatory instruments that, from 2016 and subsequent years, will enable the management of personnel surpluses, resulting from the streamlining processes affecting all the companies operating in the TLC sector. These instruments will be implemented through solidarity contracts, with voluntary early retirement (in application of Article 4, paragraphs 1-7ter of law no. 92 of June 28, 2012, the

Fornero law) and through the use of mobility scheme under law no. 223/91. These expenses consisted of 422 million euros for the Parent Telecom Italia S.p.A., 17 million euros for the restructuring plan announced in May 2015 by Olivetti, 3 million euros for the company Telecom Italia Information Technology, 2 million euros for HR Services, and 2 million euros for Telecom Italia Sparkle. More details are provided in the Note Employee benefits expenses of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report;

a decrease of 40 million euros in the component outside Italy of employee benefits expenses due to the higher increase in labor costs related to the growth in the average workforce (+426 average employees) and local salary increases, which were more than offset by a negative exchange rate effect of approximately 59 million euros, essentially relating to the Brazil Business Unit. In 2014, restructuring expenses of 4 million euros were also recognized in relation to a number of foreign companies of the Olivetti group.

The Group s average salaried workforce for the periods indicated was as follows:

	Year ended December 31,			
	2015 (a)	2014 (b)	Changes (a-b)	%
	(full time equivalent units, except percentages)			
Average salaried workforce Italy	49,361	47,519	1,842	3.9
Average salaried workforce Foreign	12,192	11,766	426	3.6
Total average salaried workforce(1)	**61,553**	**59,285**	**2,268**	**3.8**
Non-current assets held for sale (Sofora Telecom Argentina group)	15,465	15,652	(187)	(1.2)
Total Average salaried workforce including Non-current assets held for sale (Sofora Telecom Argentina group)(1)	**77,018**	**74,937**	**2,081**	**2.8**

(1) Includes the average employees with temporary work contracts: 3 units in 2015 (2 in Italy and 1 outside Italy). In 2014 average employees with temporary work contracts were 9 units (4 in Italy and 5 outside Italy).

Group s employees at December 31, 2015 and 2014 were as follows:

	As of December 31,			
	2015 (a)	2014 (b)	Changes (a-b)	%
	(units, except percentages)			
Employees Italy	52,555	52,882	(327)	(0.6)
Employees Foreign	13,312	13,143	169	1.3
Total Employees(1)	**65,867**	**66,025**	**(158)**	**(0.2)**
Non-current assets held for sale (Sofora Telecom Argentina group)	16,228	16,420	(192)	(1.2)
Total Employees including Non-current assets held for sale (Sofora Telecom Argentina group)(1)	**82,095**	**82,445**	**(350)**	**(0.4)**

(1) Includes employees with temporary work contracts: 3 units at December 31, 2015 and 9 units at December 31, 2014.

· **Other operating expenses**

The following table sets forth other operating expenses for the years ended December 31, 2015 and 2014.

	Year ended December 31,			
	2015	**2014**	**Changes**	
	(a)	**(b)**	**(a-b)**	**%**
	(millions of euros, except percentages)			
Writedowns and expenses in connection with credit management	345	375	(30)	(8.0)
Provision charges	330	84	246	292.9
TLC operating fees	342	449	(107)	(23.8)
Indirect duties and taxes	116	118	(2)	(1.7)
Penalties, compensation and administrative sanctions	292	68	224	329.4
Association dues and fees, donations, scholarships and traineeships	18	18		
Sundry expenses	48	63	(15)	(23.8)
Total other operating expenses	**1,491**	**1,175**	**316**	**26.9**
% on Revenues	*7.6*	*5.4*		

Other operating expenses were 1,491 million euros in 2015, compared to 1,175 million euros in 2014, an increase of 316 million euros. This change was mainly due to 518 million euros for provisions and costs connected to regulatory disputes and sanctions, and liabilities related to these disputes, charges for specific transactions with customers and suppliers and costs related to disputes with former employees.

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In particular:

writedowns and expenses in connection with credit management (345 million euros; 375 million euros in 2014) consisting of 270 million euros for the Domestic Business Unit (295 million euros in 2014) and 62 million euros for the Brazil Business Unit (80 million euros in 2014);

provision charges (330 million euros; 84 million euros in 2014) mainly consisting of 236 million euros for the Domestic Business Unit (6 million euros in 2014) and 86 million euros for the Brazil Business Unit (74 million euros in 2014);

TLC operating fees and charges (342 million euros; 449 million euros in 2014) consisting of 285 million euros for the Brazil Business Unit (399 million euros in 2014) and 56 million euros for the Domestic Business Unit (49 million euros in 2014).

· **Depreciation and Amortization**

The following table sets forth depreciation and amortization for the years ended December 31, 2015 and 2014.

	Year ended December 31,			
	2015	2014	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
Amortization of intangible assets with a finite useful life	1,788	1,854	(66)	(3.6)
Depreciation of tangible assets owned and leased	2,347	2,430	(83)	(3.4)
Total depreciation and amortization	**4,135**	**4,284**	**(149)**	**(3.5)**
% on Revenues	*21.0*	*19.9*		

The reduction in depreciation and amortization of 149 million euros was mainly attributable to the Domestic Business Unit (-85 million euros), which was affected by the revision of the useful lives of the passive infrastructure of the Mobile Base Transceiver Stations, which resulted in an overall impact of 51 million euros of lower depreciation, and to the Brazil Business Unit (-68 million euros, which includes the negative exchange rate effects of 152 million euros). Net of the exchange rate effect, the depreciation and amortization of the Brazil Business Unit would have increased by 85 million euros, resulting from the acceleration in investments in the last 18-24 months.

