TELECOM ITALIA S P A
Form 20-F
April 16, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

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

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended: December 31, 2012

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.

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

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

Title of each class	**Name of each exchange on which registered**
American Depositary Shares, each representing 10 Ordinary Shares of 0.55 euros par value each (the **Ordinary Share ADSs**)	The New York Stock Exchange
Ordinary Shares of 0.55 euros par value each (the **Ordinary Shares**)	The New York Stock Exchange*
American Depositary Shares, each representing 10 Savings Shares of 0.55 euros par value each (the **Savings Share ADSs**)	The New York Stock Exchange
Savings Shares of 0.55 euros par value each (the **Savings Shares**)	The New York Stock Exchange*

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

None

(Title of Class)

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

None

(Title of Class)

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

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

Ordinary Shares 13,254,622,987

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 x No ¨

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

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

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

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

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

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

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

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

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

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

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

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INTRODUCTION

Telecom Italia S.p.A. is incorporated as a joint stock company under the laws of Italy. As used in this Annual Report, unless the context otherwise requires, the term Company means Telecom Italia S.p.A. the operating company for fixed and mobile telecommunications services in Italy and the holding company for various businesses, principally telecommunications, and the terms we , us and our refers to the Company, and, as applicable, the Company and 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, 2012 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 othe terminology, or by the forward-looking nature of discussions of strategy, plans or intentions.

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

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

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

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

- our ability to successfully implement our strategy over the 2013-2015 period;

- our ability to successfully achieve our debt reduction and other targets;

- the increasing competition from global and local OTT (Over The Top) players (operators offering contents and services on the internet without owning its own proprietary telecommunications network infrastructure);

- the continuing impact of increased competition in our markets, including competition from established domestic competitors and global and regional alliances formed by other telecommunications operators in our core Italian domestic fixed-line and wireless markets and our other principal markets;

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- the continuing effects of the global economic crisis in the principal markets in which we operate, including, in particular, our core Italian market;
- our ability to introduce new services to stimulate increased usage of our fixed and wireless networks to offset declines in the traditional voice business mainly due to the continuing impact of regulatory required price reductions, market share loss and pricing pressures generally;
- our ability to successfully implement our internet and broadband strategy;
- the impact of regulatory decisions and changes in the regulatory environment in Italy and other countries in which we operate, including recent changes to allowable charges for data and voice roaming;
- the impact of economic development generally on our international business and on our foreign investments and capital expenditures;
- as our services are technology-intensive, our ability to develop new technologies in order to avoid our services becoming non-competitive;
- the impact of political developments in Italy and other countries in which we operate;
- the impact of fluctuations in currency exchange and interest rates;
- our ability to build up our business in adjacent markets and in international markets (particularly in Brazil and Argentina), 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 (such as those in Brazil and Argentina);
- the amount and timing of any future impairment charges for our authorizations, goodwill or other assets; and
- the outcome of litigation, disputes and investigations in which we are involved or may become involved.

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.

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KEY DEFINITIONS

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

EU	means the European Union.
IASB	means the International Accounting Standards Board.
IFRS	means International Financial Reporting Standards issued by the IASB. IFRS also include all effective International Accounting Standards (**IAS**) and all Interpretations issued by the IFRS Interpretations committee (formerly called International Financial Reporting Interpretations Committee IFRIC), comprising those previously issued by the Standing Interpretations Committee (**SIC**).
Ordinary Shares	means the Ordinary Shares, 0.55 euros par value each, of Telecom Italia.
Parent, Telecom Italia and Company	means Telecom Italia S.p.A..
Savings Shares	means the Savings Shares, 0.55 euros par value each, of Telecom Italia.
Telecom Italia Group and Group	means the Company and its consolidated subsidiaries.

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

In addition, we use the measure Accesses when considering certain statistical and other data for our domestic Italian business. Access refers to a connection to any of the telecommunications services offered by the Group in Italy. 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);

- 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.

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

Item 2. Offer Statistics and Expected Timetable

PART I

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

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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.

Risks Related To The Telecom Italia Group

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 8, 2013, we presented our updated 2013 2015 business and strategic plan (the **2013-2015 Plan**). The 2013-2015 Plan sets out our primary strategic objective as well as a number of strategic priorities to achieve this objective over the next three years:

- continued deleveraging to reduce our net financial debt, through:
  - focus on strategic markets Italy, Brazil and Argentina with the goal of stabilizing consolidated revenues through the contribution from Latin America;
  - technological developments in fixed-line telephony and mobile telephony in Italy, mobile telephony in Brazil and network capacity in Argentina to take advantage of growing demand for data;
  - extension and acceleration of our cost reduction policy in order to contribute to the financing of the above mentioned technological developments;
  - sustainable shareholder remuneration. We announced our intention to revise our dividend policy in order to bring it into line with the continuing policy of deleveraging the Group.

Our ability to implement and achieve these strategic objective and priorities may be influenced by certain factors, including factors outside of our control, such as:

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

- increasing number of competitors in our principal markets which could cause us to lose further market share;

- increasing and stronger market competition in our principal markets with a consequent decline in the prices of services;

- increasing competition from global and local OTT (Over The Top) players (operators offering content and services on the internet without owning its own proprietary telecommunications network infrastructure);

- the success of disruptive new technologies which could cause significant reductions in revenues from fixed and mobile telephony;

- the continuing effects of the weak global economy, in particular continuing weak gross domestic product (GDP) growth in Italy and in the other markets in which we operate, including the effects on our customers and their ability to purchase or continue to purchase our services;

- the effect of exchange rate fluctuations, particularly in Brazil and Argentina, on our operating revenues, margins and financial management;

- our ability to strengthen our competitive position in Italy and in international markets, particularly in Brazil and Argentina;

- 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 manage and reduce costs;

- our ability to refinance existing indebtedness when due in the capital and bank markets which remain volatile and subject to disruption;

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- 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 global economic crisis and the continuing weakness of the Italian economy over the past several years has adversely affected our business and continuing global economic weakness and volatility in the Eurozone could further adversely affect our business and therefore have a negative impact on our operating results and financial condition.

Since the modest recovery in GDP in Italy in 2010 and 2011 following sharp declines that were triggered by the global financial crisis, GDP declined in 2012, with a negative growth of -2.4%. The continuing weakness of the Italian economy is attributable in part to fiscal tightening (a mix of spending cuts and tax increases), aimed at reinforcing the multi-year budget deficit reduction plan and balancing the structural deficit by 2013; this process is expected to continue under the Fiscal Compact rules. This fiscal policy should result in structural adjustments and sustainability in the long term, but it has contributed to the weakness in domestic demand experienced by the Italian market during 2012, which is expected to continue for the coming years.

Weakness in the Italian economy, our core market and, in particular, low or negative GDP growth and increasing levels of unemployment, has had and, if such economic weakness persists, may continue to have a direct negative impact on the spending patterns of customers, both in terms of the products and services they subscribe for and the extent to which they use such products and services. During periods of deteriorating economic conditions and high unemployment, retail customers generally have less discretionary income with which to purchase products and services. Our consumer segments are most directly impacted by a reduction in discretionary income, and as a result of continued economic weakness in Italy, it may be more difficult for us to attract new customers, or retain existing customers, and our revenues and Average Revenue Per User (**ARPU**), particularly in consumer segments, may continue to decline.

Additionally, our business and corporate customers are also affected by general economic conditions and consumer spending, and therefore an extended recession, or public perception of declining economic conditions, is and could continue to substantially decrease telecommunications and IT expenditures among our business and corporate customers, which would in turn adversely affect our revenues in our business and corporate segments. In addition to the economic weakness, the competitive environment is expected to continue to place downward pressure in telecommunications service prices leading to a negative impact on our domestic revenues.

The continuing global economic weakness could also adversely affect our businesses in our principal international markets of Brazil and Argentina which may also have a negative impact on our operating results and financial condition.

If we fail to successfully implement our plans to improve efficiency and optimize expenditures, our results of operations and financial condition could be adversely affected.

[1] The Fiscal Compact is an intergovernmental treaty introduced as a new and stricter version of the previous Stability and Growth Pact. The treaty entered into force on January 1, 2013 for those Member States of the European Union which had completed ratification prior to this date. Under the Fiscal Compact, ratifying Member States are required to have enacted laws requiring their national budgets to be in balance or in surplus within the treaty s definition within one year after the Fiscal Compact enters into force for them. The laws must also provide for a self-correcting mechanism to prevent their breach. The treaty defines a balanced budget as a general budget deficit less than 3.0 per cent. of the GDP, and a structural deficit of less than 1.0 per cent. of GDP if the debt level is below 60 per cent. or else it shall be below 0.5 per cent. of GDP.

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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 40,181 million euros at December 31, 2012 compared with 41,951 million euros at December 31, 2011. Our consolidated net financial debt was 29,053 million euros at December 31, 2012 compared with 30,819 million euros at December 31, 2011. Our high leverage has been a factor in our strategic decisions 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.

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, 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.

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, deterioration in general economic conditions at the sovereign level as a result of the continuing effects of the economic and financial crisis 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.

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 it is 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.

Operational risks could adversely affect our reputation and our profitability.

We face numerous operational risks inherent in our business, including those resulting from inadequate internal and external processes, fraud, employee errors or misconduct, failure to comply with applicable laws, failure to document transactions properly, loss or disclosure of critical or commercially sensitive data or personally identifiable information or systems failures. These events can result in direct or indirect losses and adverse legal and regulatory proceedings, and harm our reputation and operational effectiveness.

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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.

Risks associated with Telecom Italia s ownership chain.

Telco S.p.A. (**Telco**) a company in which interests are held by the 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.

On February 29, 2012, Telefónica, Intesa Sanpaolo, Mediobanca, and Generali entered into a renewal agreement (the **2012 Shareholders Agreement**) in which they agreed to enter into a new shareholders agreement for a period of three years on the same terms and conditions set out in the original shareholders agreement dated as of April 28, 2007, as subsequently amended and supplemented. Please see Item 7 Major Shareholders and Related-Party Transactions 7.1 Major Shareholders 7.1.1 Shareholders Agreements .

The 2012 Shareholders Agreement sets out the criteria for drawing up the list of candidates for the appointment of the Board of Directors of Telecom Italia:

- Telefónica, insofar as it holds at least 30 per cent. of Telco s share capital, will be entitled to designate two candidates; and
- the other shareholders of Telco, as they hold the absolute majority of its share capital, have the right to designate the other members on the list, of which three candidates would be appointed unanimously and the others on a proportional basis.

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 list proposed by Telco, while the remaining three Directors were elected from a list 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.

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 and Argentina; nevertheless, the 2012 Shareholders Agreement provides that the Telecom Italia Group and the Telefónica Group will be managed autonomously and independently. The 2012 Shareholders Agreement provides, among other things, that the directors designated by Telefónica in Telco and Telecom Italia shall be directed by Telefónica to neither participate nor vote at Board of Directors meetings which discuss matters relating to companies of the Telecom Italia Group in countries where the Telefónica Group and the Telecom Italia Group compete. Specific additional matters have been agreed with respect to the Telecom Italia Group s operations 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 the 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 . See also

Note Contingent liabilities, other information, commitments and guarantees of the Notes to the Consolidated Financial Statements included elsewhere herein.

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.

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The Italian State, through the Treasury, is in a position to exert certain powers with respect to Telecom Italia.

Although no shareholder is in a position to prevent a takeover of Telecom Italia, the Italian State, through the Treasury, is in a position to exert certain powers with respect to Telecom Italia through the exercise of the special powers included in Telecom Italia s bylaws pursuant to compulsory legal provisions.

On March 26, 2009, the European Court of Justice (the **ECJ**) declared that Italy, through the special powers, failed to comply with its obligations under the EC Treaty. According to the ECJ s ruling, the alleged infringement of the EC Treaty arose due to the applicable Italian legal provisions not making sufficiently clear the conditions for the exercise of the Treasury s special powers, so that investors would not be in a position to know in what situations the powers will be used. Through a decree passed on May 20, 2010, the Italian Government amended the criteria under which it may exercise such special powers although the ruling by the ECJ did not have any immediate or direct impact on Telecom Italia s bylaws.

In May 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. The regulations provide that, at the moment the Prime Ministerial implementing decrees come into force with respect to *the networks and systems, goods and relationships of strategic importance for the communications* [ ] *sector* , the clauses in the Company s bylaws on special powers will cease to have effect and will be replaced by these regulations. In brief, the new regulations will provide:

- the Italian Government with the authority to impose conditions and possibly to oppose the purchase, for any reason whatever, 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;

- a power of veto granted to the Italian Government (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 Treasury .

System failures could result in reduced user traffic and reduced revenue and could harm our reputation.

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 and harm our 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.

Risks Related to The Telecommunications Industry and Financial Markets

The value of our operations and investments may be adversely affected by political and economic developments in Italy or other countries. Continuing global economic weakness could reduce purchases of our products and services and adversely affect our results of operations, cash flows and financial condition.

Our business is dependent to a large degree on general economic conditions in Italy and in our other principal markets, Brazil and Argentina, 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 the Italian market has been experiencing in recent years have weighed, and may continue to weigh heavily, on the development prospects of our domestic 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.

We may also 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 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.

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In particular, in recent years the Argentine Government has taken several actions to re-nationalize concessions and public service companies that were privatized in the 1990 s, such as Aguas Argentinas S.A. and Aerolíneas Argentinas S.A. Additionally, in May 2012, Law No. 26,741, established the expropriation of the 51% of the capital stock of YPF S.A. and the 51% of the capital stock of YPF GAS S.A., which were directly or indirectly owned by Repsol YPF S.A. (**Repsol**). To date, the Argentine Government has not compensated any of the expropriated investors. These actions had a negative effect on the market. We cannot provide any assurance that similar actions of the Argentine Government will not be extended to other private companies or other sectors in the near future.

In the past, the Argentine Government has imposed a number of monetary and currency exchange control measures, including temporary restrictions on the free availability of funds deposited with banks and restrictions or limitations on the access to foreign exchange markets and transfers of funds abroad, including for purposes of paying principal and interest on debt, trade liabilities to foreign suppliers and dividend payments to foreign shareholders. Between the end of 2001 and 2002, the Argentine Government implemented a unified exchange market (Mercado Único y Libre de Cambios **MULC**) with significant regulations and restrictions for the purchase and transfer of foreign currency.

Since late 2011 the Argentine Government implemented a series of measures aimed to increase controls on the foreign trade and capital flows. To that effect, certain measures were implemented to control and limit the purchase of foreign currency, such as the prior approval of the Administración Federal de Ingresos Públicos (Argentine Federal Tax Authority **AFIP**) for any purchase of foreign currency made by private companies and individuals for saving purposes. In addition, the Banco Central de la Republica Argentina (**BCRA**) expanded the controls and measures to make payments abroad accessing the local foreign exchange market, regarding trade payables and financial debt, and also established demanding procedures that must be met to pay certain trade payables with related parties. Although there are no regulations that prohibit making dividend payment to foreign shareholders, in practice authorities have substantially limited any purchase of foreign currency to pay dividends since these exchange controls were implemented. There can be no assurance that the BCRA or other government agencies will not increase controls and restrictions for making payments to foreign creditors, dividend payments to foreign shareholders, which would limit our ability to comply in a timely manner with payments related to our liabilities to foreign creditors or non-resident shareholders.

Pursuing the same objective, in October 2011 Decree No. 1,722 eliminated an exception for oil, gas and mining companies, and thus requires these companies to liquidate all their export receipts in the local foreign exchange market. Moreover, in October 2011 the National Insurance Bureau issued Resolution No. 36,162 imposing the obligation for insurance companies to repatriate all investments and liquid assets allocated outside Argentina. We cannot ensure that similar measures will not be implemented for other private companies or other sectors in the future.

In addition, starting in February 2012, all import operations of goods and services must be filed and approved in advance by AFIP. Such procedure could negatively affect the provision of imported products and services within our Argentinean supply chain.

Since 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 and television broadcasting businesses, 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 in Italy in 2012.

In compliance with the regulatory framework the Italian regulator responsible for the regulation of the telecommunications, radio and television broadcasting sectors (**AGCom**) has to identify operators with significant market power (**SMP**) based on market analyses in relevant retail and wholesale markets, identified

in an EC Recommendation. The framework established criteria and procedures for identifying remedies applicable to operators with SMP in various markets. An operator designated by a national authority as having SMP will be subject to a set of obligations necessary to safeguard competition. AGCom s regulatory approach is mainly focused on the regulation of our wholesale business, while the regulation of retail markets is being gradually withdrawn.

Regulatory uncertainty and regulatory changes imposed on us can have an adverse effect on our revenues as well as making it difficult to make important decisions on investments. In September 2012 AGCom launched the third round of market analysis which should have set wholesale access fees for LLU, WLR and Bitstream services on the copper and fiber-based networks for the 2013-2015 period. However, AGCom decided to set the fees for the above mentioned copper-based access services only for the year 2013 while postponing the decision regarding the fees for the 2014-2016 period. This approach has created uncertainty because the 2013 fees have been fixed without a market analysis and for the following 2014-2016 period only the range of the final year (2016) access charges has been submitted for public consultation.

In addition the Council of State (*Consiglio di Stato)* published two judgments on both fixed and mobile termination rates: the first judgment upheld the complaint filed by Fastweb (one of Telecom Italia s main competitors in the fixed line market) and revoked the symmetry of 2012 Time Division Multiplexing (TDM) fixed termination tariffs among operators; the second one upheld the complaint filed by H3G (the fourth mobile operator in Italy) and revoked the decrease on termination fees on the H3G network in the period November 2008-June 2009. As a result, Telecom Italia s costs for fixed and/or mobile termination services could be expected to increase.

The regulatory framework of the Next Generation Access Network (NGAN) is not yet completely defined. Proceedings to establish NGAN regulation with a view to introducing: 1) a cost model for the pricing of passive and active wholesale services and the definition of the so-called NGAN competitive areas where the price of fiber-based bitstream and virtual access services are not subject to the cost orientation obligation; 2) the perspective enforcement of symmetric obligations on all operators, for the access to fiber vertical wiring and to building connection segments; and 3) potential amendments to the regulation of the copper sub-loop unbundling service in light of the possible introduction of the vectoring technology on Fiber to the Cabinet -Very High- Speed Digital Subscriber Line (FTTCab-VDSL) accesses. As Next Generation Access will require significant investments, the regulatory approach regarding the obligations which could be imposed on us could have an adverse effect on our cash flows and financial condition potentially hampering future investments.

On April 4, 2012, the Italian Parliament approved a law mandating AGCom to impose on us the obligation to separately offer our ancillary services (activation and maintenance) for the LLU lines so that they might be provided also by third parties. However, in July 2012, the EU Commission formally opened an infringement procedure against Italy, in relation to the possible breach of the EU regulatory framework stating the principle of independence and autonomy of national authorities by the above mentioned law. From a technical point of view granting the possibility for third parties to manage the maintenance of the incumbent s network may cause serious negative effects on the quality of the service, on the security and integrity of the network as well as on the efficient deployment of the infrastructure to the detriment of end-users. In February 2013 the EU Commission issued a reasoned opinion concluding that the Italian Government has infringed the European legislation. As a consequence, the Italian Government was required to change the law within two months and therefore the law aimed at the transposition in the Italian framework of the EU rules (Legge Comunitaria 2013), preliminarily discussed in March 2013, includes a specific provision aimed at withdrawing the obligation for AGCom to impose on Telecom Italia the disaggregated offer of its LLU ancillary services. The formal approval of this law by the Italian Parliament will end the infringement procedure by the European Commission.

Our Brazilian and Argentinean Business Units are subject to extensive regulation in their respective countries. 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 these countries as well as taking decisions that can have an adverse effect on our results, including setting, and in particular, reducing the rates we can charge or, as is the case in Argentina, freezing, since 2002, the rates we can charge for basic fixed line telephony services. As a result, the decisions of regulators or the implementation of new regulations in Brazil and Argentina, 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.

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For example, in 2012 the Argentine Government cancelled the auction for the 850 MHz and 1900 MHz spectrum bands that were returned by Telefónica Móviles Argentina S.A. These spectrum bands were returned due to the spectrum cap restrictions of 50 MHz.

In December 2012 the Argentine President announced the launching of a new state owned mobile company branded libre.ar . The government s dual-role, as both regulator and competitor, opens several risks to our Argentine mobile business including possible adverse changes in the regulatory framework and the current market rules. The lack of allocation of additional frequency bands is negatively affecting the quality of service of all the Argentinean mobile operators. It could also adversely affect our mobile competitive position and may require higher capital expenditures to continue providing high quality mobile services to our customers.

In Brazil we operate under authorizations granted by the Brazilian Government. 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 4.3. Regulation .

We operate under authorizations granted by government authorities.

Many of our activities require authorizations from governmental authorities. 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.

Many of these authorizations are revocable for public interest reasons. The rules of some of the regulatory authorities with jurisdiction over our operating companies require us to meet specified network build-out requirements and schedules. In particular, our existing authorizations typically require us to satisfy certain obligations, including minimum specified quality, 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 (such as the assignment or the right of use of spectrum) 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 at all, or if the authorizations includes onerous conditions, it could have a material adverse effect on our business, financial condition and results of operations.

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The Pesification and freezing of rates may continue to adversely affect Telecom Argentina s revenues.

In accordance with the Argentine Public Emergency Law, in January 2002, rates for Basic telephone services and long distance services were converted to Argentine pesos and fixed at an exchange rate of P$1.00=US$1.00 (the Pesification). The rates that Telecom Argentina may charge in the future will be determined by negotiations between Telecom Argentina and the Argentine Government.

In March 2006, Telecom Argentina executed a Letter of Understanding (the **2006 Letter of Understanding**) with the Argentine Government pursuant to which Telecom Argentina will be permitted to raise certain rates and incorporate certain modifications to the current regulatory framework.

The 2006 Letter of Understanding contemplated the signing and effectiveness of the Minutes of Agreement of the Renegotiation upon the fulfillment of certain necessary steps, which as of the date of this Annual Report have yet to occur. Although Telecom Argentina expects such fulfillment to occur, we cannot guarantee if or when this will happen. We are unable to predict the outcome of the negotiations with regard to further rate increases and the rate scheme which will be applied in the future. Moreover, Telecom Argentina is unable to predict whether the Argentine Government will impose additional conditions or requirements, and if these conditions or requirements are imposed, whether Telecom Argentina will be able to satisfy them.

In addition, in early 2013 the Argentine Government adopted certain initiatives in order to reduce current inflation rates, including price agreements with certain non-regulated sectors such as supermarkets and retailers. In this context and considering the increasing demands of service quality improvements that all Argentine mobile operators are facing, our mobile subsidiary Personal decided not to implement the rate increases announced in the fourth quarter of 2012 (to be effective as from March 2013) for postpaid and cuentas claras customers. Although mobile telephony is a non-rate regulated industry, we cannot predict whether current or new factors including governmental initiatives in order to reduce inflation rates would negatively impact Personal s ability to apply rate increases, thus negatively affecting the profit margins and the level of requested funds for capital expenditures to maintain or increase the quality of the service.

Rate restrictions for regulated services of Telecom Argentina may continue for a number of years and may continue affecting revenues from fixed line and other services. In a high inflation environment this may continue to significantly affect Telecom Argentina s financial results.

Strong competition in Italy or other countries 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 operators who have been present in the Italian market for some time and direct competition with our fixed-line and mobile telephony businesses and for broadband services.

As of the date of this Annual Report, there are a number of significant competitors offering fixed-line and broadband services and three operators (in addition to us) offering mobile services in the Italian domestic market. In addition, some virtual mobile operators have been operating in the Italian mobile market since 2007 as a result of commercial agreements reached with operators of mobile networks, some of which originated from fixed line operators.

Moreover, convergence enables 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.

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Competition in our principal lines of business has led, and could lead, to:

- price and margin erosion for our products and services;
- a loss of market share in our core markets;
- loss of existing or prospective customers and greater difficulty in retaining existing customers;
- 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
- difficulties in reducing debt and funding strategic and technological investments if we cannot generate sufficient profits and cash flow.

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.

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 international markets of Brazil and Argentina, 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 has been increasing.

All mobile network operators, including ourselves, are currently competing with OTT application providers who leverage on existing infrastructures and who generally do not operate capital-intensive business models associated with traditional mobile network operators like us. OTT application service providers have recently become more sophisticated competitors, and technological developments have led to a significant improvement in the quality of service, in particular speech quality, delivered via data communications applications such as OTT. In addition, players with strong brand capability and financial strengths, such as Apple, Google and Microsoft, have turned their attention to the provision of OTT application services. 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.

Our business and our revenues may be negatively affected if we are unable to continue the introduction of new services, stimulating increased usage of our fixed and wireless networks.

The maturity of telecommunications markets (particularly in our core Italian market) and the rapidly changing competitive landscape (for example, the rise of global platform/networks of organizations (an ecosystem) delivering a specific product or service through both competition and cooperation) have resulted in a continuous erosion in traditional service revenues for telecommunications operators.

In this context, our strategy has led to integration of our core offering portfolio with new services outside traditional telecommunications domains (eg. Cloud Services, Digital Media, M2M services), which are able to generate new revenue streams and at the same time stimulate increased usage of our fixed and wireless networks. A deep knowledge of customers needs and preferences, the ability to respond rapidly to their changes and a thorough understanding of the specialized needs of certain industries are particularly important for exploiting such opportunities.

Failing to exploit these business opportunities and to identify an appropriate role in the relative ecosystems may have a material adverse effect on our revenue streams.

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.

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;

- 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. The main mobile competitors in Italy, including us, suffered higher levels of churn in 2012 than we had experienced in recent years. Such a high level of churn is indicative of the intense competition in this market. Furthermore, during the first months of 2013 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.

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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.

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.

Fluctuations in currency exchange and interest rates may adversely affect Telecom Italia Group s 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.

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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 and Argentine Peso) may adversely affect our consolidated results. In particular, with respect to Argentina, we currently utilize for all purposes the official exchange rate of the Argentine Peso because it is the exchange rate that Telecom Argentina accesses for making payment to foreign creditors and for collections from foreign operators. The increasing restrictions in the exchange rates market increased the gap between the official Peso exchange rate and the implicit exchange rate, reached through the valuation of securities trading in the local market in pesos and the same ones trading in an external market in another currency. Given the economic and political conditions in Argentina, we cannot predict whether, and to what extent, the value of the peso may depreciate against the U.S. dollar, the Euro or other foreign currencies, in such a form that it will capture partially or totally the current gap between the official exchange rate and the implicit exchange rate. 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, 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.

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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.$ 1.3186, 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, 2012.

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 2008 to 2012 and for the beginning of 2013 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
2008	1.6010	1.2446	1.4725	1.3919
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 (through April 5, 2013)	1.3692	1.2782	1.3173	1.3027

Monthly Rates	High	Low	Average(1)	At Period end
October 2012	1.3133	1.2876	1.2974	1.2958
November 2012	1.3010	1.2715	1.2837	1.3010
December 2012	1.3260	1.2930	1.3119	1.3186
January 2013	1.3584	1.3047	1.3304	1.3584
February 2013	1.3692	1.3054	1.3347	1.3079
March 2013	1.3098	1.2782	1.2953	1.2816
April 2013 (through April 5, 2013)	1.3027	1.2836	1.2884	1.3027

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

The Ordinary Shares and 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 .

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3.3 SELECTED FINANCIAL AND STATISTICAL INFORMATION

The selected financial data set forth below is consolidated financial data of the Telecom Italia Group as of and for each of the years ended December 31, 2012, 2011, 2010, 2009 and 2008, 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, with respect to 2012, 2011 and 2010, by the independent auditor PricewaterhouseCoopers S.p.A., which replaced Reconta Ernst & Young S.p.A., as part of the normal required rotation of auditors. 2009 and 2008 were audited by the independent auditor Reconta Ernst & Young S.p.A.

In 2012, the Group applied the accounting policies on a basis consistent with those of the previous years, except for:

- the early adoption, starting from the first half of 2012, of the revised version of IAS 19 (Employee Benefits), whose effects are described in Note Accounting Policies of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report. The early adoption of such amendments resulted in the restatement of the 2011 and 2010 separate consolidated income statements and consolidated statements of comprehensive income;

- the new standards and interpretations adopted by the Group since January 1, 2012 (IAS 12 (Income Taxes) and IFRS 7 (Disclosures Transfers of Financial Assets)), that did not have any effect on the consolidated financial statements at December 31, 2012.

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

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

	Year ended December 31						
	2012(*)	2012(*)	2011(*) (Restated)	2010(*) (Restated)	2010	2009	2008
	(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	**38,903**	**29,503**	**29,957**	**27,571**	**27,571**	**26,894**	**28,746**
Operating profit (loss)	**2,540**	**1,926**	**(680)**	**5,858**	**5,818**	**5,493**	**5,437**
Profit (loss) before tax from continuing operations	**(58)**	**(44)**	**(2,743)**	**4,128**	**4,132**	**3,339**	**2,894**
Profit (loss) from continuing operations	**(1,686)**	**(1,279)**	**(4,353)**	**3,579**	**3,582**	**2,218**	**2,217**
Profit (loss) from Discontinued operations/Non-current assets held for sale	3	2	(13)	(7)	(7)	(622)	(39)
Profit (loss) for the year	**(1,684)**	**(1,277)**	**(4,366)**	**3,572**	**3,575**	**1,596**	**2,178**
Profit (loss) for the year attributable to owners of the Parent(2)	*(2,145)*	*(1,627)*	*(4,811)*	*3,118*	*3,121*	*1,581*	*2,177*
Capital Expenditures	**6,851**	**5,196**	**6,095**	**4,583**	**4,583**	**4,543**	**5,040**
Financial Ratios:							
Operating profit (loss)/Revenues (ROS)(%)	6.5%	6.5%		21.2%	21.1%	20.4%	18.9%
Ratio of earnings to fixed charges(3)	0.98	0.98	(0.29)	2.84	2.84	2.51	2.21
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)	78,564	78,564	78,369	70,150	70,150	69,964	73,508
Employees relating to the consolidated companies considered as Discontinued operations/Non current assets held for sale (average number)						2,168	3,277

Basic and Diluted earnings per Share (EPS)(4):							
Ordinary Share	**(0.11)**	**(0.08)**	**(0.25)**	**0.16**	**0.16**	**0.08**	**0.11**
Savings Share	**(0.11)**	**(0.08)**	**(0.25)**	**0.17**	**0.17**	**0.09**	**0.12**
Of which:							
From continuing operations:							
Ordinary Share	*(0.11)*	*(0.08)*	*(0.25)*	*0.16*	*0.16*	*0.11*	*0.11*
Savings Share	*(0.11)*	*(0.08)*	*(0.25)*	*0.17*	*0.17*	*0.12*	*0.12*
From Discontinued operations/Non-current assets held for sale:							
Ordinary Share						*(0.03)*	
Savings Share						*(0.03)*	
Dividends:							
per Ordinary Share(5)	0.026	0.020	0.043	0.058	0.058	0.050	0.050
per Saving Share(5)	0.041	0.031	0.054	0.069	0.069	0.061	0.061

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

	2012 (millions of U.S. dollars, except employees)(1)	As of December 31, 2012	2011	2010	2009	2008
		(millions of euros, except employees)				
Consolidated Statement of Financial Position Data:						
Total assets	**102,264**	**77,555**	**83,886**	**89,040**	**86,267**	**86,223**
Equity:						
Equity attributable to owners of the Parent	25,552	19,378	22,790	28,819	25,952	25,598
Non-controlling interests	4,792	3,634	3,904	3,736	1,168	730
Total Equity	**30,344**	**23,012**	**26,694**	**32,555**	**27,120**	**26,328**
Total Liabilities	**71,920**	**54,543**	**57,192**	**56,485**	**59,147**	**59,895**
Total equity and liabilities	**102,264**	**77,555**	**83,886**	**89,040**	**86,267**	**86,223**
Share capital(6)	**13,982**	**10,604**	**10,604**	**10,600**	**10,585**	**10,591**
Net financial debt(7)	**38,309**	**29,053**	**30,819**	**32,087**	**34,747**	**34,039**
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)	83,184	83,184	84,154	84,200	71,384	75,320
Employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale (number at year-end)					2,205	2,505

	As of December 31, 2012	2011	2010	2009	2008
			(thousands)		
Statistical Data:					
Domestic (Italy) Business Unit					
Physical accesses(8)	21,153	21,712	22,122	22,256	22,289
Of which physical accesses (retail)	*13,978*	*14,652*	*15,351*	*16,097*	*17,352*
Broadband accesses	8,967	9,089	9,058	8,741	8,134
Of which retail broadband accesses	*7,020*	*7,125*	*7,175*	*7,000*	*6,754*
Mobile lines	32,159	32,227	31,018	30,856	34,797
Brazil Business Unit					
Mobile lines	70,362	64,070	51,015	41,102	36,402
Argentina Business Unit					
Fixed-line network connections	4,128	4,141	4,107	4,060	4,010
Broadband accesses	1,629	1,550	1,380	1,214	1,032
Mobile lines	21,276	20,342	18,212	16,281	14,390

(*) Starting from 2012, the Telecom Italia Group has early adopted and retrospectively applied revised IAS 19 (Employee Benefits); therefore, the comparative figures for 2011 and 2010 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 certain reclassifications under Equity. Further details and the effects on the years ended December 31, 2011 and 2010 are provided in the Note Accounting Policies of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report. 2009 and 2008 data has not been restated for the adoption of IAS 19 as the company considered the impact immaterial.

(1) For the convenience of the reader, Euro amounts for 2012 have been converted into U.S. dollars using the Euro/Dollar Exchange Rate in effect on December 31, 2012, of 1.00 =1.3186 U.S.$.

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

(3) Due to the loss in 2012 and in 2011, the ratio coverage was less than 1:1. The company would have needed to generate additional earnings of 38 million euros in 2012 and 2,704 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; and

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.

(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, 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 the par value of shares above dividends paid on the Ordinary Shares.

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

Ordinary Shares was 13,277,621,082 for the year ended December 31, 2012, was 13,264,375,078 for the year ended December 31, 2011, 13,239,883,276 for the year ended December 31, 2010, 13,220,792,908 for the year ended December 31, 2009 and 13,246,643,947 for the year

ended December 31, 2008;

Savings Shares was 6,026,120,661 for the years ended December 31, 2012, 2011, 2010, 2009 and 2008.

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 April 17, 2013, Telecom Italia s dividend coupons for the year ended December 31, 2012, will be clipped on April 22, 2013, and will be payable from April 25, 2013.

(6) Share capital represents share capital issued net of the par value of treasury 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, 2012 5.2.3 Non-GAAP Financial Measures .

(8) Physical accesses include Broadband accesses.

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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. As part of our 2013-2015 Plan, we announced our intention to reduce our annual dividend beginning in 2012 in order to bring it into line with our strategic priority of continuing to deleverage and reduce our net financial debt. See Item 4 Information on the Telecom Italia Group 4.1.7 Updated Strategy .

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.

	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)
2008	0.0500	0.0652	667.16	0.0610	0.0796	367.59
2009	0.0500	0.0619	667.16	0.0610	0.0755	367.59
2010	0.0580	0.0846	775.48	0.0690	0.1006	415.80
2011	0.0430	0.0563	575.30	0.0540	0.0707	325.41
2012(2)	0.0200	0.0261	267.59	0.0310	0.0404	186.81

(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, 2012, Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on April 5, 2013.

(2) Subject to approval at the Annual Shareholders Meeting to be held on April 17, 2013. Pursuant to Italian Stock Exchange rules, dividends on the Ordinary Shares and the Savings Shares are payable from the fourth trading day after the third Friday of each month, and in any case, at least four business days after the Shareholders Annual Meeting approving the dividends. Telecom Italia s dividend coupons for the year ended December 31, 2012, will be clipped on April 22, 2013, and will be payable from April 25, 2013.

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.

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Item 3. Key Information **Dividends**

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 .

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Item 4. Information On The Telecom Italia Group Business

Item 4. INFORMATION ON THE TELECOM ITALIA GROUP

4.1 BUSINESS

4.1.1 Background

The legal and commercial name of the company is Telecom Italia S.p.A. Telecom Italia is a joint-stock company established under Italian law on October 29, 1908, with registered offices in Milan at Piazza degli Affari 2. The telephone number is +39 (02) 85951. The company is recorded in the Milan Companies Register at number 00488410010, R.E.A. number 1580695, R.A.E.E. number IT08020000000799.

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

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

On October 25, 2007, Assicurazioni Generali S.p.A. (**Generali**), Sintonia S.A. (**Sintonia**), Intesa Sanpaolo S.p.A. (**Intesa Sanpaolo**), Mediobanca S.p.A. (**Mediobanca**) and Telefónica S.A. (**Telefónica**), through their wholly owned subsidiary Telco S.p.A. (**Telco**), completed the purchase of the entire share capital of Olimpia S.p.A., which held approximately 18% of the share capital, from Pirelli & C. S.p.A. and Sintonia S.p.A.

5.6% of the ordinary share capital of Telecom Italia was contributed on the same date by Mediobanca and companies of the Generali group to Telco. As of October 25, 2007, the total investment held by Telco equaled 23.595% of Telecom Italia s ordinary share capital.

Telco was held by Generali (28.1%), Intesa Sanpaolo (10.6%), Mediobanca (10.6%), Sintonia (8.4%) and Telefónica (42.3%).

On March 20, 2008 Telco acquired a further 121.5 million Ordinary Shares and increased its ownership in Telecom Italia s ordinary share capital to 24.5%.

On December 22, 2009 Telco and Sintonia executed a purchase and sale agreement pursuant to which Sintonia acquired from Telco shares representing approximately 2.06% of Telecom Italia s share capital and Telco voluntarily reduced its share capital by acquiring and cancelling Sintonia s Telco shares and Sintonia left the shareholder group which controls Telco.

On February 29, 2012, Telefónica, Intesa Sanpaolo, Mediobanca and Generali entered into a new shareholders agreement for a period of three years on the same terms and conditions set out in the original Shareholders Agreement dated as of April 28, 2007 as it had been subsequently amended and supplemented (the **2012 Shareholders Agreement**).

Currently Telco interests are held by Generali (30.58%), Intesa Sanpaolo (11.62%), Mediobanca (11.62%) and Telefónica (46.18%). See Item 7. Major Shareholders and Related-Party Transactions for a description of the existing shareholder arrangements.

4.1.2 DEVELOPMENT

On February 8, 2013, Telecom Italia presented its 2013 2015 Plan. The 2013-2015 Plan sets out the primary strategic objective of the Telecom Italia Group over the next three years as well as a number of strategic priorities to achieve this objective. This objective focuses on continued deleveraging to reduce the Telecom Italia Group s net financial debt.

Telecom Italia also announced its intention to revise its dividend policy in order to bring it into line with its primary strategic objective of deleveraging the Group.

For more details, please see 4.1.7 Updated Strategy .

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4.1.3 BUSINESS

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

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

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

The principal changes in the scope of consolidation in 2012 are as follows:

- **Matrix Other Operations**: the company was sold on October 31, 2012, and consequently excluded from the consolidation area.

The principal changes in the scope of consolidation in 2011 are as follows:

- companies entering the scope of consolidation:
  - **Tim Fiber Brazil Business Unit**: on October 31, 2011, we acquired a 100% stake in the company Eletropaulo Telecomunicações Ltda and a 98.3% stake in AES Communications Rio de Janeiro S.A., both telecommunications infrastructure operators in the states of São Paolo and Rio de Janeiro, now renamed Tim Fiber SP and Tim Fiber RJ, respectively. The original ownership interest in Tim Fiber RJ was subsequently increased to 99.1% and the remaining 0.9% was the object of a tender offer which was concluded at the end of February 2012 and brought the percentage interest to 99.7%. The acquisitions were carried out through the subsidiary Tim Celular S.A., into which the two companies were recently merged;
  - **4GH group Domestic Business Unit**: on July 27, 2011, the 4G Holding group entered the scope of consolidation (retail sale of telephony products) following the acquisition of 71% of the ordinary shares of 4G Holding S.p.A. which in turn holds 100% of 4G Retail S.r.l.; the two companies merged in 2012;
- companies exiting the scope of consolidation:
  - **Loquendo Domestic Business Unit**: on September 30, 2011, Loquendo S.p.A. was sold and consequently exited the scope of consolidation.

