

TELECOM ITALIA S P A  
Form 20-F  
April 15, 2014  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 20-F**

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

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

OR

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

OR

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

Commission file number 1-13882

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

(Exact name of Registrant as specified in its charter)

Italy

(Jurisdiction of incorporation or organization)

Piazza degli Affari 2, 20123 Milan, Italy

(Address of principal executive offices)

**Piergiorgio PELUSO**

**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:**

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

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

**None**

**(Title of Class)**

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

**None**

**(Title of Class)**

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

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

Ordinary Shares 13,417,043,525

Savings Shares 6,026,120,661

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

## Edgar Filing: TELECOM ITALIA S P A - Form 20-F

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

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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

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

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

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

**Table of Contents****TABLE OF CONTENTS**

<b><u>INTRODUCTION</u></b>	1
<b><u>KEY DEFINITION</u></b>	3
<b><u>PART I</u></b>	4
<b><u>Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u></b>	4
<b><u>Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u></b>	4
<b><u>Item 3. KEY INFORMATION</u></b>	5
3.1 RISK FACTORS	5
3.2 EXCHANGE RATES	18
3.3 SELECTED FINANCIAL AND STATISTICAL INFORMATION	19
3.4 DIVIDENDS	23
<b><u>Item 4. INFORMATION ON THE TELECOM ITALIA GROUP</u></b>	25
4.1 BUSINESS	25
4.2 BUSINESS UNITS	30
4.3 REGULATION	42
4.4 DISCLOSURE PURSUANT TO SECTION 219 OF THE IRAN THREAT REDUCTION AND SYRIA HUMAN RIGHTS ACT OF 2012 (ITRSHRA)	66
4.5 GLOSSARY OF SELECTED TELECOMMUNICATIONS TERMS	68
4.6 DESCRIPTION OF PROPERTY, PLANT AND EQUIPMENT	76
<b><u>Item 4A. UNRESOLVED STAFF COMMENTS</u></b>	81
<b><u>Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u></b>	82
5.1 CRITICAL ACCOUNTING POLICIES AND ESTIMATES	82
5.2 RESULTS OF OPERATIONS FOR THE THREE YEARS ENDED DECEMBER 31, 2013	88
5.3 LIQUIDITY AND CAPITAL RESOURCES	120
5.4 RESEARCH, DEVELOPMENT AND INNOVATION	133
5.5 CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995	140
<b><u>Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u></b>	141
6.1 DIRECTORS	141
6.2 EXECUTIVE OFFICERS	147
6.3 BOARD OF AUDITORS	151
6.4 EXTERNAL AUDITORS	152
6.5 EMPLOYEES	153
6.6 COMPENSATION OF DIRECTORS, OFFICERS AND MEMBERS OF THE BOARD OF AUDITORS	155
6.7 OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT	162
<b><u>Item 7. MAJOR SHAREHOLDERS AND RELATED-PARTY TRANSACTIONS</u></b>	163
7.1 MAJOR SHAREHOLDERS	163
7.2 RELATED-PARTY TRANSACTIONS	168
<b><u>Item 8. FINANCIAL INFORMATION</u></b>	170
8.1 HISTORICAL FINANCIAL STATEMENTS	170

<u>8.2 LEGAL PROCEEDINGS</u>	171
<b><u>Item 9. LISTING</u></b>	172
<u>9.1 TRADING OF TELECOM ITALIA ORDINARY SHARES AND SAVINGS SHARES</u>	172
<u>9.2 SECURITIES TRADING IN ITALY</u>	174

**Table of Contents**

<u>9.3 CLEARANCE AND SETTLEMENT OF TELECOM ITALIA SHARES</u>	175
<b><u>Item 10. ADDITIONAL INFORMATION</u></b>	176
<u>10.1 CORPORATE GOVERNANCE</u>	176
<u>10.2 EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS</u>	191
<u>10.3 DESCRIPTION OF BYLAWS</u>	192
<u>10.4 DESCRIPTION OF CAPITAL STOCK</u>	193
<u>10.5 DESCRIPTION OF AMERICAN DEPOSITARY RECEIPTS</u>	198
<u>10.6 TAXATION</u>	206
<u>10.7 DOCUMENTS ON DISPLAY</u>	213
<b><u>Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS</u></b>	214
<b><u>Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u></b>	215
<b><u>Item 12A. DEBT SECURITIES</u></b>	215
<b><u>Item 12B. WARRANTS AND RIGHT</u></b>	215
<b><u>Item 12C. OTHER SECURITIES</u></b>	215
<b><u>Item 12D. AMERICAN DEPOSITARY SHARES</u></b>	215
<b><u>PART II</u></b>	218
<b><u>Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u></b>	218
<b><u>Item 14. MATERIAL MODIFICATION TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEED</u></b>	219
<b><u>Item 15. CONTROLS AND PROCEDURES</u></b>	220
<u>15.1. DISCLOSURE CONTROLS AND PROCEDURES</u>	220
<u>15.2. MANAGEMENT S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING</u>	220
<u>15.3. CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING</u>	221
<b><u>Item 16. [RESERVED]</u></b>	222
<b><u>Item 16A. AUDIT COMMITTEE FINANCIAL EXPERT</u></b>	222
<b><u>Item 16B. CODE OF ETHICS AND CONDUCT</u></b>	222
<b><u>Item 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u></b>	223
<b><u>Item 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u></b>	225
<b><u>Item 16E. REPURCHASES OF EQUITY SECURITIES</u></b>	225
<b><u>Item 16F. CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANT</u></b>	225
<b><u>Item 16G. CORPORATE GOVERNANCE</u></b>	226
<u>16.1 DIFFERENCES IN TELECOM ITALIA S CORPORATE GOVERNANCE AND NEW YORK STOCK EXCHANGE CORPORATE GOVERNANCE PRACTICES</u>	226
<b><u>Item 16H. MINE SAFETY DISCLOSURE</u></b>	228
<b><u>PART III</u></b>	229
<b><u>Item 17. FINANCIAL STATEMENTS</u></b>	229
<b><u>Item 18. FINANCIAL STATEMENTS</u></b>	230
<b><u>Item 19. FINANCIAL STATEMENTS AND EXHIBITS</u></b>	230