Further details are provided in the Note Tangible assets (owned and under finance leases) of the Notes to the Consolidated Financial Statements, included elsewhere herein.

- **Gains (losses) on disposals of non-current assets**

In 2015, this item amounted to 336 million euros (29 million euros in 2014) and was mainly attributable to the gain realized by the Brazil Business Unit of 1,211 million reais (approximately 328 million euros) following the conclusion of the sale of the first three tranches of telecommunications towers to American Tower do Brasil.

For further details, please see 5.2.7 Results of Operations of Business Units for the Year Ended December 31, 2015 Compared with the Year Ended December 31, 2014- Brazil included elsewhere in this Annual Report.

- **Net impairment losses on non-current assets**

This item amounted to 244 million euros in 2015 (1 million euros in 2014).

The impairment losses for the year 2015 included:

- 240 million euros with respect to goodwill of the Brazil Business Unit due to the results of the impairment testing conducted at December 31, 2015, carried out by comparing the recoverable amount of the Brazil Cash Generating Unit (CGU) with its carrying amount on the same date;

- 4 million euros for other items.

For further details, please see Note Goodwill of the Notes to the Consolidated Financial Statements, included elsewhere herein.

v OPERATING PROFIT (LOSS)

Operating profit was 2,961 million euros in 2015 (4,530 million euros in 2014), a decrease of 1,569 million euros, or -34.6%, as a result of operating income and expenses described above.

v OTHER INCOME (EXPENSES) FROM INVESTMENTS

This item amounted to a positive 10 million euros in 2015 (a positive 16 million euros in 2014), essentially reflecting the gain from the sale of the non-controlling interest in SIA S.p.A., which took place in July 10, 2015.

v FINANCE INCOME (EXPENSES)

Finance income (expenses) showed an increase in net expenses of 331 million euros, from 2,194 million euros in 2014 to 2,525 million euros in 2015.

This increase was linked to the effects of the changes in certain non-monetary items of a valuation and accounting nature, linked in particular to derivatives and of bond buybacks, which were offset by the reduction in finance expenses connected to the related debt position.

In particular:

- the negative impact of 454 million euros (174 million euros in 2014) relating to the fair value measurement through profit and loss performed separately to its liability component of the embedded option included in the mandatory convertible bond issued by Telecom Italia Finance S.A. at the end of 2013, for 1.3 billion euros (Guaranteed Subordinated Mandatory Convertible Bonds due 2016 convertible into ordinary shares of Telecom Italia S.p.A.);

- a negative effect of 379 million euros in relation to the bond buybacks carried out during 2015 by Telecom Italia S.p.A. for a total of 3.8 billion euros. This impact resulted from the difference between the buyback prices and the values of the liabilities at the transaction date, net of the benefits from the termination of several hedging derivatives linked to the bonds repurchased. In 2014, the negative impact of the buybacks carried out during the period and the exercise of the early redemption option for a bond amounted to 62 million euros.

For further details about finance income and finance expenses, please see Note Finance income and Finance expenses , of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

v **Income Tax Expense**

This item amounted to 401 million euros, a decrease of 527 million euros compared to 2014 (928 million euros), mainly due to lower taxable income of the Parent and the unexpected full deductibility of labor costs from the IRAP tax base introduced by art. 1, c. 20 of the Stability Law 2014 (law n.190/14) which resulted in lower IRAP of approximately 60 million euros.

v **Profit (Loss) From Discontinued Operations/Non-Current Assets Held For Sale**

In 2015, the item Profit from Discontinued Operations/Non-current assets held for sale amounted to 611 million euros (541 million euros in 2014) and was mainly related to the positive contribution to the consolidation from the Sofora Telecom Argentina group.

For further details, please see Note Discontinued operations/Non-current assets held for sale , of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

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5.2.7 RESULTS OF OPERATIONS OF BUSINESS UNITS FOR THE YEAR ENDED DECEMBER 31, 2015 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2014

v **DOMESTIC**

The following table sets forth, certain financial and other data for the Domestic Business Unit for the years ended December 31, 2015 and 2014.

	Year ended December 31,			
	2015	2014	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages and employees)			
Revenues	15,001	15,303	(302)	(2.0)
Operating profit (loss)	2,359	3,738	(1,379)	(36.9)
% of Revenues	*15.7*	*24.4*		
Employees at year-end (units)	52,644	53,076	(432)	(0.8)

Revenues

Revenues decreased by 302 million euros from 15,303 million euros in 2014 to 15,001 million euros in 2015.

There were a number of significant indicators during the year 2015 and the last quarter, including the continued steady recovery in revenue performance, which strengthened compared to the previous quarters, and positive performance in the Mobile business, both in terms of total revenues (+0.7% in the fourth quarter of 2015) and revenues from services only (+0.1% in the last quarter of 2015 compared to the same period of 2014).

This recovery in revenues was attributable to the commercial actions aimed at progressively stabilizing the customer base with market share up slightly in both the Mobile and Fixed-line Broadband businesses and the ARPU, with a growth in revenues from Fixed-line Broadband, ICT and Mobile Internet.

In more detail:

Revenues from domestic services, amounted to 14,058 million euros in 2015 and decreased by 276 million euros (-1.9%) compared to 2014.

The quarterly trend confirmed the recovery trend already mentioned, stronger than in previous quarters: (quarters 2015 compared to quarters 2014: fourth quarter -1.1%, third quarter -1.5%, second quarter -1.7%, first quarter -3.3%).