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, 2012 5.2.2. Reorganization of Business and Note Form, Content and Other General Information of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

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

Domestic Business Area

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

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

At December 31, 2012 the Telecom Italia Group had approximately 14.0 million physical accesses (retail) in Italy, a decrease of 0.7 million compared to December 31, 2011. This decrease reflects a market characterized by a continuing trend of customers replacing fixed lines with mobile, resulting in a continuing fall in fixed line

accesses. The Wholesale customer portfolio in Italy reached approximately 7.2 million accesses for telephone services at December 31, 2012, an increase of approximately 0.1 million compared to December 31, 2011.

The broadband portfolio in Italy was 9.0 million accesses at December 31, 2012 (consisting of approximately 7.0 million retail accesses corresponding to a market share of approximately 52% and 2.0 million wholesale accesses), a decrease of approximately 0.1 million compared to December 31, 2011.

In addition, the Telecom Italia Group had approximately 32.2 million mobile telephone lines at December 31, 2012 in Italy, approximately stable compared to December 31, 2011.

Brazil Business Area

The Telecom Italia Group operates in the mobile and fixed telecommunications sector in Brazil through the Tim Brasil group which offers mobile services using UMTS and GSM technologies. Focus is also on continued 2G and 3G expansion while 4G roll-out begins. Moreover, with the acquisitions of Intelig Telecomunicações, Tim Fiber RJ and Tim Fiber SP, the portfolio of services has been expanded by offering fiber optic data transmission using full IP technology such as DWDM and MPLS and offering residential broadband services.

At December 31, 2012, the Telecom Italia Group had 70.4 million mobile telephone lines in Brazil (64.1 million at December 31, 2011).

Argentina Business Area

The Telecom Italia Group operates in Argentina and Paraguay through the Sofora Telecom Argentina group. In particular, in Argentina it operates in fixed telecommunications through the company Telecom Argentina and in mobile telecommunications through the company Telecom Personal; in Paraguay it operates in mobile telecommunications with the company Núcleo.

At December 31, 2012 the Telecom Italia Group had approximately 4.1 million fixed lines (in Argentina), 21.3 million mobile telephone lines (of which 19.0 million in Argentina and 2.3 million in Paraguay) and 1.6 million broadband accesses.

4.1.4 Disposals and Acquisitions of Significant Equity Investments in 2012

For a description of disposals and acquisitions of significant equity investments in 2012 please see Note Form, Content and Other General Information , Note Investments in Associates and Joint Ventures Accounted for Using the Equity Method and Note Other Investments of the

Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

4.1.5 Recent Developments During 2013

Possible integration with 3 Italia and project for the network separation

On April 11, 2013, the Telecom Italia Board of Directors examined the possible integration with 3 Italia and the progress of the project for the network separation.

Management reported on preliminary contacts with 3 Italia and its ultimate parent company Hutchison Whampoa (**HW**) on a business combination of the company with Telecom Italia, possibly via contribution in kind or merger, which the HW Group has made subject to the acquisition of an additional stake in Telecom Italia, such that the HW Group would become the leading shareholder of the Company.

The Board of Directors established a special committee, chaired by the Chairman of the Board of Directors (Director Franco Bernabè) and composed of the Lead Independent Director (Director Zingales), the Chairman of the Control and Risk Committee (Director Catania) and Directors Linares and Galateri, in order to verify within a short time the Company s interest in carrying on such a transaction.

Moreover, the Board of Directors mandated the management to define the operational process and the feasibility of the structural separation of the access network.

For a description of other recent developments please see Item 8. Financial Information 8.2 Legal Proceedings and Note Events Subsequent to December 31, 2012 of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

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4.1.6 Overview of the Telecom Italia Group s Major Business Areas

The following is a chart of the Telecom Italia Group s Business Units as of December 31, 2012:

(*) Main subsidiaries: Telecom Italia S.p.A.; Telenergia S.p.A.; Telecontact Center S.p.A., PAth.Net S.p.A.; HR Services S.r.l. and Shared Service Center S.r.l.(now Telecom Italia Information Technology S.r.l.).

(**) With reference to the sale of La7 S.r.l., please see Note Events subsequent to December 31, 2012 of the Notes to the Consolidated Financial Statements included elsewhere herein.

On October 31, 2012, Telecom Italia S.p.A. completed the sale of its wholly-owned subsidiary, Matrix, to Libero, controlled by Weather Investment II S.à.r.l.. In 2012 Matrix was also moved to Other Operations and was consequently no longer part of Core Domestic in the Domestic Business Unit.

For further details about companies which are part of the various Business Units, please see Note List of companies of the Telecom Italia Group of the Notes to the Consolidated Financial Statements included elsewhere herein.

For the revenues, operating profit (loss), capital expenditures and number of employees of the Telecom Italia Group s Business Units please see Item 5. Operating and financial review and prospects 5.2 Results of operations for the three years ended December 31, 2012 5.2.5 Business unit financial data .

4.1.7 Updated Strategy

Strategic Priorities and Objectives of the 2013-2015 Plan

On February 8, 2013, Telecom Italia presented its updated 2013 2015 Plan. The 2013-2015 Plan sets out the Telecom Italia Group s primary strategic objective as well as a number of strategic priorities to achieve this objective over the next three years:

· continued deleveraging to reduce its net financial debt, through:

focus on strategic markets Italy, Brazil and Argentina with the goal of stabilizing consolidated revenues through the contribution from Latin America;

technological developments in fixed-line telephony and mobile telephony in Italy, mobile telephony in Brazil and network capacity in Argentina to take advantage of growing demand for data;

extension and acceleration of the Group s cost reduction policy in order to contribute to the financing of the above mentioned technological developments;

sustainable shareholder remuneration. Telecom Italia announced its intention to revise its dividend policy in order to bring it into line with the continuing policy of deleveraging the Group.

Domestic market

In the Domestic market Telecom Italia, leveraging on its fixed and mobile network infrastructure, intends to:

- stabilize revenues;
- defend market share on traditional services through quality of service;
- grow innovative services leveraging on both access and applications services such as Cloud services;
- develop UBB (UltraBroadband) networks taking into account further developments in the regulatory framework and technological changes.

Brazil

Tim Brasil s strategic priorities are to:

- expand its customer base through FMS (Fixed Mobile Substitution);
- pursue high potential in mobile broadband penetration;
- continue network evolution, mainly through the increase of coverage on 3G and the roll out of the 4G network;
- satisfy the growing demand for Internet services, while optimizing capital expenditure.

Argentina

Telecom Argentina Group s strategic priorities are to:

- further build on its market share and its fixed and mobile platforms;

- enlarge its network capacity;

- support premium positioning on mobile to boost value added services revenues;

- fully exploit the high demand for data traffic.

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

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4.1.8 The Organizational Structure

The following diagram highlights the organizational structure of the Telecom Italia Group as of April 10, 2013:

* * *

Andrea Mangoni will leave the Telecom Italia Group on April 30, 2013.

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Item 4. Information On The Telecom Italia Group Business Units

4.2 BUSINESS UNITS

4.2.1 Domestic

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

On October 31, 2012, Telecom Italia S.p.A. completed the sale of the company Matrix, a wholly-owned subsidiary, to Libero, controlled by Weather Investment II S.à.r.l.. In 2012 Matrix was also moved to Other Operations and was consequently no longer part of Core Domestic in the Domestic Business Unit.

The Domestic Business Unit is organized as follows as of December 31, 2012:

(*) Principal companies: Telecom Italia S.p.A., Telenergia S.p.A., Telecontact Center S.p.A., PAth.Net S.p.A., HR Service Center S.r.l. and Shared Service Center S.r.l. (now Telecom Italia Information Technology S.r.l.).

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

- **Core Domestic**: Core Domestic includes all telecommunications activities within the Italian market. Revenues are divided according to the net contribution of each market segment to the CGU s results, excluding intrasegment transactions. The sales market segments defined on the basis of the customer centric organizational model are as follows:
  - **Consumer**: Consumer comprises the aggregate of voice and internet services and products managed and developed for individuals and families in the fixed and mobile telecommunications markets and public telephony;
  - **Business**: Business comprises the aggregate of voice, data, internet and ICT solutions services and products managed and developed for SMEs (small and medium enterprises) and SOHOs (Small Office Home Office) in the fixed and mobile telecommunications markets;
  - **Top**: Top comprises the aggregate of voice, data, internet and ICT solutions services and products managed and developed for Top, Public Sector, Large Account and Enterprise clientele in the fixed and mobile telecommunications markets;

- **National Wholesale**: National Wholesale consists of the management and development of the portfolio of regulated and unregulated wholesale services for fixed and mobile telecommunications operators in the Italian domestic market;

- **Other** (support structures):

  - Technology & IT: services related to the development, building and operation of network infrastructures, real estate properties and plant engineering, delivery processes and assurance regarding client services in addition to the development and operation of information services;

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

- **International Wholesale**: International Wholesale includes the activities of the Telecom Italia Sparkle group which operates in the international voice, data and internet services market aimed at fixed and mobile telecommunications operators, ISPs/ASPs (Wholesale market) and multinational companies through its own networks in the European, Mediterranean and South American markets.

v **Marketing Channels and Distribution**

As a result of the customer centric approach, Telecom Italia utilizes a sales structure as follows for each of its customer segments:

Distribution

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

- ***Consumer***

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

- the *Push Sales Channel* consisting of an outbound telephone channel called Telesales with a network of approximately 18 partners having a total of 2,500 operators supported by 21 employees and the Agent channel made up of sales agents with a network of 40 partners with 700 sales agents assisted by 20 employees. An additional 59 employees support sales in the following Headquarters areas: Development, Coordination and Sales Management;

- the *Pull* channel: consisting of the retail network of shops, dealers, and organized and specialized large-scale distribution, amounting to a total of approximately 6,200 retail points of sale (at December 2012). Points of sale are geographically widespread and of many different types: direct; franchisee; monobrand; multibrand; organized and specialized large-scale distribution.

In addition to these partners, distribution also is done through the *Public Telephone* channel, a network of 17 partners focused on National and International prepaid card services and associated traffic packages.

- ***Business***

The business distribution channels are made up of:

- *BP Business Partner* channel (approximately 80): a network focused on standard offers with about 1,500 agents;
- *VAR Value Added Reseller* channel (approximately 70): a network organized geographically focused on VAS, customized solutions and complex networks (250 agents) and on ICT (200 agents);
- *Outbound Call Center:* 12 partners focused on specific canvass and loyalty activities;
- *Shops*: some specific shops (approximately 3,000) offering business products and assistance (14 Key Account).

- ***TOP***

The Top Customers department is organized in separate units, one dedicated to Private Top Customers (Large Companies, Banks, Insurance, etc), two dedicated to the Public Sector (Public Administration, Health, etc.) and four focused on Strategic, Large and Medium Enterprises. At the end of 2012 around 640 Sales personnel and about 143 Partner (Senior Account channel) had a dedicated portfolio to supervise and develop, supported by structures focused on pre-sales (e.g. offers design) and post sales processes (e.g. assistance). The main activities include:

- offering the whole range of services (fixed and mobile telephone, data, ICT services and products); and
- supporting the customer and providing assistance, when required.

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· ***National Wholesale Services***

The National Wholesale Services (**NWS**) division manages relationships with approximately 300 other telco operators, who can be both customers and competitors of Telecom Italia. These customers purchase Telecom Italia network and professional services to build services for their own customers.

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

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

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

v Customer and lines

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

	As of and for the years ended December 31,

	2012	2011	2010
DOMESTIC FIXED			
Physical accesses (thousand)(1)	21,153	21,712	22,122
Of which retail physical accesses (thousand)	*13,978*	*14,652*	*15,351*
Broadband accesses in Italy at year-end (thousand)	8,967	9,089	9,058
Of which retail broadband accesses (thousand)	*7,020*	*7,125*	*7,175*
Network infrastructure in Italy:			
access network in copper (millions of km pair, distribution and connection)	114.5	112.2	111.7
access and carrier network in optical fiber (millions of km fiber)	5.7	4.6	4.3
Network infrastructure abroad:			
European backbone (km of fiber)	55,000	55,000	55,000
Mediterranean (km of submarine cable)	7,500	7,500	7,000
South America (km of fiber)	30,000	30,000	30,000
Atlantic (km of submarine cable)	15,000	15,000	15,000
Total traffic:			
Minutes of traffic on fixed-line network (billions):	101.8	108.9	121.5
Domestic traffic	*85.9*	*93.3*	*104.1*
International traffic	*15.9*	*15.6*	*17.4*
DownStream and UpStream traffic volumes (PBytes):	2,202	1,937	1,647
DOMESTIC MOBILE			
Number of lines at year-end (thousand)	32,159	32,227	31,018
Change in lines (%)	(0.2)	3.9	0.5
Churn rate (%)(2)	26.6	21.9	22.0
Total outgoing traffic per month (millions of minutes)	3,664	3,633	3,305
Total average outgoing and incoming traffic per month (millions of minutes)	4,921	4,843	4,597
Mobile browsing volumes (PBytes)(3)	93.1	75.9	53.0
Average monthly revenues per line(4) (euro)	15.5	17.4	19.7

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(1) Total physical accesses includes broadband accesses.

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

(3) National traffic, excluding roaming.

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

At December 31, 2012 the Telecom Italia Group had approximately 14.0 million physical accesses (retail) in Italy, a decrease of 0.7 million compared to December 31, 2011. The Wholesale customer portfolio in Italy reached approximately 7.2 million accesses for telephone services at December 31, 2012, an increase of approximately 0.1 million compared to December 31, 2011.

The broadband portfolio in Italy was 9.0 million accesses at December 31, 2012 (consisting of approximately 7.0 million retail accesses corresponding to a market share of approximately 52% and 2.0 million wholesale accesses), a decrease of approximately 0.1 million compared to December 31, 2011.

In addition, the Telecom Italia Group had approximately 32.2 million mobile telephone lines at December 31, 2012 in Italy, stable compared to December 31, 2011.

v **Main Changes In The Regulatory Framework**

For the main regulatory events which occurred in 2012 that may have a significant impact on the operation of the Domestic Business Unit, please see Item 4. Information On The Telecom Italia Group 4.3 Regulation .

v **Competition**

The market

The Italian telecommunications market continues to be highly competitive with significant pricing pressure, which has led to an ongoing decline in the traditional service components, particularly voice service.

In this context, the key element in the evolution of the market continues to be the increased penetration of broadband, particularly mobile, facilitated by the greater penetration of next-generation handsets.

The development of broadband has also led to an evolution of increasing competition, with greater interaction between players of different markets. This has opened the field to competition from non-traditional operators (in particular Over the Top companies OTTs and producers of electronic and consumer devices), as well as given telecommunication operators the opportunity to develop new network based services (mainly in the IT and Media fields).

For the legacy telecommunications operators, in addition to the core competition from the other traditional operators in the sector, there has been increased competition from OTTs and device producers who take advantage of their better understanding of the evolution of consumer trends, consumer electronics and software environments and who operate entirely in the digital world, basing their behavior on competition approaches that are completely different to those of telecommunications operators.

Over time, therefore, the traditional players business models have had to change to meet the challenges from the new entrants and to exploit new opportunities:

- in Media, broadcasters, who are vertically integrated players, continue to dominate the scene; however, with the Web becoming increasingly important as a complementary distribution platform, they are increasingly under pressure from consumer electronics companies and OTTS;

- in Information Technology (where Italy continues to have a level of investment relative to its GDP significantly lower than that of the United States and other European countries), the decline in revenues is driving the various players towards the cloud computing growth oasis as a way of protecting market shares in their respective core businesses. Telecommunications operators are expected to strengthen in this sector, including through partnerships;

- in the Consumer Electronics market, producers can develop services that can be used through the internet, building on handset ownership and management of the user experience, loosening or breaking the relationship between customers and telecommunications operators and competing with the media and OTTs, through games consoles and set-top boxes, for the role of net enabler through the living room screen;

- OTTs have, for some time now, been leading the transformation of the methods of use of telecommunications services (including voice), increasingly integrating them with Media and IT.

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

- initiatives involving innovative services in the IT market with the expansion of Cloud services for business and consumer customers;

- new wireless applications such as Machine-to-Machine (MTM) and mobile payment;

- significant presence as enablers of online digital content use on the living room screen using OTT TV multidevice solutions.

Competition in Fixed-Line Telecommunications

The fixed-line telecommunications market is characterized by the rapid decline in voice revenues due to reduction in prices and the progressive shift of voice traffic to mobile. In recent years all the operators have attempted to offset this phenomenon by concentrating mainly on the ability to innovate their offering by developing the penetration of ADSL and introducing bundled voice, broadband and services deals (double play), in a highly competitive environment with consequent pricing pressure.

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

In 2012, the migration of customers from fixed-line to mobile telephony services continued, as well as the migration to alternative communications solutions (Voice Over IP, messaging, e-mail and social network chat) due to the widespread penetration of *personal* computers and tablets. For years, both for retail consumers and small and medium businesses, mature traditional voice services have been replaced by value-added content and services based on the internet protocol. This shift has been facilitated by the use of the internet and changes in user preferences, by the spread of broadband, personal computers and other connected devices, and by the quality of the service.

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

At the end of 2012, fixed accesses in Italy numbered approximately 21.4 million, slightly (-3.2%) down from 2011 (22.1 million). The growing competition in the access market has led to a gradual reduction in Telecom Italia s market share.

In the broadband market, at December 31, 2012 fixed broadband customers in Italy numbered about 13.6 million with a penetration rate on fixed accesses of about 63%.

The spread of broadband is driven not only by the penetration of personal computers, but also by the growing demand for speed and access to new IP based services (Voice over IP, Content, social networking services, online gaming, IP Centrex, etc.). In 2012, however, the slowdown in growth of the fixed-line broadband market continued, due both to a general tendency of operators to concentrate on the growth of flat-rate plans (dual play) with higher added value and to the continuing weakness of the macroeconomic environment. The decline continued in revenues from the data transmission segment, which suffered the effects of competition that has led to reduction in average prices.

Competition in Mobile Telecommunications

The mobile market, although saturated and mature in its traditional component of voice services, continues to see growth in the number of mobile lines, driven by the increase in multiSIM/multidevice customers and in

non-human lines (lines which operate with a SIM card but are not used for voice services such as an Apple iPad) (at December 31, 2012, mobile lines in Italy numbered about 97 million with growth of about 1% over 2011 and with a penetration rate of approximately 159% of the population).

Along with the progressive contraction in traditional service components, such as voice and messaging, which also reflect the increasing spread of communication apps , there has been significant growth in the mobile broadband market, which, in the last few years has been, and in the future will continue to be, the main opportunity for the strategic and commercial growth of the mobile telecom industry. This growth will be facilitated by the launch of Ultra Broadband fourth generation mobile phone systems.

In 2012, the growth in mobile broadband customers continued, both large and small screen, with a high penetration rate on mobile lines as a result of the increasing spread of smartphones and tablets.

Alongside innovative services that have already caught on and are under full-scale development, as in the case of mobile Apps, there are other market environments, associated with the development of mobile broadband, with major potential for growth in the medium term, such as mobile payment.

In the Italian mobile telecommunications market, competition is dominated by Telecom Italia and also by the infrastructured operators (Vodafone, Wind, H3G) which are focused on different segments of the market or have different strategies.

In addition to these operators, the field also includes mobile virtual operators (MVO), of which PosteMobile is the most important player. These operators currently have a limited share of the market, but continue to enjoy significant growth compared to infrastructured operators.

4.2.2 Brazil

The Telecom Italia Group operates in the mobile and fixed telecommunications sector in Brazil through the Tim Brasil group which offers mobile services using UMTS and GSM technologies. Moreover, with the acquisitions of Intelig Telecomunicações, Tim Fiber RJ and Tim Fiber SP (now merged into Tim Celular S.A.), the portfolio of services has been expanded by offering fiber optic data transmission using full IP technology such as DWDM and MPLS and offering residential broadband services.

The Tim Brasil group s services cover an area which includes around 95% of Brazil s urban population. Tim Brasil group has approximately 70.4 million mobile lines which covers each of the Brazilian states and the Federal District. As of December 31, 2012, its combined penetration reached approximately 132.7% of the Brazilian population and our combined market share totaled approximately 26.9%.

Since the Tim Brasil group began operating in the Brazilian market, its intention has been to provide its customers with state-of-the-art technology and services. This goal has been achieved through the offer of edge technology, that has allowed convergence between voice services either mobile or fixed , internet access and data transfer. Management believes this convergence has been made feasible with developments under 3G.

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

	As of and for the years ended December 31,		
	2012	2011	2010
Number of lines at year-end (thousands)	70,362	64,070	51,015
MOU (minutes/months) (*)	135.8	128.6	116.0
ARPU (Reais)	19.1	21.4	23.7

(*) Net of visitors.

v **Marketing**

During 2012, Tim Brasil intensified promotional activity on voice plans and further expanded data services.

In the Consumer segment, TIM has continuously developed the Infinity and Liberty concept (prepaid and postpaid, respectively), adding the Plano Controle to its Liberty platform, in order to develop its own prepaid value base upon the migration to a Controle plane, boosting this segment s profitability. The profitability increase is possible because a Controle plan has hybrid characteristics, combining postpaid and prepaid benefits, giving the liberty and convenience of a postpaid plan and also allowing customers to control their expenses, like a prepaid user.

Gross acquisitions in 2012 amounted to 37.4 million new lines compared to 39.6 million new lines in 2011, a decrease of -5.7% over the corresponding period of 2011. Net additions in 2012 amounted to 6.3 million lines compared to 13.1 million lines in 2011, a decrease of -51.8% over the corresponding period of 2011.

In the Business segment, TIM continued to enhance and differentiate its offering, maintaining an emphasis on simplified service and transparency. TIM launched a number of new products and services based on the needs of its business clients and also maintained its focus on the provision of internet solutions, providing companies of all sizes with improved unlimited internet connectivity.

Main Plans marketed are:

- Infinity (Prepaid): customer is charged per call of unlimited duration to TIM numbers and local fixed telephones; for SMS and mobile internet services, clients are charged for day of use, and services are provided unlimitedly;

- Infinity Tri (Prepaid in Rio Grande do Sul): customer of Rio Grande do Sul are charged per day of use for voice (to TIM numbers and local fixed telephones), SMS and mobile internet services;

- Tim Beta (Prepaid): limited segmented plan addressed to young customers, charged per day for voice (to TIM numbers), SMS and mobile internet services;

- Tim Liberty: customer pays a fixed monthly rate; no limits on calls to any TIM number in Brazil, without limitation as to call, or call duration. Also, they may add further benefits to this plan using the Liberty Rádios plan to talk unlimitedly to any radio user (SME), without deduction from its package of minutes; and

- Liberty Controle: for customers that want no limits on calls to TIM numbers in Brazil, keeping bill under total control. Customers pay a fixed rate every month, no limits on calls to TIM numbers, and also receives bonus to use other types of calls/services.

In 2012, TIM improved its Combos offers (including minute package and handset), with focus on handsets that encourage the use of internet and value added services, as Smartphone, modems, and tablets. Combos had strong commercial appeal, either offering handsets or being associating with data offers.

TIM continued to aggressively market itself to larger companies as potential clients, offering, in addition to customized pricing plans, handset options under loan for use contracts.

v **Distribution**

Tim Brasil s services are marketed through the largest distribution network in Brazil, with over 10,000 points of sale, among premium stores and dealers (exclusive or multi-brand), in addition to relying on the distribution capacity of a number of major retail chains. Tim Brasil s prepaid service customers rely, in addition to traditional points of sale, on alternative recharge channels, such as supermarkets and newsstands, totaling about 470,000 points spread all over Brazil. Sales of Tim Brasil s products and services are offered by Tim Brasil s sales personnel, as well as by authorized dealers. Most devices are sold on credit card and in 12 installments.

v **Main Changes in the Regulatory Framework**

For the main regulatory developments which occurred in 2012 that may have an economic impact on the Brazil Business Unit, please see Item 4. Information On The Telecom Italia Group 4.3 Regulation .

v **Competition**

At the end of 2012, the Brazilian mobile market reached 261.8 million lines. This is 8.1% more than at the end of 2011 and a penetration of 132.7% of the population (123.9% in 2011). Net total line increases in 2012 was 19.5 million lines, 19.7 million fewer net lines than in 2011.

4.2.3 Argentina

The Telecom Italia Group operates in the fixed and mobile telecommunications sector in Argentina mainly through Telecom Argentina and Telecom Personal (thereafter Personal), respectively, as well as mobile telecommunications operations in Paraguay through Núcleo. In particular, Telecom Argentina is one of the largest private-sector companies in Argentina. Telecom Argentina has a non-expiring license to provide fixed-line telecommunications services and also provides other telephone related services such as international long-distance service, data transmission, IT solutions outsourcing and Internet services. Personal has a non-expiring licence to provide mobile services in Argentina and Núcleo has a renewable license to provide mobile services in Paraguay.

(*) Holding companies.

(**) Non-operating companies.

Telecom Argentina s business strategy is focused on increasing its profitability and maximizing value generation for its customers, shareholders, employees and the broader community it serves. In order to promote the achievement of its goals in a sustainable and consistent manner, the Argentine Business Unit develops business plans according to the market and macroeconomic environment and invests in products and services

innovation aimed at improving its customers user experience by adding content, interactivity and convenience to communication.

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In **fixed services**, the growth was led by the increase in the Broadband business, as a result of a 5% increase in Internet accesses (reaching 1.6 million accesses as of December 31, 2012) and an 18% increase in the Broadband ARPU (access+ISP) compared to 2011. Fixed lines remained at 4.1 million as of December 31, 2012, the same level as at December 31, 2011.

In the **mobile business**, the Personal customer base increased by 0.8 million in 2012 reaching 19.0 million lines as of December 31, 2012 (of which 33% are postpaid contracts). At the same time, ARPU increased approximately 12% over the prior year. A large part of this growth can be traced to value-added services which, on the whole, accounted for approximately 53% of Personal mobile service revenues in 2012. Additionally, Personal successfully implemented number portability in 2012. Due to, among other things, enhanced retention efforts, number portability has so far not had any significant impact on Telecom Personal s revenues.

In Paraguay, Núcleo s customer base grew by about 7% over the prior year reaching 2.3 million lines at year-end, of which 19% were postpaid.

The table below sets forth certain operating data for the Argentina Business Unit as of and for the years ended December 31, 2012, 2011 and 2010:

	As of and for the years ended December 31,		
	2012	2011	2010
Number of fixed lines (thousands)	4,128	4,141	4,107
ARBU (Average Revenue Billed per User) (Argentine pesos)	48.2	45.7	42.8
Telecom Personal mobile lines (thousands)	18,975	18,193	16,333
MOU Telecom Personal (minutes/months)	99	99	102
ARPU Telecom Personal (Argentine pesos)	57.7	51.4	44.4
Nucleo mobile lines (thousands)(*)	2,301	2,149	1,878
Broadband accesses (thousands)	1,629	1,550	1,380
ARPU (Argentine pesos)(**)	102.3	87.0	76.1

(*) Wimax lines included.

(**) The calculation method was updated in order to exclude, from the customer base, the internet sticks sold to customers who already have ADSL access.

v **MARKETING**

Fixed Services

The residential fixed line business grew moderately in voice services based on the increase in the sale of subscription plans with monthly charges and the sale of supplementary services. Telecom Argentina has concentrated its efforts on satisfying its customers access demand, and increasing the ARBU (Average Revenue Billed per User). Regarding voice Value-added Services (VAS), focus was placed in the sale of VAS

package offers and line maintenance service. Additionally, the portfolio of Aladino handsets was expanded.

In the Internet business, the leadership of the brand Arnet was based on effective communication with differentiated offers by segment and competitive prices. Also, the portfolio of access speeds available to customers was expanded during the year. With respect to VAS on broadband access, during 2012 focus was placed to increase the penetration of VAS by the expansion of the service portfolio such as: offers that combine mail, calls and Internet; Arnet Móvil (which provides access to Internet through the Personal 3G network) and Arnet Play (a video-streaming service for residential customers).

Corporate segment continued its strategy of providing converged solutions that integrate voice, data, Internet, multimedia, ICT, data centers and applications.

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Mobile Services

Product and service offers developed during 2012 were focused on increasing customer acquisition and loyalty since the implementation of number portability in March 2012. With respect to high value customers, Personal continued to expand its portfolio of plans, adding a benefit that allows unused minutes during one month to be used in the next month and by launching innovative handsets. Also, Personal continued with the strategy of recharge benefits and differential benefits for members of Club Personal, Personal s loyalty program. Additionally, the benefit Grupo Familiar was launched, which is available for all lines belonging to the same family, by enabling them to talk and send SMS for free between themselves. Finally, Personal continued offering unlimited Internet per day (US$1 per day), a disruptive offer that allowed Personal to be considered as the industry benchmark.

With respect to Núcleo, during 2012 new packaged offers of voice, messages and data for the prepaid segment, and tailored plans for postpaid and Plan Control segments were launched. In addition, Núcleo consolidated its leadership in mobile Internet based on packaged offers for prepaid customers, at competitive prices. At strategic level, Núcleo performed retention and loyalty actions for high value customers, mainly through a major campaign to replace handsets. Finally, in the fourth quarter of 2012 Núcleo focused its actions in connection with the implementation of the number portability, assuming the role of educating the market regarding the benefits of portability.

v **Distribution**

During 2012, Arnet continued with multimedia communication campaigns that further served to strengthen brand positioning. With respect to web sites, their main target was to become a channel for the exploration of Telecom Argentina products and services and for the improvement of the relationship with its customers. The web sites focused on communicating in real time all the brand offers, creating a digital experience with both Arnet (Internet products and services) and Telecom (voice products and services) products, and enriching customer self-management. In this regard, during November 2012 *Mi Cuenta* (My Account) was launched, a web site that allows clients to view information and perform several tasks in a simple way.

During 2012 Personal s sales offices strengthened its model of management, with a focus on client counseling and education based on the sale of value added products, handsets upgrade and improved technology.

In addition, Personal opened new sales offices with a renewed design nationwide and the restyling, expansion and relocation of certain existing offices. The direct sale channel reinforced the comprehensive customer care to high-value customers, while the indirect sale channel Agents continued to increase, mainly based on the sale of VAS and smartphones.

Also, during 2012, Núcleo promoted self-management by its clients through the launch of the web portal My Personal World and by nontraditional channels such as social networks, SMS, chat and email.

v **Main changes in the Regulatory Framework**

For the main regulatory developments on the Argentina Business Unit which occurred in 2012, please see Item 4. Information On The Telecom Italia Group 4.3 Regulation .

v **Competition**

The telecommunications markets in Argentina and Paraguay continue to show strong demand for new services and higher access speed in a fiercely competitive environment in the different business segments.

Specifically, in the mobile segment in Argentina, Personal is one of three operators offering services at the national level and competes with Claro (America Móvil group) and Movistar (Telefónica group). Following the introduction of number portability in 2012 competition has intensified. The acquisition and retention of high-value customers will continue to be central to Personal s strategy, which intends to lend support to mobile use through the launch of new products and services that not only enable retention of existing customers, but also put Personal in the position of being the preferred operator in the mobile sector in Argentina.

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In Paraguay, Núcleo, operates in a market featuring strong competition, especially since the implementation of number portability in Paraguay in November 2012. Its main competitor is Tigo (Millicom group).

In the broadband segment, the Argentina Business Unit operates through the Arnet brand and its competitors are mainly ADSL Speedy (Telefónica group), Fibertel (Clarín group), which offers broadband access services using cable modems, and Telecentro, which offers triple play plans.

4.2.4 MEDIA

On May 9, 2012 the Board of Directors of Telecom Italia Media approved the decision of the Board of Directors of Telecom Italia S.p.A. to start the process of selling the Media segment. As a result, in May 2012, a corporate restructuring was initiated, which resulted in the establishment of La7 S.r.l., a wholly-owned subsidiary of Telecom Italia Media S.p.A. With effect as of September 1, 2012, the television assets became part of this new company, through the contribution of a business segment by Telecom Italia Media S.p.A.

Following completion of the above restructuring, the Telecom Italia Media group is now organized into the following operating units:

La7: includes the Telecom Italia Media s operations relating to the television broadcasters La7 and La7d and the Multimedia/Web area (La7.it and La7.tv) and is being sold;

MTV group: includes the operations of MTV Italia and its subsidiary MTV Pubblicità relating to the television broadcasters MTV and MTV Music, the 360° Playmaker production unit, the production of multimedia musical platforms and satellite channels, in addition to MTV Mobile and Digital (Web);

Network Operator (TIMB): includes the operations of Telecom Italia Media Broadcasting relating to managing the digital broadcasting networks of La7 and MTV and the Digital Multiplex channels operated by the Group, in addition to accessory services and radio and television broadcasting platforms offered to Group companies and third parties.

As of December 31, 2012, the Business Unit was organized as follows:

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

	As of and for the years ended December 31,		
	2012	2011	2010
La7 audience share Free to Air (average during the period, in %)	3.5	3.8	3.1
Gross advertising revenues (millions of euros)	225	242	208

At December 31, 2012, the three Digital Multiplexes of Telecom Italia Media Broadcasting cover 94.9% of the Italian population.

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Item 4. Information On The Telecom Italia Group Business Units

v **Main Changes in the Regulatory Framework**

For the main regulatory events which occurred in 2012 that may have an economic impact on Media Business Unit, please see Item 4. Information On The Telecom Italia Group 4.3 Regulation .

4.2.5 Olivetti

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

The Business Unit s markets are mainly in Europe, Asia and South America.

Effective January 1, 2012, the contact center business and resources of Advalso S.p.A. were sold to Telecontact Center S.p.A. (a subsidiary of Telecom Italia Domestic Business Unit), under the project aimed at unitary management under the control of Telecontact Center of the call center activities conducted in the Telecom Italia Group. Moreover, on June 13, 2012, the shareholders meeting of the subsidiary Olivetti I-Jet S.p.A. approved the wind-up of the company.

As of December 31, 2012, the Olivetti Business Unit was organized as follows (the main companies are indicated):

v **Competition**

Competition continues to have an adverse effect on Olivetti revenues. It resulted in lower prices for many products and services reflecting a market subject to significant price pressure. This is also attributable to customers having reduced their IT budget.

4.2.6 Competition

We face domestic competition in all of our businesses. Competition continues to have an adverse effect on our revenues as it resulted in lower tariffs for many of our products and services as well as the introduction of flat-rate pricing plans which have been used to enhance retention efforts but at the same time reducing revenues from such customers.

For details please see Item 4. Information on the Telecom Italia Group 4.1 Business 4.1.7 Updated Strategy , Item 4. Information on the Telecom Italia Group 4.2.1 Domestic and Item 4. Information on the Telecom Italia Group 4.2.2 Brazil and Item 4. Information on the Telecom Italia Group 4.2.3 Argentina .

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4.3 REGULATION

The EU regulatory framework

Telecom Italia s operations in the European Union (**EU**) are subject to the EU framework on telecommunications regulation which includes directives, regulations, recommendations and communications. As such, being a member of the EU, Italy is required to implement the directives issued by the EU. Regulations, however, adopted at the EU level have general application and are binding and directly applicable in each EU Member States without the need of further national implementation. Recommendations and communications, on the other hand, are not legally binding although politically important.

The European Commission began liberalizing the telecommunications market to competition in the late 1980s and early 1990s. In Italy, as well as in all the main EU Member States, liberalization opened up competition of public voice telephony and public network infrastructure in 1998.

The need for a revision of the 1998 framework emerged from the growing convergence between telecommunications, broadcasting and information technology. A new EU Regulatory Framework (consisting of five Directives: the framework; access and interconnection; authorization; the universal service and users rights; privacy and data protection directives) was adopted in 2002, regulating all forms of fixed and wireless telecommunications, data transmission and broadcasting.

A recommendation adopted in February 2003, on relevant product and service markets susceptible of ex ante regulation, completed this set of legal instruments. In December 2007, the European Commission (**EC**) amended this first Recommendation on relevant markets, reducing the previous 18 markets susceptible to ex-ante regulation to 7: retail access at a fixed location (market 1) and, at wholesale level, call origination at a fixed location (market 2); call termination at a fixed location (market 3): wholesale (physical) network infrastructure access (including shared or fully unbundled access) at a fixed location (market 4); wholesale broadband access (market 5); wholesale terminating segments of leased lines (market 6) and voice call termination on mobile networks (market 7).

The EU regulatory framework obliges National Regulatory Authorities (**NRAs** , in Italy **AGCom**) to run market analyses before imposing appropriate obligations on individual operators having Significant Market Power (**SMP**) according to specific EU guidelines. A company is deemed to have SMP if, either individually or jointly with others, such company enjoys a position equivalent to dominance, that is to say a position of economic strength providing the company itself with the power to behave, to an appreciable extent, independently of competitors, customers and ultimately consumers. Market shares are normally used as a proxy for market power: while undertakings with market shares of no more than 25% are not likely to enjoy a (single) dominant position, single dominance concerns normally arise in the case of undertakings with market shares of over 40% and market shares in excess of 50 % are in themselves, except in exceptional circumstances, evidence of the existence of a dominant position.

The market analyses carried out by NRAs are subject to the assessment of the EU Commission which, to a certain extent, can challenge the NRAs findings, having a veto power on the definition of the market and on the identification of SMP operators. As per the choice of remedies the EU Commission has no veto power but can raise serious doubts after which the Body of European Regulators for Electronic Communications (**BEREC**) is required to give an opinion. The EU Commission, BEREC and the NRA involved then have to cooperate to find a solution within three months. Neither the Commission nor BEREC are able to make a binding intervention. Should a NRA decide not to amend

or withdraw a draft measure after the EU Commissions expresses serious doubts, it shall provide a reasoned justification .

The EU legal framework was revised in November 2007, with the aim of defining a new European regulatory framework for the sector.

The revision of the framework established a set of rules composed of the Better Regulation Directive (Directive 2009/140/EC, amending the Framework , Access and Authorisation directives) and the Citizens Rights Directive (Directive 2009/136/EC amending the Universal Service E-Privacy directives and the Regulation 2006/2004 on Consumer Protection Cooperation) to be transposed into national laws of the 27 EU Member States by May 25, 2011 and by the Regulation which was directly applicable establishing the new European Telecoms Authority BEREC . The new EU telecoms rules were officially adopted on December 18, 2009.

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The revised directives were transposed into the Italian legal framework by means of the *Legge Comunitaria* 2010 which was published in the Italian Official Journal on January 2, 2012; the Italian Government was delegated the authority to adopt (within three months) measures aiming at transposing the revised directives. The Legislative Decrees of May 28, 2012 (n. 69 and 70) transposing the EU 2009 regulatory framework entered into force on June 1, 2012.

Telecommunication Regulatory Framework in Italy

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

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

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

(iii) Data Protection Code ;

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

(v) the Consumer Code ;

(vi) Legislative Decree October 3, 2006, n. 262 which contained Urgent measures regarding tax and financial issues and, partially amended the sanctions regime set by the ECC by introducing further examples of administrative offences, a generalized increase in the fines for each sanction and the elimination of the partial cash settlements of fines;

(vii) Decree Law January 31, 2007, n. 7 containing urgent measures for the protection of consumers, for the promotion of competition, for the development of economic activities. The above mentioned law impacts the electronic communications sector by prohibiting top-up charges and the expiration of phone traffic for prepaid phone cards;

(viii) Legislative Decree May 30, 2008, n. 109 transposing into national law the EU Directive 2006/24/EC on the retention of data generated or processed in connection with the provision of publicly available electronic communications services or of public communications networks;

(ix) Law June 18, 2009, n. 69 providing measures to simplify the procedures for the installation and development of optical fiber networks (Article 1 Broadband);

(x) Decree Law July 6, 2011, n. 98, enacted by Law July 15, 2011, n. 111 further simplifying the procedure for the installation of small mobile equipment (0.5 sq. radiator area) and low power equipment (7 watt);

(xi) the 2011 Budget Law (Law December 13, 2010, n. 220), regulating the procedures for the issue of 800, 1800, 2000 and 2600 MHz frequencies rights of use;

(xii) Decree Law October 18, 2012 n. 179 (enacted by Law December 17, 2012 n. 221) providing for further broadband network funding to cancel the digital divide, measures to accelerate the roll-out of mobile fourth generation networks and administrative simplifications for optical fiber layout;

(xiii) Decree Law February 9, 2012 n. 5 (enacted by Law April 4, 2012 n. 35) imposing on Telecom Italia two further obligations: a) the disaggregation of maintenance costs for lines in unbundling; and b) the possibility for OLOs to buy ancillary services from third parties;

(xiv) the 2013 Budget Law (Legge di Stabilità 2013) modifying art. 96 of the Italian Communication Code regarding mandatory services required by public authorities to telecom operators for crime prevention and punishment purposes.