**Table of Contents**

**Introduction**

**INTRODUCTION**

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

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

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

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

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

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

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

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

## Edgar Filing: TELECOM ITALIA S P A - Form 20-F

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

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

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



**Table of Contents**

**Introduction**

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

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

**Table of Contents**

**Key Definitions**

**KEY DEFINITIONS**

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

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

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

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

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

## Edgar Filing: TELECOM ITALIA S P A - Form 20-F

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

**Table of Contents**

**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

**Table of Contents**

**Item 3. Key Information**

**Risk Factors**

**Item 3. KEY INFORMATION**

**3.1 RISK FACTORS**

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

We present below:

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

strategic risks;

operational risks;

financial risks; and

compliance risks

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

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

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

## Edgar Filing: TELECOM ITALIA S P A - Form 20-F

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

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

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

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

---

**Table of Contents**

**Item 3. Key Information**

**Risk Factors**

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

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

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

**STRATEGIC RISKS**

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

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

particularly in Italy.

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

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

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



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

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

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

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

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

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

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

## Edgar Filing: TELECOM ITALIA S P A - Form 20-F

information, please see Item 6 Directors, Senior Management and Employees 6.1 Directors .

Telco is a holding company and the sole operating company in which it has an interest is Telecom Italia. Therefore, should Telco be unable to obtain funding from its shareholders, present or future, or from other sources, its cash flows would be entirely dependent upon the dividends paid on the Telecom Italia shares for its funding needs.

**Table of Contents****Item 3. Key Information****Risk Factors**

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

**Competition Risks**

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

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

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

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

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

## Edgar Filing: TELECOM ITALIA S P A - Form 20-F

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

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

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

**Table of Contents**

**Item 3. Key Information**

**Risk Factors**

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

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

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

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

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

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

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

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

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

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

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

---

**Table of Contents**

**Item 3. Key Information**

**Risk Factors**

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

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

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

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

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

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

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

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

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

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

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

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

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



---

**Table of Contents**

**Item 3. Key Information**

**Risk Factors**

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

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

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

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

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

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

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

- the authority to impose conditions and possibly to oppose the purchase by non-EU citizens, of controlling shareholdings in companies which hold strategic assets identified in the regulations. For non-EU citizens, any right to purchase will be permitted solely on condition of reciprocity with the purchaser's home jurisdiction; and
-

## Edgar Filing: TELECOM ITALIA S P A - Form 20-F

a power of veto (including through prescriptions or conditions) on any resolution, act or transaction which has the effect of modifying the ownership, control or availability of strategic assets or changing their use, including resolutions of merger, demerger, transfer of registered office abroad, transfer of the company or business units which contain the strategic assets or their assignment by way of guarantee, amendment to company s bylaws purpose, company dissolution or amendment in bylaws provisions relating to limitations on voting rights.

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

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

---

**Table of Contents**

**Item 3. Key Information**

**Risk Factors**

**OPERATIONAL RISKS**

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

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

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

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

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

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

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

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

---

**Table of Contents**

**Item 3. Key Information**

**Risk Factors**

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

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

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

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

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

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

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

**FINANCIAL RISKS**

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

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

---

**Table of Contents**

**Item 3. Key Information**

**Risk Factors**

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

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

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

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

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

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

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

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

## Edgar Filing: TELECOM ITALIA S P A - Form 20-F

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

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

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



---

**Table of Contents**

**Item 3. Key Information**

**Risk Factors**

**COMPLIANCE RISKS**

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

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

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

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

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

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

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

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

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

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

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

## **Table of Contents**

### **Item 3. Key Information**

### **Risk Factors**

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

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

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

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

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

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

*We operate under authorizations granted by government authorities.*

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

## Edgar Filing: TELECOM ITALIA S P A - Form 20-F

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

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

**Table of Contents**

**Item 3. Key Information**

**Risk Factors**

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

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

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

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

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

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

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

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

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

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

  

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