In detail:

revenues from Fixed-lined services amounted to 10,372 million euros in 2015, a decrease of 300 million euros compared to 2014 (-2.8%);

revenues from services in the Mobile business amounted to 4,517 million euros a decrease of 91 million euros compared to 2014 (-2.0%). The performance contributed to the improving trend with a positive +0.1% in the fourth quarter of 2015, compared to the same period in 2014, preceded by -1.5% in the third quarter of 2015, -2.5% in the second quarter of 2015, -4.2% in the first quarter of 2015.

Revenues from product sales, including changes to work in progress, amounted to 943 million euros in 2015 (a decrease of 26 million euros compared to 2014) and grew by 68 million euros in the Mobile business, due to a continued growth in demand for advanced handsets (smartphones), and declined in the Fixed-line business of the product portfolio.

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The following table sets forth the Domestic Business Unit s revenues by market segment for the years ended December 31, 2015 and 2014.

· **Core Domestic**

	Year ended December 31,			
	2015	2014	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages and employees)			
Revenues	13,858	14,205	(347)	(2.4)
Consumer	*7,267*	*7,349*	*(82)*	*(1.1)*
Business	*4,600*	*4,824*	*(224)*	*(4.6)*
National Wholesale	*1,785*	*1,793*	*(8)*	*(0.4)*
Other	*206*	*239*	*(33)*	*(13.8)*
Operating profit (loss)	2,287	3,593	(1,306)	(36.3)
% of Revenues	*16.5*	*25.3*		
Employees at year-end (units)	51,741	51,849	(108)	(0.2)

· **Consumer:** revenues of the Consumer segment amounted to 7,267 million euros in 2015, with a decrease of 82 million euros (-1.1%) compared to 2014, with a recovery driven, in particular, by the progressive and structural recovery in the Mobile business, due to the steady market share and the stabilization of ARPU levels. In particular:

  · **revenues from Mobile business** amounted to 3,599 million euros, and grew slightly compared to 2014 (+29 million euros, +0.8%), confirming the positive trend seen over the two consecutive quarters (fourth quarter of 2015, +2.5%, third quarter +3.3%, second quarter -1.6%, first quarter -1.5%). Service revenues decreased by 39 million euros (-1.2% compared to 2014), also evidencing a significant recovery trend (fourth quarter of 2015: +1.5%; third quarter: -0.3%; second quarter: -2.1%; first quarter: -4.3%), attributable to a slowdown of competitive pressure, the progressive stabilization of market share and the steady growth of mobile internet and digital services to support the stabilization of ARPU;

  · **revenues from Fixed-line business** amounted to 3,705 million euros, with a decrease of 112 million euros compared to 2014 (-2.9%) and showed a slowdown in the last quarter of 2015 (-6.7%) compared to the improvement seen from the second half of 2014, due to the actions aimed at increasing ARPU undertaken in the last months of the year (repricing, introduction of flat tariffs and bundle development).

- **Business**: the revenues of the Business segment amounted to 4,600 million euros, a decrease of 224 million euros compared to 2014 (-4.6%). Revenues from services (4,232 million euros, -204 million euros compared to 2014) continued the stabilization that began during 2014 (-4.7% in the fourth quarter of 2015). Specifically:

  - **Mobile services revenue** fell by 66 million euros (-5.5% compared to 2014): the positive performance of new digital services, and, in particular, of the Mobile Internet component (+38 million euros, +9% compared to 2014) was offset by a reduction in traditional mobile services for voice calls and messaging (-109 million euros) due to the customers repositioning towards bundle deals with lower overall ARPU;

  - **Fixed-line services revenue** fell by 141 million euros (-4.3% compared to 2014): despite the steady growth in ICT service revenues (+5.7%), in particular on Cloud services (+26% compared to 2014), the segment continued to be adversely affected by the slow economic recovery, the reduction in prices of traditional voice and data services, and the technological shift towards VoIP systems.

- **National Wholesale**: revenues for the Wholesale segment in 2015 amounted to 1,785 million euros, essentially stable compared to 2014 (-8 million euros, or 0.4%). Indeed, the impact of the change in regulated prices in 2015 was similar to the impact in 2014, due to the retroactive change in the wholesale access prices for the period 2010-2012.

· **International Wholesale Telecom Italia Sparkle group**

	Year ended December 31,			
	2015	2014	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages and employees)			
Revenues	1,314	1,244	70	5.6
Operating profit	85	172	(87)	(50.6)
% of Revenues	*6.5*	*13.8*		
Employees at year-end (units)	645	641	4	0.6

Telecom Italia Sparkle group revenues for 2015 amounted to 1,314 million euros, a significant increase compared to 2014 (+70 million euros, or 5.6%). This increase was related in particular to revenues for Voice services (+39 million euros, +4.3%) and revenues for IP/Data services (+33 million euros, +12.8%). The other business segments remained substantially stable (-2 million euros, -2.2%).

· **Olivetti**

Following approval of the restructuring plan of the Olivetti group on May 11, 2015, in 2015, the business lines to be abandoned through divestment or termination in accordance with the plan have no longer been consolidated under Olivetti. Instead, these lines have been included under Other Operations.

	Year ended December 31,			
	2015	2014	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages and employees)			
Revenues	172	227	(55)	(24.2)
Operating profit (loss)	(13)	(34)	21	61.8
% of Revenues	*(7.6)*	*(15.0)*		
Employees at year-end (units)	258	586	(328)	(55.9)

In 2015, the revenues of business lines defined as Core (Office, Retail and Systems, and Advanced Caring) amounted to 172 million euros.