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Furthermore, the ECC confirmed the responsibilities of the Ministry of Communications and of AGCom as set by the previous legislation. In particular:

(i) the Ministry is responsible for postal services, telecommunications, multimedia networks, informatics, telematics, radio and television broadcasts and innovative technologies applied to the communications sector. In May 2008, the functions of the Ministry of Communications and its resources were transferred to the Ministry of Economic Development;

(ii) AGCom is an independent regulatory authority granting fair competition among operators and protecting consumers. It must report on its activities to the Italian Parliament, which set up its powers, defined its bylaws and elected its members.

4.3.1 Telecommunication Regulation in Italy

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

AGCom approved Telecom Italia s Undertakings, which are divided into 14 main groups and pursue four main goals:

- offering additional guarantees of equal treatment amongst Telecom Italia s commercial divisions and other electronic communications operators (Operators) purchasing wholesale access services from Telecom Italia;
- providing benefits to Operators and final users, through the improvement in the quality of the fixed access network and of related services;
- making the evolution of Telecom Italia s fixed access network more transparent for Operators; and,
- ensuring the maintenance of competitive conditions in the migration towards new generation networks.

Following the AGCom approval of the Undertakings, a number of proceedings which could have resulted in sanctions against Telecom Italia were suspended.

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

- technical-organizational domain: solutions for the improvement of internal delivery processes and to assure that SMP services were adopted;

- cultural-behavioral domain: a Code of Conduct has been adopted and intensive training activities have been carried out in order to spread the principles of internal-external equal treatment; and,

- economic-regulatory domain: service contracts were drafted and transfer charges adopted to implement equality of economic treatment.

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

In November 2011, three years after the formalization of the Undertakings AGCom recognised that Telecom Italia had fully implemented all the Undertakings and terminated certain proceedings against Telecom Italia that were suspended following the approval of the Undertakings.

At the end of 2012, 45 Operators had joined in the New Delivery Process (**NDP**) for Bitstream, 17 Operators for Local Loop Unbundling (**LLU** and 12 Operators for Wholesale Line Rental (**WLR**).

GMI continues to monitor the implementation of the Undertakings.

After the AGCom s positive assessment and the notification to the European Commission, the access network operational separation model adopted by Telecom Italia can be considered a new European regulatory model and a viable alternative to the Access Network Functional Separation adopted by British Telecom (Open Reach).

Telecom Italia s Operational Separation model will further continue to ensure quality of treatment (both in economic and technical terms), the promotion of an Equivalence Culture , through personnel formation programs, and transparency to alternative network operators (AltNets) for both Copper and Fiber Access Network.

In July 2012, Telecom Italia submitted to AGCom the undertakings to be applicable to new generation access network services.

Market analyses

Following a first round (2006-2007) and a second round (2008-2009) of market analyses, in December, 2010, AGCom started the third round of market analyses reviewing the mobile termination market to define the relevant market, identifying SMP Operators and setting regulatory obligations on SMP Operators. The final decision was published on November 2011 containing the new glide path for Mobile Termination Rates (MTRs) for the period from July 1, 2012 to July 1, 2013. With respect to fixed markets, the third round of market analysis on wholesale and retail access markets was launched in September 2012.

The main developments regarding markets in the electronic communications sector that occurred in 2012 and in the first quarter of 2013 are described below.

· **Retail-fixed markets**

As a result of the first round of fixed retail market analyses, AGCom identified Telecom Italia as SMP operator and imposed regulatory obligations, including a price cap mechanism and price control.

In particular, the relevant retail fixed regulated markets included: access to the public telephone network provided at a fixed location for residential and business customers (markets 1 and 2); local, national and fixed-mobile services markets retention component only for residential

and non-residential customers (markets 3 and 5, removed from the revised 2007 Recommendation); international telephone services, for residential and non-residential customers, provided at a fixed location (markets 4 and 6, removed from the revised 2007 Recommendation); leased lines market (market 7, removed from the revised 2007 Recommendation).

At the end of 2009, AGCom concluded the second round of assessment of **the international calls market** and of the minimum **set leased lines market** and deregulated both markets withdrawing all *ex ante* obligations on Telecom Italia starting from 2010.

In 2010 AGCom concluded the second round of market analysis of the **national retail fixed voice services**. As a consequence, AGCom decided to withdraw all regulatory obligations starting from six months after the publication of its final decision. In the transitional six-month period (until January 12, 2011), AGCom maintained the obligation of prior notification of new tariffs. Since January 12, 2011 Telecom Italia has been allowed to fix retail tariffs without prior notification to or approval by AGCom.

In September 2010, AGCom set new rules for the assessment of Telecom Italia s retail offers, including non-standard offers (public tender and tailored top business offers) and bundles (multiple-play offers). The new **price test methodology** is based on a replicability test developed on the basis of the following key principles: (i) a single replicability test valid for offers commercialized in different (both traditional and innovative) contexts, reference to the most efficient technology and network architecture that could be used by AltNets to replicate Telecom Italia s offers and, hence, to a combination of wholesale inputs (ULL, WLR, bitstream, etc.); (ii) the evaluation of network and downstream AltNets costs on the basis of avoidable or long run incremental costs;

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(iii) application of the price test to the whole bundle, taking into account the overall cost of provisioning without considering whether each component of the bundle may be replicated by an alternative operator; (iv) *ad hoc* assessment of offers within tenders, taking into account the most efficient network architecture that could be used by AltNets to compete in a specific context. Following the publication of the AGCom document Circolare Attuativa (July 8, 2011), Telecom Italia asked for its revision. AGCom started a preliminary investigation and, in June 2012, rejected Telecom Italia s requests, stating that its *on-going practice* allowed the resolution of the critical procedural aspects claimed by Telecom Italia.

In 2012, Telecom Italia introduced a set of measures to simplify the tariff structure of the basic offers for both consumer and business customers. The last step of this simplification path is the new pricing schemes that Telecom Italia introduced early in 2013. For business customers, starting from January 1, 2013, the basic offer will consist of a single charge for all national calls, a price reduction for fixed-to-mobile calls and a change in the connection fee. For the consumer customers basic offer, starting from April 1, 2013 Telecom Italia introduced price simplification based on the introduction of a single price for all national and fixed-to-mobile calls, a change in the connection fee and the introduction of a discount equal to 50% for all national calls lasting more than three hours (the pricing is per 60 seconds telephone fees charged in advance). The tables below summarize the standard offers schemes described above:

Business prices (VAT not included)

cent/minut (VAT not included)	Previous prices (until 12/31/2012)	New prices (from 01/01/2013)
Local	1.0	0.0
National	7.0	0.0
Fixed-Mobile (TIM, Vodafone, Wind, Tre, etc.)	8.0	3.0
Set up fee	10.0 cent	20.0 cent

Consumer prices (VAT included)

cent/minut (VAT included)	Previous prices (until 03/31/2013)	New prices (from 04/01/2013)
Local and national	1.90	5.0(*)
Fixed-Mobile (TIM, Vodafone, Wind, Tre, etc.)	9.0	5.0
Set up fee	7.94 cent	5.0 cent

(*) Over 3 hours/ month, 50% discount.

With respect to the **retail access market**, AGCom reduced regulatory constraints removing, starting from 2010, the price cap mechanism used to control residential and business subscriber monthly fees, now subject only to a price test (see above for details), in order to ensure replicability by an efficient operator. At the same time, AGCom maintained the obligation to notify prices and conditions 30 days in advance of the commercial launch (instead of the previous 60 days), but a clause of tacit approval at the end of the notice period was introduced. As for bundling services, the previous prohibition has been withdrawn as a consequence of the increased demand for Telecom Italia s WLR offer.

Starting from April 1, 2013, an increase of the RTG consumers monthly fee entered into force (from 16.6/month, VAT included, to 17.40/month, VAT included) to adjust the fees for inflation; prices of the ISDN monthly fee and of all business connections monthly fees have not been changed. Starting from April 1, 2013, Telecom Italia also introduced a single fee for the resolution of the contract after the first 12 months. This fee applies to all customers (consumer and business), whenever the resolution of the contract is not due to Telecom Italia. Such a fee was reduced from 48.40 or 60.50 VAT included (respectively for the single line/ADSL for anticipated or contextual resolution of the contract fee of both service components) to 34.90 VAT included.

With the aim to ensure the start-up of Telecom Italia s commercial **optical fiber retail offers**, pending the implementation of NGA regulation (see the Wholesale fixed markets paragraph for further details), AGCom authorized (in December 2012) Telecom Italia to launch NGAN retail offers in areas where NGAN services were already offered by other operators. It provided that: (i) the service should be offered only in towns where

comparable offers by other alternative operators were already in place (Milan, Rome, Turin, Bologna, Genoa, Naples and Bari); (ii) the maximum number of Telecom Italia connectable customers premises should be of 40,000 units; and (iii) wholesale ultra broadband offers shall be provided at prices based on the retail price reduced by a given percentage in the ranges of 20%-30% (*retail minus* approach). After 60 days from the approval of the new NGA wholesale offers, Telecom Italia may launch offers not limited by the above restrictions.

· **Wholesale fixed markets**

The first round of market analyses for fixed wholesale markets was concluded in 2006. In particular, the following markets were analyzed: Call origination (market 8); Call termination (market 9); Transit services (market 10, removed from the revised 2007 Recommendation); Unbundled access (including shared access) to metallic loops and sub-loops for the purpose of providing broadband and voice services (market 11); Broadband access (market 12); Terminating segments of leased lines (market 13) and Trunk segments of leased lines (market 14, removed from the revised Recommendation).

As a result of market analyses, AGCom in 2006 imposed on Telecom Italia, as SMP operator, regulatory measures including price control in the form of a network cap (except for the wholesale broadband access market).

The network cap mechanism was applied to calculate the prices of wholesale call origination, termination and transit services and of unbundled network-access services (i.e. Local Loop Unbundling and Shared Access). This mechanism was also applied to circuits, with the aim of ensuring that cost orientation is used to calculate the prices of the termination and long-distance circuit segments.

Following the conclusion of the second round of market analyses of the **wholesale access market**, in December 2009, AGCom confirmed the current regulatory regime applicable to wholesale access obligations on copper infrastructure (unbundling and *bitstream*), whereas, with regard to price setting, for the period May 1, 2010 to December 31, 2012 a network cap mechanism based on a Bottom-Up Long-Run Incremental Cost (**BU-LRIC**) model was re-introduced. Following the adoption of the above-mentioned cost model, in November 2010 AGCom set new wholesale rates for the following wholesale services: unbundling, bitstream and WLR and the value of weighted average cost of capital (**WACC**) related to wholesale access services to be applied from May 2010 to December 2012. The WACC was set at a value equal to 9.36%. AGCom set the following LLU monthly fees: 8.70/month as of May 1, 2010; 9.02/month as of January 1, 2011; and 9.28/month as of January 1, 2012. The increases in the LLU monthly fee and in other wholesale services for the 2011-2012 periods were, however, conditioned on the assessment, by AGCom, of the parameters related to network quality improvement and to the updating of Telecom Italia s access network. Following evaluation by an external auditor, AGCom s assessments were positive and, therefore, Telecom Italia was allowed to increase the intended wholesale prices.

Referring to the **WLR service**, AGCom required Telecom Italia to provide the service, only in the areas where disaggregated access services are not offered. The price for the service was calculated according to the network cap method, for the period from May 1, 2010 to December 31, 2012, based on a BU-LRIC model (see above), instead of the previous retail-minus regime. However, at the end of May 2012, AGCom approved the 2012 WLR Reference Offer with reference to the technical conditions launching a public consultation at national level on the WLR monthly fee. The above procedure did not imply any market analysis in contrast, according to Telecom Italia, to the regulatory certainty principle. In this procedure, AGCom proposed a monthly rental fee equal to 11.90/month which should be applied from June 1, 2012 *versus* the 12.88/month previously established. The AGCom introduced this reduction on the basis of new market conditions which would make the AltNets retail offers based on WLR (in areas not suitable for LLU) non-profitable. In addition to AGCom failing to utilize proper market analysis in establishing the amendment of the 2012 WLR monthly rental mentioned above, Telecom Italia reiterated to AGCom the non-existence of competitive issues in the areas not suitable for LLU, in the light of the fact that, despite a decline in the fixed line market, the WLR service availability was

continuously increasing. At the end of December 2012, AGCom with Decision 643/12/CONS set a monthly rental fee equal to 11.70/month to be applied from June 1, 2012.

In September 2012, AGCom launched the third round of market analysis on wholesale and retail access markets. As a result, a new network cap for wholesale access services over copper was supposed to be set for the 2013-2015 period. However, the decision aimed at defining the new network caps obliged AGCom to impose on Telecom Italia the obligation to breakdown the costs of maintenance services for the supply of LLU lines and the

acquisition of maintenance services from third parties. However, AGCom itself underlined within the above decision that the EU Commission had formally opened an infringement procedure against Italy, in relation to the possible breach of the Framework Directive (July 2012) since the abovementioned law violates the autonomy and independence of the National Regulatory Authority. On February 21, 2013, the European Commission issued a reasoned opinion in which it considered this matter the comments received from the Italian Government as unpersuasive. As a consequence, the Italian Government shall, within two months, comply with the EU reasoned opinion and change the law accordingly. The Italian Government preliminarily discussed in March 2013 and is going to approve within the decree law aimed at transposition in the Italian framework the EU rules (Legge Comunitaria 2013) a specific provision aimed at withdrawing the AGCom obligation to impose on Telecom Italia the disaggregated offer for its LLU ancillary services independently of its autonomous decision based on a market analysis procedure. The formal approval of this law by the Italian Parliament is expected to end the infringement procedure by the European Commission.

Pending the conclusion of the third round of market analyses on the wholesale and retail access markets, AGCom extended the economic conditions of the wholesale access services published in the Reference Offers approved for the year 2012(LLU, Bitstream and WLR services).

However, on December 20, 2012, following the request by the European Commission to make the cost positioning between the LLU, WLR and Bitstream fixed line wholesale services consistent, the Authority launched two public consultations on the 2013 pricing of WLR services and of Bitstream services, anticipating the results of the analysis to be carried out during the third round of market analyses in the retail and wholesale access markets up to 2013. In particular, AGCom proposed the reduction of 2013 Naked Bitstream access monthly fee from 19.50 to 17.50 (-10.3%) while confirming the analogue WLR monthly fee (11.70) set for the period June-December 2012. As to LLU, on March 27, 2013 a public consultation was opened aimed at defining 2013 prices. Following the above public consultation the new prices for shared access, sub-loop unbundling as well as a first increase of WACC will also be defined. In particular, AGCom decided for submit for public consultation the following ranges of prices related to the monthly rental fees: 8.62 - 9.25 for LLU (9.28 in 2012), 5.75 - 6.17 for sub-loop unbundling (6.19 in 2012) and 0.79 - 0.96 for shared access (1.35 in 2012), including a WACC value of 9.83% (currently at 9.36%). As a consequence, due to the above, the third round of market analyses on the wholesale access market will focus on setting prices and WACC value for the 2014-2016 period (instead of the 2013-2015 period).

In the meantime (March 25, 2013), the Council of State granted the requests filed by Eutelia and WIND, and issued a decision on the 2010-2012 market analysis setting the fees for WLR and Naked Bitstream services. The Council of State focused on the AGCom decision to anchor the network cap mechanism for the above mentioned fees on a retail minus method rather than on a cost orientation one, stating that the decision lacks proper ground and rationale. AGCom has to issue a new statement; however the new decision may not necessarily be different from the previous one, i.e. AGCom can confirm the previous decision providing a more sound legal and economical ground.

In order to complete the **NGAN set of rules** published, in February 2012, AGCom opened three proceedings aimed at introducing: 1) a cost model for the pricing of passive and active wholesale services and the definition of the so called NGAN competitive areas where price of fiber based bitstream and virtual access services are not subject to the cost orientation obligation; 2) potential regulatory amendments of the copper sub-loop unbundling service in light of the possible introduction of the vectoring technology on Fiber To The Cabinet Very High-speed Digital Subscriber Line (**FTTCab-VDSL**) accesses; and 3) the perspective enforcement of symmetric obligations on all operators, for the access to fiber vertical wiring and to building connection segment. In February 2013, the foregoing proceedings were included in the 3rd round market analysis procedure on wholesale and retail access markets while on March 28, 2013 a new public consultation was opened on symmetric regulation for the access to fiber vertical wiring and to building connection segment.

On February 28, 2013, AGCom approved with modifications Telecom Italia s first NGA Reference Offers for passive infrastructure access and wholesale broadband access. For 2012 AGCom approved, among other things, lower than initially proposed monthly fees for the new local level Ethernet bitstream access product (VULA). In details, the monthly rental for VULA over FTTC (30/3 Mbps, naked access) was set at 21.51 (Telecom Italia s initial proposal 31.01 with a reduction of -31%) and for VULA over FTTH (100/10 Mbps) was set at 24.90 (Telecom

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Italia s initial proposal 38.00 with a reduction of -35%). With respect to the hi-house fiber wiring, actual bottleneck of the NGA distribution network, the monthly rental fee was set at 5.96 compared with the Telecom Italia s proposal equal to 9.50 (with a reduction of -37%).

With respect to **migration between operators**, AGCom revised fixed-line customer migration rules, substantially reducing the processing times (reduced to five days as of March 2010) for the donating operator to verify the recipient s migration request (so called Phase II). Moreover, in cases where migration is not requested, the user will have the right to restore, free of charge, the previous configuration within five working days. Furthermore, in order to prevent the activation of services not requested by retail customers fixed-line operators introduced (starting from February 2011) an individual security code provided to the customer when they sign the contract for the access service. Finally, with Decision 62/11/CIR, published on July 2011, the daily capacity of each operator for the migration order management has been increased by 60%.

The regulatory framework should gradually reduce the above-mentioned timeframe.

With reference to **fixed call termination and origination**, in April 2011, AGCom approved fixed interconnection charges from July 1, 2011 to the end of 2013 (prices provided for call origination were set equal to the ones for call termination). In particular, with respect to fixed termination rates (**FTRs**) of both Telecom Italia and AltNets having SMP, AGCom set 2011 prices at the same level as 2010, therefore maintaining AltNet asymmetric prices equal to Telecom Italia s termination charge for the SGT level. Moreover, AGCom deferred to 2012 the application of symmetric termination fares, equal to Telecom Italia s tariff at local exchange level (**SGU**), among the AltNets and Telecom Italia itself. AGCom, finally, decided that, starting from 2013, only IP termination would be regulated, with a single symmetric tariff for Telecom Italia and for other fixed network operators, resulting from the BU-LRIC model to be developed consistent with EU Recommendation 2009/396/EC on termination rates. In 2012, AGCom, approved Telecom Italia s reference offer for fixed services offered in TDM mode, setting a value of cent 0.272/min for local level (SGU) termination. Moreover, on October 31, 2012, Telecom Italia published its reference offer for the year 2013 for interconnection services in both TDM and IP technology in line with the applicable regulatory framework so that the tariffs for IP termination service were regulated while TDM services were provided on commercial basis. Following a public consultation, in January 2013, AGCom notified to the European Commission the IP interconnection glide path for the 2012 2015 period, setting the origination service trend separated from the termination one; previously a unique value was applicable to both the origination and termination services AGCom proposes to apply a glide path until January 1, 2015 in order to allow operators to reach the efficiency required by the application of the pure LRIC model; only starting from that date will tariffs defined through a pure BU-LRIC model be applied to fixed termination rates. With a letter dated February 7, 2013, the European Commission opened a Phase II investigation into the fixed IP termination rates proposed by the Italian regulator, because the fully cost oriented rate (cent 0.043/min) based on a bottom-up pure long run incremental cost (pure LRIC) model would not be reached before January 1, 2015 contrary to the Commission s guidelines. The Commission s Phase II investigation suspended the adoption of AGCom s draft measure on IP FTRs for three months. In the meantime, due to the delay in setting the technical specifications of IP interconnection the migration towards IP could not be achieved by 2012 as envisaged by AGCom. The specifica tecnica ST769 was published on MiSE s website only on January 8, 2013. As a consequence, the Authority launched a public consultation to set regulated rates for TDM services for the year 2013.

The legal dispute over fixed termination prices asymmetry between Telecom Italia and AltNets for the period June 2010-June 2011 was decided on May 15, 2012. The Third Section of the Council of State admitted the appeals filed by some of the alternative operators and by AGCom against the ruling of the Administrative Court of Lazio which overruled decisions regarding 2010 and 2011 tariffs and overcoming the asymmetries between the reverse termination tariffs applied by AltNets and the ones applied by Telecom Italia. In brief, the Council of State, revising the Administrative Court ruling, agreed with the alternative operators claims that the differences existing between Telecom Italia s network architecture and the alternative architectures, determine different costs. Fastweb recently appealed against the Council of State decision since, in its opinion, the Court did not deal with its appeal against the symmetry of termination rates at local level for the year 2012 and should have cancelled 2012 symmetry. The hearing on the appeal was held on January 25, 2013 and, the Council of State upheld the complaint filed by Fastweb and revoked the application of symmetry of TDM 2012 termination tariffs among operators. Consequently, AGCom with Decision 187/13/CONS restored symmetry at national level (SGT) retroactively for 2012; TI therefore, shall pay to terminate on AltNets networks 0.361 eurocent/min instead of 0.272 eurocent/min.

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Concerning **transit services**, in April 2010, AGCom identified two markets: (i) local conveyance and transit market (which includes the single transit service involving only one switch and the transit service between two or more switches located in the same telephone district and the transit services provided jointly with the originating or terminating service) and (ii) national conveyance and transit market (including transit services between two or more switches located in different telephone districts, also when provided jointly with the originating or terminating service). While the regulation for the national conveyance and transit service markets has been withdrawn, AGCom maintained the regulation for the local conveyance and transit market.

Regarding the wholesale markets for **trunk segments of leased lines** and for **terminating segments of leased lines**, AGCom, in January 2010, stated that the market for trunk services was competitive and removed all ex-ante obligations. As to the terminating services market, AGCom identified the following two separate markets: (i) circuits provided between a Telecom Italia node and end user s premises (market A); and (ii) circuits provided between a Telecom Italia node and a mobile operator s base station (market B). AGCom decided to deregulate market B, removing existing ex ante obligations starting from 31 December 2010. AGCom, however, identified Telecom Italia as a SMP in Market A and imposed a network cap for the years 2010-2012.

· **Mobile markets**

In February 2009, AGCom confirmed that the wholesale market for access and call origination on mobile networks should not be subject to ex-ante regulation.

With respect to the wholesale market for voice call termination on mobile networks, AGCom introduced in November 2008 a four year gradual decline in tariffs, setting the Maximum Termination Rate (**MTR**) for each SMP mobile network operator and the elimination of asymmetry enjoyed by the third entrant (WIND) in July 2011 (5.3 eurocents/min) and by the last entrant (H3G) in July 2012 (4.5 eurocents/min).

Following this decision, AGCom developed a new cost model for MTRs taking into account the May 2009 EU Recommendation on the regulation of termination rates. The new cost model was used in the third round of market review in order to update the values of the glide path (multiyear mechanism of price control) set for mobile termination rates.

In November 2011, AGCom published its final decision on wholesale prices for voice call termination on individual mobile networks. The new glide path, based on half-monthly (instead of annual) variations, started from July 1, 2012 and expires on July 1, 2013 with the commencement of a symmetric termination rate for all mobile operators (0.98 eurocents/min).

Mobile networks vocal termination				
	Prices applied from	**New glide path**		
eurocents/min.	**7.1.2011**	**from 7.1.2012**	**from 1.1.2013**	**from 7.1.2013**
Termination on H3G network	6.3	3.5	1.7	0.98
Termination on Telecom Italia, Vodafone and Wind networks	5.3	2.5	1.5	0.98

AGCom s final decision on wholesale prices was challenged before the Administrative Court by Vod/Win/H3G complaining that it introduced a very steep reduction of MTR; Telecom Italia appealed only against the provision stating that asymmetry for H3G should end as of July 1, 2013. On January 2013, AGCom, after providing evidence of the rationale of the above asymmetry in favor of H3G, following two TAR sentences, confirmed the application of asymmetry to H3G up to June 30, 2013. Telecom Italia has challenged this decision with the Regional Administrative Court of Lazio.

In February 2013, the Council of State, accepted the appeals filed by H3G, revoked the original 2008 decision to reduce certain termination rates due to lack of justification and *ad hoc* proceeding . The Council of State concluded that the termination price decrease introduced by AGCom for H3G in the period November 2008-June 2009 from cent 16.26/min to cent 13.00/min was not legitimate. AGCom has not yet issued any decision following the above judgment.

Concerning the wholesale market for SMS termination, as a consequence of a public consultation concluded in October 2012, AGCom decided not to regulate the above mentioned market because it tends towards competition over time, and therefore the second criterion of the three criteria test for ex ante regulation could not be considered as met. Consequently the SMS termination prices continue to be commercially negotiated on a reciprocity basis among operators.

Mobile number portability (MNP)

On January 7, 2011 AGCom published Decision 147/11/CIR on *Amendment to the regulations on mobile number portability* . The Decision, among other things, provides that:

- MNP should be set up by 8.30 a.m. of the second working day following input of the customer s request in the recipient operator s systems;
- from January 1, 2013, the recipient operator must refund the customer, upon request, in case of delays in the activation of the MNP, for a minimum of 2.5 euros for each working day of delay, up to a maximum of 50 euros. The refund is not due for delays up to two working days; for delays over two working days, the refund calculation takes into account all the days late including the first two; and
- the data of the customers who request the MNP activation is to be treated by the donating operator with confidentiality and used only for the activation of the service.

International roaming

The new roaming Regulation (531/2012, the so called Roaming III Regulation) was approved by the European Parliament and the Council in June 2012 and entered into force on July 1, 2012.

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

- transparency measures (such as cut off limit to prevent bill shock and info SMS on the applied retail tariffs) and the adoption of price caps both on voice, SMS and data (retail and wholesale). The retail caps will remain in force until 2017 and the wholesale caps until the expiry of the new regulation in 2022;
- the unbundling/decoupling of the roaming services from the domestic services starting from July 2014 (structural solution). In the unbundling scenario, the customer will buy the roaming services (separately from the domestic services) from an alternative roaming provider (mobile network operator MNO or mobile virtual network operator MVNO/reseller). The definition of the structural solution was delegated to an implementing regulation by the European Commission;

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

The agreed price caps are the following:

at wholesale level:

WHOLESALE	ROAMING III		
	July 1, 2012	July 1, 2013	July 1, 2014
voice (cent/min)	14	10	5
sms (cent/sms)	3	2	2
data (cent/MB)	25	15	5

at retail level:

RETAIL	ROAMING III		
	July 1, 2012	July 1, 2013	July 1, 2014
voice out (cent/min)	29	24	19
voice in (cent/min)	8	7	5
sms (cent/sms)	9	8	6
data (cent/MB)	70	45	20

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In December 2012 the European Commission published the implementing regulation indicating Single IMSI (International mobile subscriber identity) and LBO (local break out) as the structural solutions to be implemented for decoupling. It remains a high level document which delegates to BEREC the definition of guidelines on the technical elements necessary to enable the separate sale of roaming services and provides for the creation of an Industry Forum to ensure a coordinated approach among market players, BEREC and the Commission.

Such Industry Forum defined the Technical Specifications of the unbundling solution, whose details are being further defined by *ad hoc* technical working groups. The results of the working groups will be used to define detailed implementation guidelines which BEREC is expected to publish by the end of June 2013.

Long Term Evolution (LTE) Frequencies

The so-called digital dividend is the allocation of a portion of the broadcasting frequency band to other telecommunication services. AGCom published guidelines for the frequency national plan aiming at fostering the release of the digital dividend band (as required by the European Commission Recommendation 2009/848/EC of October 28, 2009) at present allocated to a large number of local broadcasters (about 600).

On December 7, 2010, following the approval of the 2011 Financial Bill, ACGom and the Ministry for the Economic Development Communications Department launched the process to award, by means of a tender, radio frequencies rights of use to be assigned to broadband mobile electronic communication services.

On June 10, 2011, AGCom published its decision regulating the procedures aiming at issuing the 800, 1800, 2000 and 2600 MHz frequencies rights of use. Finally, on June 27, 2011, the Ministry for the Economic Development published the Invitation to Tender for the award of the frequencies rights of use.

The minimum tender rates for each frequency lot were as follows:

BAND	Minimum rate per lot (in euros)
800 FDD	353,303,732.16
1800 FDD	155,869,293.60
2000 TDD	77,934,646.80
2600 FDD	30,668,726.75
2600 TDD	36,802,472.10

The Ministry for the Economic Development granted Telecom Italia the right to file offers for the use of frequencies.

On October 3, 2011, the Ministry for the Economic Development Communications Department awarded Telecom Italia two 2x5 MHz standard blocks at 800 MHz each, a 2x5 MHz block at 1800 MHz and three 2x5 MHz standard blocks at 2600 MHz each. Telecom Italia s total investment amounts to 1.223 million euro, net of a 38 million euros discount due to Telecom Italia s commitment to implement the new networks using more than 50% environmental sustainable equipment. Given this discount, a specific credit guarantee was set up.

On November 3, 2011, Telecom Italia made a payment of 767 million euros for the award of the above-mentioned frequency blocks and established a five-year guarantee of the remaining 456 million euros to be paid.

The rights of use, formally awarded by the Ministry on October 3, 2011, were allocated on February 2012.

The 2600 MHz band can be used starting from January 1, 2013; at the beginning of January 2013, the Ministry communicated that the 800 MHz band is also available to be used.

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Quality of services of broadband internet access at fixed location

Since November 2008, the operators have been required to provide information about the service level of internet access services at a fixed location:

- operators must state their minimum standards of service quality (including the minimum connection speed) and other information about the characteristics of the access. Subscribers can terminate their contract if the quality of their connection is below the claimed minimum standards;

- operators shall undertake statistical measurements at regional level (for example speed data transmission; delay; rate of packet loss). At present, this activity has been taken in 15 regions and will be gradually extended to all 20 Italian regions.

Since the autumn of 2010, customers have been able to measure the quality of their broadband connections.

AGCom has also introduced a *super-partes* agency verifying operators measurements.

Quality of services of broadband internet access within mobile network

In February 2011, the NRA launched a working group with operators to measure the quality of data service provided by mobile networks.

The working group developed drive test campaigns to be performed every six months in the main cities of all Italian regions. In the June October 2012 period an experimental campaign was conducted aiming at refining the data gathering process. Currently the first campaign is in progress and the results will be available by September.

Universal Service

The Universal Service is a minimum set of services of a certain quality, which shall be made available to all customers, regardless of their geographical location and shall be offered at a reasonable price, taking into account the specific national conditions,. To date, Telecom Italia is the only operator with the obligation of providing the Universal Service (**USO**) throughout Italy.

A fund, set up by the Ministry of Communications, is used to contribute to finance the net cost for the provision of Universal Service. All the main companies in the sector including Telecom Italia contribute to the above fund.

The net cost of providing the Universal Service is calculated as the difference between the company s net cost when it is subject to the obligation of providing the Universal Service and the net cost of the same operation should the obligation not exist. It is AGCom s responsibility to verify the net cost of the Universal Service.

In March 2008, AGCom published a Decision introducing a new method of calculating the net cost based on historical cost accounting (the previous was based on current cost accounting) in order to reduce the net cost for the provision of Universal Service. Such a calculation affects credits related to the Universal Service net cost for the years 2004, 2005 and 2006 which have been re-calculated and submitted to AGCom under the new methodology.

With Decision 153/11/CIR, AGCom assessed the 2004 net cost for universal service. The Authority decided the applicability of the sharing mechanism and assessed the net cost for the year 2004 was 25.9 million euros. The contribution rate due by other operators (Vodafone, Wind and Fasteweb, Teletu Italia and BT) amounts to 8.7 million euros.

With Decision 139/12/CIR AGCOM completed the process for the evaluation of the 2005 net cost of universal service. The Authority established the applicability of the sharing mechanism and determined the net cost for the year 2005 in total 25.6 million euros. The contribution rate due by other operators (Vodafone, Wind and Fastweb, Italy TeleTu and BT) amounted to 10.3 million euros.

Net costs calculations for the years 2006, 2007, 2008, 2009, 2010, 2011 and 2012 have been submitted by Telecom Italia to AGCom. At present the independent auditor appointed by AGCom is verifying 2006 calculations.

In September 2011, with Decisions 106, 107, 108 and 109/11/CIR, AGCom confirmed the amounts to be paid by Vodafone for the years 1999-2003. Vodafone filed new appeals against those decisions with the Council of State (Consiglio di Stato) and with the Administrative Court of Lazio. The sums in discussion (except for the amount for 2001 which is not the subject of appeal) amounted to approximately 37 million euros.

With Decision 153/11/CIR AGCom completed the 2004 US net cost evaluation process. Vodafone and Fastweb filed an appeal with the administrative regional court. The date of the hearings to deal with the merits have not been fixed yet.

Public Telephony

In April 2010 AGCom confirmed that the criteria regarding the distribution of public telephones on the national territory was no longer consistent with current social needs and removed quantitative obligations for Telecom Italia. As a result, Telecom Italia was authorized to remove public telephones after consultation with local municipalities and interested citizens. Since 2010, approximately 25,000 public telephones have been removed. At the end of 2012 the total number of public telephones in place amounted to around 90,000.

Accounting separation and fixed network cost accounting

SMP operators are required to have a transparent accounting system as to their costs. These operators shall provide AGCom annually with both a description and a report on their cost accounting system to assess their compliance with the requirements of the electronic telecommunications regulatory framework. Moreover, SMP fixed and mobile operators must keep a separate accounting system separating the activities in each of the relevant wholesale and retail markets defined by AGCom according to the periodic market analyses.

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

Changes in the regulation on cost accounting and accounting separation follow detailed rules set out in periodical market analyses.

The weighted average cost of capital employed was set by the AGCom at 9.36% nominal pre-tax in December 2010; Telecom Italia stated that this underestimated the cost and caused regulated service s costs to be undervalued and asked that the decision be reviewed.

Since 2008 the regulatory asset base includes Telecom Italia s goodwill which amounts (according to the 2012 statement of financial position) to 30.6 billion euros (approximately 45.8% of the total assets).

Since the services provided by Telecom Italia are capital intensive, decisions related to the perimeter and the cost of capital are absolutely material: as a matter of fact, according to the regulatory accounting for 2010 (the last published) the average employed capital for the sole regulated wholesale services amounts to approximately 11 billion euros. As a consequence, increasing WACC by 1% would increase by 110 million euros the reference cost base for the calculation of prices for wholesale services.

During the first half of 2012, the independent auditors appointed by AGCom to review Telecom Italia s accounting separation of the fixed network services for the year 2010 completed their audit and delivered the requested audit reports to AGCom. Reports of the auditors are approved by means of an AGCom decision; regulatory accounts and accounting methodology are also published by Telecom Italia on its website.

The regulatory accounting report for the year 2011 was produced during 2012 and delivered to AGCom in January 2013 meeting AGCom s final approval (December 2012) of new accounting rules regarding internal contracts, transfer charges and further reporting requirements aimed at complying with the equivalence principle.

At present, Telecom Italia is fully compliant with its regulatory accounting obligations.

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Accounting separation and mobile network cost accounting

In connection with AGCom s second round of market analyses concerning the market for the termination of voice calls on individual mobile networks , AGCom requested SMP operators to produce economic and quantitative data related to regulatory accounting methodologies for the purpose of setting new network cap values. Consultation on the main assumptions of Mobile LRIC model was closed in November 2010.

During 2011, AGCom started a new round of market analyses and stated a new glide path for MTRs for the 2012-2015 period. AGCom also:

(A) updated the glide path in three steps: 07/01/2012, 01/01/2013 and 07/01/2013 in order to speed up the process towards symmetric rates; and

(B) clarified the rules to be applied for regulatory accounting.

During 2012:

- auditing activities regarding accounts at historical costs for the year 2010 ended in March 2012;
- reports of the auditor were published by AGCom on December 2012;
- regulatory accounting report for the year 2011 was delivered to AGCom in January 2013, in compliance with AGCom s Decisions.

At present, Telecom Italia is fully compliant with its regulatory accounting obligations.

AGCom 2011-2012 fee

In January 2011, AGCom carried out an assessment of the compliance by Telecom Italia and all other telecommunications companies with respect to their obligation to pay annual fees to the Authority for the years 2006 through 2010. On March 1, 2011, AGCom notified Telecom Italia that the Company had not fully paid its operating expenses due for the relevant periods, listing additional accounting items which, in its opinion, should have been included in the cost basis used to make the calculation. Telecom Italia was therefore required by AGCom to pay an extra sum for amounts not paid in the five years 2006-2010. Telecom Italia appealed this decision with the Lazio Regional Administrative Court which suspended the terms of the payment until the end of the proceeding.

On March 3, 2011, AGCom published its decision on the payment of the annual fee for the year 2011 with which the Authority raised the contribution share from 1.5 to 1.8 of 2009 communications sector revenues. On April 30, 2011, Telecom Italia paid (with reservation) an amount equal to 24.2 million euros, calculated consistently with the reasoning on which it calculated its fees for the 2006-2010 period and, at the same time, contested the 2011 decision with the Lazio Regional Administrative Court in relation both to the increase in the level of the contribution and to the broadening of the accounting items to be considered in the cost basis.

With respect to the two appeals filed by the Company, two orders were published by the II Section of the Lazio Regional Administrative Court in December 2011. These orders suspended the above-mentioned rulings and referred to the EU Court of Justice a preliminary question, i.e. the assessment of AGCom s national financing system consistency with the principles deriving from the EU sectorial Directives. This decision is pending.

On March 28, 2012, AGCom published its decision on the payment of the fee for the year 2012 (Decision 650/11/CONS), setting the calculation methodology on 2.0 of 2010 revenues of the communications sector. On April 30, 2012, Telecom Italia paid (with reservation) an amount equal to 23.0 million euros and challenged Decision 650/11/CONS before the Regional Administrative Court of Lazio.

Broadband and digital divide

Over the last few years, AGCom introduced several measures aimed at endorsing the development of fixed and mobile broadband through the provision of simplified procedures to deploy the relevant networks.

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Particularly important in this respect were laws introducing:

- a lighter authorization procedure for the deployment of broadband mobile equipment; and,
- simplified rules for the use of innovative digging techniques (mini-trench) for the deployment of optical fiber equipment.

In 2010 the simplification process also affected the authorization procedure for the deployment of electronic communication equipment in protected areas. Since half of Italy is considered as a protected area (*area di conservazione*), provisions aiming at accelerating digging authorizations are important levers for broadband expansion throughout the country.

In 2011 new laws were implemented to simplify the administrative procedure for the expansion of small mobile equipment (0.5 sq. area) and of low power equipment (7 watt). The deployment of mobile equipment falling within the above-mentioned thresholds was actually exempted from the DIA regime (*Denuncia di Inizio Attività* Commencement Notice) previously provided for by the Electronic Communications Code and subject to a simple notification, to be made at the time of commencement of the works.

Further important measures to promote the development of fixed and mobile networks were recently introduced by means of art. 14 of the Decree Law. 179/2012 Further urgent measures for the economic development of the Country) enacted by Law 221/2012. Particularly regarding the deployment of optical fiber and cables the measures provide for:

- reducing the terms already established by the Code of the Electronic Communications for the release of authorizations to dig (copper and fibre both) by reducing the period of the administrative procedure through introduction of the tacit approval principle;
- modifying the rules of the roads (Codice della Strada) introducing the use of techniques aimed at limiting the environmental impact by reducing the depth of excavations; and
- established that telecommunication operators can access common parts of buildings also without the consent of the condominium in order to lay optical fiber.

With reference to the diffusion of the mobile digital technologies, art. 14 modified the criteria for calculation of electromagnetic field allowing a better use of the electromagnetic power available. The implementation of this rule is subject to the adoption of a further regulation which is, at present, under discussion.

The new law also improved the simplification introduced by the L. 211/11 granting the possibility to install equipment up to 10 watts after the provision to City Hall and Arpa of a mere self-certification of activation.

4.3.2 Privacy and Data Protection

Telecom Italia must comply with Italy s Personal Data Protection Code (Legislative Decree June 30, 2003 n. 196, hereinafter as Privacy Code), which came into force on January 1, 2004.

