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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.

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.

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.
- 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;

- 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.

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 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. 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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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 assets held for sale) (average number)	61,553	61,553	59,285	59,527	62,758	63,137
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

	2015	2015	2014	2013	2012	2011
		As of December 31,				
	(millions of U.S. dollars, except employees)(1)	(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	2014	2013	2012	2011
	As of December 31, (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.$.

(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”.

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”.