In particular, in 2015 there was an increase in revenues in the Office segment relating to the sales of multifunctional products under long-term rental agreements (+15 million euros compared to 2014), while revenues from services in the Advanced Caring segment registered an increase of 6 million euros as compared to 2014.

Operating profit

Operating profit in 2015 amounted to 2,359 million euros (3,738 million euros in 2014), a decrease of 1,379 million euros, or -36.9% compared to 2014, with an Operating profit margin of 15.7% (24.4% in 2014).

The operating profit was also impacted by the change in the following line items included under operating expenses and shown in the table below.

	Year ended December 31,			
	2015	2014	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
Acquisition of goods and services	6,046	5,831	215	3.7
Employee benefits expenses	3,206	2,730	476	17.4
Other operating expenses	999	570	429	75.3
Depreciation and amortization	3,205	3,290	(85)	(2.6)

In detail:

- **acquisition of goods and services** increased by 215 million euros (+3.7%) compared with 2014. In particular:
  - higher costs for the acquisition of goods for resale (+145 million euros, of which +78 million euros for the acquisition of Mobile handsets linked to the increase in sales volumes);
  - higher advertising costs (+25 million euros, mainly related to the sponsoring of EXPO 2015 and the launch of the new single Brand);
  - higher commercial costs (+24 million euros);
  - higher costs for revenues due to other operators (+26 million euros);
  - lower costs for indirect operating expenses, not directly linked to commercial and industrial policies (-117 million euros);
- **employee benefits expenses** increased by 476 million euros compared to 2014, mainly due to:
  - an increase of 60 million euros in ordinary employee expenses, mainly due to the increased contractual minimums established in the TLC National Collective Labor Agreement signed on February 1, 2013, which resulted in the addition of pay-scale points in April and October 2014, and the growth in the average workforce by a total of 1,692 average employees compared to 2014. In particular, the Solidarity Contracts applied by the Parent and T.I. Information Technology which entailed a reduction in working hours and a consequent reduction in the average workforce came to an end in April 2015, resulting in an increase of 2,062 average employees compared to 2014;
  - the recognition of 429 million euros in charges and provisions to employee benefits, consisting of 422 million euros for the Parent Telecom Italia S.p.A., 3 million euros for Telecom Italia Information Technology, 2 million euros for HR Services and 2 million euros for Telecom Italia Sparkle. In particular, in 2015 the Parent signed specific agreements with the trade unions for the application of regulatory instruments that starting in 2016 will enable the management of personnel surpluses, resulting from the streamlining processes affecting the companies operating in the TLC sector. These instruments will be implemented through solidarity contracts, voluntary early retirements (in application of Article 4, paragraphs 1-7ter, of Law n. 92 of June 28, 2012, the Fornero law) and through the use of mobility scheme under law n.

223/91;

· **other operating expenses,** amounted to 999 million euros, an increase of 429 million euros compared to 2014. This increase was mainly due to costs totaling 512 million euros for provisions and costs connected to regulatory disputes and sanctions, and to liabilities related to these disputes, some charges for specific transactions with customers and suppliers and costs related to disputes with former employees.

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

	Year ended December 31,			
	2015	**2014**	**Changes**	
	(a)	**(b)**	**(a-b)**	**%**
	(millions of euros, except percentages)			
Impairments and expenses in connection with credit management	270	295	(25)	(8,5)
Provision charges	236	6	230	n.s.
TLC operating fees and charges	56	49	7	14
Indirect duties and taxes	100	99	1	1,0
Sundry expenses	337	121	216	179
Total	**999**	**570**	**429**	**75,3**

· **depreciation and amortization**, amounted to 3,205 million euros in 2015, a decrease of 85 million euros compared to 2014 (3,290 million euros), due to the revision of the useful lives of the passive infrastructure of the Mobile Base Transceiver Stations.

The operating profit was also impacted by **Other income** which amounted to 258 million euros in 2015 (382 million euros in 2014), a decrease of 124 million euros compared to 2014. In 2014, the amount included the entire release of the risk provision, recorded 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).

Employees

Employees were 52,644 as of December 31, 2015, a reduction of 432 units compared to December 31, 2014.

* * *

The company Infrastrutture Wireless Italiane S.p.A. (**INWIT**) was established on January 14, 2015. On April 1, 2015, the Parent Telecom Italia S.p.A. transferred to INWIT the business unit consisting of around 11,500 sites in Italy that house the radio transmission equipment for mobile telephone networks for the Parent Company and other operators. In June 2015, an IPO was successfully completed for ordinary shares of INWIT S.p.A. on the Electronic Stock Exchange organized and managed by Borsa Italiana S.p.A., which was followed in July 2015 by the exercise of the greenshoe option. This transaction did not result in a loss of control for the Telecom Italia Group over INWIT and was therefore treated as a transaction between shareholders in accordance with the accounting standards. Accordingly, no impacts were recognized in the consolidated income statement and the effects of the transaction were recognized directly as an increase in Equity attributable to Owners of the Parent.

INWIT Infrastrutture Wireless Italiane S.p.A.		**As of December 31, 2015**
Set of towers transferred from Telecom Italia to INWIT	No.	11,500
Number of shares in the IPO	No.	239,800,000
% of capital transferred		39.97%
IPO unit price per share	euro	3.65
Total consideration received, net of transaction costs	million euros	854
Increase in Equity attributable to Owners of the Parent	million euros	279
Telecom Italia percentage interest in INWIT at December 31, 2015		60.03%

v **BRAZIL**

The following table sets forth certain financial and other data for the Brazil Business Unit for the years ended December 31, 2015 and 2014.