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

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

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

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

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

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

With respect to data retention, communications service providers (**CSPs**) are allowed to retain traffic data for a six-month period in order to deal with disputes over billing and subscriber services. CSPs are also required to retain telephone and electronic communications traffic data for the purpose of detecting and preventing crimes. At present, data retention terms for crime prevention and prosecution are: 24 months for telephony traffic (fixed and mobile); 12 months for electronic communications traffic; and 30 days for unsuccessful call attempts.

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

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

Concerning direct marketing activities, the general rule is the **opt-in system** . Nevertheless Privacy Code also allows the processing of personal data obtained from directories of subscribers, in order to carry out operator-assisted telephone calls for commercial purposes; such processing is possible unless the entity entered its respective telephone numbers in a public opt-out register , which came into force on February 1, 2011.

At present, OTT players are benefitting from current regulation. This is especially true with regards to privacy legislation: indeed, differently from telecom operators, OTTs, in particular from the USA, have significantly fewer constraints in collecting personal data and using it for marketing purposes. Such a situation provides OTTs with an important competitive advantage over Telco operators.

Recent amendments

Legislative decrees that transposed the EU 2009 regulatory framework into Italian law, including the revised e-Privacy Directive, entered into force on June 1, 2012.

The two decrees amended the Privacy Code and the Electronic Communications Code.

These amendments set out that storing information, or accessing information already stored in the terminal equipment of subscriber/user (i.e. by cookies) shall only be permitted on condition that the subscriber/user has given his consent. Such a consent shall be obtained by means of simplified arrangements not yet defined by the Italian Data Protection Authority (DPA). Such simplified arrangements will result from the outcome of a public consultation (closed last March, 19 2013), taking into account the proposals put forward by consumer associations and other stakeholders (i.e. industry associations involved). Consent may be given through the use of specific computer programs or devices which may be easily managed by the users.

Cookies are exempted from the requirement of informed consent, if they satisfy one of the following criteria: i) are used exclusively for the purpose of carrying out the transmission of a communication on an electronic communications network; ii) are strictly necessary to the provider of an information society service that has been explicitly requested by the subscriber/user to provide the above service.

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

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

According to new article 70 of the amended Communications Code regarding the information that should be included in the contract at the user s request, the provider shall include information on:

- any procedures put in place to measure and shape traffic in a network in compliance with the right of protection of personal data of the user so as to avoid saturation of the network; and
- on how those procedures could impact service quality.

4.3.3 Antitrust in Italy

Legislation on competition

Telecom Italia is subject to Italian competition law.

Law October 10, 1990 n. 287 (Provisions aiming at protecting competition and the market) set up the *Autorità Garante della Concorrenza e del Mercato*, or Antitrust Authority .

The Antitrust Authority is responsible for:

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

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

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

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

In addition, the Antitrust Authority may (i) adopt interim measures; and (ii) enforce commitments binding upon the proposing parties in order to dispel identified anticompetitive concerns closing the investigation without any finding of a violation.

Antitrust Proceedings

For a discussion of the significant antitrust proceedings to which the Telecom Italia Group is a party please see Note Contingent Liabilities, Other Information, Commitments and Guarantees of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report .

4.3.4 Antitrust Issues at the European Level

Legislation on competition

Telecom Italia is subject to the European competition law. European competition policy was developed from the three central rules set out in the Treaty on the Functioning of the European Union:

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

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

3. State aid distorting competition and trade within the EU are prohibited (art. 107 of the Treaty). State aid is defined as an advantage in any form whatsoever conferred on a selective basis to undertakings by national public authorities. Therefore, subsidies granted to individuals or general measures open to all enterprises are not covered by Article 107 of the Treaty and do not constitute State aid. Furthermore, the EC Treaty provides that in some circumstances, government interventions are necessary for a well-functioning and equitable economy stating some exceptions and sector specific rules . The Guidelines for the application of State aid rules in relation to rapid deployment of broadband networks state that public funding of broadband projects is not considered state aid if one of three possible exemption routes is used: a) the public authority invests under the same conditions that would be applied to a private investor (MEIP principle); b) the public contribution is limited to the compensation of the provision of a service of general economic interest (SGEI principle); c) it meets certain conditions (promoting the economic development of underdeveloped areas, promoting the execution of an important project of common European interest or to remedy a serious disturbance in the economy of a Member State, facilitating the development of certain activities or areas, promoting culture and heritage conservation.

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

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

State aids rules, on the contrary, can only be applied by the European Commission.

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

Main Antitrust proceedings pending in front of the European Commission

On February 2011, Telecom Italia and the Autonomous province of Trento (**PAT**) signed a MoU to establish a Public-Private Partnership for NGAN (fiber optics) deployment in the Trentino region (around 150,000 households). The Public-Private Partnership is based on a market-driven approach (no state aid) and should allow a shorter time to deployment for the Trentino region an area where only one broadband network operator is present). The project foresees the participation of PAT, Telecom Italia and other industrial partners. A newly established corporation (Newco) (the Trentino NGN Joint Venture) will deploy a fiber network (dark fiber) based on a FTTH 3-GPON architecture and will sell accesses to any Telco/ISP operator based on equivalence principles. Telecom Italia will confer network assets useful for NGAN deployment and will have the possibility to acquire a majority stake or 100% stake of Newco by exercising a call option awarded to it by a shareholders agreement that will govern the public-private partnership.

On July 25, 2012, the European Commission opened an investigation aiming at assessing compliance of the Trentino NGN Joint Venture with European rules on State aid.

The proceeding is aimed at assessing the compliance of the project with the MEIP principle as was in the intentions of the parties. The parties, in fact, have not notified it as State aid nor are interested in an assessment concluding that the project results in State aid compatible with EU rules. The purpose of the investigation is to assess whether there is State aid (Phase I) and, in case it is concluded that there is State aid, whether such aid is compatible with the relevant EU Rules (Phase II).

The parties are not interested in going to Phase II, therefore either the Commission states that the project is MEIP compliant (thus no State aid) in which case the proceedings stop physiologically at Phase I; or, the Commission considers that the project is not MEIP compliant thus implying State aids. In this latter case the Commission should normally go to Phase II but this would not happen in this case because the parties would withdraw the project before the conclusion of Phase I.

Accordingly, if the Commission concludes that the project complies with the MEI principle, it will close the investigation and declare that there is no State aid.

If, on the other hand, the European Commission assessment recognizes the existence of an economic advantage for Telecom Italia and, hence, State aid, it would normally further evaluate whether the aid is compatible with the internal market. In this case, if the Commission concludes that there is State aid the parties will withdraw the project. This has little impact on the business of Telecom Italia as a whole as the project is a pilot which could be replicated in case of positive outcome but would not have negative consequences in case of withdrawal.

PAT submitted its brief on the Commission s assessment on November 22, 2012. Telecom Italia requested an extension of the deadline and submitted its brief on December 3, 2012. Telecom Italia explained its position to the Commission in an ad hoc meeting on December 5, 2012.

PAT has subsequently had access to the complainants objections on the Commission s assessment on January 29, 2013. PAT filed with the Commission its reply to the latter objections on March 1, 2013. The parties are confident that their submissions will dispel the Commission s concerns and will be available to provide any further information and/or clarification on this issue, being also available to discuss with the Commission possible modifications of the project to overcome Commission s eventual residual doubts on the applicability of the MEIP principle.

4.3.5 Telecommunication Regulatory Framework in Brazil

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

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

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

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

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

In October 2008, ANATEL approved the proposed General Update Plan in Telecommunications Regulation (**PGR**) aiming at planning the actions to be promoted by ANATEL for the next ten years, in order to update the regulation of telecommunications in Brazil. Implementation of the Local Loop Unbundling and Virtual Mobile Operators were included in the expected short-term actions by the PGR.

Number portability was introduced in Brazil beginning in September 2008 and became fully operational in March 2009.

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The exploitation of mobile services by Mobile Virtual Operators, based on commercial agreements between established operators and virtual operators was introduced in 2010.

Authorizations

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

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

The authorizations for fixed and mobile services give the Telecom Italia Group (which operate under the brand names TIM, TIM Fiber and Intelig) coverage of the entire Brazil allowing to provide fixed, mobile, long distance and multimedia services.

According to Brazilian law, Internet access is considered a value-added service, and providers of Internet services are not considered to be telecommunications operators. The rules require that all telecommunications services operators allow network access to any interested party to provide value-added services, without discrimination, unless technically impossible. The voice service providers can also provide value-added service through their own networks.

Interconnection rules

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

The interconnection charges for fixed network (**TU-RL**) amount to a percentage of retail prices for the incumbent operators. Alternative operators (including TIM) can apply asymmetrical interconnection rates exceeding up to 20% the one applied by the incumbents.

The values of mobile interconnection rates (**VU-M**) are freely negotiated by operators. The National Regulatory Authority has, however, arbitration power in case of disagreement being able to determine a reference value according to criterion set up by regulation.

Interconnection agreements are subject to prior approval by ANATEL.

National Broadband Plan

In May 2010, the Brazilian government approved a National Broadband Program to extend national broadband coverage by 2014. The plan includes the reactivation of Telebras, responsible for managing and operating a national fiber network, and a new framework aimed at reducing the wholesale connectivity price and consequently allowing a more affordable price of entry level broadband residential connections.

Other measures in the plan are represented by fiscal incentives to induce the operators to offer broadband access to low income families, public investments in research and financial support to national industries.

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Main regulatory developments

Fixed Termination Rates

In May 2012, ANATEL approved a new regulation on fixed termination rates setting local interconnection rates in case of a traffic unbalance of at least 75% of traffic exchanged amongst fixed network operators. Fixed networks will only remunerate each other when there is a 75%-25% imbalance of interconnection traffic (previously, it was 55% versus 45%). Below that threshold a system of bill and keep applies.

ANATEL also decided that starting from January 2014, the Bill and Keep system will generally apply, i.e., all operators take rights of tariffs generated on their networks, and no interconnection remuneration will be in place.

Leased Lines

In May 2012, ANATEL approved new regulations on Wholesale Leased Lines (EILD).

Operators holding a significant market power are obliged to provide EILD at a reference price 30% lower than the one previously practiced. The provision of special Leased Lines, at a higher price than the standard lines, should be amply justified and limited to requests requiring larger investments or, only in case of copper lines, when the premises are located far from the central offices. Existing contracts shall be adapted to the new ANATEL provisions.

Suspension of new sales because of alleged service complaints

In July 2012 ANATEL suspended the sales of new mobile plans by the three main carriers in certain states, because of alleged consumer complaints about dropped calls and spotty coverage, ANATEL imposed the suspension of new sales in various states to Oi (in 5 states), TIM (19 states) and America Movil SA s Brazilian unit Claro (3 states). Together, the three companies represent about 70% of Brazil s mobile market.

The suspension was an unusually strong sanction and one of the toughest measures ever taken by ANATEL.

The companies had 30 days to present investment plans to regulators showing how they ll improve service. Only after plans approval, sales were resumed.

The operators committed themselves to invest in improving the quality level of mobile services in the next two years. The plans submitted by the operators cover all states and the Federal District, and include investments in network improvements, improved customer service and reduced service interruptions. The providers showed improvement proposals detailed state by state, including measures to ensure quality of service and networks.

As a consequence, in August 2012 ANATEL lifted the ban on new sales of mobile phone plans for the three carriers, considering satisfactory the investment plans to ensure better service and coverage.

In February 2013 ANATEL released the first quarterly review of the National Action Plan to Improve the Provision of Personal Mobile Service. The above review includes the assessment of the first three months of long-term plans submitted by providers to ANATEL to improve services. The evaluation will be continuous over two years.

The report was released after detailed analysis of the results presented between August and October last year.

Assignment of frequencies in the 2.5GHz and 450MHz bands

In June 2012, the auction for the allocation of radio frequencies in the 2.5GHz band was held. Together with the 2.5GHz frequencies, enabling 4G/LTE applications, a portion of frequencies in the range of 450MHz was assigned.

Since no bidder was interested in separately acquiring frequencies in the 450MHz band, because of the lack of standards and the burdensome coverage obligations, frequencies were then assigned, along with coverage obligations, to the 2.5GHz frequency winners.

TIM Brasil was awarded a 10MHz block of national spectrum and 6 regional licenses in the 2.5GHz band bidding approximately 148 million euros.

Telefónica Brazil (Vivo) was the largest bidder in the auction, agreeing to pay approximately 407 million euros for 20MHz of national 2.5GHz spectrum.

Claro was awarded 20 MHz and 19 regional licenses *vis-à-vis* a fee of approximately 383 million euros.

Oi, part-owned by Portugal Telecom, was awarded a 10MHz block of national spectrum along with 11 regional licenses bidding approximately 154 million euros.

Coverage obligations:

- 450MHz: by December 31, 2015, rural areas within 30 km from the City Hall covered with voice and data services;
- 2.5 GHz: by December 31, 2016, gradual coverage by means of 4G services of the cities with more than 100,000 inhabitants (starting from the cities involved in the 2014 FIFA World Cup).

Cost models implementation

In 2005, ANATEL issued a ruling for Accounting Separation and Cost Accounting , introducing on license holders and groups holding Significant Market Power in the offering of fixed and/or mobile network interconnection and wholesale leased lines (*Exploração Industrial De Linha Dedicada* **EILD**) the obligation to present the Accounting Separation and Allocation Document (*Documento de Separação e Alocação de Contas* **DSAC**). Starting from 2006 (for fixed operators) and 2008 (for mobile operators), operators (TIM included) are providing ANATEL with the requested information.

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

Between July and August 2012, ANATEL held a public consultation on the conceptual approach and recommendations for the construction of the Long Run Incremental Cost model for fixed and mobile networks.

By 2014, when the cost model will be available, ANATEL should have an instrument for the effective application of the obligation of cost orientation for the development of regulated wholesale services.

General Competition Plan (PGMC)

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

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

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

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

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

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

TIM Brasil was appointed as significant market power operator in the wholesale markets of mobile termination, national roaming and the access to ducts and trenches. The measures applied to the significant market power operator in those markets, include:

- a glide path on mobile termination rates for the 2013-2015 period, based on a price cap system, with a decrease of almost 50% in the next three years;

- the obligation to offer the service of national roaming to operators not having significant market power: regional licensed CTBC and Sercomtel and national licensed Nextel.

The obligation to offer the access to own ducts and trenches.

Mobile interconnection rate glide path

As a result of the November 2012 decision by ANATEL on market analysis (PGMC), the full billing of the exchanged traffic was maintained amongst the undertakings considered as having significant market power in the market of mobile interconnection (Claro, Oi, TIM and Vivo), whereas the partial bill and keep will be applied amongst operators being designated as having significant market power and operators not designated (Sercomtel, CTBC and Nextel).

The imbalance between incoming and outgoing traffic over which the termination fee will be paid amongst operators being designated as having significant market power and operators not being designated will be 80% from January 2013 to February 2015. From that date, it will decline to 60% until February 2016, when the full billing methodology will be applied again.

ANATEL also modified the October 2011 glide path to be applied to the reference value of the mobile termination for calls coming from the fixed networks.

As a result, the expected reduction of MTR, from February 2013, R$0,37/min (approximately 0.14/min) to R$0.34R/min (approximately 0.13/min) was confirmed: the successive reductions for 2014 and 2015 have been increased: R$0.25R/min (approximately 0.1/min) in 2014 and R$0.17/min (approximately 0.07/min) in 2015. From 2016, the values will be cost-oriented and, according to the statement by the ANATEL rapporteur, should converge to approximately R$$0.10/min (approximately 0.04/min).

Proposal on new allocation of the 700 MHz band

A public consultation proposed by ANATEL on the new allocation of the 700 MHz band was held from February 21 to April 14, 2013. The draft Regulation on Conditions for Use of Radio Frequencies concerns the allocation of the range of frequency from 698MHz to 806MHz (the so called 700 MHz band), allowing the allocation of the band for the provision of fourth generation telecommunication services and high speed internet.

Currently, the 700 MHz band is used for broadcasting. The new destination will be possible due to the transition from analogue TV to digital TV, which allows greater density in the frequency range dedicated to broadcasting, freeing up more space for the provision of telecommunications services.

The decision should be approved and released in the first half of 2013. The auction for the allocation of the frequencies to the mobile operators is expected by the first half of 2014.

4.3.6 Telecommunication Regulatory Framework in Argentina

Telecom Argentina and Telecom Personal operate in a regulated industry. Regulation not only covers rates and service conditions, but also the terms under which various licensing and technical requirements are imposed.

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Telecom Argentina s and Telecom Personal s activities are supervised and controlled by the *Comisión Nacional de Comunicaciones* (**CNC**), a governmental agency under the supervision of *Secretaría de Comunicaciones* (**SECOM**), which is embodied within the Ministry of Federal Planning, Public Investments & Services. The SECOM develops, enforces and implements policies which are applicable to telecommunications services, reviews the applicable legal regulatory framework, approves major technical plans and resolves administrative appeals filed against CNC resolutions.

The Argentinean regulatory framework is mainly featured by:

- the Privatization Regulations, including the List of Conditions and the Transfer Agreement;
- the Licenses granted to Telecom Argentina and its subsidiaries;
- the Agreements on Rates; and
- various governmental decrees, including Decree n. 764/00, establishing the regulatory framework for licenses, interconnection, universal service and radio spectrum management, Public emergency law (law n. 25561) dated January 6, 2002 (regarding, among others, rules freezing fixed telephony rates).

Regulatory Authorities abroad

Núcleo, Telecom Personal s Paraguayan controlled company, is supervised by *Comisión Nacional de Telecomunicaciones* (**CONATEL**) the National Communications Commission of Paraguay.

Telecom Argentina USA, Telecom Argentina s subsidiary, is supervised by the Federal Communications Commission (**FCC**).

Authorizations

In March 1998, the Argentinean government issued the Decree n. 264/98, introducing a plan for the liberalisation of the Argentinean telecommunications industry.

This Decree provided for the extension of the period of exclusivity with respect to the provision of Basic telephone services until sometime between October 8, 1999, and November 8, 1999, depending on the particular region. The Plan also provided for: (i) the liberalization of public telephone services and (ii) the liberalization of telephone service in rural areas. In addition, the Plan contemplated that in January 1999, data transmission services within the countries included in Mercosur would be open to competition, subject to some conditions established therein.

Finally, the full liberalization of local, domestic and international long-distance services took place in November 2000 under Decree n. 764/00. By means of this Decree a new general regulation for full liberalization of telecommunication services was established, with the approval of new rules for licenses, interconnection, Universal Services and radio- frequencies spectrum control, allowing each new licensed company to launch its services in November 2000.

This Decree established a new Regulation of Licenses based on a single nationwide license for the provision of all telecommunication services to the public, including fixed-line, wireless, national and international services. It also established a new Interconnection Regulation that includes the obligation to give transparent networks interconnection and to publish a Reference Interconnection Offer (**RIO**) including the infrastructure elements and services that the dominant operator is required to provide. The commercial conditions for interconnection are defined by free agreement between the parts, while costs for basic interconnection elements are established in this regulation.

The main licensees providing local and/or fixed long-distance telephone services in Argentina are, among others, Telmex, Global Crossing, Comsat, IPlan, Telephone2, Telefónica de Argentina and Telecom Argentina.

Telecom Argentina has been granted non-expiring licenses to provide the following services in Argentina: Local fixed telephony; Public telephony; Domestic and international long-distance telephony; Domestic and international point-to-point link services; Domestic and international telex services; Value added services, data transmission, videoconferencing and broadcasting signal transport services; and Internet access.

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Telecom Personal, the affiliated company dedicated to mobile services under the brand Personal, has been granted a non-exclusive and non-expiring license to provide mobile telecommunication services.

Núcleo, in Paraguay, has been granted a renewable five-year period license to provide mobile telecommunication services in Paraguay as well as Personal Communications Services (**PCS**) and Internet access in specific areas of the country.

The freezing of rates for fixed telephony

The Price Cap regime was the methodology originally applied to calculate changes in Telecom Argentina s basic services rates.

Following the 2001 economic crisis, the Public Emergency Law 25561 froze, from January 2002, all tariffs for fixed telephony services (provided under a concession regime by Telecom Argentina and Telefónica de Argentina), and explicitly prohibited rate adjustments. In accordance with this Law, in January 2002, rates for Basic telephone services and long-distance services were converted to pesos and fixed at an exchange rate of P$1.00=US$1.00. The rates Telecom Argentina may charge in the future will be determined by negotiations between Telecom Argentina and the Argentine government.

In accordance with the abovementioned Public Emergency Law, a Renegotiation Unit (**UNIREN**) was created, with the task to renegotiate the rates of all public services.

In May 2004 a Memorandum of Understanding (**MoU**) between the Government and each operator was agreed; the MoU maintained till December 2004 the same tariff level, and granted the continuity of other contractual rights.

In March 2006, Telecom Argentina executed a Letter of Understanding (the Letter of Understanding 2006) with the Argentine government pursuant to which Telecom Argentina will be permitted to raise the termination charge for international incoming calls, increase the time bands for peak-hour rates applied to local and domestic long-distance calls and incorporate certain modifications to the current regulatory framework.

The Letter of Understanding 2006 contemplated the signing and effectiveness of the Minutes of Agreement of the Renegotiation upon the fulfillment of certain necessary administrative steps.

As of the date of this Annual Report, such fulfillment has yet to occur, and the Public Emergency Law has been subsequently extended through December 31, 2013. Also, the freeze of regulated rates still remain in force. Therefore, the Price Cap regime is suspended and it is unknown if and when it will come back into effect or be replaced by other rate regulation procedures.

Universal Service (SU) Regulation

The obligation to pay contributions to the SU has been in force since January 2001 by the regulation approved by Decree 764/00 but could not be implemented.

The SU regime created by Decree No. 764/00 was modified in April 2008 by Decree 558/08. In defining SU the new regulation established two categories: (a) areas with uncovered or unsatisfied needs and (b) customer groups with unsatisfied needs. It also determined that the Secretary of Communication (SC) would have exclusive responsibility for the issuance of general and specific resolutions regarding the new regulation, as well as for its interpretation and application.

The new regime established that the SC will review SU programs which were established under the previous regulation, granting the continuity of SU programs already being administered and implementing programs that had been under review. The financing of SU ongoing programs which were recognized as such will be determined by the SC, whereas telecommunications providers appointed to participate in future SU Programs will be selected by competitive bidding.

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The Decree requires telecommunications service providers to contribute 1% of their revenues (from telecommunication services, net of taxes) to the SU Fund and keeps the pay or play mechanism for compliance with the mandatory monthly contribution to the US Fund or, to claim the correspondent receivable, as the case may be.

On November 11, 2010, the SC issued Resolution No. 154/10 adopting the methodology for the deposit of the SU contributions to the trustee s escrow account. The Resolution includes several provisions related to the determination of the contributions that correspond to the periods before and after Decree No. 588/08 was issued. It also states that telecommunication providers may discount the amounts incurred in the implementation of the SU Initial Programs from the contributions to the SU Fund until the SC determines if those Initial Programs qualify as such. However, if as a result of the SC s verification some amounts are not recognized as Initial Programs, those amounts would have to be contributed into the SU Fund or would have to be allocated to develop US projects previously approved by the SC.

On January 26, 2011, the SC issued Resolution No. 9/11 establishing the Infrastructure and Equipment Program. The Resolution provides that telecommunication service providers can contribute to the projects in this program only the amounts corresponding to their pending SU contributions under Decree No. 764/00, before the effective date of Decree No. 558/08.

Incumbent operators have not yet received any set-offs for the services rendered under the SU regime since 2001, and the resolution by the SC of the appeals filed by Telecom Argentina are still pending.

In compliance with Resolution No. 154/10 Telecom Personal contributes to the SU Fund monthly.

In March 2011, Personal submitted to the SC an investment project, pursuant to SC Resolution No. 9/11, for the development of network infrastructure in locations in the Northern Region of Argentina with no mobile coverage. This program is still pending the approval of the SC.

Argentina Conectada Plan

In October 2010, the Government approved the Plan *Argentina Conectada* setting up a commission for the coordination of various initiatives to promote digital inclusion and broadband connectivity throughout the country.

The objectives of the plan are:

- the extension of broadband services to the majority of the country s locations by 2015;

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the deployment and management by Arsat (public operator that so far has offered satellite services) of a new backbone network, renting fiber from existing operators or by sharing agreements (swaps) of optical fiber;

- the allocation of public funds of approximately 8 billion pesos (about 1.4 billion euro) within 3 years;

- the financing of broad band connectivity in schools and libraries through the Universal Service Fund.

Main regulatory developments

Spectrum

In May 2011 a tender for the allocation of frequencies in the 1900 band (called PCS) and 850 MHz bands (i.e. SRCM) was published. The frequencies were returned by Movistar (Telefónica Group), following the merger with Bell South in 2005 which resulted in it exceeding the limit of 50MHz (spectrum cap) applicable in each region (North, South, Greater Buenos Aires).

Personal took part in the spectrum auction process and expected to acquire additional spectrum to complete its Spectrum cap throughout Argentina, but, on September 5, 2012, SC notified Personal Resolution No. 71, by which, as provided for in Article 10 of the List of Conditions, the auction approved by SC Resolution No. 57/11 was canceled for reasons of opportunity, merit and convenience of the Argentine Government.

Later in December 2012 two presidential decrees regarding spectrum were issued (decree 2426 and 2427), whose application will result in:

- the direct allocation to the state-owned company ARSAT of the frequencies that should be awarded, by means of a mandate to the NRA (SECOM);
- the creation of the virtual mobile operator commercial concept;
- the allocation of the 700MHz (698MHz to 806MHz) and AWS (Advanced Wireless Services 1710-1755 MHz uplink, 2110-2155MHz downlink) bands to mobile telecommunication terrestrial services;
- the declaration of public interest of the Federal Wireless Network), managed by the Ministry of Federal Planning, Public Investment and Services, to be executed through ARSAT, under the National Telecommunication Plan Argentina Conectada , which provides the infrastructure necessary for this purpose, according to the general guidelines established in the Decree s Annex;
- the instruction to the Ministerio de Planificación Federal (Ministry of Federal Planning) being the majority shareholder of AR-SAT, to adopt the necessary actions and the business decisions of its responsibility for the execution and delivery of the services required as a result of the development the federal wireless network.

Also, on December 21, 2012, SC published in the Official Bulletin the Resolution No. 222/09 which assigned ARSAT the telecommunication services license authorizing the state company to provide any kind of telecommunication services with or without owned infrastructure. It also provided the authorization for the provision of value-added services, data transmission and transportation of audio and video signals.

By Resolution No. 9/13, published on February 7, 2013, the SC granted ARSAT the registration of Mobile Services and National and International Long Distance Services and the Provision of Telecommunication Facilities.

Mobile Number Portability Implementation

Mobile number portability was implemented from March 2012; a new Data Base Administrator (ABD) was set up to track the number portability.

Portability of mobile numbers are to be completed within 10 working days.

4.3.7 Broadcasting Regulatory Framework in Italy

Consolidated Act on Broadcasting (Legislative Decree 177, July 31, 2005) and Legislative Decree 44, March 15, 2010

Broadcasting activity in Italy is mainly regulated by the Consolidated Act on Broadcasting (Legislative Decree July 31, 2005 n. 177), amended by Legislative Decree March 15, 2010 n. 44 (**Decree 44/10**), implementing the Audio Visual Media Services (**AVMS**) Directive, which entered into force on March 30, 2010.

Decree 44/10 introduced changes in the audio-visual legislation in the areas of advertising and product placement, promotion of European works, short extracts rights, protection of minors, and extends regulation to non-linear audio-visual services.

AGCom implemented the new rules through regulation, including the adjustment of authorizations already released prior to these new rules.

On June 30, 2011, AGCom approved a new regulation (Decision 353/11/CONS) for digital terrestrial broadcasting activities (both concerning network operators and content providers).

Logical Channel Numbering (LCN) Plan

On August 31, 2012, the State Council issued four judgments canceling the Automatic Numbering Plan and, in particular, the assignment to La7 and to MTV of respectively numbers 7 and 8. The State Council objected to the assignment of numbering 8 to MTV, considering the latter not a generalist but a thematic channel. There were no objections to La7 retaining its number 7.

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With a resolution published in October 2012, AGCom launched a public consultation for the new numbering plan together with a new survey on users habits. As a consequence of the above public consultation, with a Resolution adopted on March 21, 2013 AGCom confirmed the assignment of the numbers 7, 8, and 9 to generalist channels defined as former analogic channels with programming and informative obligations (Decision 237/13/CONS). Such a decision leaves to La7 and MTV numbers 7 and 8 on the TV remote control.

The Switch off completion

As of July 4, 2012, the process of switch-off (complete move to digital broadcasting) across the country was completed.

Digitalization of broadcasting networks and frequencies

In response to the infringement procedure 2005/5086 filed by the EC against Italy, in June 2008 the Government passed Law n. 101, replacing the special licensing regime for digital terrestrial network operators with an authorization regime compliant with the Code of Electronic Communications and the EU Directives.

As a consequence, the licenses granted have been converted to general authorizations lasting 20 years.

The European Commission approved the changes introduced by Law 101/08, but asked more spectrum resources to be assigned to new entrants (the Digital Dividend). In response to these further requests, AGCom set up the criteria for the complete digital conversion of the television terrestrial networks.

AGCom established the National Plan of Assignment of the Frequencies (PNAF) which will provide for 21 national Digital Video Broadcasting-Terrestrial (DVB-T) networks with 80% coverage of national territory and 4 Digital Video Broadcasting- Handheld (DVB-H) national Networks. Out of the 25 networks, 5 DVBT and 1 DVBH will constitute the Digital Dividend to be assigned on the basis of competitive bidding procedures.

The Ministry for Economic Development Communication Department assigned to the Telecom Italia Media group only 3 DVB-T Networks (out of the 4 Networks managed by the Group). Telecom Italia Media group appealed against this decision in order to safeguard its interests.

Concerning the Digital Dividend, in November 2010 AGCom issued a Decision on the criteria to be adopted in the tenders for the assignment of the Digital Dividend based on a beauty contest with notice published in August 2011.

In December 16, 2011, the new Government suspended the Beauty Contest procedure and canceled it in April 2012.

On April 16, 2012, the Government approved a provision establishing that frequencies will be assigned by the Ministry for the Economic Development through a bidding auction within 120 days from the approval of such provision, on the basis of criteria defined by the Italian Authority. The provision was approved on May 2, 2012.

Telecom Italia Media group participated in the public consultation on the Regulation for the competitive procedure for the assignment of frequencies economic, which ended December 17, 2012 through TIMB, the network operator.

Following the scheme in consultation, 3 lots of frequencies below 700 MHz (LOTS L) should be assigned for a period of 20 years as well as 3 lots of frequencies above 700 MHz (LOTS U) expiring on December 31, 2017. The starting price of the bid is not defined.

TIMB is excluded from participating to the bid for LOTS L, having been treated as RAI and Mediaset, the incumbent operators on the Italian TV market.

PNAF and digital dividend for mobile services

In order to assign the frequencies in the digital switch off areas and for the DVB-T Digital Dividend AGCom issued a decision enforcing the National Plan of Assignment of the Frequencies.

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Furthermore, this decision provided a Digital Dividend for mobile service in the band 790-862 MHz (channels 61-69 Ultra High Frequency UHF) after the switch off of analogue broadcasting. The Italian Budget Law established that those frequencies, previously assigned to local televisions, should be used for mobile services. The tender took place in the summer 2011, with 4 billion euro revenues.

At the end of 2012 channels 61-69 were released by local broadcasters and assigned to mobile services. 175 million euros have been allocated to compensate local broadcasters current assignee of channel 61-69 in Piemonte, Lombardia, Veneto, Trentino Alto Adige, Friuli Venezia Giulia, Emilia Romagna, Lazio and Campania.

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Item 4. Information On The Telecom Italia Group Disclosure Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 (ITRSHRA)

4.4 DISCLOSURE PURSUANT TO SECTION 219 OF THE IRAN THREAT REDUCTION AND SYRIA HUMAN RIGHTS ACT OF 2012 (ITRSHRA)

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 added Section 13(r) to the Exchange Act. Section 13(r) requires an issuer to disclose in its annual or quarterly reports filed with the SEC whether the issuer or any of its affiliates has knowingly engaged in certain activities, transactions or dealings with the Government of Iran, relating to Iran or with designated natural persons or entities involved in terrorism or the proliferation of weapons of mass destruction during the period covered by the annual or quarterly report. Disclosure is required even when the activities were conducted outside the United States by non-U.S. entities and even when such activities were conducted in compliance with applicable law.

In accordance with our Code of Ethics and Conduct, we seek to comply with all applicable international trade laws including applicable sanctions and embargoes.

Activities relating to Iran

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

i. roaming agreements with the following Iran mobile phone operators: Taliya, KFZO TKC (formerly Payam Kish), Irancell (MTN) and Mobile Company of Iran (MCI) (formerly TCI);

ii. commercial relationship for the delivery of traffic from Iran to our networks and from our networks to Iran (**International Carrier Agreements**). To this end, our subsidiary Telecom Italia Sparkle S.p.A. (**TI Sparkle**) directly and through its subsidiaries entered into agreements with Telecommunication Infrastructure Company (TIC) in Iran.

Roaming agreements

We operate one of the largest mobile network in Italy. Through our foreign subsidiaries, we also have large mobile operations in Brazil (Tim Participações S.A. by means of its subsidiary TIM Celular S.A.) and Argentina (Telecom Argentina S.A. by means of its subsidiary Telecom Personal S.A.).

It is pursuant to roaming agreements that a mobile customer is able to use his or her mobile phone on a network different from such mobile subscriber s home network. The following is the definition of roaming that we provide in the glossary of this Annual Report (see 4.5 Glossary of Selected Telecommunications Terms):

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

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

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

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

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

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In 2012, the impact on net profit (loss) arising from such Roaming contracts is analyzed as follows:

- our total revenues from roaming agreements with Iranian networks were approximately 330 thousand euros (of which 322 thousand euros recorded by Telecom Italia S.p.A.);

- our total charges from roaming agreements with Iranian networks were approximately 319 thousand euros (of which 296 thousand euros recorded by Telecom Italia S.p.A.).

The purpose of all of these roaming agreements is to provide our customers with coverage in areas where we do not own networks. For that purpose, we intend to continue maintaining these agreements.

International Carrier Agreements

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

In 2012, the impact on net profit (loss) arising from the above International Carrier Agreements is analyzed as follows:

- our total revenues from traffic from networks located in Iran to our networks were approximately 9.3 million euros; and

- our total charges from traffic to networks in Iran from our networks were approximately 0.4 million euros.

The purpose of this agreement is to allow exchange of international traffic. Consequently, we intend to continue maintaining this agreement.

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Furthermore, in 2012 our subsidiary Olivetti I-Jet in liquidation recorded 2,500 euros for the sale of a printer together with the related print heads.

All such amounts of revenues and charges are deminimis with respect to our consolidated revenues and operating expenses, respectively.

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

4.5 GLOSSARY OF SELECTED TELECOMMUNICATIONS TERMS

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

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

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

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

ADSL (Asymmetric Digital Subscriber Line). A modem technology which converts existing twisted-pair telephone lines into access paths for multimedia and high-speed data communications. ADSL can receive Mbps and transmit over 832 Kbps in both directions. Such rates expand existing access capacity by a factor of 50 or more without new cabling.

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

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

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

Bitstream. Wholesale broadband access service which consists of supplying an access to XDSL Telecom Italia network and transmission capacity to the network of another Operator.

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

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

BSC (Base Station Controller). Interface with the MSC switching exchange. Has the task of supervising and controlling radio resources, both during the phase when a call is being set up and during the maintenance phase.

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

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

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

Carrier. Company that makes available the physical telecommunication network.

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

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

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

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

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

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

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

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

Digital. A mode of representing a physical variable such as speech using digits 0 and 1 only. The digits are transmitted in binary form as a series of pulses. Digital networks are rapidly replacing the older analog ones. They allow for higher capacity and higher flexibility through the

use of computer-related technology for the transmission and manipulation of telephone calls. Digital systems offer lower noise interference and can incorporate encryption as a protection from external interference.

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

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

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

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

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

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

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

Exchange. See Switch.

FTT HOME, FTT CURB, FTT (*Fiber to the).* It is the term used to indicate any network architecture that uses fiber optic cables in partial or total substitution of traditional copper cables used in telecommunications networks. The various technological solutions differ in the point of the distribution network where the fiber connection is made, with respect to the end-user s location. In the case of **FTT Curb** (Fibre to the Curb) the fiber connection reaches the equipment (distribution cabinet) located on the pavement, from where copper connections are run to the customer; in the case of **FTTHome** (Fibre to the Home), the fiber connection terminates inside the customer premises.

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

GGSN (**Gateway GPRS Support Node**). Junction connecting an external packed network or GPRS system of a different mobile network.

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

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

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

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

Home Access Gateway Access Gateway Home gateway Residential Gateway. A residential gateway is a home networking device, used as a gateway to connect devices in the home to the Internet or other WAN.

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

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

Kvar (kilovolt amperes reactive). Reactive energy: measurement system, expressed in kilovolt, of power losses in an AC electrical system.

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

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

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

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

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

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

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

IP/MPLS (Internet Protocol/Multi Protocol Labeling Switching). A packet switching protocol to optimize network behaviors of mapping Layer3 (IP) end-to-end data flow to Layer2 traffic between adjacent network nodes.

IPTV (Internet Protocol Television). A system that utilises the Internet Protocol infrastructure to transmit digital television content over a network and deliver it via a broadband Internet connection.

ISDN (Integrated Services Digital Network). A system in which several services (e.g., speech and data) may be simultaneously transmitted end to end in digital form.

ISPs (Internet Service Provider). A vendor who provides access to the Internet and World Wide Web.

ITU (International Telecommunication Union). The worldwide policy, spectrum regulation and standardization body in telecommunication operating under the auspices of the United Nations.

LAN (Local Area Network). A private network that covers a local geographic area and provides public telecommunications services as well as interconnection between personal computers.

LLU (Local Loop Unbundling). System through which OLO can rent the last mile of local loop, connecting to their equipments.

Local Loop. Copper wire-couple, through which the telephone connection reaches users; it is the foundation of traditional telephone lines and it is often called last mile .

LTE (Long Term Evolution). Represents the fourth generation (4G) mobile phone systems. LTE belongs to the standard 3GPP (Third Generation Partnership Project) and it is the latest evolution of GSM / UMTS / HSPA standard. LTE offers a higher spectral efficiency in bits per Hertz and download bandwidth up to 150 Mbit / s per cell reducing the latency time. LTE enabled services that require high interactivity (eg, gaming, video conferencing). A further development of LTE, called LTE Advanced , will perform bitrates even higher.

MGCP (Media Gateway Control Protocol). An Internet Engineering Task Force (IETF) signaling protocol proposal allowing a bridge between classic telephone networks and Internet (i.e., IP-based) infrastructures.

MEMS (Micro-Electro-Mechanical Systems). MEMS are miniaturized devices ranging in size from a few micrometers to a few millimeters, which execute one or more monitoring, processing or actuation functions by deploying a combination of electronic, mechanical, optical, chemical or biological components integrated on a usually silicon hybrid circuit.

MGW (Media GateWay). Junction for the connections which carry user traffic.

MPLS (Multi Protocol Label Switching). A packet switching protocol to optimize network behaviors of mapping Layer3 end-to-end data flow to Layer2 traffic between adjacent network nodes.

MS SPRING. A form of traffic protection mechanism for the equipment.

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MSC (Mobile Switching Center). Executes functions such as controlling calls, switching traffic, taxation, controlling network interfaces and acts as an interface with other networks.

MSP. The name of a general purpose programmable switch made by Redcom Laboratories.

Multimedia. A service involving two or more communications media (e.g., voice, video, text, etc.) and hybrid products created through their interaction.

MVNO. (Mobile Virtual Network Operator). MVNO Is a wireless communications services provider that does not own the radio spectrum or wireless network infrastructure over which the MVNO provides services to its customers.

Network. An interconnected collection of elements. In a telephone network, these consist of switches connected to each other and to customer equipment. The transmission equipment may be based on fibre optic or metallic cable or point to point radio connections.

NGAN (New Generation Access Network). New generation network access that can be realized with different technological solutions, typically fiber optic and VDSL pairs.

NGNs (Non-Geographic Numbers). The non-geographic numbers are unique as they are by definition not associated with any particular geographic location (*e.g.* premium rate services, toll free, directory assistance services).

NGN2 (Next Generation Network). New generation network created by Telecom Italia to meet the demands of corporates, public administrations and citizens. The new network architecture guarantees an infrastructure designed to face multiple offers by increasing customisation levels and bandwidth availability, removing bandwidth limits and providing an impressive capacity along with a wide selection of access systems.

Node. Topological network junction, commonly a switching center or station.

Node B (counterpart of BTS in GSM). This is the Radio Base Station in UMTS technology which, via an antenna, sends the UMTS radio signal which creates the coverage of the cell (typically 3 for Node B). It also performs functions which are strictly associated with managing the radio connection.

OLOs (Other Licensed Operators). Companies other than the incumbent operator which operate telecommunications systems in a national market.

Optical fiber. Thin glass, silica or plastic wires, building the interstructure base for data transmission. An optical fiber cable contains several individual fibers, and each of them is capable of driving a signal (light impulse) at illimited bandwidth. Optical fibers are usually employed for long-distance communication: they can transfer heavy data loads, and the signal reaches the recipient, protected from possible disturbances along the way. The driving capacity of optical fibers is higher than the traditional cable ones.

OSS (Operations Support System). Methods and procedures (whether mechanized or not) which directly support the daily operation of the telecommunications infrastructure.

OTT (Over the Top) players. Operators offering contents and services on the internet without owning the proprietary TLC network infrastructure.

Outsourcing. Hiring outsiders to perform various telecommunications services, which may include planning, construction, or hosting of a network or specific equipment belonging to a company, and, ultimately, the management of entire telecommunications systems. Value-added applications may also be provided in various sectors.

Packet-Switched Services. Data services based on parceling or breaking the data stream into packets and switching the individual packets. Information transmitted (whether voice or data) is segmented into cells of a standardized length, which are then transmitted independently of one another, allowing maximization of available capacity and usage of single transmission path for multiple communications. The cells are then reassembled upon reaching their destination.

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Pay-Per-View or PPV. A system by which the viewer pays to see a single program (such as a sporting event, film or concert) at the moment at which it is transmitted or broadcast.

Pay TV. Paid-for TV channels. To receive Pay TV or Pay-Per-View programs, a decoder must be connected to the television set, and a conditional access system.

PCS. Personal communications services.

PDA (Personal Digital Assistant). A handheld computer with a memory size up to several megabytes and a touch-sensitive screen, often using a stylus to input data. The PDA is mainly used for calendar, address book and memoranda functions, but can incorporate advanced office or multimedia functions such as voice calls, messaging, video, mp3 player, etc.

Penetration. The measurement of the take-up of services. As of any date, the penetration is calculated by dividing the number of subscribers by the population to which the service is available and multiplying the quotient by 100.

Platform. The total input, including hardware, software, operating equipment and procedures, for producing (production platform) or managing (management platform) a particular service (service platform).

POP (Point Of Presence). Internet provider locations for network connection, often through dial-up phone lines. When a Pop is within a specific local area, users can connect to the Internet by dialing a local phone number.

POTS (Plain Old Telephone Service). Refers to the basic telephony service (homes use) supplying standard, single-line telephones, fixed-line services and access to public voice telephony network. In contrast, telephone services based on digital communications lines, such as ISDN, are not POTS. The main distinctions between POTS and non-POTS services are speed and bandwidth. POTS is generally restricted to about 52 Kbps.

PSTN (Public Switched Telephone Network). The public telephone network delivering the basic telephone service and, in certain circumstances, more advanced services.

RNC (Radio Network Controller counterpart of BSC in GSM). Supervises and controls radio resources, both during the phase of setting up the call, and during the maintenance phase (for example, handover between different cells). Furthermore, it handles connectivity from and towards: Node B, MSC*, and other RNC.

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

RTG. Is the network of the world s public circuit-switched telephone networks in much the same way that the Internet is the network of the world s public IP-based packet-switched networks.

SDH Standard (Synchronous Digital Hierarchy). The European standard for high-speed digital transmission.

Service Provider. The party that provides end users and content providers with a range of services, including a proprietary, exclusive or third-party service center.

SGT (Transit exchange interconnection level for telephone traffic). Transit Exchange for telephone traffic carriage, routing and transmission.

SGU (Local exchange interconnection level for telephone traffic). Local Exchange for telephone traffic carriage, routing and transmission.

Shared Access. Methods of shared access, through the user s duplex cable, with another TLC service provider. This method permits the retention of voice telephony from Telecom Italia (or other operators) alongside ADSL on the proprietary network of the shared access operator, that is, not passing through the Telecom Italia networks but travelling directly along the operator s channels at the substation.

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SME. The small- and medium-size enterprise market which consists of businesses having between 3 and 50 employees.

SMS (Short Message Service). Short text messages that can be received and sent through GSM-network connected cellular phones. The maximum text length is 160 alpha-numerical characters.

SNCP. A form of traffic protection mechanism for the equipment.

SOHO. The small office/home office market which consists of businesses that use telephone lines to connect to the Internet, as opposed to dedicated lines, and is made up of small businesses, generally with one or two employees, and businesses conducted out of the home.

Switch. These are used to set up and route telephone calls either to the number called or to the next switch among the path. They may also record information for billing and control purposes.

Synchronous. Type of data transmission in which there is permanent synchronization between the transmitter and the receiver.

TDMA (Time Division Multiple Access). A technology for digital transmission of radio signals between, for example, a mobile phone and a radio base station. TDMA breaks signals into sequential pieces of defined length, places each piece into an information conduit at specific intervals and then reconstructs the pieces at the end of the conduit.

TRX. Radio transceivers located in BTS.

ULL (Unbundling Local Loop). System through which ANO can rent the last mile of local loop, connecting to their equipments.

UMTS (Universal Mobile Telecommunications System). Third-generation mobile communication standard. It s constituted by a broadband system in which data travel at 2Mb-per-second, communication is faster, quality is better and multimedia contents can travel trough the Net.

UMTS Cell. Geographical portion of the territory illuminated by a Node B.

UMTS Channels. These enable all the customers of the cell to access both the CS (Circuit Switched) services and the PS (Packet Switched) services of UMTS technology.

Unbundling. A process which allows telephone carriers (other than Telecom Italia) to lease the last part of the telephone loop, that is to say, the copper wire-cable, connecting Telecom Italia central station to the user s home, disconnecting the user from Telecom terminals and connecting him/her to the telephone carrier s terminals.

Universal service. The obligation to supply basic service to all users throughout the national territory at reasonable prices.

VAS (Value Added Services). Value Added Services provide a higher level of functionality than the basic transmission services offered by a telecommunications network for the transfer of information among its terminals, which include wired or wireless switched-circuit analog voice communications; direct unrestricted digital point-to-point service at 9,600 bit/s; packet switching (virtual call); direct broadband analog transmission of TV signals, and supplementary services, such as closed user groups; call waiting; collect calls; call forwarding, and identification of number called. Value Added Services performed by the network, the terminals or the specialized centers include message handling services (MHS) (which can be used, among other things, for commercial documents in predetermined formats); electronic directories listing users, network addressees and terminals; e-mail; fax; teletex; videotex and videotelephone. Value Added Services could include also value added voice telephony services such as Freephone or Premium Rate Services.

VDSL (Very-high-data-rate Digital Subscriber Line). Access technology that allows providers to give clients, by means of an apparatus installed in their homes, access to voice and TV services on the traditional telephone line with a speeds of up to 100 Mbps in downstream (VDSL2).

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VOD (Video On Demand). TV-programme supply on user s request, with payment of a fee for each purchased programme (a movie, a soccer match, etc). Broadcast in a special method for cable and satellite TV.

VoIP (Voice Over IP). Transmission of voice communications over Internet Protocol (IP) data networks, such as IP-based LANs, intranets or the Internet.

VPN (Virtual Private Network). A network designed for a business or government agency, using the infrastructures of a carrier and providing customized services, and which operates in such a manner as to appear dedicated to the user thereof.

WAN (Wide Area Network). A private network that covers a wide geographic area using public telecommunications services.

WI-FI. A service for wireless Internet connection and high speed access.

WLL (Wireless Local Loop). The means of configuring a local loop without the use of wiring.

Wi Max (Worldwide Interoperability for Microwave Access). The Wi MAX is a technology that allows wireless access to broadband telecommunications networks. It is defined by the Wi MAX Forum, a global consortium formed by major companies in the field of fixed and mobile telecommunications which has the purpose to develop, test and promote the interoperability of systems based on IEEE 802.16-2004 standards for fixed access and IEEE.802.16e-2005 for fixed and mobile access.

WLR (Wholesale Line Rental). The WLR Service consists in the resale to wholesale of the basic telephony services and advanced ISDN associated with the fees paid by certified residential and non-residential customers of Telecom Italia s public telephone network.

XDSL (Digital Subscriber Line). It is a technology that makes use of standard telephone lines and it includes different categories including: ADSL Asymmetric DSL, HDSL High-data-rate DSL and VDSL, Very high bit rate DSL. This technology uses a digital signal with a very high frequency in order to increase the data transfer rate.

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Item 4. Information On The Telecom Italia Group Description Of Property, Plant And Equipment

4.6 DESCRIPTION OF PROPERTY, PLANT AND EQUIPMENT

GENERAL

As of December 31, 2012 and 2011, property, plant and equipment owned and leased are detailed as follows:

	As of December 31, 2012				As of December 31, 2011			
	Owned	Leased	Total property, plant and equipment	% of total property, plant and equipment	Owned	Leased	Total property, plant and equipment	% of total property, plant and equipment
	(millions of euros, except percentage)							
Land	232		232	1.5	235		235	1.5
Civil and industrial buildings	698	972	1,670	10.8	795	1,042	1,837	11.5
Plant and equipment	11,837		11,837	76.5	12,108		12,108	75.7
Manufacturing and distribution equipment	39		39	0.3	32		32	0.2
Other	677	17	694	4.5	724	16	740	4.6
Construction in progress and advance payments	982	25	1,007	6.5	1,005	36	1,041	6.5
Total	**14,465**	**1,014**	**15,479**	**100.0**	**14,899**	**1,094**	**15,993**	**100.0**

The principal categories of our equipment are exchanges and transmission equipment, cable networks, base stations for cellular networks and equipment for radio communications. There are no encumbrances that may affect our utilization of our property or equipment.

Real Estate (Land, Civil and Industrial Buildings)

As of December 31, 2012, the Company owned many buildings located throughout Italy. Specialized buildings for telecommunications services account for the majority of properties both in number and book value. Such buildings house mainly exchange equipment and transmission equipment, and are used as part of our continuing telecommunications operations. General purpose properties consist chiefly of offices, depots and computer centers.

Network Infrastructure (Plant and Equipment)

The Telecom Italia Group network infrastructure includes the domestic and international fixed network, the domestic mobile network, the Brazilian mobile network and the Argentinean and Paraguayan Networks. See -4.5 Glossary of Selected Telecommunications Terms , for

definitions of the technical terms used in this section.

Domestic Fixed Network

General. Our domestic fixed voice network consists of 611 main local switches. Concerning the OLO interconnection, each local switch belongs to only one of the 33 gateway areas. Each local switch is physically interconnected to 2 out of 24 (12 pairs) Backbone Nodes (**BBN**).

The fixed long-distance transmission network (Arianna SDH and Phoenix) routes 4,819 VC-4, supports also 93 optical channels 2.5 Gbps point to point and more than 620 optical channels 10 Gbps point to point (also called lambdas from the greek letter l used for wavelength in physics).

In terms of cable infrastructures, the fixed network includes 114.5 million km of copper pairs, mainly in the distribution network and also 5.7 million km of fiber, both in access and trunk network.

Fiber optic cables significantly increase network capacity and make it possible to offer hi-tech services based on the simultaneous transmission of various types of signal, such as voice, data and video.

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At December 31, 2012, the domestic fixed network had the following figures:

Central Offices	approximately 10,400
Switching areas	611
Gateway areas (TDM)	33
Aggregation areas	12
Copper network	114.5 million kilometers-pair
Fiber optic access/carrier network	5.74 million kilometers-fiber
Long Distance VC4	4,819
Long Distance Lambda	93 at 2.5 Gbps more than 627 at 10 Gbps
BroadBand/ADSL network	9,135 Central Offices covered
Main PoP data networks	32

TRANSMISSIONS. The Synchronous Digital Hierarchy (**SDH**) transmission systems operates on fiber optics from 155 Mbit/sec up to 10 Gbit/sec.

The nationwide network (Long distance) has been continuously upgraded during 2012. It is based on SDH and optical DWDM technology (Dense Wavelength Division Multiplexing) and still represents the Telecom Italia high capacity transport network.

In order to save fibers usage, DWDM systems have been implemented to multiply, by a factor of 12 up to 96, the available optical fiber band and the current transmission capacity, thus increasing the total transport capacity.

OPB (Optical Packet Backbone). In 2012 Telecom Italia continued to introduce in the data backbone the Terarouter technology, deployed in the majority of the 32 PoPs of the network (in 2013 all the POPs will be updated). At the end of 2012 OPB network had Terarouter nodes in the following PoPs: two Centro Stella PoPs in Rome, two Centro Stella in Milan (Inner Core PoPs) and twenty-eight OPB PoPs located in Naples, Turin, Florence, Palermo, Bari, Bologna, Brescia, Padua, Catania, Nola, Venice, Pisa, Ancona, Taranto, Modena, Verona, Catanzaro, Rimini, Bolzano, Perugia, Pescara, Alessandria, Savona, Bergamo, Cagliari, Genova, Trieste and Como (Outer Core PoPs).

The OPB network support:

- Internet traffic of residential, business and Wholesale customers;
- VPN traffic (Virtual Private Network) of business customers;
- Voice traffic;

- Video traffic related to IPTV services;

- Mobile data traffic.

OPM (Optical Packet Metro). At the end of 2012 OPM network consisted of 30 metro-regional networks to collect traffic to and from customers through IP DSLAM to supply IPTV and xDSL services. The OPM supports also the services based on Gigabit Ethernet technology (the Ethernity, Hyperway, Gigabusiness and GEA services on GBE optical access). At the end of 2012 Gigabit Ethernet Access was available in 59 towns in Italy. Moreover the OPM network is used for backhauling UMTS and LTE access Nodes.

Broadband/xDSL network. Telecom Italia s broadband network offers hi-tech telecommunications services and multimedia applications. In 2012, the xDSL commercial services for residential and business customers (retail and wholesale) have been extended to 7,351 towns, including S. Marino (compared to 7,241 at the end of 2011). At the end of 2012 9,135 local switching areas were covered by ADSL technology (compared to 9,002 at the end of 2011, consolidated data).

NGAN (Next Generation Access Network). In 2012 Telecom Italia continued to deploy its NGAN based on optical fiber cables. The NGAN deployment is based on FTTH (Fiber To The Home) and FTTCab (Fiber To The Cabinet) architecture. Up to now FTTH have been utilized for deployment in Milan while FTTCab in all other cities.

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FTTCab uses fiber to the street cabinets equipped with VDSL2 cards.

By the end of 2012 about 2,300,000 households had been passed in the following cities: Ancona, Bari, Bergamo, Bologna, Brescia, Brindisi, Catania, Catanzaro, Como, Firenze, Forlì, Genova, L Aquila, Milano, Monza, Napoli, Padova, Palermo, Perugia, Pisa, Prato, Reggio Emilia, Roma, Taranto, Torino, Treviso, Udine, Varese, Venezia, Verona, Vicenza.

Telecom Italia normally installs new optical cables; in Milan Telecom Italia has also acquired the right of use (IRU approach) for 15 years on fiber optics owned by Metroweb (a utility that already owns a widespread optical access network in Milan).

Domestic Mobile Network

The domestic mobile network consists of:

- GSM network (2G: second generation network);
- UMTS network (3G: third generation network);
- LTE network.

On December 31, 2012 Telecom Italia domestic mobile network had the following figures:

GSM/EDGE network

- 16,778 BTS (Base Transceiver Station) GSM radio station (15,298 BTS at the end of 2011) +9.7%;
  - 1,435 of them are µBTS;
- 807,664 radio channels (784,056 at the end of 2011) +3%;
- 280 BSC (Base Station Controller) (382 at the end of 2011), -27% due to the adoption of new generation more performing equipments;

· GSM Core Network: 10 Transit Exchange and 13 Gateways.

UMTS/HSPA network

· 13,643 node B UMTS radio base station (12,943 node B at the end of 2011) +5.4%;

· 2,017,232 radio channels (1,958,944 radio channels at the end of 2011) +2.98%;

· 117 RNC (Radio Network Controller) +8 new RNC compared to total at the end of 2011;

· GSM/UMTS Core Network: 67 MSC-server; 110 MGW; 42 HLR (Home Location Register); 23 GGSN; 47 SGSN.

In 2012 Telecom Italia continued the implementation plan to distribute the High Speed Downlink Packet Access (**HSDPA**) and the High Speed Uplink Packet Access (**HSUPA**); these systems aim to increase the overall data transmission speed offered by UMTS.

In particular the deployment of **HSDPA at 42 Mbit/s** reached the coverage level of the 20% of the resident population.

LTE network

After an auction, in September 2011, additional frequency blocks on 800 MHz, 1800 MHz and 2600 MHz were acquired by Telecom Italia.

The three bands will be used for LTE deployment to provide ultrabroadband services to mobile customers.

As of the date of this Annual Report, the LTE network covers the major Italian cities.

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International Fixed Network

Telecom Italia Sparkle provides voice, IP and data connectivity services to national and international wholesale customers and to multinational corporates relying on an international network made of a proprietary cross-border backbone and bilateral connections.

The coverage of the Mediterranean and of Central and South America is provided by the interconnection with Lan Med Nautilus regional backbones.

Telecom Italia Sparkle international backbone spans 450,000 km covering all of the major regions worldwide and connects over 500 international voice operators.

The cross-border backbone integrates 4 regional networks:

- Europe (**PEB**);
- Latin America backbone;
- Mediterranean basin backbone;
- USA backbone.

In detail:

- **PEB (Pan European Backbone)**. Proprietary fiber optic network spanning the main European countries: Italy, France, United Kingdom, Netherlands, Belgium, Germany, Switzerland, Austria, Spain, Czech Republic, Slovakia and Romania. The overall length is 55,000 km.
- **Latin American backbone**. High-capacity backbone based on fiber optic ring networks, both terrestrial and submarine, with an overall length of 30,000 km, including the Miami-New York section. The ring has a capacity up to 1.8 Tbit/sec and has automatic optical traffic protection connecting the main cities of South and Central America to North America.
- **Mediterranean backbone**. Submarine ring network with a highly reliable configuration, a total length of 7,500 km and a design capacity close to 4.5 Tbit/sec connecting the main markets of the Mediterranean area: Italy, Greece, Cyprus, Turkey and Israel. Currently, the main landing points are Catania, Athens, Chania-Crete, Haifa, Tel Aviv and Istanbul.

- **USA backbone**. Proprietary high capacity terrestrial backbone with POPs in: Newark, New York, Miami, Ashburn, Atlanta, Chicago, Palo Alto, Los Angeles and Dallas.

The services supplied include Voice, IP and Managed Bandwidth in Europe and in the USA, Managed Bandwidth and IP in the Mediterranean and in South America.

Telecom Italia Sparkle s network is an integrated multi-service backbone based on an IP-MPLS core handling differentiated classes of services. The transport layer is based over DWDM with 10, 40 and 100 Gbit/s optical lambdas while voice services are provided by Class 4 switches.

Traffic protection is implemented by MS SPRING (Multiplex Section Shared Protection Ring), SNCP (Sub Network Connection Protection), OTN (Optical Transport Network), MSP 1+1 (Multi Section Protection) and meshed technologies.

In 2012 capacity upgrades were carried out on the international backbone in order to cope with increasing IP and Managed Bandwidth sales.

In order to support the Internet traffic increase, all of the major IP PoPs were upgraded and a new fiber optic metro ring was built in Amsterdam connecting the Pan European backbone to the Evoswitch telehouse with the aim to interconnect with major content providers.

In Paris a new POP in the Equinix telehouse along with a new router in the Courbevoie POP were made available in order to extend the coverage of the MEF (Metro Ethernet Forum) compliant Ethernet services and to support the sales growth.

In the Milan POP additional new generation IP cards were added in the existing Terabit Routers multi-chassis architecture in order to strongly increase the number of 10Gbit/s links handled.

IP architecture was deeply reviewed in the Frankfurt POP connecting local edge routers to the IP-MPLS core in the Milan PoP in order to optimize traffic routing and the expenditures for additional upgrades.

In the Pan European backbone major activities were carried out also on the transport network: the OTN technology was extended to all of the main POPs (London, Frankfurt, Amsterdam, Paris, Marseille). As regards the SDH and metro DWDM platforms, outdated equipment was decommissioned in order to reduce operation and maintenance costs and capital expenditures for new upgrades.

With reference to submarine cables, additional capacity on IMEWE and SMW-4 was delivered by the cable consortia while the Mestre-Umagcable linking Italy to Croatia underwent a 20Gbit/s upgrade.

In the USA backbone, outdated routers were replaced by advanced Ethernet equipment in order to strongly increase the IP traffic that can be handled and provide MEF compliant services and traffic protection technologies. The new IP equipment is now available in New York, Ashburn, Miami, Dallas, Atlanta and Los Angeles. A backbone capacity upgrade among the New York, Newark and Miami POPs was also completed.

In Singapore, the capacity on the fiber backhaul linking the POP to the Sea-Me-We3 and Sea-Me-We4 landing station in Tuas was expanded. A new advanced Ethernet router was introduced replacing an SDH router in order to address the increasing demand for Ethernet services. Backbone upgrades were also carried out on the Singapore-Hong Kong-Palo Alto route adding a new 10Gbit/s link while capacity between Singapore and Los Angeles was groomed replacing the existing 2,5Gbit/s links with a single 10Gbit/s trunk.

In the Djibouti IP POP which is managed through the partnership with a local operator, access capacity was nearly doubled in order to keep up with increasing sales to regional customers.

As for mobile services, a new SBC (Session Border Controller) equipment was deployed in the Newark POP for the IPX interconnections. SBC equipment handle inter-alia VoIP (Voice over IP) traffic allowing an improved interworking among all the interconnected networks and an end-to-end monitoring of the Quality of Service.

Outdated DNS servers for GRX (GPRS Roaming eXchange) and IPX services were replaced and SS7 and SIGTRAN (Signaling over IP protocol) signaling networks were upgraded. New capabilities mainly for Mobile number portability management were deployed in the SMS Hub and SMS Transit platforms.

With reference to voice services, a new hub was deployed in Milan for the management of the remote DCMEs (Digital Multiplex Compression Equipment) installed in the far end voice operators premises. The pre-paid traffic platform was upgraded in terms of number of concurrent calls that can be handled. In addition, a new software release was uploaded in the Softswitches and SBC s in order to increase traffic filtering and routing capabilities.

As regards the service offer for multinational corporates, a new access layer for MEF compliant Carrier Ethernet services was deployed in all of the major POPS: Milan, Frankfurt, Paris, London, Hong Kong, Chicago, Newark, Miami, Bucharest, Singapore and Dubai. In Dubai a new POP was opened partnering with a local operator in order to offer both Ethernet over SDH (EoSDH) and Ethernet over MPLS (EoMPLS) services. New EoSDH equipment were deployed also in Catania for the interconnection with LANMED backbone and in a customer s site in Rome. A new IPsec router was added in the Newark POP. Access capacity was also increased in Frankfurt, Prague and Milan to cope with sales growth.

Mediterranean Backbone

In 2012 a new IP POP was deployed in Sofia along with a fiber optic link connecting Istanbul and Sofia. Major upgrades were also completed on the express Tel Aviv-Cyprus fiber (+200Gbit/s), on the Catania-Istanbul fiber (+100Gbit/s) and on the Italy-Greece-Israel Omnibus fiber (+250Gbit/s) of the MED cable.

Latin American Backbone

In 2012 40Gbit/s DWDM platform were deployed on the SAC ring along with the existing 10Gbit/s platform. Upgrades were also completed on the MAC (40Gbit/s), Cooks (30Gbit/s) and TAC (70Gbit/s) network segments.

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Brazilian Network

Telecom Italia Group s principal properties in Brazil consist of transmission equipment, switching equipment, which connect calls to and from customers, and radio base stations, which comprise certain signal transmission and reception equipment covering a defined area. At our radio base stations we have also installed antennas and certain equipment to connect these antennas with our switching equipment.

As of December 31, 2012, we had 118 mobile switches for voice capacity, 212 thousand TRXs, 8,256 Node B and approximately 39,000 kilometers in fiber optic cable networks (of which 11,500 in metropolitan areas and 27,400 for Long Distance coverage). We generally lease or buy the sites where our mobile telecommunications network equipment is installed.

Tim Brasil plans to invest up to 11 billion Brazilian reais in capital expenditures, in accordance with its industrial plan for the years 2013-2015.

Argentinean and Paraguayan Network

Telecom Italia Group s operation in Argentina is carried out in two major areas. Voice, data and Internet services (provided through Telecom Argentina) and mobile services (provided through Personal). In Paraguay, there is only a mobile operation (through Núcleo).

In connection with providing the above services, the major fixed assets owned by these companies are comprised of outside plant (external wiring), urban and regional fiber links to a modern internet connection and to connect major telecommunication buildings and mobile sites, access facilities (radio base stations) for the mobile system, switching equipment to connect calls to and from fixed and mobile customers, transmission equipment to interconnect all switching equipment and IP network to carry all data traffic. The transmission and IP facilities are used by both areas, mobile and fixed . It is also remarkable the importance of the software and computing equipment that support both the operation and administration of fixed and mobile businesses.

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Item 4A. Unresolved Staff Comments

Item 4A. UNRESOLVED STAFF COMMENTS

None.

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Item 5. Operating And Financial Review And Prospects Critical Accounting Policies And Estimates

Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion should be read in conjunction with the Consolidated Financial Statements included elsewhere in this Annual Report. Such financial statements have been prepared in accordance with IFRS as issued by the IASB.

5.1 CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analyses of our financial condition and results of operations is based upon our Consolidated Financial Statements, which have been prepared in accordance with IFRS as issued by the IASB (designated as **IFRS**). Our reported financial condition and results of operations as reported under IFRS are based on the application of accounting methods which involve the use of subjective assumptions and estimates that underlie the preparation of our financial statements. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available. Actual results could differ, even significantly, from these estimates owing to possible changes in the factors considered in the determination of such estimates. Estimates are reviewed periodically.

In the absence of a Standard or an Interpretation that specifically applies to a particular transaction, management carefully considers subjective valuation techniques and uses its judgment as to the accounting methods to adopt with a view to providing financial statements which faithfully represent the economic substance of the transactions, are neutral, prepared on a prudent basis and complete in all material respects and in accordance with IFRS.

Since our selection and application of accounting policies involve judgments and other assumptions affecting the application of those policies, reported results are sensitive to changes in conditions or assumptions of management and these are factors to be considered when reading our Consolidated Financial Statements. We believe the critical accounting policies described below involve the most significant subjective assumptions and estimates used in the preparation of our Consolidated Financial Statements under IFRS.

Revenue recognition

Revenues are recognized to the extent that it is probable that economic benefits will flow to the Group and their amount can be measured reliably. Revenues are stated net of discounts, allowances, and returns.

· *Revenues from services rendered*

Revenues from services rendered are recognized in the separate consolidated income statement according to the stage of completion of the service and only when the outcome of the service rendered can be estimated reliably.

Traffic revenues from interconnection and roaming are reported gross of the amounts due to other TLC operators.

Revenues for delivering information or other content are recognized when the information or content is delivered to the customer. In the event that the Group is acting as agent, only the commission received from the content provider is recognized as revenue.

Revenues from the activation of telephone services (as well as the related costs) are deferred over the expected duration of the relationship with the customer (generally 8 years for retail customers and 3 years for wholesale customers). In particular, costs from the activation of telephone services are deferred taking also into account the reasonable expectations of cash flows arising from these services. To determine the expected duration of the relationship with customers we perform an analysis of our historical customer relationship trends.

Revenues from prepaid traffic are recorded on the basis of the minutes used at the contract price per minute. Deferred revenues for unused minutes are recorded in Trade and miscellaneous payables and other current liabilities in the consolidated statement of financial position.

· *Revenues from sales and bundled offerings*

Revenues from sales (telephone and other equipment) are recognized when the significant risks and rewards of ownership are transferred to the buyer.

For offerings which include the sale of mobile handsets and service contracts, we recognize revenues related to the sale of the handset when it is delivered to the final customer whereas traffic revenues are recorded on the basis of the minutes used; the related subscriber acquisition costs, including handset subsidies and sales commissions, are expensed as incurred. The revenues allocated to the handset sale are limited to the contract amount that is not contingent upon the rendering of telecommunication services, i.e. the residual of the amount paid by the customer exceeding the services value. The determination of fair values in the telecommunications business is complex, because some of the components are price-sensitive and, thus, volatile in a competitive marketplace.

A small portion of our bundled offerings in the mobile and broadband businesses are contracts with a minimum contractual period between 12 and 30 months which include an enforced termination penalty. For these contracts, the subscriber acquisition costs are capitalized under Intangible assets with a finite useful life if the conditions for capitalization as described in the related accounting policy are met.

· *Revenues on construction contracts*

Revenues on construction contracts are recognized based on the stage of completion (percentage of completion method).

Revenue recognition is subject to estimation in respect of the expected duration of customer relationships, the estimate of relative fair values and estimates of discounts, returns and allowances. Revisions to such estimates may significantly affect our future operating results.

Allowance for doubtful accounts

Management maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of our customers to make required payments. Management bases its estimates on the ageing of our accounts receivable balances and our historical write-off experience with similar receivables, customer credit-worthiness and changes in our customer payment history when evaluating the adequacy of our allowance for doubtful accounts. If the financial condition of our customers were to deteriorate, our actual write-offs might be higher than we estimate.

Accounting for tangible and intangible non-current assets

Accounting for tangible and intangible non-current assets involves the use of estimates for determining fair value at the acquisition date in the case of assets acquired in a business combination and the expected useful lives of assets with a finite useful life. The determination of the fair values of assets, as well as the useful lives of the assets is based on management s judgment. Changes in the economic conditions of the markets in which we operate, technology and competitive forces could significantly affect the estimated useful lives of these assets and may lead to a difference in the timing and amount of depreciation and amortization expense.

Acquisition accounting, goodwill and purchase price allocation

We have entered into certain acquisitions and in the future may make further acquisitions. The calculation of the purchase price, and the subsequent allocation of that purchase price to the fair value of the assets acquired and liabilities assumed, is critical due to the long-term impact on the separate consolidated income statement.

Under IFRS, we are required to perform a purchase price allocation and, consequently, as part of that allocation, all consideration, including the fair value of exchanged shares, shall be valued. When equity instruments are issued as part of the consideration, under IFRS we measure them at their fair value as of the date of exchange.

The purchase price is then allocated to the fair value of the assets acquired and liabilities assumed.

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The purchase price allocation requires that all assets and liabilities be recorded at fair values which requires significant estimates and judgments to be made. A change in any of these estimates or judgments could change the amount allocated to the assets and liabilities. The resulting change in the purchase price allocation to assets or liabilities has a direct impact on the final amount of the purchase price that is allocated to goodwill.

If actual results differ from these estimates, or we adjust the estimated useful economic lives in future periods, operating results could be significantly affected by these estimates and judgments which involve:

- the definition of the purchase price;
- the identification of the assets acquired and liabilities assumed in the acquisition;
- the valuation of these assets and liabilities in the purchase price allocation; and
- the assessment of whether selected assets have a finite or indefinite useful life.

These could have a significant impact on both the level of total goodwill and ultimately on the separate consolidated income statement.

Accounting for transactions involving interests in group companies

We have entered into certain transactions involving interests in Group companies, and in the future we may make further similar transactions.

Under IAS 27, changes in a parent s ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the parent.

Impairment of assets

The determination of impairment of intangible and tangible assets involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment.

- ***Goodwill.*** Goodwill is tested for impairment at least annually or more frequently whenever events or changes in circumstances indicate that goodwill may be impaired, as set forth in IAS 36 (*Impairment of Assets*); however, when the conditions that gave rise to an impairment loss no longer exist, the original amount of goodwill is not reinstated.

The test is generally conducted at the end of every year so the date of testing is the year-end closing date of the financial statements. Goodwill acquired and allocated during the year is tested for impairment at the end of the year in which the acquisition and allocation took place.

To test for impairment, goodwill is allocated, at the date of acquisition, to each cash-generating unit or groups of cash-generating units which is expected to benefit from the acquisition.

Allocation is made to the lowest level at which goodwill is monitored for management purposes and that lowest level is not larger than the operating segment determined in accordance with IFRS 8 (*Operating Segments*).

If the carrying amount of the cash-generating unit (or group of cash-generating units) exceeds the recoverable amount, an impairment loss is recognized in the separate consolidated income statement. The impairment loss is first recognized as a deduction of the carrying amount of goodwill allocated to the cash-generating unit (or group of cash-generating units) and then only applied to the other assets of the cash-generating unit in proportion to their carrying amount, up to the recoverable amount of the assets with a finite useful life. The recoverable amount of a cash-generating unit (or group of cash-generating units) to which goodwill is allocated is the higher of fair value less costs to sell and its value in use.

In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The future cash flows are those arising from an explicit time horizon between three and five years as well as those extrapolated to estimate the terminal value. The long-term growth rate used to estimate the terminal value of the cash-generating unit (or group of cash-generating units) is assumed not to be higher than the average long-term growth rate of the segment, country or market in which the cash-generating unit (or group of cash-generating units) operates.

The value in use of a cash-generating unit which operates in a foreign currency is estimated in the local currency by discounting cash flows to their present value on the basis of an appropriate rate for that currency. The present value obtained is translated to Euro at the spot rate on the date of the impairment test (in the case of the Telecom Italia Group, the date of the financial statements).

Future cash flows are estimated by referring to the current operating conditions of the cash generating unit (or group of cash-generating units) and, therefore, do not include either benefits originating from future restructuring for which the entity is not yet committed, or future investments for the improvement or optimization of the cash-generating unit.

For the purpose of calculating impairment, the carrying amount of the cash-generating unit is established based on the same criteria used to determine the recoverable amount of the cash-generating unit, excluding surplus assets (that is, financial assets, deferred tax assets and net non-current assets held for sale) and includes the goodwill attributable to non-controlling interests.

After conducting the goodwill impairment test for the cash-generating unit (or groups of cash-generating units), a second level of impairment testing is carried out which includes the corporate assets which do not generate positive cash flows and which cannot be allocated by a reasonable and consistent criterion to the single units. At this second level, the total recoverable amount of all cash-generating units (or groups of cash-generating units) is compared to the carrying amount of all cash-generating units (or groups of cash-generating units), including also those cash-generating units to which no goodwill was allocated, and the corporate assets.

See Note Goodwill of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

- ***Intangible and tangible assets with a finite useful life***. At every annual or interim closing date, the Group assesses whether there are any indications of impairment of intangible and tangible assets with a finite useful life. Both internal and external sources of information are used for this purpose. Internal sources include obsolescence or physical damage, and significant changes in the use of the asset and the economic performance of the asset compared to estimated performance. External sources include the market value of the asset, changes in technology, markets or laws, increases in market interest rates and the cost of capital used to evaluate investments, and an excess of the carrying amount of the net assets of the Group over market capitalization. When indicators of impairment exist, the carrying amount of the assets is reduced to the recoverable amount. The recoverable amount of an asset is the higher of fair value less costs to sell and its value in use. In calculating the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, we estimate the recoverable amount of the cash-generating unit to which the asset belongs. Impairment losses are recognized in the separate consolidated income statement. When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, up to the carrying amount that would have been recorded had no impairment loss been recognized. The reversal of an impairment loss is recognized as income in the separate consolidated income statement.

The identification of impairment indicators, the estimation of future cash flows and the determination of fair values of assets or groups of assets (or cash-generating units) require management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. These estimates can have a material impact on fair value and the amount of any write-downs.

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Financial assets

Financial assets include in particular investments, some of which are publicly traded and have highly volatile share prices. Generally, an impairment charge is recorded when an investment s carrying amount exceeds the present value of its estimated future cash flows. The calculation of the present value of estimated future cash flows and the determination of whether an impairment is other than temporary involve judgments and rely heavily on assessments by management regarding the future development and prospects of the investee company. In determining value, quoted market prices are used, if available, or other valuation methodologies. To determine whether an impairment is other than temporary, we consider the ability and intent to hold the investment for a reasonable period of time to ascertain whether a forecasted recovery of fair value exceeds the carrying amount, including an assessment of factors such as the length of time and magnitude of the excess of carrying value over market value, the forecasted results of the investee company, the regional economic environment and state of the industry. Future adverse changes in market conditions, particularly a downturn in the telecommunications industry, or poor operating results could result in losses or an inability to recover the carrying amount of the investment, which could result in impairment charges.

Derivative financial instruments

Telecom Italia enters into several different types of derivative contracts in order to manage its exposure to exchange rate and interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to within pre-established operational limits. The changes in the fair value of derivatives which do not qualify for hedge accounting, fair value hedge derivatives and the ineffective portion of cash flow hedge derivatives are recognized in the separate consolidated income statement in the period of change. The gain or loss on the effective portion of qualifying cash flow hedges is recognized directly in a specific equity reserve. The cumulative gain or loss is removed from equity and recognized in the separate consolidated income statement at the same time the hedged transaction affects the separate consolidated income statement. The assessment of the fair value of a derivative contract requires the use of quoted market prices, banker price quotations, price quotations for similar instruments traded in different markets and, where applicable, pricing models. Pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized. We rely on these pricing models when external fair values are unavailable. The estimates regarding future prices require estimating several factors, including interest rates, currency values and cash flows. Prices realized in the future could differ from these estimates, therefore producing different financial results.

Provision for employee severance indemnity

Employee severance indemnity, mandatory for Italian companies pursuant to art. 2120 of the Italian Civil Code, is a deferred compensation and is based on the employees years of service and the compensation earned by the employee during the service period.

Under IAS 19 (*Employee Benefits*), the employee severance indemnity is considered a Defined benefit plan , except when employees, starting from the year 2007, choose to direct their accruing indemnity portions to supplementary pension funds or to the Treasury Fund managed by the Italian Social Security Institute (INPS); in such case the employee severance indemnity is classified as a Defined contribution plan .

The obligation for the employee severance indemnity classified as a defined benefit plan is determined in accordance with actuarial methods. In the event that changes in assumptions are required, the future amounts of the post employment benefit may be materially affected.

Provisions and contingent liabilities

We exercise considerable judgment in determining our exposure to and recognizing provisions for contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation as well as other contingent liabilities.

Judgment is necessary in assessing the likelihood that a pending claim will succeed or a liability will arise and to quantify the possible range of the final settlement. Provisions are recorded for liabilities when losses are considered probable and can be reasonably estimated. Because of the inherent uncertainties in making such

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judgments, actual losses may be different from the originally estimated provision. Significant estimates are involved in the determination of provisions related to taxes, environmental liabilities, our workforce reduction initiative and litigation risks. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or outside consultants, such as actuaries or legal counsel. Adjustments to loss provisions may significantly affect future operating results.

Income tax expense

The Group calculates income tax expense in each of the tax jurisdictions in which it operates. This process involves a jurisdiction-by-jurisdiction calculation of the current tax charge and an assessment of temporary differences resulting from the different treatment of certain items for consolidated financial and tax reporting purposes. Temporary differences result in the recognition of deferred tax assets or liabilities in the consolidated financial statements. Deferred tax assets are recognized to the extent that their realization is probable. The realization of deferred tax assets depends, among other things, on the company s ability to generate sufficient taxable income in future years and the reversal of taxable temporary differences, taking into account any restrictions on the carry-forward of tax losses. Various factors are used to assess the probability of the future realization of deferred tax assets, including future reversals of existing taxable temporary differences, past operating results, operational plans, loss carry-forward periods, and tax planning strategies. If actual results differ from these estimates or, if these estimates must be adjusted in future periods, the financial position and results of operations may be affected. In the event of a change in the assessment of future utilization of deferred tax assets, the recognized deferred tax assets must be increased or decreased, as the case may be, and the consequent effects recognized in the separate consolidated income statement.