	Year ended December 31,					
2015	2014	2015	2014	Changes	
		(a)	(b)	(a-b)	%

	(millions of euros, except percentages and employees)		(millions of Brazilian reais, except percentages and employees)			
Revenues	4,636	6,244	17,139	19,498	(2,359)	(12.1)
Operating profit	636	795	2,351	2,483	(132)	(5.3)
% of Revenues	*13.7*	*12.7*	*13.7*	*12.7*		
Employees at year-end (units)	13,042	12,841	13,042	12,841	201	1.6

Revenues

Revenues for 2015, amounted to 17,139 million reais and decreased by 12.1% compared to 2014 (-2,359 million reais). Service revenues totaled 15,384 million reais, a decrease of 941 million reais compared to 16,325 million reais for 2014 (-5.8%). The decline in revenues was partly attributable to the revenues from incoming SMS and mobile traffic (-1,005 million reais, -40.2%), due to the reduction in the mobile termination rate (MTR) and lower volumes, as well as traditional voice and SMS outgoing traffic (-1,216 million reais, -13.4%). This was partially offset by an increase in revenue generated by the innovative component, mobile data and VAS content (+1,213 million reais, +35.0%). Mobile Average Revenue Per User (ARPU) amounted to 16.7 reais for 2015 compared to 17.7 reais for 2014 (-5.6%).

Revenues from product sales were 1,755 million reais (3,173 million reais in 2014; -44.7%), likely reflecting the impact of the Brazilian macroeconomic crisis.

The total number of lines as of December 31, 2015 amounted to 66,234 thousand, a decrease of 9,487 thousand compared to December 31, 2014. This corresponds to a market share of approximately 25.7% (27% at December 31, 2014).

Operating profit

Operating profit amounted to 2,351 million reais, down 132 million reais compared to 2014. This result was affected by goodwill impairment losses totaling 887 million reais and the positive impacts arising from the conclusion of the sale of the first three tranches of telecommunications towers to American Tower do Brasil. More specifically, at the time of the sales, the gains arising on the assets sold amounted to 1,211 million reais net of transaction costs.

With regard to changes in operating costs, the following table sets forth certain expenses for the years ended December 31, 2015 and 2014.

	Year ended December 31,					
	2015	2014	2015	2014	Changes	
			(a)	(b)	(a-b)	%
	(millions of euros)		(millions of Brazilian reais, except percentages)			
Acquisition of goods and services	2,444	3,593	9,037	11,222	(2,185)	(19.5)
Employee benefits expenses	349	379	1,289	1,183	106	9.0
Other operating expenses	470	598	1,736	1,865	(129)	(6.9)
Change in inventories	33	11	122	33	89	269.7
Depreciation and amortization	909	977	3,362	3,049	313	10.3

- **acquisition of goods and services** amounted to 9,037 million reais in 2015 (11,222 million reais in 2014). The 19.5% decrease compared to the previous year (-2,185 million reais) can be broken down as follows:
  - purchases relating primarily to products for resale: -1,583 million reais;
  - revenues due to other TLC operators: -826 million reais;
  - rent and lease costs: +179 million reais;

- external service costs: +45 million reais;

- **employee benefits expenses**, amounting to 1,289 million reais in 2015, up 106 million reais compared to 2014 (+9.0%). The ratio of employee benefits expenses to total revenues rose to 7.5%, up 1.4 percentage point on 2014. The average workforce grew from 11,451 employees in 2014 to 11,931 employees in 2015;

- **other operating expenses** amounted to 1,736 million reais, a decrease of 6.9% on 2014. The expenses were broken down as follows:

	Year ended December 31,			
	2015 (a)	2014 (b)	Changes (a-b)	%
	(millions of Brazilian reais, except percentages)			
Writedowns and expenses in connection with credit management	230	249	(19)	(7.6)
Accruals to provisions	320	232	88	37.9
TLC operating fees	1,054	1,247	(193)	(15.5)
Indirect duties and taxes	51	51		
Sundry expenses	81	86	(5)	(5.8)
Total	**1,736**	**1,865**	**(129)**	**(6.9)**

- **depreciation and amortization** amounted to 3,362 million reais in 2015, an increase of 313 million reais compared to 3,049 million reais in 2014 due to the effect of the acceleration of investments in the past two years.

Employees

Employees were 13,042 at December 31, 2015, an increase of 201 units compared to December 31, 2014 (12,841 units).

* * *

In 2015, the TIM Brasil group concluded the sale of the first three tranches of telecommunications towers to American Tower do Brasil. The transaction involved the simultaneous execution of a finance lease for the portion of the towers used by the TIM Brasil group, recorded as a financial debt for leases. For further details please see Item 4. Information on the Telecom Italia Group 4.6 Description of Property, Plant and Equipment .

v MEDIA

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 respectively controlled by Persidera S.p.A. (a subsidiary of TI Media) and Rete A S.p.A.

The merger of Rete A by absorption into Persidera was completed on December 1, 2014.

The merger of Telecom Italia Media S.p.A. into Telecom Italia S.p.A. was completed on September 30, 2015, effective retroactively, for accounting and tax purposes, as of January 1, 2015.

The table below shows the figures for the Media Business Unit which, for the first half of 2014, did not include the results of Rete A.

	Year ended December 31,			
	2015	2014	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages and employees)			
Revenues	82	71	11	15.5
Operating profit (loss)	14	6	8	n.s
% of Revenues	*17.1*	*8.5*		
Employees at year-end (units)(*)	64	89	(25)	(28.1)

(*) Includes employees with temp work contracts: nil at December 31, 2015, 1 at December 31, 2014.

Revenues

Revenues amounted to 82 million euros in 2015, an increase of 11 million euros (+15.5%) compared to 71 million euros in 2014. This change, which was partly driven by the merger of Rete A, which had not yet occurred in the first six months of 2014, was entirely attributable to the Network Operator (Persidera).

Operating profit (loss)

Operating profit was 14 million euros in 2015 (6 million euros in 2014). This performance was mainly due to the aforementioned increase in revenues, as well as the increase in other income, only partially offset by an increase in operating expenses, mainly attributable to the costs from the former Rete A (operations not present in the first six months of 2014) and by the increase of 4 million euros in depreciation and amortization.

Employees

Employees were 64 at December 31, 2015, a decrease of 25 units compared to December 31, 2014 (89 units).

v **Discontinued operations/Non-current assets held for sale (Sofora Telecom Argentina group)**

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

- the first closing took place on October 29, 2014 and, as a result, 17% of the Sofora capital was sold. Consideration was received for this closing also including other related assets totaling US$ 215.7 million (around 170 million euros); this resulted in the direct and indirect economic interest in Telecom Argentina group of the Telecom Italia group being reduced from 19.30% to 14.47%;

- the sale of the controlling interest of 51% in the capital of Sofora was planned to occur within two and a half years of October 29, 2014, subject to approval by the Argentine regulatory authority;

- the guarantees of performance by Fintech were secured by a pledge of securities worth US$ 600.6 million.

On March 8, 2016, after having received the approval of Enacom, the Argentine communications regulator, the Telecom Italia Group completed the sale of Sofora Telecom Argentina group (for further details please see the Note *Events Subsequent to December 31, 2015* of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report).

The average exchange rate used for the conversion into euro of the Argentine peso (expressed in terms of units of local currency per 1 euro) was 10.26890 in 2015 and 10.76605 in 2014. In terms of the spot exchange rate, the Argentine currency was subject to a significant devaluation in December 2015: the euro exchange rate for the Argentine peso on December 31, 2015 was 14.0972 pesos per euro compared to 10.2755 pesos per euro at December 31, 2014.

The following table sets forth certain financial and other data for the Sofora Telecom Argentina group for the years ended December 31, 2015 and 2014.

	Year ended December 31,					
	2015	2014	2015 (a)	2014 (b)	Changes (a-b)	%
	(millions of euros, except percentages and employees)		(millions of Argentine pesos, except percentages and employees)			
Revenues	3,943	3,097	40,495	33,341	7,154	21.5
Operating profit	1,035	804	10,632	8,657	1,975	22.8
% of Revenues	*26.3*	*26.0*	*26.3*	*26.0*		
Employees at year-end (units)	16,228	16,420	16,228	16,420	(192)	(1.2)

Revenues

Revenues for 2015 amounted to 40,495 million pesos, increasing 7,154 million pesos (+21.5%) compared to 2014 (33,341 million pesos), mainly due to the growth in ARPU. The main source of revenues was mobile telephony, which accounted for about 73% of the consolidated revenues of the Sofora Telecom Argentina group, an increase of 20.1% compared to 2014.

Operating profit

Operating profit in 2015 was 10,632 million pesos compared to 8,657 million pesos recorded in 2014. The increase of 1,975 million pesos was mainly attributable to the aforementioned increase in revenues, partially offset by the increase in the related costs, as described below.

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

- **acquisition of goods and services** amounted to 19,017million pesos (14,963 million pesos in 2014). The increase of 27.1% compared to 2014 (+4,054 million pesos) was mainly due to higher external service costs of 1,912 million pesos and greater purchases of goods of 2,025 million pesos;

- **employee benefits expenses**, amounting to 7,317 million pesos, increased by 1,662 million pesos compared to 2014 (+29.4%). The change was due to salary increases resulting from periodic revisions in

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union agreements, primarily linked to inflation, and to the increase in provisions for termination benefit incentives. The percentage of employee benefits expenses to total revenues was 18.1%, up 1.1 percentage points over 2014;

· **changes in inventories** totaled 1,460 million pesos and reflecting higher purchases of handsets by Telecom Personal, mentioned above, with an increase of 62% in stock levels compared to the end of 2014;

· **other operating expenses** amounted to 4,835 million pesos, increasing 797 million pesos compared to 2014, mainly as a result of the 540 million pesos increase in indirect duties and taxes;

· **net impairment losses on non-current assets** of 224 million pesos in 2015, as compared to 26 million pesos in 2014, were mainly related to work in progress and several business projects that the group decided not to pursue.

As required by IFRS 5, the calculation of the depreciation and amortization for the Sofora Telecom Argentina group, which would have amounted to 4,438 million pesos in 2015 and 3,244 million pesos in 2014 (432 million euros in 2015 and 301 million euros in 2014), was suspended effective as of the date of classification as a Discontinued operation.

Further details are provided in the Note Discontinued operations/Non-current assets held for sale of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

5.2.8 YEAR ENDED DECEMBER 31, 2014 COMPARED WITH YEAR ENDED DECEMBER 31, 2013

v **REVENUES**

Revenues amounted to 21,573 million euros in 2014, a decrease of 1,834 million euros, or 7.8%, compared to 23,407 million euros in 2013.

The table below sets forth for the periods indicated gross revenues by Business Unit and consolidated revenues.