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Item 5. Operating And Financial Review And Prospects Results Of Operations For The Three Years Ended December 31, 2012

5.2 RESULTS OF OPERATIONS FOR THE THREE YEARS ENDED DECEMBER 31, 2012

5.2.1 Significant Trends Impacting Our Core Businesses

Increased competition continues to have a significant impact on the development of our business. Key trends affecting our core businesses are:

Domestic Business Unit

Telecommunications are strengthening their central role in society, driven by the growing importance of broadband, both fixed and mobile. The ongoing convergence of telecommunications, Information Technology, Media and Consumer Electronics has led to greater competition and faster innovation, thus increasing the industry s complexity. These macro factors have, and continue to have, a material impact on how we plan for, and manage our business.

In the Italian telecommunications market there has been a reduction in consumer and business customers spending on both fixed and mobile services, driven by a decline of traditional voice services, only partially offset by the growth of new Broadband services.

The main strategic priorities and objectives of Telecom Italia in the Domestic market are to:

- stabilize revenues;
- defend market share on traditional services through quality of service;
- grow innovative services leveraging on both access and applications services such as cloud services; and
- develop UBB (UltraBroadband) networks taking into account further developments in the regulatory framework and technological changes.

Brazil Business Unit

Growth in the Brazilian telecommunications market is driven by mobile. Significant trends include acceleration of fixed to mobile substitution and the further development of broadband.

Mobile broadband represents in Brazil a competitive alternative to fixed broadband, considering the country s geography and fixed network characteristics.

In light of these market trends, TIM Brasil s main strategic priorities and objectives are to:

- expand its customer base through fixed to mobile substitution;
- pursue high potential in mobile broadband penetration;
- continue network evolution, mainly through the increase of coverage on 3G and the roll out of the 4G network;
- satisfy the growing demand for Internet services, while optimizing capital expenditure.

Argentina Business Unit

With respect to the telecommunications market in Argentina, growth is expected to be driven by fixed broadband and VAS, and mobile Internet and VAS.

Argentina s strategic priorities are to:

- further build on its market share and its fixed and mobile platforms;
- enlarge its network capacity;
- support premium positioning on mobile to boost value added services revenues;
- fully exploit the high demand for data traffic.

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5.2.2 Business Segments

The Telecom Italia Group reports its financial results on basis of the following operating segments:

- **Domestic**: includes operations in Italy for voice and data services on fixed and mobile networks for final customers (retail) and other operators (wholesale), the operations of the Telecom Italia Sparkle group (International wholesale) as well as the related support activities;
- **Brazil**: includes mobile (TIM Celular) and fixed (TIM Celular and Intelig) telecommunications operations in Brazil;
- **Argentina**: includes fixed (Telecom Argentina) and mobile (Telecom Personal in Argentina and Núcleo in Paraguay) telecommunications operations;
- **Media**: includes television network operations and management;
- **Olivetti**: includes manufacture of office products and services for Information Technology. It carries out Solution Provider activities to automate processes and business activities for small and medium-size enterprises, large corporations and vertical markets;
- **Other Operations**: includes finance companies and other minor companies not strictly related to the core business of the Telecom Italia Group.

The principal changes in the scope of consolidation in 2012 are as follows:

- **Matrix Other Operations**: the company was sold on October 31, 2012, and consequently excluded from the consolidation area as of such date.

The principal changes in the scope of consolidation in 2011 are as follows:

- companies entering the scope of consolidation:
  - **Tim Fiber Brazil Business Unit**: on October 31, 2011, we acquired a 100% stake in the company Eletropaulo Telecomunicações Ltda and a 98.3% stake in AES Communications Rio de Janeiro S.A., both telecommunications infrastructure operators in the states of São Paolo and Rio de Janeiro, now renamed Tim Fiber SP and Tim Fiber RJ, respectively. As a result of certain further transactions, the original ownership interest in Tim Fiber RJ was subsequently increased to 99.7%. The acquisitions were carried out through the subsidiary Tim Celular S.A., into which the two companies were recently merged;

- **4GH group Domestic Business Unit**: on July 27, 2011, the 4G Holding group entered the scope of consolidation (retail sale of telephony products) following the acquisition of 71% of the ordinary shares of 4G Holding S.p.A. which in turn holds 100% of 4G Retail S.r.l.; the two companies merged in 2012;

- companies exiting the scope of consolidation:

  - **Loquendo Domestic Business Unit**: on September 30, 2011, Loquendo S.p.A. was sold and consequently exited the scope of consolidation.

For a description of certain of these businesses, see Item 4. Information on the Telecom Italia Group 4.2 Business Units .

For purposes of the following discussion selected financial data of each Business Unit has been provided for 2012, 2011, and 2010 consistent with the structure of each Business Unit at December 31, 2012.

5.2.3 Non-GAAP Financial Measures

In this Annual Report on Form 20-F, in addition to figures presented in accordance with IFRS as issued by IASB, we disclose figures derived from IFRS that are non-GAAP financial measures (**Non-GAAP Measures**).

Such financial data is considered Non-GAAP financial measures as defined in Item 10(e) of Regulation S-K under the 1934 Act.

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In this Annual Report the Non-GAAP Measure used relate to Net Financial Debt.

Net Financial Debt is a Non-GAAP financial measure as defined in Item 10(e) of Regulation S-K under the 1934 Act, but is widely used in Italy by financial institutions to assess liquidity and the adequacy of a company s financial structure. We believe that Net Financial Debt provides an accurate indicator of our ability to meet our financial obligations (represented by gross debt) by our available liquidity, represented by the other items shown in the reconciliation table. Net Financial Debt allows us to show investors the trend in our net financial condition over the periods presented. The limitation on the use of Net Financial Debt is that it effectively assumes that gross debt can be reduced by our cash and other liquid assets. In fact, it is unlikely that we would use all of our liquid assets to reduce our gross debt all at once, as such assets must also be available to pay employees, suppliers, and taxes, and to meet other operating needs and capital expenditure requirements. Net Financial Debt and its ratio to equity (including Non-controlling Interest), or leverage, are used to evaluate our financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether our financial structure is adequate to achieve our business plan and our financial targets. Our management believes that our financial structure is sufficient to achieve our business plan and financial targets. Our management monitors the Net Financial Debt and leverage or similar measures as reported by other telecommunications operators in Italy and outside Italy, and by other major listed companies in Italy, in order to assess our liquidity and financial structure relative to such companies. We also monitor the trends in our Net Financial Debt and leverage in order to optimize the use of internally generated funds versus funds from third parties. Net Financial Debt is reported in our Italian Annual Report to shareholders and is used in presentations to investors and analysts. Net Financial Debt is calculated as follows:

	As of December 31,	
	2012	2011
	(millions of euros)	
Non-current financial liabilities	34,091	35,860
Current financial liabilities	6,150	6,091
Gross financial debt (A)	**40,241**	**41,951**
Non-current financial assets (B)	**(2,496)**	**(2,949)**
Current financial assets:		
Securities other than investments (current assets)	(754)	(1,007)
Financial receivables and other current financial assets	(502)	(462)
Cash and cash equivalents	(7,436)	(6,714)
Total current financial assets (C)	**(8,692)**	**(8,183)**
Financial assets (D=B+C)	**(11,188)**	**(11,132)**
Net financial debt (A+D)	**29,053**	**30,819**

5.2.4 Overview of 2012 Results of Operations

In 2012, the following characterized the results in our domestic market:

- in the **Domestic Fixed Telecommunications Service Business**, service revenues posted a -3.8% year on year result, a modest decline compared to the previous year. The continuing erosion of the access market, the decrease in market share (674 thousand fixed line losses in 2012 compared to 699 thousand fixed line losses in 2011 and 746 thousand fixed line losses in 2010) and lower traditional services demand and prices (both voice and data, especially in the Business segment) continued in 2012. The line loss was due to, apart from churn in favor of OLOs, disconnection of fixed lines without migration to other operators (a trend that is currently observed e.g. with respect to second homes or clients who abandon their landline and use their mobile phone only). On the revenue side these dynamics are partially offset by actions aimed to preserve the value of our customer base focused on the upselling of high value solutions, especially in the Broadband area;

- the **Domestic Mobile Telecommunications Service Business**, is still characterized by aggressive and competitive behavior that has resulted in a decrease in prices, especially for traditional services (voice and data). This dynamic, in combination with the sharp reduction in mobile termination rates

(MTR) (from 5.3 euro cent to 2.5 euro cent) and the EU price cap on mobile data resulted in a drop of service revenues (-9.0% vs. -8.7% in 2011), only partially offset by the solid growth of mobile internet and by the sales of tablets and smartphones.

In 2012, the following characterized the results in our international markets:

- **Brazil**. Tim Brasil s customer base grew in 2012 by 9.8% compared to 2011 (adding 6.3 million new customers); its market share expanded to 26.9% from 26.5% in 2011. Based on value market share (share in service revenues) Tim Brasil was the second largest Brazilian mobile operator. The company also recorded growth in its pre-paid segment increasing 8.9% year over year (reaching 59.7 million customers), while the post-paid clients increased 15.2% year over year (totaling 10.7 million subscribers).

Tim Brasil continued to focus on growth and profitability, through cost discipline and initiatives to increase revenue from value-added services, increase traffic volumes/usage and network service quality. In particular, revenues from services increased in 2012 by 6.9% compared to 2011 and revenues from handsets grew in 2012 by 35.3% compared to 2011, reflecting the company s strategy of market penetration with high-end handsets (smartphones/webphones and tablets) as a lever to grow mobile data services.

On the cost side, Tim Brasil adopted a disciplined approach to client acquisition, credit analysis and operating expenses.

- **Argentina**. In the Fixed Business growth was mainly due to the increase in the broadband business. The leadership of the brand Arnet was based on effective communication with a differentiated offer by segment and competitive pricing. The broadband accesses increased by more than 5% over the prior year reaching 1.6 million accesses as of December 31, 2012. The ARPU increased by 17.6% over the prior year reaching 102.3 Argentine Pesos.

Rates for regulated voice services continued to be affected by the freezing of rates established by the Public Emergency Law enacted in January 2002. During 2012, the lines in service remained broadly stable at 4.1 million lines as of December 31, 2012. The ARBU (Average Revenue Billed per User) increased by more than 5% over the prior year as a result of the increase in value-added services and the penetration of traffic plans.

In the Mobile Business Telecom Personal s customer portfolio increased by 0.8 million customers (+4.3% over the prior year), reaching 19 million lines as of December 31, 2012, of which 33% were post-paid customers.

At the same time, ARPU improved approximately by 12% over the prior year. A large part of this growth can be traced to value-added services (including SMS text messaging and the mobile internet service) which accounted for approximately 53% of mobile services revenues in 2012.

In Paraguay, the Núcleo customer base grew by about 7% over the prior year and at the end of 2012 Núcleo reached 2.3 million lines, of which 19% were postpaid. During the fourth quarter of 2012, Núcleo focused its efforts on the introduction of Mobile number portability (**MNP**), which took place on November 30, seeking to inform the market on the MNP benefits.

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The following table sets forth our consolidated income statement for the years ended December 31, 2012, 2011 and 2010.

Starting from the first half of 2012 the Telecom Italia Group early adopted and retrospectively applied the revised version of IAS 19 (*Employee Benefits*). Accordingly, the comparative figures of 2011 and 2010 have been restated on a consistent basis.

	Year ended December 31,		
	2012	2011 (Restated)	2010 (Restated)
		(millions of euros)	
Revenues	29,503	29,957	27,571
Other income	298	299	255
Total operating revenues and other income	**29,801**	**30,256**	**27,826**
Acquisition of goods and services	(12,948)	(12,859)	(11,383)
Employee benefits expenses	(3,919)	(3,992)	(3,981)
Other operating expenses	(1,882)	(1,859)	(1,422)
Change in inventories	12	56	(135)
Internally generated assets	581	569	547
Depreciation and amortization	(5,340)	(5,496)	(5,542)
Gains (losses) on disposals of non-current assets	53	3	11
Impairment reversals (losses) on non-current assets	(4,432)	(7,358)	(63)
Operating profit (loss)	**1,926**	**(680)**	**5,858**
Share of profits (losses) of associates and joint ventures accounted for using the equity method	(6)	(39)	99
Other income (expenses) from investments	2	16	289
Finance income	2,082	2,464	3,081
Finance expenses	(4,048)	(4,504)	(5,199)
Profit (loss) before tax from continuing operations	**(44)**	**(2,743)**	**4,128**
Income tax expense	(1,235)	(1,610)	(549)
Profit (loss) from continuing operations	**(1,279)**	**(4,353)**	**3,579**
Profit (loss) from Discontinued operations/Non-current assets held for sale	2	(13)	(7)
Profit (loss) for the year	**(1,277)**	**(4,366)**	**3,572**
Attributable to:			
Owners of the Parent	*(1,627)*	*(4,811)*	*3,118*
Non-controlling interests	*350*	*445*	*454*

5.2.5 Business Unit Financial Data

As from the first half of 2012 the Telecom Italia Group early adopted and retrospectively applied the revised version of IAS 19 (*Employee Benefits*). Accordingly, the comparative figures of 2011 and 2010 for the Business Units have been restated on a consistent basis.

On October 31, 2012, Telecom Italia S.p.A. completed the sale of its wholly-owned subsidiary Matrix, to Libero, controlled by Weather Investment II S.à.r.l.. In 2012 Matrix was also moved to Other Operations and was consequently no longer part of Core Domestic in the Domestic Business Unit. Accordingly, the comparative figures of 2011 and 2010 have been restated on a consistent basis.

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The table below sets forth revenues, operating profit (loss), capital expenditures and number of employees by Business Units, for the periods indicated.

		Domestic	Brazil	Argentina(1)	Media	Olivetti	Other Operations	Adjustments and eliminations	Consolidated Total
				(millions of euros, except number of employees)					
Revenues(2)								(206)	
	2012	17,884	7,477	3,784	222	280	62	(297)	29,503
	2011	18,991	7,343	3,220	238	343	119		29,957
	2010	20,025	6,199	798	258	391	205	(305)	27,571
Operating profit (loss)					(263)	(65)	(3)	(1)	
		1,078							1,926
	2012	(1,996)	966	214	(88)	(43)	(37)	(9)	(680)
	2011		984	509					
	2010	5,197	685	110	(92)	(24)	(34)	16	5,858
Capital expenditures on an accrual basis						3			
	2012	3,072	1,500	557	57	5	7	(18)	5,196
	2011	4,185	1,290	556	61		16		6,095
	2010	3,087	1,216	188	67	5	23	(3)	4,583
Number of employees at year-end(3)	2012	53,224	11,622	16,803	735	778	22		83,184
	2011	55,047	10,539	16,350	765	1,075	378		84,154
	2010	56,106	10,114	15,650	777	1,090	463		84,200

(1) In the scope of consolidation since October 13, 2010.

(2) Revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

(3) The number of employees at year-end excludes employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale, and includes personnel with temporary work contracts.

5.2.6 Year Ended December 31, 2012 Compared With Year Ended December 31, 2011

v **Revenues**

Revenues amounted to 29,503 million euros in 2012, a decrease of 454 million euros, or 1.5%, compared to 29,957 million euros in 2011.

The table below sets forth for the periods indicated gross revenues by Business Unit and consolidated revenues.

	Year ended December 31,					
	2012		2011		Changes	
	Revenues(1) (a)	% of Consolidated revenues	Revenues(1) (b)	% of Consolidated revenues	(a-b)	%
	(millions of euros, except percentages)					
Domestic	17,884	60.6	18,991	63.4	(1,107)	(5.8)
Core Domestic	*16,933*	*57.4*	*18,082*	*60.4*	*(1,149)*	*(6.4)*
International Wholesale	*1,393*	*4.7*	*1,393*	*4.6*		
Brazil	7,477	25.3	7,343	24.5	134	1.8
Argentina	3,784	12.8	3,220	10.7	564	17.5
Media, Olivetti and Other Operations(2)	564	1.9	700	2.3	(136)	
Adjustments and eliminations	*(206)*	*(0.6)*	*(297)*	*(0.9)*	*91*	
Total Revenues	**29,503**	**100.0**	**29,957**	**100.0**	**(454)**	**(1.5)**

(1) Revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

(2) The Other Operations of the Telecom Italia Group consist of the financial companies and other minor companies not associated with the core business of the Telecom Italia Group.

The **Domestic Business Unit** (divided into Core Domestic and International Wholesale) reported a decline of 1,107 million euros (-5.8%) in revenues in 2012, compared to 2011.

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This decrease is partly attributable to the entry into force, in July 2012, of the new mobile termination rates (MTR), which reduced these rates by 53% (from 5.3 to 2.5 eurocents), representing a sharp decrease compared to the tariffs in effect for full year 2011.

The performance of the domestic market was also affected by the macroeconomic environment and continuing competitive pressures.

In particular:

- revenues from services were 17,077 million euros in 2012, down -5.6% compared to 2011. Specifically, revenues from services in the Mobile business decreased by 9.0% compared to 2011. The Fixed-line business revenues from services declined 496 million euros (-3.8% compared with 2011). The decrease in revenues in the mobile market was mainly due to the dilution of the ARPU on traditional services such as voice and text messaging and to the above-mentioned reduction of MTR tariffs (-286 million euros), which decrease was only partly offset by the growth of users and mobile internet. With respect to the fixed line market, the reduction is mainly attributable to the above-mentioned decrease in access lines and the contraction of prices and revenues from traditional services, both voice and data, in particular in the TOP Client segment;

- product revenues of 807 million euros were 93 million euros (-10.3%) lower compared to 2011. The growth in Mobile devices, driven by a greater commercial push on mobile internet-enabled devices was more than offset by the sharp decline in Fixed-line products, attributable to a contraction of the market, but also to a more selective commercial strategy to defend the profit base.

With respect to the **Brazil Business Unit**, revenues grew by 1.8% in 2012 compared to the prior year. Revenues from services continued their positive trend, driven by the growth of the customer base (reaching approximately 70.4 million lines at December 31, 2012, up 9.8% compared to December 31, 2011). Handset revenues also increased compared to 2011.

With respect to the **Argentina Business Unit**, revenues increased 17.5% compared to 2011 (+564 million euros).

For a more detailed analysis of revenue performance by individual Business Units, reference should be made to Item 4. Information On The Telecom Italia Group 4.2 Business Units .

v **Other Income**

The following table sets forth other income for the years ended December 31, 2012 and 2011:

Year ended December 31,

	2012 (a)	2011 (b)	Changes (a-b)	Changes %
	(millions of euros, except percentages)			
Late payment fees charged for telephone services	69	71	(2)	(2.8)
Recovery of employee benefit expenses, purchases and services rendered	36	36		
Capital and operating grants	18	24	(6)	(25.0)
Damage compensation, penalties and sundry recoveries	53	36	17	47.2
Other income	122	132	(10)	(7.6)
Total other income	**298**	**299**	**(1)**	**(0.3)**

v **Operating Expenses**

Our operating expenses amounted to 27,875 million euros in 2012, a decrease of 3,061 million euros, or 9.9% compared to 30,936 million euros in 2011. Operating expenses declined primarily as a result of the reduced impairment losses on non-current assets which decreased from 7,358 million euros in 2011 to 4,432 million euros in 2012. The components of our operating expenses include the following:

· **Acquisition of goods and services** amounted to 12,948 million euros in 2012, an increase of 89 million euros compared to 2011 (12,859 million euros). The increase is largely due to the increase in the commercial

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and technical costs of the Argentina Business Unit (+300 million euros, including a negative exchange rate effect of 24 million euros) and the Brazil Business Unit (+109 million euros, including a negative exchange rate effect of 320 million euros), needed to support the growth of the customer base, voice and data traffic volumes, sales of mobile internet-enabled devices and, consequently revenues in Latin America. Offsetting these increases, the domestic business reduced acquisitions of goods and services by 345 million euros compared to 2011, partly attributable to a decrease in the portion of revenues to be paid to other operators, related to the reduction in mobile termination rates.

The following table sets forth the acquisition of goods and services for the years ended December 31, 2012 and 2011:

	Year ended December 31,			
	2012	2011	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
Purchase of goods	2,610	2,525	85	3.4
Portion of revenues to be paid to other operators and interconnection costs	4,018	4,232	(214)	(5.1)
Commercial and advertising costs	2,154	2,259	(105)	(4.6)
Power, maintenance and outsourced services	1,847	1,618	229	14.2
Rent and leases	666	647	19	2.9
Other service expenses	1,653	1,578	75	4.8
Total acquisition of goods and services	**12,948**	**12,859**	**89**	**0.7**
% on Revenues	*43.9*	*42.9*		

· **Employee benefits expenses**

The following table sets forth employee benefits expenses for the years ended December 31, 2012 and 2011:

	Year ended December 31,			
	2012	2011	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
Employee benefits expenses Italian companies:				
Ordinary employee expenses and costs	2,945	3,144	(199)	(6.3)
Corporate restructuring expenses	8	12	(4)	(33.3)
Total employee benefits expenses Italy	**2,953**	**3,156**	**(203)**	**(6.4)**
Employee benefits expenses Outside Italy				
Ordinary employee expenses and costs	949	836	113	13.5
Corporate restructuring expenses	17		17	
Total employee benefits expenses Outside Italy	**966**	**836**	**130**	**15.6**

Total employee benefits expenses	**3,919**	**3,992**	**(73)**	**(1.8)**
% on Revenues	*13.3*	*13.3*		

Employee benefits expenses were 3,919 million euros in 2012 compared to 3,992 million euros in 2011, a decrease of 73 million euros. The change was affected by:

· the reduction of 203 million euros in the Italian component of employee benefits expenses, mainly due to the reduction in ordinary employee benefits expenses, resulting from the decrease in the average salaried workforce of 1,214 compared to 2011, and from restructuring expenses that were 4 million euros lower (8 million euros in 2012; 12 million euros in 2011). In 2012, these expenses derive from the balance between the provision charge of 15 million euros for Olivetti I-Jet (resulting from the agreements signed with the trade unions of the company put into liquidation in June 2012 a decline of 1.8%) and the use of a total of

7 million euros from the remaining provision for mobility under Law 223/91 by Telecom Italia S.p.A. (6 million euros), and by TI Sparkle and TI Information Technology (1 million euros). In 2011 the provision for mobility under Law 223/91, relating to the agreements signed in 2010 with the trade unions of the Parent Telecom Italia S.p.A. and of TI Information Technology, was adjusted by a total of 12 million euros;

· the increase of 130 million euros in the foreign component of employee benefits expenses, due to the increase of 1,409 in the average salaried workforce, relating to the Brazil Business Unit and the Argentina Business Unit. In addition there was an increase of 17 million euros in restructuring expenses, related to the provision charge of the Argentina Business Unit (15 million euros) and Olivetti Engineering S.A., a subsidiary of Olivetti I-Jet (2 million euros).

The Group s average salaried workforce for the periods indicated was as follows:

	Year ended December 31,			
	2012 (a)	2011 (b)	Changes (a-b)	%
	(full time equivalent units, except percentages)			
Average salaried workforce Italy	52,347	53,561	(1,214)	(2.3)
Average salaried workforce Foreign	26,217	24,808	1,409	5.7
Total average salaried workforce(1)	**78,564**	**78,369**	**195**	**0.2**

(1) Includes the average employees with temp work contracts: 61 in 2012 (58 in Italy and 3 outside Italy). In 2011 the headcount was 87 (75 in Italy and 12 outside Italy).

Group s employees at December 31, 2012 and 2011 were as follows:

	As of December 31,			
	2012 (a)	2011 (b)	Changes (a-b)	%
	(units, except percentages)			
Employees Italy	54,419	56,878	(2,459)	(4.3)
Employees Foreign	28,765	27,276	1,489	5.5
Total Employees(1)	**83,184**	**84,154**	**(970)**	**(1.2)**

(1) Includes employees with temporary work contracts: 43 units at December 31, 2012 and 42 units at December 31, 2011.

· **Other operating expenses**

The following tables sets forth other operating expenses for the years ended December 31, 2012 and 2011.

	Year ended December 31,			
	2012	2011	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
Writedowns and expenses in connection with credit management	548	533	15	2.8
Accruals to provisions	214	128	86	67.2
Indirect duties and taxes	391	349	42	12.0
TLC operating fees	621	675	(54)	(8.0)
Penalties, compensation and administrative sanctions	29	41	(12)	(29.3)
Association dues and fees, donations, scholarships and traineeships	25	23	2	8.7
Sundry expenses	54	110	(56)	(50.9)
Total other operating expenses	**1,882**	**1,859**	**23**	**1.2**
% on Revenues	*6.4*	*6.2*		

Other operating expenses in 2012 are substantially in line with 2011.

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The decreases for the Domestic Business Unit (-70 million euros) and the Brazil Business Unit (-28 million euros, including a negative exchange rate effect of 54 million euros) are substantially offset by the increases for the other Business Units, primarily the Argentina Business Unit (+76 million euros, including a negative exchange rate effect of 6 million euros). In particular:

- writedowns and expenses in connection with credit management (548 million euros; 533 million euros in 2011) consist of 370 million euros (389 million euros in 2011) relating to the Domestic Business Unit, 100 million euros (unchanged compared to 2011) relating to the Brazil Business Unit and 47 million euros (29 million euros in 2011) relating to the Argentina Business Unit;

- accruals to provisions (214 million euros; 128 million euros in 2011) consist of 91 million euros (60 million euros in 2011) relating to the Brazil Business Unit, 92 million euros (50 million euros in 2011) relating to the Domestic Business Unit and 17 million euros (unchanged compared to 2011) relating to the Argentina Business Unit;

- TLC operating fees (621 million euros; 675 million euros in 2011) consist of 487 million euros (554 million euros in 2011) relating to the Brazil Business Unit, 73 million euros (61 million euros in 2011) relating to the Argentina Business Unit and 59 million euros (58 million euros in 2011) relating to the Domestic Business Unit.

- **Depreciation and Amortization**

The following table sets forth depreciation and amortization for the years ended December 31, 2012 and 2011.

	Year ended December 31,			
	2012	2011	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
Amortization of intangible assets with a finite useful life	2,212	2,163	49	2.3
Depreciation of tangible assets owned and leased	3,128	3,333	(205)	(6.2)
Total depreciation and amortization	**5,340**	**5,496**	**(156)**	**(2.8)**
% on Revenues	*18.1*	*18.3*		

The decrease in depreciation and amortization charges is mainly attributable to the Domestic Business Unit (-305 million euros) principally due to lower amounts of depreciable or amortizable assets. This decrease was offset by the increase in depreciation and amortization charges of the Argentina Business Unit (+130 million euros), partly due to the reduction in the useful lives of Customer Relationships which resulted in an increase of 66 million euros in amortization charges.

- **Gains (losses) on disposals of non-current assets**

In 2012, gains on disposals of non-current assets were 53 million euros and included the gain, net of the incidental expenses of 49 million euros, in connection with the completion of the sale of Matrix on October 31, 2012, as well as net gains on non-current assets mainly relating to the Domestic Business Unit.

In 2011, net gains on disposals of non-current assets amounted to 3 million euros and included the gain of 35 million euros, net of the related incidental expenses, realized on the sale of Loquendo at the end of September 2011 and the net losses from the disposal of tangible assets, mainly of the Parent, for the replacement and subsequent disposal of dedicated mobile telephony plant.

· **Net impairment losses on non-current assets**

Net impairment losses on non-current assets were 4,432 million euros in 2012 (7,358 million euros in 2011) and are attributable to the annual impairment test conducted for the annual financial statements. Specifically, this item refers to:

4,016 million euros of the impairment loss is due to the Core Domestic Cash-generating Unit in the **Domestic Business Unit**. This was a further write down to the goodwill write down of 7,307 million euros in 2011;

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a total impairment of non-current assets and goodwill of 157 million euros in the **Media Business Unit**, established following the impairment test process and also taking account of the prospective sale of the investee La7 S.r.l. Specifically, the amount of impairment loss relating solely to the goodwill of the Media Business Unit was 105 million euros, while the remainder relates to non-current assets. This goodwill was previously written down by 57 million euros in 2011;

a total impairment loss of 253 million euros on Intangible assets and Goodwill in the **Argentina Business Unit**, recognized at the time control was acquired by the Telecom Italia Group. In detail, the amount of the impairment loss on Goodwill was 168 million euros, while the remaining portion (85 million euros) related to the impairment loss on Customer relationships.

Further details are provided in the Note Goodwill of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

v **Operating Profit (loss)**

Operating profit was 1,926 million euros in 2012 (operating loss of 680 million euros in 2011).

The operating profit was adversely affected by the impact of the impairment charge of 4,426 million euros in 2012 (7,364 million euros in 2011 and resulted in an operating loss for that period).

v **Share Of Profits (Losses) Of Associates And Joint Ventures Accounted For Using The Equity Method**

The Share of profits (losses) of associates and joint ventures accounted for using the equity method was a loss of 6 million euros in 2012, and mainly related to Tiglio I S.r.l.

In 2011 this was a loss of 39 million euros, due to the writedown of the entire investment in the Italtel Group.

v **Other Income (Expenses) From Investments**

In 2012 other income (expenses) from investments shows a net income of 2 million euros.

In 2011, the income balance of Other income (expenses) from investments was 16 million euros and referred to the gain (17 million euros) on the sale of the entire 27% investment in the Cuban operator EtecSA.

v **Finance Income (Expenses)**

Finance income (expenses) was a net expense of 1,966 million euros (a net expense of 2,040 million euros in 2011), an improvement of 74 million euros. This decrease was mainly due to the positive change in the value of several hedging derivatives, attributable to market fluctuations linked to currency translation. These changes, which are unrealized accounting changes, do not result in any actual monetary settlement. Other positive effects derive from the higher capitalization of finance expenses relating to the purchase of rights to use LTE mobile telephony frequency bands, by the Domestic Business Unit.

For further details about finance income and finance expenses, please see Note Finance income and Finance expenses , of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

v **Income Tax Expense**

Income tax expense was 1,235 million euros, a decrease of 375 million euros compared to 2011. This item also includes 319 million euros relating to the recognition of the credit for the refund receivables for years prior to 2012, following the entry into force of Decree Law 16/2012, which enabled a request for a refund of IRES tax for the IRAP tax calculated on the cost of labor. Net of this effect, income tax decreased by 56 million euros compared to 2011, mainly as a result of the reduction in the tax base of the Parent Telecom Italia.

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Item 5. Operating And Financial Review And Prospects Results Of Operations For The Three Years Ended December 31, 2012

v **Profit (Loss) From Discontinued Operations/Non-Current Assets Held For Sale**

In 2012, the balance was a profit of 2 million euros, while in 2011 was a loss of 13 million euros and included profits and losses incurred in connection with sales transactions of prior years.

5.2.7 Results of Operations of Business Units for the Year Ended December 31, 2012 Compared with the Year Ended December 31, 2011

v **Domestic**

On October 31, 2012, Telecom Italia S.p.A. completed the sale of the company Matrix, a wholly-owned subsidiary, to Libero, controlled by Weather Investment II S.à.r.l.. In 2012 Matrix was also moved to Other Operations and was consequently no longer part of Core Domestic in the Domestic Business Unit. Accordingly, the comparative figures of 2011 have been restated on a consistent basis.

The following table sets forth, certain financial and other data for the Domestic Business Unit for the years ended December 31, 2012 and 2011.

	Year ended December 31,			
	2012 (a)	2011 (b)	Changes (a-b)	%
	(millions of euros, except percentages and employees)			
Revenues	17,884	18,991	(1,107)	(5.8)
Operating profit (loss)	1,078	(1,996)	3,074	
% of Revenues	*6.0*			
Employees at year-end (units)(*)	53,224	55,047	(1,823)	(3.3)

(*) The 1,823 headcount change includes the effects resulting from the acquisition, as of January 1, 2012, of the Contact Center business and the related 249 staff from the company Advalso of the Olivetti Business Unit.

Revenues

Revenues decreased by 1,107 million euros, or 5.8%, from 18,991 million euros in 2011 to 17,884 million euros in 2012.

Such decrease was due in part to the continuing weak economy and a market characterized by sharp price reductions on traditional services and tough competition.

The decrease was primarily attributable to the decline in revenues on traditional services as well as the decline in revenues due to the new mobile termination rates (MTR) which reduced these rates by 53% (from 5.3 to 2.5 euro cents) and a Europe-wide cap on the price of roaming traffic. These decreases were only partly offset by the growth in innovative services, especially fixed-line broadband and mobile internet.

The following table sets forth the Domestic Business Unit s revenues by market segment for the years ended December 31, 2012 and 2011.

· **Core Domestic**

	Year ended December 31,			
	2012 (a)	2011 (b)	Changes (a-b)	%
	(millions of euros, except percentages and employees)			
Revenues	16,933	18,082	(1,149)	(6.4)
Consumer(1)	*8,835*	*9,168*	*(333)*	*(3.6)*
Business(2)	*2,777*	*3,064*	*(287)*	*(9.4)*
Top(2)	*3,102*	*3,529*	*(427)*	*(12.1)*
National Wholesale	*2,052*	*2,104*	*(52)*	*(2.5)*
Other	*167*	*217*	*(50)*	*(23.0)*
Operating profit (loss)	958	(2,136)	3,094	
% of Revenues	*5.7*	*(11.8)*		
Employees at year-end (units)	52,289	54,038	(1,749)	(3.2)

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(1) The company Matrix was sold on October 31, 2012. In 2012 Matrix was also classified under Other Operations, and thus excluded from the Consumer segment of Core Domestic. The periods under comparison have been reclassified accordingly.

(2) 2011 figures for the Business and Top segments have been reclassified for purposes of comparison with the 2012 figures, which take into account the new customer classification criteria introduced at the beginning of 2012.

- **Consumer:** revenues for the Consumer segment were 8,835 million euros, a decrease of 333 million euros compared to 2011 (-3.6%); although revenues declined, this reflects an improvement in the overall recovery from the reduction recorded in 2011 (-5.0%) despite the negative impact of lower termination rates (-211 million euros). This improvement was due in particular to a stabilization of the erosion in voice revenues (both Fixed and Mobile), strong growth in Browsing revenues and growth in sales of devices (+118 million euros, +35.4%), especially mobile internet enabled devices. The decrease, which is entirely attributable to revenues from services (-451 million euros, -5.1%), is due in addition to the aforementioned lower termination rates to traditional Voice and Messaging services, the effects of which are in part offset by growth in mobile internet (+70 million euros, +13%) and fixed broadband access (+34 million euros, +3.6%).

- **Business**: revenues in the Business segment were 2,777 million euros in 2012, a decrease of 9.4% or 287 million euros compared to 2011, due to erosion of the customer base (-6.6% Fixed and -4.8% Mobile, excluding data only lines, compared to 2011) and to a fall in usage and Average Revenue Per User (ARPU) especially on voice services.

- **Top**: revenues in the Top segment were 3,102 million euros in 2012, a decrease of 427 million euros (-12.1%) compared to 2011, mainly due to a slow down in demand due to the weak economy. Revenues from services decreased 260 million euros (-8.6%), primarily attributable to traditional voice and data services, only partly offset by growth in new services, in particular cloud and mobile internet. Revenues from sales decreased 167 million euros (-34% compared to 2011). This performance, in addition to the deteriorating economy already noted for services, also reflects more selective commercial policies aimed at improving profitability.

- **National Wholesale**: revenues in the Wholesale segment amounted to 2,052 million euros in 2012, a decline of 52 million euros (-2.5%) on 2011, mainly due to lower carrying and interconnection revenues, only partly offset by growth in access services to alternative operators.

- **International Wholesale**

	Year ended December 31,			
	2012 (a)	2011 (b)	Changes (a-b)	Changes %
	(millions of euros, except percentages and employees)			
Revenues	1,393	1,393		
Of which third parties	*985*	*960*	*25*	*2.6*
Operating profit	121	141	(20)	(14.2)
% of Revenues	*8.7*	*10.1*		
Employees at year-end (units)	935	1,009	(74)	(7.3)

International Wholesale segment revenues were 1,393 million euros in 2012, in line with the previous year.

During 2012 International Wholesale continued to pursue rationalization measures aimed at a more selective customer portfolio and traffic strategy.

Revenue performance in Voice (+1.4%) and IP/Data (+5.8%) businesses helped to contain the contraction reported in the other segments, especially multinational customers (-10%).

Operating profit (loss)

Operating profit (loss) was a profit of 1,078 million euros, compared to a loss of 1,996 million euros in 2011, up 3,074 million euros. This improvement in 2012 in reporting an operating profit is mainly due to the lower goodwill impairment loss of 4,016 million euros in 2012 attributable to the Core Domestic cash-generating unit compared to a goodwill write-off of 7,307 million euros in 2011.

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The operating profit (loss) was impacted by the change in the following line items as reflected in the table below.

	Year ended December 31,			
	2012 (a)	2011 (b)	Changes (a-b)	%
	(millions of euros, except percentages)			
Acquisition of goods and services	6,409	6,754	(345)	(5.1)
Employee benefits expenses	2,834	3,031	(197)	(6.5)
Other operating expenses	699	769	(70)	(9.1)

In detail:

- **acquisition of goods and services** decreased 345 million euros (-5.1%) compared to 2011. This decrease was mainly due to a decline in revenues due to other telecommunication operators, owing principally to the reduction in Mobile termination rates;

- **employee benefits expenses** decreased 197 million euros from 2011, attributable mostly to the reduction in the average salaried workforce by 710 compared to the previous year, offset by higher expenses as a result of the acquisition, as of January 1, 2012, of the Contact Center business and the related 249 staff from the company Advalso of the Olivetti Business Unit;

- **other operating expenses** decreased 70 million euros compared with 2011, as shown in the following table:

	Year ended December 31,			
	2012 (a)	2011 (b)	Changes (a-b)	%
	(millions of euros, except percentages)			
Impairments and expenses in connection with credit management	370	389	(19)	(4.9)
Provision charges	92	50	42	84.0
TLC operating fees and charges	59	58	1	1.7
Indirect duties and taxes	103	108	(5)	(4.6)
Sundry expenses	75	164	(89)	(54)
Total	**699**	**769**	**(70)**	**(9.1)**

Employees

Employees are 52,289 as of December 31, 2012, a reduction of 1,749 units compared to December 31, 2011.

v **Brazil**

The following table sets forth certain financial and other data for the Brazil Business Unit for the years ended December 31, 2012 and 2011.

	Year ended December 31,					
	2012	2011	2012	2011	Changes	
			(a)	(b)	(a-b)	%
	(millions of euros, except percentages and employees)		(millions of Brazilian reais, except percentages and employees)			
Revenues	7,477	7,343	18,764	17,086	1,678	9.8
Operating profit	966	984	2,424	2,289	135	5.9
% of Revenues	*12.9*	*13.4*	*12.9*	*13.4*		
Employees at year-end (units)	11,622	10,539	11,622	10,539	1,083	10.3

Revenues

Revenues for 2012 were 18,764 million Brazilian reais, an increase of 1,678 million Brazilian reais on 2011 (+9.8%). Revenues from services were 16,420 million Brazilian reais, up from 15,353 million Brazilian reais in

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2011 (+6.9%). Revenues from product sales increased from 1,733 million Brazilian reais in 2011 to 2,344 million Brazilian reais in 2012 (+35.3%), reflecting the company s strategy of market penetration with high-end handsets (smartphones/webphones and tablets) as an important lever for the expansion of revenues from data services.

Mobile Average Revenue Per User (ARPU) was 19.1 reais in 2012 compared with 21.4 reais for 2011 (-10.7%). The performance of ARPU and revenues from services not only reflects competitive pressures that have led to a decline in unit prices in the voice business, but also the lower mobile operator network interconnection rate, in force since February 2012.

The total number of lines at December 31, 2012 was 70.4 million, 9.8% higher than at December 31, 2011, representing a 26.9% market share measured by number of lines.

Operating profit

Operating profit was 2,424 million Brazilian reais, up 135 million Brazilian reais on 2011. Operating profit growth was sustained by the increase in revenues, mainly VAS, offset in part by higher termination costs due to increased traffic volumes and costs strictly linked to changes in the customer base.

It should be noted that operating profit includes the administrative penalties imposed by the Brazilian telecommunications authority (ANATEL) and other expenses of 53 million Brazilian reais. In particular, disputes with ANATEL concerning the years 2007/2009 and amounting to 26 million Brazilian reais, were recognized following confirmation by the Board of the Brazilian telecommunications authority of measures taken against TIM Brasil. An additional 11 million Brazilian reais relates to disputes with other operators regulated by ANATEL for the years 2008-2011.

With regard to changes in costs, the following table sets forth certain expenses for the years ended December 31, 2012 and 2011.

	Year ended December 31,					
	2012	2011	2012	2011	Changes	
			(a)	(b)	(a-b)	%
	(millions of euros)		(millions of Brazilian reais, except percentages)			
Acquisition of goods and services	4,508	4,399	11,313	10,234	1,079	10.5
Employee benefits expenses	344	321	865	747	118	15.8
Other operating expenses	719	747	1,804	1,738	66	3.8
Change in inventories	2	(19)	4	(45)	49	

- acquisition of goods and services were 11,313 million Brazilian reais (10,234 million Brazilian reais in 2011). The 10.5% increase compared to the previous year (+1,079 million Brazilian reais) was due to the following:
  - +418 million Brazilian reais in revenues due to other TLC operators;
  - +497 million Brazilian reais, mainly, for the purchases of products;
  - +191 million Brazilian reais for rent and lease costs;
  - -27 million Brazilian reais for external services costs;
- employee benefits expenses, were 865 million Brazilian reais, up 118 million Brazilian reais compared with 2011 (+15.8%). The average salaried workforce grew from 9,194 in 2011 to 10,051 in 2012. The percentage of employee benefits expenses to revenues was 4.6% in 2012, increasing 0.2 percentage points compared to 2011;

· other operating expenses were 1,804 million Brazilian reais, an increase of 3.8% (1,738 million Brazilian reais in 2011). Such expenses are set forth in the table below for the years ended December 31, 2012 and 2011.

	Year ended December 31,			
	2012 (a)	2011 (b)	Changes (a-b)	%
	(millions of Brazilian reais, except percentages)			
Writedowns and expenses in connection with credit management	251	232	19	8.2
Accruals to provisions	228	140	88	62.9
TLC operating fees	1,223	1,290	(67)	(5.2)
Indirect duties and taxes	30	33	(3)	(9.1)
Sundry expenses	72	43	29	67.4
Total	**1,804**	**1,738**	**66**	**3.8**

Employees

Employees were 11,622 at December 31, 2012, an increase of 1,083 people compared to December 31, 2011 (10,539 units).

v **Argentina**

The following table sets forth certain financial and other data for the Argentina Business Unit for the years ended December 31, 2012 and 2011.

	Year ended December 31,					
	2012	2011	2012 (a)	2011 (b)	Changes (a-b)	%
	(millions of euros, except percentages and employees)		(millions of Argentine pesos, except percentages and employees)			
Revenues	3,784	3,220	22,116	18,496	3,620	19.6
Operating profit	214	509	1,253	2,925	(1,672)	(57.2)
% of Revenues	*5.7*	*15.8*	*5.7*	*15.8*		
Employees at year-end (units)(*)	16,803	16,350	16,803	16,350	453	2.8

(*) Includes employees with temporary work contracts: 3 and 1 as of December 31, 2012 and 2011, respectively.

Revenues

Revenues in 2012 were 22,116 million Argentine pesos, an increase of 3,620 million Argentine pesos (+19.6%) compared with 2011 (18,496 million Argentine pesos) principally due to growth of the broadband and mobile customer base, as well as ARPU. The main source of revenues for the Argentina Business Unit is mobile telephony, which accounts for about 73% of the consolidated revenues of the Business Unit, increasing more than 22% compared to 2011.

Operating profit

Operating profit for 2012 was 1,253 million Argentine pesos compared to 2,925 million Argentine pesos for 2011. The decrease (1,672 million Argentine pesos) was mainly due to full impairment of the goodwill recognized at the time control was acquired by the Telecom Italia Group (979 million Argentine pesos), the partial impairment of its Customer relationships (501 million Argentine pesos) and an increase in amortization charges for Customer relationships resulting from the updating of their useful lives (383 million Argentine pesos).

Changes in costs are explained as follows:

- *acquisition of goods and services* were 9,927 million Argentine pesos (8,031 million Argentine pesos in 2011). The increase of 23.6% compared to the same period of the prior year (+1,896 million Argentine pesos) was mainly due to higher external service costs of 1,246 million Argentine pesos and higher purchases of raw materials, auxiliaries, consumables and merchandise of 424 million Argentine pesos;

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- *employee benefits expenses* were 3,422 million Argentine pesos, an increase of 676 million Argentine pesos compared to 2011 (+24.6%). The increase was principally due to salary increases, resulting from the periodic revision of trade union agreements, mainly to reflect the effect of inflation, and staff restructuring costs of 90 million Argentine pesos only partially offset by a reduction in other employee benefits expenses totaling 65 million Argentine pesos. In addition, there was an increase in the average salaried workforce in the mobile area. The percentage of employee benefits expenses to total revenues is 15.5%, increasing 0.7 percentage points over 2011;

- *other operating expenses* were 2,387 million Argentine pesos, an increase of 25.4% (1,903 million Argentine pesos in 2011). Such expenses consist of the following.

	Year ended December 31,			
	2012	2011	Changes	
	(a)	(b)	(a-b)	%
	(millions of Argentine pesos, except percentages)			
Impairments and expenses in connection with credit management	275	169	106	62.7
TLC operating fees and charges	424	348	76	21.8
Indirect duties and taxes	1,592	1,286	306	23.8
Sundry expenses	96	100	(4)	(4.0)
Total	**2,387**	**1,903**	**484**	**25.4**

Employees

Employees were 16,803 at December 31, 2012, an increase of 453 units compared to December 31, 2011 (16,350).

v **Media**

On May 9, 2012, the Board of Directors of Telecom Italia Media approved of the decision of the Board of Directors of Telecom Italia S.p.A. to initiate the process of disposal of the Media segment. As a result, in May 2012 a company restructuring transaction was initiated that led to the creation of La7 S.r.l., a wholly owned subsidiary of Telecom Italia Media S.p.A., to which with effect from September 1, 2012 the television assets were transferred through the assignment of a business unit by Telecom Italia Media S.p.A.

The following table sets forth certain financial and other data for the Media Business Unit for the years ended December 31, 2012 and 2011.

	Year ended December 31,			
	2012	2011	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages and employees)			
Revenues	222	238	(16)	(6.7)
Operating profit (loss)	(263)	(88)	(175)	
% of Revenues	*(118.5)*	*(37.0)*		
Employees at year-end (units)	735	765	(30)	(3.9)

Revenues were 222 million euros in 2012, a decrease of 16 million euros compared to 238 million euros in 2011. Such revenues included:

- La7 (in 2011 and until June 2012 this Business area was called TI Media La7 and it included Corporate activities in addition to the TV business) revenues in 2012, before intragroup eliminations, were 123 million euros, down 16 million euros on the previous year. This result reflects the reduction in net advertising revenues which in 2012 declined by 3 million euros (-2.7% on 2011). This decline was exacerbated by the loss of revenues from the Competence Center, which ceased operations in September 2011, and had previously generated revenues of 13 million euros. In 2012, La7 had an average daily audience share of 3.5% and the La7d channel reported net advertising revenues of 8 million euros, up 2 million euros (+27.7%);

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- MTV Group revenues were 55 million euros, before intragroup eliminations, a decrease of 19 million euros compared to 2011 (74 million euros). This decrease is mainly due to lower net advertising revenues (40 million euros in 2012 compared to 50 million euros in 2011) and the decrease in Playmaker activities to third parties by 7 million euros;

- revenues from Network Operator activities (TIMB), before intragroup eliminations were 75 million euros, compared to 55 million euros in the previous year, an increase of 20 million euros. The positive change is due both to the evolution of existing contracts and to new channels put under contract at the end of 2011 for digital terrestrial TV on Multiplexes, which led to the full use of the available digital band since February 2012.

Operating loss

Operating loss was 263 million euros, compared to a loss of 88 million euros for 2011, representing an increase of 175 million euros. Specifically, 2012 includes a total impairment of non-current assets and Goodwill of 157 million euros, established following the impairment test process and also taking account of the prospective sale of the investee LA7 Srl. The impairment loss relating to goodwill is 105 million euros (57 million euros of impairment loss in 2011).

In particular:

- the operating loss of LA7 was 160 million euros, an increase in the loss of 137 million euros compared to 2011 (23 million euros including the above mentioned compensation). This result largely reflects both the contraction in revenues mentioned above and higher operating costs mostly connected with programming costs of La7 and La7d channels (+30 million euros and +4 million euros, respectively);

- the operating loss of MTV group was 38 million euros, a decrease of 25 million euros compared to 2011 primarily due to the decrease in revenues described above, and as a result of the deep editorial transformation of the main channel which during the year went from being a purely musical channel to a more entertainment oriented channel targeted to a young/adult audience;

- the operating loss of the Network Operator was 54 million euros, an increase in the loss of 9 million euros over 2011; this result was influenced by the above mentioned increase in sales while operating costs were substantially in line with the previous year and by the goodwill writedown for 70 million euros in 2012 (43 million euros in 2011).

Employees

Employees were 735 at December 31, 2012, a decrease of 30 units compared to December 31, 2011 (765 units).

Sale of La7 S.r.l.

On March 4, 2013 the Board of Directors of Telecom Italia Media S.p.A., a subsidiary of Telecom Italia S.p.A., voted to grant a mandate to finalize the agreement for the sale of the entire investment in La7 S.r.l. to Cairo Communication S.p.A., excluding the 51% investment in MTV Italia S.r.l. On March 6, 2013, Telecom Italia Media and Cairo Communication signed an agreement for the sale of 100% of La7 S.r.l..

Under the agreements reached, Telecom Italia Media S.p.A. will receive a sale consideration of 1 million euros. La7 S.r.l. will be recapitalized for a sufficient amount to ensure a positive net financial position, at the transfer date, of no less than 88 million euros. This recapitalization will also contribute to reaching the agreed level of equity of 138 million euros at the transfer date.

As a result of the transaction, Telecom Italia S.p.A. has waived intragroup financial receivables, due from Telecom Italia Media S.p.A., for a total amount of 100 million euros.

According to the agreements, a long-term transmission capacity supply contract will also be entered into between La7 S.r.l. and Telecom Italia Media Broadcasting S.r.l.

This sale allows the Telecom Italia Group to terminate its financial support of La7 S.r.l. while keeping the network operator Telecom Italia Media Broadcasting S.r.l. within its scope of operations.

The completion of the sale is subject to the receipt of required regulatory approvals.

v **Olivetti**

On January 1, 2012, the activities and resources of the Advalso S.p.A. contact center were sold to Telecontact Center S.p.A. (a subsidiary of Telecom Italia Domestic Business Unit), as part of a project to bring all Telecom Italia Group call center operations under centralized management.

In addition, on June 13, 2012 the shareholders of the subsidiary Olivetti i-Jet S.p.A. voted to place the company in liquidation.

The following table sets forth, certain financial and other data for the Olivetti Business Unit for the years ended December 31, 2012 and 2011.

	Year ended December 31,			
	2012	2011	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages and employees)			
Revenues	280	343	(63)	(18.4)
Operating profit (loss)	(65)	(43)	(22)	(51.2)
% of Revenues	*(23.2)*	*(12.5)*		
Employees at year-end (units)	778	1,075	(297)	(27.6)

Revenues

Revenues for 2012 were 280 million euros, down 63 million euros compared to 2011. The decrease in revenues is largely related to: lower sales of 21 million euros in the indirect channel in Italy (SME and professional offices), the channel most exposed to the current weak economy; lower sales of 10 million euros in the International and Latin America areas, due to the cancellation of product supply contracts with unsatisfactory margins; and lower product supply contracts with Telecom Italia of 4 million euros. The remaining decline in revenues was due to lower sales of industrial applications resulting from the winding up Olivetti I-Jet S.p.A.

Operating loss

Operating loss was 65 million euros in 2012 compared with an operating loss of 43 million euros 2011.

The result is affected by provision charges for restructuring expenses and other winding up expenses totaling 31 million euros, as a result of the start of the liquidation of Olivetti I-Jet S.p.A, in accordance with the process of repositioning the Business Unit s activities, in line with the shift towards a paperless world and mobile applications.

In addition, the result was also affected, by impairment losses on assets of 3 million euros related to the winding-up Olivetti I-Jet S.p.A..

Employees

Employees at December 31, 2012 were 778, a reduction of 297 compared to December 31, 2011 (1,075 units).

5.2.8 YEAR ENDED DECEMBER 31, 2011 COMPARED WITH YEAR ENDED DECEMBER 31, 2010

Starting from the first half of 2012 the Telecom Italia Group early adopted and retrospectively applied the revised version of IAS 19 (*Employee Benefits*). Accordingly, the comparative figures of 2011 and 2010 have been restated on a consistent basis.

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v **Revenues**

Revenues amounted to 29,957 million euros in 2011, an increase of 2,386 million euros, or 8.7%, compared to 27,571 million euros in 2010.

The table below sets forth for the periods indicated gross revenues by Business Unit and consolidated revenues.

	Year ended December 31,					
	2011		2010		Changes	
	Revenues(1) (a)	% of Consolidated revenues	Revenues(1) (b)	% of Consolidated revenues	(a-b)	%
	(millions of euros, except percentages)					
Domestic	18,991	63.4	20,025	72.6	(1,034)	(5.2)
Core Domestic	*18,082*	*60.4*	*19,022*	*69.0*	*(940)*	*(4.9)*
International Wholesale	*1,393*	*4.6*	*1,569*	*5.7*	(176)	*(11.2)*
Brazil	7,343	24.5	6,199	22.5	1,144	18.5
Argentina(2)	3,220	10.7	798	2.9	2,422	
Media, Olivetti and Other Operations(3)	700	2.3	854	3.1	(154)	(18.0)
Adjustments and eliminations	*(297)*	*(0.9)*	*(305)*	*(1.1)*	*8*	
Total Revenues	**29,957**	**100.0**	**27,571**	**100.0**	**2,386**	**8.7**

(1) Revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

(2) In the scope of consolidation since October 13, 2010.

(3) The Other Operations of the Telecom Italia Group consist of the financial companies and other minor companies not associated with the core business of the Telecom Italia Group.

Revenues in the **Domestic Business Unit** (divided into Core Domestic and International Wholesale) declined by 5.2% compared to 2010. The decrease in revenues, notwithstanding the weak domestic economy and continuing competitive pressures, was slowing and improving. This was due to higher mobile revenues (particularly revenues from services and internet mobile devices), protection of the value of the customer base and development of ICT services in the fixed area.

Revenues from services in 2011 indicated an improving trend over the prior year. Revenues from services in the mobile area were still being impacted, although to a lesser degree, by the competitive repositioning of TIM s plans particularly as regards voice traffic.

The fixed-line area, with a decline in revenues from services, displayed a considerable improvement in the fourth quarter of 2011. In particular, revenues from retail customers decreased at a lower pace than that recorded in 2010 and showed an improving trend during the course of 2011.

With respect to handset sales, revenues recovered entirely driven by the mobile area which benefited from a greater sales push on handsets offering mobile internet connectivity.

With respect to the **Brazil Business Unit**, revenues totaled 7,343 million euros in 2011, an increase of 1,144 million euros compared to 2010. Revenues from services increased, mainly due to the growth of the customer base (over 64 million mobile lines at December 31, 2011, up 25.6% over the prior year). Handset revenues also, increased significantly where, as in the domestic business, the strategy focused on smartphones and webphones as the lever for the growth of mobile data traffic revenues.

As for the **Argentina Business Unit** (included in the scope of consolidation since October 13, 2010), revenues totaled 3,220 million euros in 2011, an increase of 2,422 million euros compared to 2010 which only included the two and a half months in 2010. In particular, the increase was related to the mobile business revenues.

For a more detailed analysis of revenue performance by individual Business Units, reference should be made to Item 4. Information on The Telecom Italia Group 4.2 Business Units .

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v **Other Income**

The following table sets forth other income for the years ended December 31, 2011 and 2010.

	Year ended December 31,			
	2011 (a)	2010 (b)	Changes (a-b)	%
	(millions of euros, except percentages)			
Late payment fees charged for telephone services	71	72	(1)	(1.4)
Recovery of employee benefit expenses, purchases and services rendered	36	47	(11)	(23.4)
Capital and operating grants	24	38	(14)	(36.8)
Damage compensations, penalties and sundry recoveries	36	18	18	100.0
Sundry income	132	80	52	65.0
Total other income	**299**	**255**	**44**	**17.3**

v **Operating Expenses**

Our operating expenses amounted to 30,859 million euros in 2011, an increase of 8,851 million euros, or 40.2% compared to 22,008 million euros in 2010. The increase is attributable to the following:

- **Acquisition of goods and services** amounted to 12,859 million euros in 2011, an increase of 1,476 million euros, or 13.0%, compared to 2010 (11,383 million euros). The increase was largely due to the entry of the Argentina Business Unit in the scope of consolidation for the full-year 2011 (+1,052 million euros, including a negative exchange rate effect for 34 million euros) and the significant increase in the sales and technical costs of the Brazil Business Unit the main cause of the overall increase of 879 million euros needed to support the growth of the customer base and sales. Offsetting these increases in part were declines in the domestic business which benefitted from cost cutting actions which contributed to a reduction in purchases of 365 million euros compared to 2010 (-5.1%).

The following table sets forth acquisition of goods and services for the years ended December 31, 2011 and 2010.

	Year ended December 31,			
	2011 (a)	2010 (b)	Changes (a-b)	%
	(millions of euros, except percentages)			
Purchase of goods	2,525	1,568	957	61.0
Portion of revenues to be paid to other operators and interconnection costs	4,232	4,275	(43)	(1.0)
Commercial and advertising costs	2,259	2,100	159	7.6
Power, maintenance and outsourced services	1,618	1,258	360	28.6
Rent and leases	647	594	53	8.9
Other service expenses	1,578	1,588	(10)	(0.6)
Total acquisition of goods and services	**12,859**	**11,383**	**1,476**	**13.0**

% on Revenues	*42.9*	*41.3*

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· **Employee benefits expenses**

The following table sets forth employee benefit expenses for the years ended December 31, 2011 and 2010.

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
Employee benefits expenses Italian companies:				
Ordinary employee expenses and costs	3,144	3,273	(129)	(3.9)
Corporate restructuring expenses	12	258	(246)	(95.3)
Total employee benefits expenses Italy	**3,156**	**3,531**	**(375)**	**(10.6)**
Employee benefits expenses Outside Italy				
Ordinary employee expenses and costs	836	450	386	85.8
Corporate restructuring expenses				
Total employee benefits expenses Outside Italy	**836**	**450**	**386**	**85.8**
Total employee benefits expenses	**3,992**	**3,981**	**11**	**0.3**
% on Revenues	*13.3*	*14.4*		

The change was affected by:

- the increase connected with the consolidation of the Argentina Business Unit for the full year 2011 (+11,521 average salaried workforce compared to 2010);
- lower expenses owing to the contraction of the average salaried workforce (the above effect relating to the Argentina Business Unit is already excluded) by 3,301 compared to 2010;
- the provisions for expenses for mobility under Law 223/91, related to the 2010 agreements with the unions entered into by the Parent Telecom Italia S.p.A. and Telecom Italia Information Technology, had been adjusted by 12 million euros, of which 9 million euros for the Parent Telecom Italia and 3 million euros for Telecom Italia Information Technology.

The Group s average number of salaried workforce for the periods indicated was as follows:

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%

	(Full time equivalent units, except percentages)			
Average salaried workforce Italy	53,561	57,087	(3,526)	(6.2)
Average salaried workforce Foreign(1)	24,808	13,063	11,745	89.9
Total average salaried workforce(2)	**78,369**	**70,150**	**8,219**	**11.7**

(1) The increment in the average employees of the salaried workforce is primarily attributable to the consolidation of the Argentina Business Unit for the full year 2011 (15,232 average headcount in 2011).

(2) Includes the average employees with temp work contracts: 87 in 2011 (75 in Italy and 12 outside Italy). In 2010 the headcount was 84 (68 in Italy and 16 outside Italy).

Group s employees at December 31, 2011 and 2010 were as follows:

	As of December 31,			
	2011	**2010**	**Changes**	
	(a)	**(b)**	**(a-b)**	**%**
	(units, except percentages)			
Employees Italy	56,878	58,045	(1,167)	(2.0)
Employees Foreign	27,276	26,155	1,121	4.3
Total Employees(1)	**84,154**	**84,200**	**(46)**	**(0.1)**

(1) Includes employees with temporary work contracts: 42 units at December 31, 2011 and 71 units at December 31, 2010.

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· **Other operating expenses**

The following table sets forth other operating expenses for the years ended December 31, 2011 and 2010.

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
Writedowns and expenses in connection with credit management	533	478	55	11.5
Accruals to provisions	128	80	48	60.0
Indirect duties and taxes	349	200	149	74.5
TLC operating fees	675	484	191	39.5
Penalties, compensation and administrative sanctions	41	105	(64)	(61.0)
Association dues and fees, donations, scholarships and traineeships	23	24	(1)	(4.2)
Sundry expenses	110	51	59	115.7
Total other operating expenses	**1,859**	**1,422**	**437**	**30.7**
% on Revenues	*6.2*	*5.2*		

Other operating expenses in 2011 grew 437 million euros compared to 2010, largely on account of the entry of the Argentina Business Unit in the scope of consolidation for the full year 2011 (+248 million euros, including a negative exchange rate effect of 8 million euros), the increase in the Brazil Business Unit (+159 million euros) and the Domestic Business Unit (+69 million euros). In particular:

- writedowns and expenses in connection with credit management include mainly 397 million euros (317 million euros in 2010) attributable to the Domestic Business Unit, 100 million euros (133 million euros in 2010) attributable to the Brazil Business Unit and 29 million euros attributable to the Argentina Business Unit;

- accruals to provisions recorded for pending disputes relate mainly to 60 million euros (18 million euros in 2010) of the Brazil Business Unit, 50 million euros (53 million euros in 2010) of the Domestic Business Unit and, 17 million euros of the Argentina Business Unit;

- TLC operating fees comprise 554 million euros (412 million euros in 2010) attributable primarily to the Brazil Business Unit, 61 million euros attributable to the Argentina Business Unit and 58 million euros to the Domestic Business Unit.

· **Depreciation and Amortization**

The following table sets forth depreciation and amortization for the years ended December 31, 2011 and 2010.

Year ended December 31,

	2011 (a)	2010 (b)	Changes (a-b)	Changes %
		(millions of euros, except percentages)		
Amortization of intangible assets with a finite useful life	2,163	2,216	(53)	(2.4)
Depreciation of tangible assets owned and leased	3,333	3,326	7	0.2
Total depreciation and amortization	**5,496**	**5,542**	**(46)**	**(0.8)**
% on Revenues	*18.3*	*20.1*		

The increase in amortization and depreciation charges due to the entry of the Argentina Business Unit in the scope of consolidation (+390 million euros, including a negative exchange rate effect of 13 million euros), was more than offset by the decrease in amortization and depreciation charges of the Domestic Business Unit (-329 million euros) and the Brazil Business Unit (-108 million euros, including the effect of the change in the real/euro exchange rate of +3 million euros).

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· **Gains (losses) on disposals of non-current assets**

Net gains on disposals of non-current assets were 3 million euros. The gain of 35 million euros, net of the relative transaction costs, realized on the sale of Loquendo at the end of September 2011 was offset by net losses from the disposal of tangible assets, mainly of the Parent, for the replacement and subsequent disposal of dedicated mobile telephony plant.

In 2010, net gains on disposals of non-current assets were 11 million euros and included the gain, net of the related transaction costs, of 19 million euros, in connection with the completion of the transactions for the sale of Elettra by the Domestic Business Unit International Wholesale.

· **Impairment losses on non-current assets**

Net impairment losses on non-current assets amounted to 7,358 million euros in 2011 (63 million euros in 2010).

This item includes 7,307 million euros for the impairment charge on the goodwill allocated to the Core Domestic cash-generating unit in the Domestic Business Unit and 57 million euros for the impairment charge on the goodwill allocated to the Media Business Unit, which had been written down by 46 million euros in 2010.

In particular, in preparing the annual financial statements, the Telecom Italia Group repeated the impairment test that had been performed in the first half of 2011 which led to the recognition, in the Half-year Financial Report at June 30, 2011, of an impairment loss of 3,182 million euros relating to the Core Domestic cash-generating unit.

Macroeconomic and market conditions reflected a slowdown in the higher growth emerging economies and fears of a recession in many mature economies, in particular countries in the Euro zone, which was particularly acute in the domestic market. Added to this was an escalation, in the second half of the year, of financial market pressures, with particular reference to higher interest rates for the Italian government. The impairment test therefore took into account the deterioration of the financial markets in general terms, with reference to interest rates, while worsening expectations regarding the market prospects of the Domestic and Media Business Unit were major factors in making the determination of impairment in specific terms.

It should be emphasized that the cost of capital of the Core Domestic CGU recorded a significant increase compared to December 31, 2010, principally due to the rise in long-term rates of the sovereign securities of Italy, from 7.90% to 8.90%.

Further details are provided in the Note Goodwill of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

Furthermore, this item includes other impairment charges on tangible assets.

v **OPERATING PROFIT (loss)**

Operating loss was 680 million euros in 2011 (operating profit of 5,858 million euros in 2010). The operating loss is attributable to the impact of the impairment charge of 7,364 million euros on the goodwill allocated to the Domestic and Media Business Units.

v **Share Of Profits (Losses) Of Associates And Joint Ventures Accounted For Using The Equity Method**

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
EtecSA (Cuba)		84	(84)	(100.0)
Italtel group	(38)	3	(41)	
Other	(1)	12	(13)	(108.3)
Total	**(39)**	**99**	**(138)**	**(139.4)**

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The Share of profits (losses) of associates and joint ventures accounted for using the equity method was a loss of 39 million euros in 2011 (profit of 99 million euros in 2010). In particular, the year 2011 was negatively affected by the writedown of the entire investment in the Italtel Group: taking into account the overall macroeconomic situation and the specific prospects of future evolution of the company s business led us to conclude that the recovery of our investment in this associate was not probable.

The year 2010 included the positive contribution of our investment in EtecSA (Cuba), including the share of results up to September 30, 2010 and the reversal of impairment losses (30 million euros) after agreements were reached at the end of 2010 for the sale of the investment which was subsequently finalized on January 31, 2011.

For further details about the above mentioned investments accounted for using the equity method please see Note Other Non-current assets of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

v **Other Income (Expenses) From Investments**

In 2011, Other income (expenses) from investments was income balance of 16 million euros and includes 17 million euros for the gain on the sale of the entire 27% investment in the Cuban operator EtecSA. That amount was in addition to the benefit from the impairment reversal of 30 million euros, recorded in 2010.

In 2010, Other income (expenses) from investments was an income balance of 289 million euros and specifically included the revaluation, net of the negative exchange rate effect, of 266 million euros on the investment interest held in Sofora Telecomunicaciones (50%). In particular, as set forth in IFRS 3, following the acquisition of control of Sofora Telecomunicaciones, which took place on October 13, 2010, the investment interest previously held in the subsidiary, accounted for using the equity method, was remeasured at fair value at the acquisition date of control. The line item also included the net gain of 29 million euros realized on the settlement agreement reached between the Telecom Italia Group and the Bolivian government for the resolution of the dispute over the May 1, 2008 expropriation by that government of the investment held by the Group in Entel Bolivia.

v **Finance Income (Expenses)**

Finance income (expenses) was a net expense of 2,040 million euros (a net expense of 2,118 million euros in 2010), with a positive change of 78 million euros largely arising from lower net debt exposure.

For further details about finance income and finance expenses, please see Note Finance income and Finance expenses , of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

v **Income Tax Expense**

Income tax expense was 1,610 million euros an increase of 1,061 million euros compared to 2010 (549 million euros). In particular, income taxes in 2010 included a benefit of more than 600 million euros deriving mainly from the recognition of deferred tax assets by the Brazil Business Unit. Such deferred tax assets were in connection with tax loss carryforwards which became recoverable on the basis of the prospects of earnings of the companies in the Business Unit. In addition to this effect, the increase in income taxes was also due to the higher taxable base of the Parent, Telecom Italia, the Brazil Business Unit as well as the consolidation of the Argentina Business Unit for the full year 2011.

v **Loss From Discontinued Operations/Non-Current Assets Held For Sale**

In 2011, the balance was a loss of 13 million euros and includes expenses incurred in connection with sales transactions of prior years. In 2010, the balance was a loss of 7 million euros and included the same type of transactions.

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Item 5. Operating And Financial Review And Prospects Results Of Operations For The Three Years Ended December 31, 2012

5.2.9 Results Of Operations Of Business Units For The Year Ended December 31, 2011 Compared With The Year Ended December 31, 2010

v **Domestic**

On October 31, 2012, Telecom Italia S.p.A. completed the sale of the company Matrix, a wholly-owned subsidiary, to Libero, controlled by Weather Investment II S.à.r.l.. In 2012 Matrix was also moved to Other Operations and was consequently no longer part of Core Domestic in the Domestic Business Unit. Accordingly, the comparative figures of 2011 and 2010 have been restated on a consistent basis.

The table below sets forth certain financial and other data for the Domestic Business Unit for the years ended December 31, 2011 and 2010.

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages and employees)			
Revenues	18,991	20,025	(1,034)	(5.2)
Operating profit (loss)	(1,996)	5,197	(7,193)	(138.4)
% of Revenues		*26.0*		
Employees at year-end (units)	55,047	56,106	(1,059)	(1.9)

Revenues decreased by 1,034 million euros, or 5.2%, from 20,025 million euros in 2010 to 18,991 million euros in 2011.

The table below sets forth the Domestic Business Unit s revenues by market segment for the years ended December 31, 2011 and 2010.

· **Core Domestic**

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages and employees)			
Revenues	18,082	19,022	(940)	(4.9)
Consumer (1)	*9,168*	*9,688*	*(520)*	*(5.4)*
Business (2)	*3,267*	*3,509*	*(242)*	*(6.9)*
Top (2)	*3,327*	*3,515*	*(188)*	*(5.3)*
National Wholesale	*2,104*	*2,076*	*28*	*1.3*
Other	*216*	*234*	*(18)*	*(7.7)*
Operating profit (loss)	(2,136)	5,002	(7,138)	(142.7)
% of Revenues	*(12)*	*26.3*	*(38.1)*	*(144.9)*
Employees at year-end (units)	54,038	55,051	(1,013)	(1.8)

(1) The company Matrix, was sold on October 31, 2012. In 2012 Matrix was also classified under Other Operations, and thus excluded from the Consumer segment of Core Domestic. 2011 and 2010 have been reclassified accordingly.

(2) 2011 and 2010 figures for the Business and Top segments doesn t take into account the new customer classification criteria introduced at the beginning of 2012.

In 2011, except for National Wholesale, revenues in all segments declined but reflected an improving trend during the course of the year due to the growth of the mobile customer base, a reduction in the loss of fixed accesses and the effectiveness of new offers both in terms of the slowdown in price reductions and the development of new services (Broadband and ICT). In particular:

· **Consumer**: the Consumer segment reported a decrease in revenues of 520 million euros (-5.4%) compared to 2010. 2010 included revenues of 35 million euros relating to the end of the 1001TIM loyalty program which had resulted in the recognition of revenues from previously deferred bonus points that had not been

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used by the customer. The decrease was attributable to a decline in revenues from services. This decline was attributable to traditional voice services, both mobile and fixed, that were only partly offset by higher mobile internet revenues (+81 million euros, or +17.8% compared to 2010 and +28 million euros, or +22.6% in the fourth quarter compared to the same period of the prior year).

- **Business**: in 2011, revenues in the Business segment decreased by -242 million euros (-6.9%). This decline principally related to the mobile services and traditional fixed-line voice services, with the latter, in particular, attributable to the smaller customer base (-5.8% compared to 2010);

- **Top**: the reduction in revenues in 2011 by the Top segment was 188 million euros (-5.3%) compared to 2010. Such decline principally related to revenues from services (-144 million euros, or -4.8%), due, in particular, to a decline in fixed telephony and a reduction in per unit mobile voice revenues which was only partially compensated by the growth in fixed-line ICT.

- **National Wholesale**: the increase in the revenues of National Wholesale (+28 million euros, or +1.3%) was generated by the growth of the customer base of ANOs utilizing services for Local Loop Unbundling, Wholesale Line Rental and Bitstream.

- **International Wholesale**

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages and employees)			
Revenues	1,393	1,569	(176)	(11.2)
Of which third parties	*960*	*1,099*	*(139)*	*(12.6)*
Operating profit	141	194	(53)	(27.3)
% of Revenues	*10.1*	*12.4*		
Employees at year-end (units)	1,009	1,055	(46)	(4.4)

Revenues of International Wholesale (the Telecom Italia Sparkle group) were 1,393 million euros in 2011, down 176 million euros, or -11.2% compared to 2010. Such decline was almost entirely due to voice services (-167 million euros, or -14.8%), which were adversely impacted by strong price pressure caused by market competition and also measures to rationalize the sector based on a more selective approach in terms of the quality of the customer portfolio and traffic, without any significant impact on margins. Revenues in 2010 included 29 million euros generated by the subsidiary Elettra which was sold in September 2010.

Operating profit (loss)

Operating profit (loss) was a loss of 1,996 million euros in 2011, a decrease of 7,193 million euros compared to 2010. In particular, operating loss in 2011 included the goodwill impairment charge of 7,307 million euros relating to the Core Domestic cash-generating unit, recorded on the basis of the results of the impairment test as described above.

The operating profit (loss) was impacted by the change in the following line items.

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages)			
Acquisition of goods and services	6,754	7,129	(375)	(5.3)
Employee benefits expenses	3,031	3,405	(374)	(11.0)
Other operating expenses	769	704	65	9.2

In detail:

· ***acquisition of goods and services:*** decreased by 375 million euros (-5.3%) compared to 2010. Such decrease was mainly due to a decrease in the amounts to be paid to other operators, owing principally

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to the reduction in mobile termination rates. The higher expense for certain items, such as energy and variable costs related to product/service sales, was absorbed by efficiency measures applied to fixed operating costs;

- ***employee benefits expenses:*** decreased by 374 million euros compared to 2010, attributable mainly to the reduction in the average salaried workforce, and the introduction also of the new law on pensions (Law 214 of December 22, 2011) which extended the retirement age. It should be noted that employee benefits expenses in 2010 included a total of 254 million euros for the start by the Parent, Telecom Italia, SSC Shared Service Center S.r.l. and Telecom Italia Sparkle of the mobility procedure under Law 223/91. In 2011, the provisions were adjusted by only 12 million euros, of which 9 million euros was for the Parent, Telecom Italia, and 3 million euros for SSC Shared Service Center S.r.l.;

- ***other operating expenses:*** rose by 65 million euros compared to 2010, mainly due to the increase in expenses and provision charges connected with credit management and credit risks, particularly related to Business clientele reflecting the general weak economic conditions.

The goodwill impairment charge of the Core Domestic CGU (7,307 million euros in 2011), was due to the result of the impairment test conducted at June 30, 2011 (impairment loss of 3,182 million euros) and at December 31, 2011 (impairment loss of 4,125 million euros), using the same method adopted in previous impairment tests. Macronomic and market conditions reflected a slowdown in the higher growth emerging economies and fears of a recession in many mature economies, in particular countries in the Euro zone, which was particularly acute in the domestic market. Added to this was an escalation, in the second half of the year, of financial market pressures, with particular reference to higher interest rates paid by the Italian government for issuing debt. The impairment test therefore took into account the deterioration of the financial markets in general terms, with reference to interest rates, while worsening expectations regarding the market prospects of the Domestic and Media Business Unit were major factors in making the determination of impairment.

Further details are provided in the Note Goodwill of the Notes to the Consolidated Financial Statements included elsewhere herein.

Employees

Employees are 55,047 as of December 31, 2011, a reduction of 1,059 units compared to December 31, 2010.

v **Brazil**

The following table sets forth certain financial and other data for the Brazil Business Unit for the years ended December 31, 2011 and 2010.

	Year ended December 31,					
	2011	2010	2011	2010	Changes	
			(a)	(b)	(a-b)	%
	(millions of euros, except percentages and employees)		(millions of Brazilian reais, except percentages and employees)			
Revenues	7,343	6,199	17,086	14,457	2,629	18.2

Operating profit	984	685	2,289	1,597	692	43.3
% of Revenues	*13.4*	*11.0*	*13.4*	*11.0*		
Employees at year-end (units)	10,539	10,114	10,539	10,114	425	4.2

Revenues

Revenues totaled 17,086 million Brazilian reais, an increase of 2,629 million Brazilian reais compared to 2010 (+18.2%).

Service revenues in 2011 were 15,353 million Brazilian reais, an increase of 1,782 million Brazilian reais compared to 13,571 million Brazilian reais in the prior year (+13.1%); product revenues increased from 886 million Brazilian

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reais in 2010 to 1,733 million Brazilian reais in 2011 (+95.6%), reflecting the strategy to penetrate the market with high-value smartphones and webphones as leverage for the development of mobile data services.

The mobile ARPU, or average revenue per user, was 21.4 Brazilian reais at December 2011 compared to 23.7 Brazilian reais at December 2010 (-9.8%).

Total mobile lines at December 31, 2011 were 64.1 million, an increase of 25.6% over December 31, 2010, corresponding to a 26.5% market share of mobile lines.

Operating profit

Operating profit was 2,289 million Brazilian reais in 2011, an increase of 692 million Brazilian reais compared to 2010. This improvement in operating profit was attributable to the increase of revenues partnered by operating efficiencies achieved on the front of industrial cost, employees benefit expenses and trade receivables management.

Operating profit also was positively impacted by lower depreciation and amortization charges of 254 million Brazilian reais (2,340 million Brazilian reais in 2011, compared to 2,594 million Brazilian reais in 2010). In particular, the reduction in amortization was partly due to the revision of the useful life of software (+166 million Brazilian reais) carried out in 2010 and partly to reduced use of handset subsidies during 2011.

Changes in costs are explained as follows:

- *acquisition of goods and services* totaled 10,234 million Brazilian reais (8,208 million Brazilian reais in 2010). The increase of 24.7% compared to the prior year (+2,026 million Brazilian reais) was the result of higher rent and lease costs of 184 million Brazilian reais, higher external service costs of 220 million Brazilian reais, higher purchases of raw materials, auxiliaries, consumables and merchandise for 1,259 million Brazilian reais (of which +985 million Brazilian reais is product cost) and a higher portion of revenues to be paid to other TLC operators of 363 million Brazilian reais;

- *employee benefits expenses*, amounted to 747 million Brazilian reais, an increase of 88 million Brazilian reais compared to 2010 (+13.4%). The average salaried workforce increased from 8,727 in 2010 to 9,194 in 2011. The percentage of employee benefits expenses to revenues was 4.4%, decreasing 0.2 percentage points compared to 2010; and

- *other operating expenses*, amounted to 1,738 million Brazilian reais in 2011, an increase of 26.8% (1,371 million Brazilian reais in 2010). Such expenses consisted of the following:

Year ended December 31,

	2011 (a)	2010 (b)	Changes (a-b)	%
	(millions of Brazilian reais, except percentages)			
Writedowns and expenses in connection with credit management	232	311	(79)	(25.4)
Accruals to provisions	140	41	99	241.5
TLC operating fees	1,290	961	329	34.2
Indirect duties and taxes	33	26	7	26.9
Sundry expenses	43	32	11	34.4
Total	**1,738**	**1,371**	**367**	**26.8**

Employees

Employees were 10,539 at December 31, 2011, an increase of 425 people compared to December 31, 2010 (10,114 units).

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v ARGENTINA

The following table gives the main results reported by the Argentina Business Unit for the full year 2011 and, for 2010, starting from the acquisition date of control of the Business Unit by the Telecom Italia Group (October 13, 2010). The amounts presented include the effects of the application of the purchase price method. Specifically, all the assets and liabilities of the Sofora group were measured for their recognition at fair value at the acquisition date. Such amounts, as required by IFRS, were adjusted by the definitive amounts determined during the course of 2011, within 12 months of the acquisition date. The income statement for the 12 months of 2011 thus includes the effects of such measurements and particularly the higher amortization and depreciation related thereto (equal to 858 million Argentine pesos, about 149 million euros, in 2011). Such higher amortization and depreciation in 2010 only had an impact from October 13, 2010 and amounted to 221 million Argentine pesos (about 43 million euros).