	Year ended December 31,					
	2014		2013		Changes	
	Revenues(1) (a)	% of Consolidated revenues	Revenues(1) (b)	% of Consolidated revenues	(a-b)	%
	(millions of euros, except percentages)					
Domestic (2)	15,303	70.9	16,388	70.0	(1,085)	(6.6)
Core Domestic	*14,205*	*65.8*	*15,269*	*65.2*	*(1,064)*	*(7.0)*
International Wholesale	*1,244*	*5.8*	*1,263*	*5.4*	*(19)*	*(1.5)*

Olivetti	*227*	*1.1*	*265*	*1.1*	*(38)*	*(14.3)*
Brazil	6,244	28.9	6,945	29.7	(701)	(10.1)
Media and Other Operations (2) (3)	71	0.3	124	0.5	(53)	(42.7)
Adjustments and eliminations	*(45)*	*(0.1)*	*(50)*	*(0.2)*	*5*	*(10.0)*
Total Revenues	**21,573**	**100.0**	**23,407**	**100.0**	**(1,834)**	**(7.8)**

(1) Revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

(2) Starting from 2014, the Domestic Business Unit also includes the Olivetti group, in addition to Core Domestic and International Wholesale. The comparative figures of 2013 have been adjusted accordingly.

(3) The Other Operations of the Telecom Italia Group consist of the financial companies and other minor companies not associated with the core business of the Telecom Italia Group.

The Domestic Business Unit (divided into Core Domestic, International Wholesale and Olivetti), recorded a decline in revenues for 2014 of 1,085 million euros (-6.6%), compared to 2013, but with a significant improvement in the second half of the year (quarter 2014 compared to quarter 2013: fourth quarter: -5.0%, third quarter: -5.0%, second quarter: -8.2%, first quarter: -8.3%), despite the continuing adverse macroeconomic environment and the negative impact of the retroactive revision by the AGCom of the copper network wholesale access prices for the period 2010-2012. Net of that impact, which resulted in the recognition in the last quarter of 45 million euros in lower revenues from previous years, the performance for the fourth quarter of 2014 would have been -3.9% compared to the same period of 2013. This improvement in performance was mainly due to a cooling of the competitive pressure which resulted in the progressive stabilization of the customer base and ARPU on traditional services accompanied by a stabilization in our market share, mainly on Mobile, and an acceleration in the growth of broadband and ultrabroadband services.

In detail:

- **Revenues from services** in 2014 amounted to 14,334 million euros, down 7.1% compared to 2013. In particular, revenues from services in the Mobile business were 4,608 million euros, a decrease of 529 million euros compared to 2013 (-10.3%). Revenues from Fixed-line services amounted to 10,672 million euros and were down 819 million euros compared to 2013 (-7.1%). In particular, revenues from services in the fourth quarter of 2014 amounted to 3,619 million euros, down 4.4% compared to the same period of 2013 (-3.2% net of the above-mentioned retroactive revision of 2010-2012 wholesale access prices decided by AGCom). The fourth quarter represented a recovery against the three previous quarters (-6.2% in the third quarter, -8.9% in the second quarter, and -8.8% in the first quarter);

- **Product sales**, including change in work in progress, recorded revenues of 969 million euros in 2014, up on 2013 (+8 million euros), in both the Fixed-line and Mobile business.

With respect to the **Brazil Business Unit**, revenues in 2014 decreased by 701 million euros, or 10.1% compared to 2013. Revenues from services decreased in 2014, mainly due to lower revenues from incoming traffic as a result of the reduction in the mobile termination rate. Handset revenues also declined, mainly due to a reduction in sales volumes. The total number of lines for the Brazil Business Unit on December 31, 2014 was 75.7 million, up 3.1% compared with December 31, 2013.

For a more detailed analysis of revenue performance by individual Business Units, reference should be made to Item 4. Information On The Telecom Italia Group 4.2 Business Units .

v **OTHER INCOME**

The following table sets forth other income for the years ended December 31, 2014 and 2013:

	Year ended December 31,			
	2014	2013	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
Late payment fees charged for telephone services	64	63	1	1.6
Recovery of employee benefit expenses, purchases and services rendered	27	28	(1)	(3.6)

Capital and operating grants	26	27	(1)	(3.7)
Damage compensations, penalties and sundry recoveries	36	64	(28)	(43.8)
Sundry income	248	142	106	74.6
Total other income	**401**	**324**	**77**	**23.8**

This item increased by 77 million euros compared to 2013. The increase mainly related to the full release of the remaining risk provisions, in an amount of 84 million euros, already allocated in the 2009 consolidated financial statements, with respect to the Telecom Italia Sparkle affair; the interest element (a further 2 million euros) was released into finance income.

v **OPERATING EXPENSES**

Our operating expenses amounted to 17,444 million euros in 2014, a decrease of 3,569 million euros, or 17.0%, compared to 21,013 million euros in 2013. The decline in operating expenses was also due to the reduction of impairment losses on non-current assets which decreased from 2,187 million euros in 2013 to 1 million euros in 2014.

The components of our operating expenses include the following:

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

The following table sets forth the acquisition of goods and services for the years ended December 31, 2014 and 2013:

	Year ended December 31,			
	2014	**2013**	**Changes**	
	(a)	**(b)**	**(a-b)**	**%**
	(millions of euros, except percentages)			
Purchase of goods	2,231	2,358	(127)	(5.4)
Portion of revenues to be paid to other operators and interconnection costs	2,403	2,949	(546)	(18.5)
Commercial and advertising costs	1,473	1,565	(92)	(5.9)
Power, maintenance and outsourced services	1,336	1,353	(17)	(1.3)
Rent and leases	742	755	(13)	(1.7)
Other service expenses	1,245	1,397	(152)	(10.9)
Total acquisition of goods and services	**9,430**	**10,377**	**(947)**	**(9.1)**
% on Revenues	*43.7*	*44.3*		

· **Employee benefits expenses**

The following table sets forth employee benefits expenses for the years ended December 31, 2014 and 2013:

	Year ended December 31,			
	2014	**2013**	**Changes**	
	(a)	**(b)**	**(a-b)**	**%**
	(millions of euros, except percentages)			

Employee benefits expenses Italian companies:				
Ordinary employee expenses and costs	2,697	2,688	9	0.3
Corporate restructuring expenses	8	19	(11)	(57.9)
Total employee benefits expenses Italy	**2,705**	**2,707**	**(2)**	**(0.1)**
Employee benefits expenses Outside Italy				
Ordinary employee expenses and costs	410	380	30	7.9
Corporate restructuring expenses	4	0	4	
Total employee benefits expenses Outside Italy	**414**	**380**	**34.0**	**8.9**
Total employee benefits expenses	**3,119**	**3,087**	**32**	**1.0**
% on Revenues	*14.5*	*13.2*		

Employee benefits expenses were 3,119 million euros in 2014 compared to 3,087 million euros in 2013, an increase of 32 million euros. The change was due to:

· a decrease of 2 million euros in employee benefits expenses in Italy, due to lower expenses for mobility pursuant to Law 223/91, totaling 11 million euros, almost entirely offset by an increase in ordinary employee expenses and costs of 9 million euros.

The increase in ordinary employee expenses and costs was due to the net effect of the following factors:

- the increase in the contractual minimums established in the TLC National Collective Labor Agreement signed on February 1, 2013;
- the recognition of the notional costs relating to the Broad-Based Share Ownership Plan and the Stock Option Plan;
- the reduction in the average workforce by 820 employees compared to 2013, of which an average of 530 units 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 exit from the scope of consolidation of the companies La7 and MTV, with a reduction of 202 units in the average headcount.

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

The Group s average salaried workforce for the periods indicated was as follows:

	Year ended December 31,			
	2014	2013	Changes	
	(a)	(b)	(a-b)	%
	(full time equivalent units, except percentages)			
Average salaried workforce Italy	47,519	48,541	(1,022)	(2.1)
Average salaried workforce Foreign	11,766	10,986	780	7.1

Total average salaried workforce(1)	**59,285**	**59,527**	**(242)**	**(0.4)**
Non-current assets held for sale (Sofora-Telecom Argentina group)	15,652	15,815	(163)	(1.0)
Total Average salaried workforce including Non-current assets held for sale (Sofora Telecom Argentina group)(1)	**74,937**	**75,342**	**(405)**	**(0.5)**

(1) Includes the average employees with temp work contracts: 9 units in 2014 (4 in Italy and 5 outside Italy). In 2013 average employees with temp work contracts were 20 units (19 in Italy and 1 outside Italy).

The Group s employees at December 31, 2014 and 2013 were as follows:

	As of December 31,			
	2014 (a)	2013 (b)	Changes (a-b)	%
	(units, except percentages)			
Employees Italy	52,882	53,155	(273)	(0.5)
Employees Foreign	13,143	12,468	675	5.4
Total Employees(1)	**66,025**	**65,623**	**402**	**0.6**
Non-current assets held for sale (Sofora Telecom Argentina group)	16,420	16,575	(155)	(0.9)
Total Employees including Non-current assets held for sale (Sofora Telecom Argentina) (1)	**82,445**	**82,198**	**247**	**0.3**

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

· **Other operating expenses**

The following table sets forth other operating expenses for the years ended December 31, 2014 and 2013.

	Year ended December 31,			
	2014 (a)	2013 (b)	Changes (a-b)	%
	(millions of euros, except percentages)			
Writedowns and expenses in connection with credit management	375	380	(5)	(1.3)
Provision charges	84	100	(16)	(16.0)
Indirect duties and taxes	118	128	(10)	(7.8)
TLC operating fees	449	482	(33)	(6.8)
Penalties, compensation and administrative sanctions	68	72	(4)	(5.6)
Association dues and fees, donations, scholarships and traineeships	18	22	(4)	(18.2)
Sundry expenses	63	134	(71)	(53.0)
Total other operating expenses	**1,175**	**1,318**	**(143)**	**(10.8)**

% on Revenues	*5.4*	*5.6*

Other operating expenses in 2014 were 1,175 million euros compared to 1,318 million euros in 2013, a decrease of 143 million euros.

This decrease was primarily due to the Domestic Business Unit (-101 million euros) and the Brazil Business Unit (-34 million euros, including a negative exchange rate effect of 51 million euros).

They included:

- write-downs and expenses in connection with credit management (375 million euros; 380 million euros in 2013) consisting of 295 million euros for the Domestic Business Unit (290 million euros in 2013) and 80 million euros for the Brazil Business Unit (84 million euros in 2013);

- provision charges (84 million euros; 100 million euros in 2013) mainly consisting of 74 million euros for the Brazil Business Unit (81 million euros in 2013) and 6 million euros for the Domestic Business Unit (17 million euros in 2013);

- TLC operating fees and charges (449 million euros; 482 million euros in 2013) consisting of 399 million euros for the Brazil Business Unit (424 million euros in 2013) and 49 million euros for the Domestic Business Unit (57 million euros in 2013);

- sundry expenses of 63 million euros; in 2013 they amounted to 134 million euros and mainly related to the Domestic Business Unit for the estimate of the costs, of 84 million euros, for the fine imposed by the Italian Antitrust Authority (AGCM) at the end of the A428 proceedings.