	Year ended December 31, 2011		Period from October 13, 2010 to December 31, 2010	
	(millions of euros, except percentages and employees)	(millions of Argentine pesos, except percentages and employees)	(millions of euros, except percentages and employees)	(millions of Argentine pesos, except percentages and employees)
Revenues	3,220	18,496	798	4,142
Operating profit	509	2,925	110	568
% of Revenues	*15.8*	*15.8*	*13.7*	*13.7*
Employees at year-end (units)(*)	16,350	16,350	15,650	15,650

(*) Includes employees with temporary work contracts: 1 and 18 at December 31, 2011 and 2010, respectively.

For a better understanding of the performance of the Argentina Business Unit, the following table sets out certain selected financial data for the full year 2011 compared to the full year 2010. The 2010 full year data are unaudited and provided solely for information purposes (illustrative and comparative) and were only part of the consolidated results of the Telecom Italia Group from October 13, 2010, the date of acquisition of control by the Telecom Italia Group.

	Year ended December 31,					
	2011	2010	2011	2010	Changes	
			(a)	(b)	(a-b)	%
	(millions of euros, except percentages and employees)		(millions of Argentine pesos, except percentages and employees)			
Revenues	3,220	2,820	18,496	14,627	3,869	26.5
Operating profit	509	553	2,925	2,868	57	2.0
% of Revenues	*15.8*	*19.6*	*15.8*	*19.6*		
Employees at year-end (units)(*)	16,350	15,650	16,350	15,650	700	4.5

(*) Includes employees with temporary work contracts: 1 and 18 as of December 31, 2011 and 2010, respectively.

Revenues

Revenues were 18,496 million Argentine pesos in 2011, an increase of 26.5% compared to the prior year (14,627 million Argentine pesos in 2010). The increase was mainly due to the growth of the customer base in the fixed and broadband businesses as well as mobile businesses, in addition to the higher ARPU. The main source of revenues for the Argentina Business Unit was mobile telephony which accounted for 71% of consolidated revenues, an increase of 32% in 2011 compared to 2010.

Operating profit

Operating profit rose by 57 million Argentine pesos (+2.0%) to 2,925 million Argentine pesos in 2011. It included the effects of the application of the purchase price method which led to higher net expenses, mainly for amortization and depreciation, of 907 million Argentine pesos (about 158 million euros); such higher expenses had an effect on the 2010 results from October 13, 2010 only and amounted to 281 million Argentine pesos (about 54 million euros).

Changes in costs are explained as follows:

- *acquisition of goods and services*: totalled 8,031 million Argentine pesos (6,201 million Argentine pesos in 2010). The increase of 29.5% compared to the prior year (+1,830 million Argentine pesos) was mainly due to higher outside service costs of 932 million Argentine pesos and higher purchases of raw materials, auxiliaries, consumables and merchandise of 777 million Argentine pesos;

- employee benefits expenses, of 2,746 million Argentine pesos, increased by 716 million Argentine pesos compared to 2010 (+35.3%). The change came from salary increases, as a result of periodical revisions in union agreements and largely connected to inflation. In addition, the average salaried workforce in the mobile area increased. The percentage of employee benefits expenses to total revenues was 14.8%, increasing 0.9 percentage points over 2010;

- *other operating expenses*: amounted to 1,903 million Argentine pesos, increasing 23.7% (1,538 million Argentine pesos in 2010). Such expenses consisted of the following:

	Year ended December 31,			
	2011 (a)	2010 (b)	Changes (a-b)	%
	(millions of Argentine pesos, except percentages)			
Impairments and expenses in connection with credit management	169	115	54	47.0
TLC operating fees	348	273	75	27.5
Indirect duties and taxes	1,286	1,064	222	20.9
Sundry expenses	100	86	14	16.3
Total	**1,903**	**1,538**	**365**	**23.7**

Employees

Employees were 16,350 at December 31, 2011, an increase of 700 units compared to December 31, 2010 (+4.5%).

v **Media**

The table below sets forth certain financial and other data for the Media Business Unit for the years ended December 31, 2011 and 2010.

	Year ended December 31,			
	2011 (a)	2010 (b)	Changes (a-b)	%
	(millions of euros, except percentages and employees)			

Revenues	238	258	(20)	(7.8)
Operating profit (loss)	(88)	(92)	4	(4.3)
% of Revenues	*(37.0)*	*(35.7)*		
Employees at year-end (units)	765	777	(12)	(1.5)

Revenues were 238 million euros in 2011, a decrease of 20 million euros (-7.8%) compared to 258 million euros in 2010. The decrease in revenues was due to the following:

- revenues of La7 in 2011, amounted to 139 million euros (115 million euros in 2010), increasing 24 million euros (+21.0%) compared to 2010, due to the significant increase of 32.1% in overall gross advertising sales in 2011 compared to 2010, which amounted to 186 million euros. In 2011, advertising sales were positively influenced by the excellent audience performance of the La7 channel, which reported an average daily audience share of 3.8%, and the La7d channel, with net advertising sales amounting to 6 million euros;

- MTV Group revenues were 74 million euros in 2011, a decrease of 24 million euros compared to 2010 (98 million euros). This result was mainly due to:

  - the decrease in net advertising sales of 9 million euros;

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- lower revenues of Playmaker (-7 million euros);
- lower revenues of MTV Mobile (-2 million euros), due to the contractual amendment at the end of 2010; and
- the decrease in the revenues from the music satellite channels (-2 million euros) following the renegotiation of the contract at lower values with Sky;

- revenues from Network Operator activities, amounted to 55 million euros in 2011, compared to 76 million euros in 2010, down by 21 million euros. This result was partly due to the loss of turnover of the customer Dahlia (-26 million euros), whose activities were discontinued at early 2011. The decrease in revenues from analog business towards the Group, in relation to the switch-off process, was offset by higher revenues for the lease of the digital band on its Multiplexes.

Operating loss

Operating loss was 88 million euros in 2011, a reduction of 4 million euros compared to a loss of 92 million euros in 2010, due to the contribution of 21 million euros related to the indemnity for the early termination of the Competence Center contract. In particular:

- the operating profit of La7, which includes the above mentioned 21 million euros indemnity, was a loss of 23 million euros, an improvement of 33 million euros compared to 2010 (an operating loss of 56 million euros); such result was affected by the higher contribution of revenues as previously described, which more than offset the higher operating costs linked largely to the programming of La7 and La7d channels;
- the operating profit of the MTV Group was down in 2011, decreasing of 5 million euros compared to 2010, due to the reduction in sales only partially offset by the containment of operating costs;
- the Network Operator s operating profit was a negative 2 million euros compared to a profit of 10 million euros in 2010, a decrease of 12 million euros; this performance was affected by the above-mentioned revenue decline from Dahlia TV, which was partially offset by a reduction in operating costs achieved through a greater efficiency of the network management.

As a result of the impairment test, the goodwill of the Media Business Unit was written down by 57 million euros in 2011 (46 million euros in 2010).

Employees

Employees were 765 at December 31, 2011, a decrease of 12 units compared to December 31, 2010 (777 units), included 37 units with temporary work contracts (44 units at December 31, 2010). Without considering the reduction in the temporary staff (7 units), the decrease of 5 units was due to the change both in the number of fixed term employees, who decreased by 10 units (TI Media La7 +1, MTV Group -11) and employees with indefinite-term contracts, who increased by 5 units (TI Media-La7 +15, Network Operator -1, MTV Group -9). In particular the

increase of 15 units for the indefinite-term employees of TI Media La7 is mainly due to the stabilization of some job relationship and to the introduction of some new human resources as consequence of the internalization process regarding External Relations.

v **Olivetti**

The following table sets forth certain financial and other data for the Olivetti Business Unit for the years ended December 31, 2011 and 2010.

	Year ended December 31,			
	2011	2010	Changes	
	(a)	(b)	(a-b)	%
	(millions of euros, except percentages and employees)			
Revenues	343	391	(48)	(12.3)
Operating profit (loss)	(43)	(24)	(19)	79.2
% of Revenues	*(12.5)*	*(6.1)*		
Employees at year-end (units)	1,075	1,090	(15)	(1.4)

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Revenues

Revenues were 343 million euros in 2011, a decrease of 48 million euros compared to 2010, partly due to the negative exchange rate effect of 3 million euros. The market context was particularly depressed for the third consecutive year and the deterioration of the Italian and European macroeconomic condition had an adverse effect on 2011; this caused a decisive fall in ICT expenditures in Italy.

The weak economy resulted in a sharp reduction in sales to the Parent, Telecom Italia by Olivetti S.p.A. (-23 million euros compared to 2010) and is reason in itself for almost half of the decline in year-over-year revenues.

Sales in Italy in the indirect channel came to an abrupt stop in the last part of 2011 (-6 million euros compared to 2010) in parallel with the heightening of the crisis which particularly hit hard the SMEs and professional offices customer channel; conversely, the direct sales channel in Italy of large customers exceeded 2010 (+4 million euros), in part due to the positive contribution of new service offers.

European sales were up in the French and British affiliates, a fall in both the German affiliate (since January 2012, sales operations are conducted through a local agency) and in the Spanish affiliate which was materially impacted by the weak macroeconomic climate in that country. Revenues were-stable in the international sales channel (sales to extra EU and extra Latin America customers). The gains made by South America in sales were significant. This market is recording strong growth such that expectations are for a strengthening of Olivetti s presence there.

Operating loss

Operating loss was 43 million euros, an increase of 19 million euros compared to the loss of 24 million euros in 2010.

In 2011, as an increase in share capital, Telecom Italia S.p.A. contributed trademarks (12 million euros) and patents (4 million euros) to Olivetti S.p.A. The result of this contribution was the resolution of contracts with Telecom Italia which covered the utilization of these rights, with a negative impact of 10 million euros.

Added to this first effect were lower margins of 10 million euros associated with the decline in revenues, of which, about 4 million euros in particular was the effect of the ongoing contraction in the ink-jet segment.

Employees

Employees at December 31, 2011 were 1,075 (984 in Italy and 91 outside Italy), a reduction of 15 compared to December 31, 2010 (1,090, of whom 1,001 in Italy and 89 outside Italy). During the year, 33 persons were added and 48 persons left, consistently with the professional remix focused on the new Olivetti sales offerings.

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5.3 LIQUIDITY AND CAPITAL RESOURCES

The Telecom Italia Group s policy is to manage financial risks (market risk, credit risk and liquidity risk) by defining, at a central level, guidelines for directing operations, identifying the most appropriate financial instruments to meet pre-determined objectives, monitoring the results achieved and excluding the use of financial instruments for speculative purposes.

Telecom Italia has a centralized Finance Department which operates in the interests of the entire Group:

- allocating liquidity where necessary;
- obtaining excess cash resources from the Group companies;
- guaranteeing an adequate level of liquidity compatible with individual needs;
- supporting its subsidiaries to gain access to the loan market; and
- providing financial consulting services to its subsidiaries.

These activities reduce the Group companies need to seek bank lines and enable those companies to obtain better conditions from the banking system by constantly monitoring cash flows and ensuring a more efficient use of liquidity in excess of requirements.

Furthermore, the Telecom Italia Group has a centralized financial risk management policy for market, credit and liquidity risks. For additional details on funding and treasury policies and risk policies reference should be made to the Note Financial Activities and Note Financial risk management of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

The Telecom Italia Group s goal is to achieve an adequate level of financial flexibility which is expressed by maintaining a treasury margin (composed by cash and cash equivalents, marketable securities and undrawn committed credit lines) to cover refinancing requirements at least for the next 12 months.

5.3.1 LIQUIDITY

Telecom Italia Group s primary source of liquidity is cash generated from operations and its principal use of funds are the payment of operating expenses, capital expenditures and investments, the servicing of debt, the payment of dividends to shareholders and strategic investments, such as international acquisitions.

For additional details, reference should be made to the Note Financial Activities of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

The table below summarizes, for the periods indicated, the Telecom Italia Group s cash flows.

	Year ended December 31,		
	2012	2011	2010
		(millions of euros)	
Cash flows from (used in) operating activities	8,521	8,512	6,873
Cash flows from (used in) investing activities	(4,683)	(6,301)	(3,319)
Cash flows from (used in) financing activities	(2,864)	(713)	(3,904)
Cash flows from (used in) discontinued operations/non-current assets held for sale			
Aggregate cash flows (A)	**974**	**1,498**	**(350)**
Net cash and cash equivalents at beginning of the year: (*) (B)	**6,670**	**5,282**	**5,484**
Net foreign exchange differences on net cash and cash equivalents (C)	**(247)**	**(110)**	**148**
Net cash and cash equivalents at end of the year: (*) (D=A+B+C)	**7,397**	**6,670**	**5,282**

(*) For further details please see the Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010 of the Consolidated Financial Statements included elsewhere in this Annual Report.

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Cash flows from operating activities. Cash flows from operating activities were 8,521 million euros in 2012, 8,512 million euros in 2011 and 6,873 million euros in 2010.

2012 compared to 2011

The increase of 9 million euros in 2012 compared to 2011 was attributable to:

- an increase in profit (loss) from continuing operations of 3,074 million euros (a loss of 1,279 million euros in 2012 compared to a loss of 4,353 million euros in 2011);
- a positive effect of change in trade receivable and net amounts due from customers on construction contracts equal to 848 million euros (a net source of 851 million euros in 2012 compared to a net source of 3 million euros in 2011);
- a positive effect of change in trade payables of 25 million euros (a net use of 139 million euros in 2012 compared to a net use of 164 million euros in 2011); and
- an positive effect of change in inventories of 48 million euros (12 million euros in 2012 compared to a decrease of 36 million euros in 2011).

Such increases in cash flows were partially offset by:

- a negative effect of impairment losses (reversals) on non-current assets (including investments) of 2,931 million euros (a net source of 4,434 million euros in 2012 compared to a net source of 7,365 million euros in 2011), due to the results of the impairment test for goodwill principally relating to the Domestic Business;
- a negative effect of net change in current income tax receivables/payables of 563 million euros (a net use of 473 million euros in 2012 compared to a net source of 90 million euros in 2011);
- a decrease in depreciation and amortization of 156 million euros (5,340 million euros in 2012 compared to 5,496 million euros in 2011);
- a negative effect of net change in miscellaneous receivables/payables and other assets/liabilities of 144 million euros (a net use of 35 million euros in 2012 compared to a net source of 109 million euros in 2011);
- a negative effect of net change in deferred tax assets and liabilities equal to 77 million euros (a net source of 79 million euros in 2012 compared to a net source of 156 million euros in 2011);

- a negative effect of change in employee benefits of 46 million euros (a net use of 221 million euros in 2012 compared to a net use of 175 million euros in 2011);

- an increase in losses realized on disposals of non-current assets (including investments) of 36 million euros (a net use of 54 million euros in 2012 compared to a net use of 18 million euros in 2011); and

- a negative effect of share of losses of associates and joint ventures accounted for using the equity method of 33 million euros (a net source of 6 million euros in 2012 compared to a net source of 39 million euros in 2011).

2011 compared to 2010

The increase of 1,639 million euros in 2011 compared to 2010 was primarily attributable to:

- a positive effect of impairment losses (reversals) on non-current assets (including investments) of 7,481 million euros (a net source of 7,365 million euros in 2011 compared to a net use of 116 million euros in 2010), due to the results of the impairment test for goodwill relating to the Domestic Business;

- a positive effect of net change in deferred tax assets and liabilities equal to 904 million euros (a net source of 156 million euros in 2011 compared to a net use of 748 million euros in 2010);

- a positive effect due to a decrease in net gains realized on disposals of non-current assets (including investments) of 23 million euros (a net use of 18 million euros in 2011 compared to a net use of 41 million euros in 2010);

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- a positive effect of share of losses of associates and joint ventures accounted for using the equity method of 138 million euros (from a net use of 99 million euros in 2010 to a net source of 39 million euros in 2011);

- a positive effect of change in trade payables of 114 million euros (a net use of 164 million euros in 2011 compared to a net use of 278 million euros in 2010);

- a positive effect of net change in current income tax receivables/payables of 260 million euros (a net source of 90 million euros in 2011 compared to a net use of 170 million euros in 2010); and

- a positive effect of net change in miscellaneous receivables/payables and other assets/liabilities of 1,090 million euros (a net source of 109 million euros in 2011 compared to a net use of 981 million euros in 2010).

Such increases in cash flows were partially offset by:

- a decrease in profit (loss) from continuing operations of 7,935 million euros (from a profit of 3,582 million euros in 2010 compared to a loss of 4,353 million euros in 2010);

- a decrease in depreciation and amortization of 48 million euros (5,542 million euros in 2010 compared to 5,496 million euros in 2011);

- a negative effect of change in employee benefits of 248 million euros (a net use of 175 million euros in 2011 compared to a net source of 73 million euros in 2010); and

- a negative effect of change in inventories of 132 million euros (a net use of 36 million euros in 2011 compared to a net source of 96 million euros in 2010).

Cash flows used in investing activities. Cash flows used in investing activities were 4,683 million euros in 2012, 6,301 million euros in 2011 and, 3,319 million euros in 2010.

2012 compared to 2011

The decrease in cash used in investing activities in 2012 compared to 2011 of 1,618 million euros was due to:

- the effect of change in financial receivables and other financial assets of 1,099 million euros (a net source of 519 million euros in 2012 compared to net use of 580 million euros in 2011);

- a decrease in capital expenditures (tangible and intangible assets on a cash basis) of 229 million euros (5,309 million euros in 2012 compared to 5,538 million euros in 2011); and

- a decrease in acquisition of control of subsidiaries or other businesses of 661 million euros (a net use of 7 million euros in 2012 compared to a net use of 668 million euros in 2011).

Such effects were partially offset by:

- a decrease of 358 million euros in proceeds from sale/repayments of intangible, tangible and other non-current assets (a net source of 77 million euros in 2012 compared to a net source of 435 million euros in 2011);

- a decrease of 11 million euros in proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of (a net source of 40 million euros in 2012 compared to a net source of 51 million euros in 2011); and

- a negative effect of acquisition/disposals of other investments of 2 million euros (a net use of 3 million euros in 2012 compared to a net use of 1 million euros in 2011).

2011 compared to 2010

The increase in cash used in investing activities in 2011 compared to 2010 of 2,982 million euros was mainly due to:

- an increase in capital expenditures (tangible and intangible assets on a cash basis) of 1,058 million euros (5,538 million euros in 2011 compared to 4,480 million euros in 2010);

- an increase in acquisition of control of subsidiaries or other businesses of 664 million euros (a net use of 668 million euros in 2011 compared to a net use of 4 million euros in 2010);

- a negative effect of change in financial receivables and other financial assets of 1,082 million euros (a net use of 580 million euros in 2011 compared to a net source of 502 million euros in 2010);

- net cash and cash equivalents arising from the acquisition of the control of the Sofora group Argentina that in 2011 was nil (in 2010 amounted to 392 million euros); and

- a decrease of 129 million euros in proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of (a net source of 51 million euros in 2011 compared to a net source of 180 million euros in 2010).

Such effects were partially offset by:

- an increase in proceeds from sale/repayments of intangible, tangible and other non-current assets of 379 million euros (a net source of 56 million euros in 2010 compared to a net source of 435 million euros in 2011).

Cash flows used in financing activities. Cash flows used in financing activities were 2,864 million euros in 2012, 713 million euros in 2011 and 3,904 million euros in 2010.

Cash flows used in financing activities in 2012 of 2,864 million euros reflected mainly the following:

- an decrease in financial liabilities and other of 1,831 million euros, as a result of the issuance of new debt (4,624 million euros), the change in current financial liabilities and other (negative of 796 million euros) and the repayments of non-current financial liabilities (5,659 million euros); and

- the payment of dividends of 1,031 million euros.

Cash flows used in financing activities in 2011 of 713 million euros reflected mainly the following:

- an increase in financial liabilities and other of 584 million euros, as a result of the issuance of new debt (4,523 million euros) and the change in current financial liabilities and other (1,351 million euros) partially offset by repayments of non-current financial liabilities (5,290 million euros); and

- the payment of dividends of 1,326 million euros.

5.3.2 Capital Resources

Net Financial Debt

Net Financial Debt is a non-GAAP financial measure as defined in Item 10(e) of Regulation S-K under the 1934 Act. For further details please see 5.2.3 Non-GAAP Financial Measures .

On a consolidated basis, at December 31, 2012 Net Financial Debt was 29,053 million euros compared to 30,819 million euros at December 31, 2011 (a decrease of 1,766 million euros).

The net financial position of Telecom Italia is independent of that of Telco and Telecom Italia has no obligation to repay the debt held by Telco since they are two distinct legal entities.

In our updated 2013-2015 Plan we confirmed as one of our strategic priorities the continuing deleveraging to reduce the Group s Net Financial Debt.

Please see Introduction Cautionary Statement for Purposes of the Safe Harbor Provisions of the United States Private Securities Litigation Reform Act of 1995 , included elsewhere in this Annual Report, for a discussion of factors which could cause our actual results to differ materially from the target discussed above. See, also, Item 3. Key Information 3.1 Risk Factors .

There can be no assurance that we will be able to achieve the financial targets we have established.

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Net Financial Debt as of December 31, 2012, 2011 and 2010 is set forth in the following table.

	As of December 31,		
	2012	2011	2010
		(millions of euros)	
Non-current financial liabilities	34,091	35,860	34,348
Current financial liabilities	6,150	6,091	6,882
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale			
GROSS FINANCIAL DEBT (A)	**40,241**	**41,951**	**41,230**
NON-CURRENT FINANCIAL ASSETS (B)	**(2,496)**	**(2,949)**	**(1,863)**
Current financial asset:			
Securities other than investments (current assets)	(754)	(1,007)	(1,316)
Financial receivables and other current financial assets	(502)	(462)	(438)
Cash and cash equivalents	(7,436)	(6,714)	(5,526)
Financial assets relating to Discontinued operations/Non-current assets held for sale			
TOTAL CURRENT FINANCIAL ASSETS (C)	**(8,692)**	**(8,183)**	**(7,280)**
FINANCIAL ASSETS (D=B+C)	**(11,188)**	**(11,132)**	**(9,143)**
NET FINANCIAL DEBT (A+D)	**29,053**	**30,819**	**32,087**

The non-current portion of gross financial debt was 34,091 million euros at December 31, 2012 (35,860 million euros at December 31, 2011 and 34,348 million euros at December 31, 2010) and corresponds to 84.7% of total gross financial debt.

The financial risk management policies of the Telecom Italia Group are directed towards diversifying market risks, hedging exchange rate risk in full and optimizing interest rate exposure by an appropriate diversification of the portfolio, which is also achieved by using carefully selected derivative financial instruments. It should be stressed that such instruments are not used for speculative purposes.

Furthermore, in order to determine its exposure to interest rates, the Group defines an optimum composition for the fixed-rate and variable-rate debt structure and uses derivative financial instruments to achieve that prefixed composition. Taking into account the Group s operating activities, the optimum mix of medium/long-term non-current financial liabilities has been established, on the basis of the nominal amount, in a range of 65%-75% for the fixed-rate component and 25%-35% for the floating-rate component.

In managing market risks, the Group has adopted a Guideline policy for debt management using derivative instruments and mainly uses Interest Rate Swaps (IRS) and Cross Currency Interest Rate Swaps (CCIRS) derivative financial instruments.

Volatility in the levels of interest rates and exchange rates since the fourth quarter of 2008 due to the financial crisis, significantly impacted the fair value measurement of derivative positions and the related financial assets and liabilities.

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Change In Net Financial Debt During 2012

The following table summarizes the main transactions which had an impact on the change in net financial debt during 2012:

	(millions of euros)
Net financial debt as of December 31, 2011	**30,819**
Capital expenditures	5,196
Dividends paid	1,031
Financial investments	10
Share capital increases/decreases	2
Disposal of investments and other divestitures	151
Cash flows from operating activities, net of other uses (sources)	(8,156)
Net change in 2012	**(1,766)**
Net financial debt as of December 31, 2012	**29,053**

In particular:

- **Capital expenditures on an accrual basis** were 5,196 million euros in 2012, a decrease of 899 million euros compared to 2011. The breakdown is as follows:

	Year ended December 31,				
	2012		2011		Changes
	(a)	%	(b)	%	(a-b)
	(millions of euros, except percentages)				
Domestic	3,072	59.1	4,185	68.7	(1,113)
Brazil	1,500	28.9	1,290	21.2	210
Argentina	557	10.7	556	9.1	1
Media, Olivetti and other activities	67	1.3	82	1.3	(15)
Adjustments			*(18)*	*(0.3)*	*18*
Total consolidated capital expenditures	**5,196**	**100.0**	**6,095**	**100.0**	**(899)**
% on revenues	*17.6*		*20.3*		

In particular:

- the **Domestic Business Unit** reported a decline of 1,113 million euros in capital expenditures in 2012. Excluding capital expenditures for 2011 relating to the purchase of user rights for LTE mobile telephony frequency bands (1,223 million euros) there

was a 110 million euro increase in 2012 compared to 2011, attributable in particular to the development of next generation networks (LTE and fiber) in part offset by the lower requirement in relation to delivery of new systems owing to the slowdown and contraction of the fixed-line business;

- the **Brazil Business Unit** reported an increase of 210 million euros in capital expenditures in 2012 (including a negative exchange rate effect of 94 million euros), for the purchase of user rights for fourth generation (4G) mobile telephony frequency bands (145 million euros) as well as investments to improve the quality of the network infrastructure;

- the **Argentina Business Unit** reported capital expenditures in line with the prior year (+1 million euros taking account of a negative exchange rate effect of 9 million euros). In addition to costs of customer acquisition, expenditure was aimed at enlarging and upgrading broadband services to improve transmission capacity and increase access speed, at traditional fixed-line access to meet demand and at backhauling to support mobile access growth. Telecom Personal also invested primarily in increased capacity and enlargement of the 3G network to support Mobile Internet growth.

- **Financial investments** were 10 million euros in 2012 and mainly relate to the payment of incidental expenses and other payables in connection with the acquisition of investments during the last part of the year. In 2011, the amount was 925 million euros, mainly relating to the increase in the stake held in the Sofora Telecom Argentina group, the acquisition of control of the 4G Holding Group and the acquisition of control of the companies Tim Fiber SP and Tim Fiber RJ.

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- **Share capital increase/decrease.** In 2012 these amount to a negative 2 million euros and relate to incidental expenses connected to the capital increase in Tim Participações S.A that took place in 2011: on October 31, 2011, the capital increase of Tim Participações S.A. was completed with a cash in for the Telecom Italia Group of 240 million euros, net of the related incidental expenses.

- **Disposal of investments and other divestitures** amounted to 151 million euros in 2012 and principally relates to:

  - 85 million euros received, net of related incidental expenses and the net financial debt of the investee, from the sale on October 31, 2012 of the entire stake held in Matrix;

  - 59 million euros from the collection of the installments on the sale of the investment in EtecSA Cuba, which took place at the end of January 2011.

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The following should also be taken into account with respect to net financial debt:

- **Sales of receivables to factoring companies**

The sales of receivables to factoring companies during 2012 had a positive effect on net financial debt at December 31, 2012 of 1,233 million euros (1,334 million euros at December 31, 2011).

Change In Net Financial Debt During 2011

The following chart summarizes the main transactions which had an impact on the change in net financial debt during 2011:

	(millions of euros)
Net financial debt as of December 31, 2010	**32,087**
Capital expenditures	6,095
Dividends paid	1,326
Financial investments	925
Share capital increases/decreases	(240)
Disposal of investments and other divestitures	(486)
Cash flows from operating activities, net of other uses (sources)	(8,888)
Net change in 2011	**(1,268)**
Net financial debt as of December 31, 2011	**30,819**

In particular:

· **Capital expenditures on an accrual basis** were 6,095 million euros in 2011, an increase of 1,512 million euros compared to 2010. The breakdown is as follows:

	Year ended December 31,				
	2011		2010		Changes
	(a)	%	(b)	%	(a-b)
	(millions of euros, except percentages)				
Domestic	4,185	68.7	3,087	67.4	1,098
Brazil	1,290	21.2	1,216	26.5	74
Argentina	556	9.1	188	4.1	368
Media, Olivetti and other activities	82	1.3	95	2.1	(13)
Adjustments	*(18)*	*(0.3)*	*(3)*	*(0.1)*	*(15)*
Total consolidated capital expenditures	**6,095**	**100.0**	**4,583**	**100.0**	**1,512**
% on revenues	*20.3*		*16.6*		

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In particular:

- the **Domestic Business Unit** reported an increase of 1,098 million euros in 2011. The increase was due to the acquisition of the user rights for 800, 1800 and 2600 MHz LTE frequencies, to be used for broadband mobile communication services, for a total of 1,223 million euros. This followed the auction by the Ministry of Economic Development which took place in the second half of 2011. The user rights, formally awarded by the Ministry on October 3, 2011, were assigned in February 2012;

- the **Brazil Business Unit** reported an increase of 74 million euros in 2011. The success of the new sales strategy has brought a gradual reduction in the portion of subscriber acquisition costs capitalized and an increase in the expenditures dedicated to network infrastructures so as to sustain the growth of voice and data traffic;

- the **Argentina Business Unit** reported an increase of 368 million euros in 2011. With respect to the fixed network, capital expenditures were directed to the expansion of the optical fiber infrastructure and access network, development of Backhauling for mobile traffic, DWDM technology and expansion of the IP backbone in order to improve transmission capacity and increase the access speed offered to customers. At the same time, Personal principally invested in the 3G network to increase capacity and expand coverage as well as in the platforms to expand the Value-Added Services and in IT projects.

- **Share capital increases** were 240 million euros in 2011, an increase of 173 million euros compared to 2010 and were solely attributable to the share capital increase of Tim Participações S.A.

- **Financial investments** were 925 million euros in 2011, an increase of 869 million euros compared to 2010, and were attributable to:

  - *Acquisition of stakes in the Sofora Telecom Argentina group.* During 2011, the Telecom Italia Group increased the stakes held in Sofora Telecomunicaciones S.A. and in Nortel Inversora S.A. (the controlling holding company of the Telecom Argentina group, which, in turn, is controlled by Sofora Telecomunicaciones) for a total investment of 211 million euros. Following those acquisitions, Telecom Italia Group s economic interest in Telecom Argentina moved from 16.2% as of December 31, 2010 to 22.7% as of December 31, 2011.

  - *Acquisition of control of the 4GH group.* On July 27, 2011, Telecom Italia, after having received the National Antitrust Authority s (AGCM) approval, finalized the acquisition of a 71% stake in the company 4G Holding S.p.A., with a total impact on net financial debt of 27.4 million euros, for an outlay of about 8.6 million euros (including transaction costs) and the consolidation of the financial debt of the acquired companies.

  - *Acquisition of control of the companies Tim Fiber SP and Tim Fiber RJ.* On October 31, 2011, two companies belonging to the AES Atimus group, telecommunications infrastructure operators in the states of São Paolo and Rio de Janeiro, were acquired from Companhia Brasiliana de Energia, through the subsidiary Tim Celular S.A. The total impact on net financial debt was 686 million euros, attributable to the payment of 656 million euros (including transaction costs) and the consolidation of the financial debt of the acquired group.

- **Disposal of investments and other divestitures** amounted to 486 million euros in 2011 and principally relates to:

  - 411 million euros for the portion already received, net of related transaction costs, on the sale of EtecSA (Cuba). The transaction specifically provided that the Telecom Italia Group would receive a total of 706 million U.S. dollars, of which 500 million U.S.

dollars was paid by the buyer on January 31, 2011; the remaining amount is to be paid by EtecSA in 36 monthly installments. The receivable is secured by specific guarantees;

- 53 million euros received, net of related transaction costs and the net financial debt of the subsidiary, on the sale of the entire stake held in Loquendo.

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The following should also be taken into account with respect to net financial debt:

· **Sales of receivables to factoring companies**

The sales of receivables to factoring companies during 2011 had a positive effect on net financial debt at December 31, 2011 of 1,334 million euros (1,209 million euros at December 31, 2010).

Gross Financial Debt

On a consolidated basis, at December 31, 2012, our gross financial debt amounted to 40,241 million euros (41,951 million euros at December 31, 2011) and included non-current financial liabilities (long-term debt) of 34,091 million euros (35,860 million euros at December 31, 2011) and current financial liabilities (short-term debt) of 6,150 million euros (6,091 million euros at December 31, 2011).

As of December 31, 2012, approximately 65.4% of our gross financial debt was denominated in Euro, while the remainder was primarily denominated in U.S. Dollars, Pound Sterling, Brazilian Reais, Argentine Peso and Japanese Yen.

The following table sets out the currency composition of our gross financial debt:

	As of December 31, 2012		As of December 31, 2011	
	(millions of foreign currency)			
USD	12,499	9,474	12,386	9,572
GBP	2,535	3,106	2,532	3,032
BRL	2,945	1,092	2,624	1,081
JPY	19,865	175	20,809	208
ARS	331	51	740	133
PYG	123,347	22	140,043	24
EURO		26,321		27,901
Total gross financial debt		**40,241**		**41,951**

For information regarding the split of our debt between fixed rate and floating rate please see Note Financial risk management of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Long-term debt includes notes we have issued in order to reduce our dependence on short-term debt, extend the average life of our financial debt and expand our investor base. For this purpose, we have issued long-term debt in the capital markets under, among others:

Active programs:

- the Telecom Italia Euro Medium Term Note (**EMTN**) Programme. The maximum amount permitted to be issued under the Programme, including multiple tranches and multiple currencies, is 20 billion euros. This is the Group s only active debt program although it can issue debt instruments on an ad hoc basis if needed.

Inactive programs:

- the **Shelf Registration Statement**, expired on December 29, 2011, which allowed for the issuance, by Telecom Italia S.p.A. s wholly-owned subsidiary Telecom Italia Capital S.A. and under a guarantee by Telecom Italia S.p.A., of an indeterminate amount of debt securities at various terms, rates and maturities;

- the **Olivetti Euro Medium Term Note Programme**, which allowed for the issuance of a total amount of 15 billion euros in debt (or the equivalent in other currencies), at various terms, rates and maturities; and

- the Old Telecom Italia Global Medium Term Note Program (**Global Note Program**), which allowed for the issuance of a total amount of U.S.$12 billion in debt (or the equivalent in other currencies), at various terms, rates and maturities.

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The following table highlights the utilization of the above mentioned EMTN Programme at the end of 2012.

		As of December 31, 2012 EMTN Programme (millions of euros)
Total amount of the program (max outstanding notes)	(A)	**20,000.00**
Notes and bonds issued		22,802.79
Notes and bonds repaid		6,745.23
Net utilization of the program	(B)	**16,057.56**
Remaining available amount of the program	(A-B)	**3,942.44**

Notes and bonds

At December 31, 2012 we had notes and bonds outstanding of 27,549 million euros (28,373 million euros at December 31, 2011). Their nominal repayment amount was 26,323 million euros, a decrease of 652 million euros compared to December 31, 2011 (26,975million euros).

Changes in bonds during 2012 were as follows:

	Currency	Amount (millions)	
NEW ISSUES			**Issue date**
Telecom Italia S.p.A. 750 million euros 4.625% maturing 06/15/2015	Euro	750	06/15/2012
Telecom Italia S.p.A. 750 million euros 6.125% maturing 12/14/2018	Euro	750	06/15/2012
Telecom Italia S.p.A. 1,000 million euros 4.500% maturing 09/20/2017	Euro	1,000	09/20/2012
Telecom Italia S.p.A. 1,000 million euros 4.000% maturing 01/21/2020	Euro	1,000	12/21/2012

	Currency	Amount (millions)	Repayment date
REPAYMENTS			
Telecom Italia S.p.A. 6.250% 1,222.5 million euros(1)	Euro	1,222.5	02/01/2012
Telecom Italia Finance S.A. 107.7 million euros, 3 month Euribor+1.30%	Euro	107.7	03/14/2012
Telecom Italia Finance S.A. 7.250% 790 million euros(2)	Euro	790	04/24/2012
Telecom Italia S.p.A. 1,000 million euros, 3 month Euribor+0.53%	Euro	1,000	12/06/2012

(1) Net of buybacks by the Company of 27.5 million euros during 2011.

(2) Net of buybacks by the Company of 210 million euros during 2011 and 2012.

	Currency	Amount (millions)	Buyback period
BUYBACKS			
Telecom Italia Finance S.A., 790 million euros 7.250%, maturing April 2012(1)	Euro	11.6	January 2012
Telecom Italia Finance S.A. 678 million euros 6.875%, maturing January 2013(1)	Euro	80.8	January May 2012
Telecom Italia S.p.A. 432 million euros 6.750%, maturing March 2013(2)	Euro	212.9	July 2012
Telecom Italia S.p.A. 268 million euros 3 month Euribor+0.63%, maturing July 2013	Euro	232.3	July 2012
Telecom Italia S.p.A. 284 million euros 7.875%, maturing January 2014	Euro	215.9	July 2012
Telecom Italia S.p.A. 557 million euros 4.750%, maturing May 2014	Euro	116.2	July 2012

(1) Buybacks of the above bonds during 2011 amounted to 290 million euros (199 million euros on the bonds maturing April 2012 and 91 million euros on the bonds maturing January 2013). As a result, the total amount bought back was 382 million euros.

(2) As of December 2011, bonds had already been bought back for a total of 5 million euros. As a result, the total amount bought back was 218 million euros.

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In reference to the Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group, at December 31, 2012, the nominal amount is equal to 230 million euros and decreased by 36 million euros compared to December 31, 2011 (266 million euros).

For further details about the outstanding notes and bonds as of December 31, 2012 please see also Note Financial liabilities (non-current and current) of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

Subordinated bond issue

On March 20, 2013, the Parent issued a 750 million euros subordinated bond to institutional investors. The bond matures in 2073, is callable in 2018 and bears interest at 7.75%.

Revolving Credit Facility and Term Loan

The following table shows the composition and the drawdown of the syndicated committed credit lines available at December 31, 2012.

	As of December 31, 2012		As of December 31, 2011	
	Committed	Drawdown	Committed	Drawdown
	(billions of euros)			
Revolving Credit Facility expiring February 2013	1.25		1.25	0.25
Revolving Credit Facility expiring August 2014	8.00	1.50	8.00	2.00
Revolving Credit Facility expiring December 2013	0.20		0.20	0.20
Total	**9.45**	**1.50**	**9.45**	**2.45**

On May 24, 2012, Telecom Italia signed a new contract to extend half of the Revolving Credit Facility (RCF) of 8 billion euros expiring August 2014. The extension was obtained through a Forward Start Facility of 4 billion euros which will come into effect in August 2014 (or at a prior date if Telecom Italia prematurely cancels the commitments under the current RCF 2014) and will expire in May 2017.

On September 21 and 28, 2012 the drawdowns were repaid of 200 million euros and 250 million euros from the revolving credit facilities expiring respectively in December 2013 and February 2013.

On October 8, 2012 a drawdown of 500 million euros on the revolving credit facility expiring August 2014 was repaid. As a result, the overall facility of 8 billion euros has currently been drawn down for a total of 1.5 billion euros.

Telecom Italia also has a bilateral stand-by credit line expiring August 3, 2016 for 100 million euros from Banca Regionale Europea, drawn down for the full amount.

Maturities of financial liabilities and average cost of debt

The average maturity of non-current financial liabilities (including the current portion of medium/long-term financial liabilities due within 12 months) is 7.13 years.

The average cost of the Group s debt, considered as the cost for the year calculated on an annual basis and resulting from the ratio of debt-related expenses to average exposure, is about 5.4%.

For further details about the maturities of financial liabilities in terms of the expected nominal repayment amount, as contractually agreed, please see Item 5. Operating And Financial Review And Prospects 5.3 Liquidity And Capital Resources Contractual Obligations and Commitments .

Current financial assets and liquidity margin

The Telecom Italia Group s available liquidity margin amounts to 16,140 million euros at December 31, 2012, corresponding to the sum of Cash and cash equivalents and current Securities other than investments, totaling 8,190 million euros (7,721 million euros at December 31, 2011), and the committed credit lines, mentioned above, of which a total of 7,950 million euros has not been drawn down. This margin was more than adequate to cover the Group s debt maturing over the next 24 months measured from January 1, 2013.

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In particular:

- **Cash and cash equivalents** amount to 7,436 million euros (6,714 million euros at December 31, 2011). The different technical forms of investing available cash at December 31, 2012 may be broken down as follows:
  - **Maturities**: investments have a maximum maturity of three months;
  - **Counterpart risk**: investments by the European companies are made with leading banking, financial and industrial institutions with high-credit-quality. Investments by the companies in South America are made with leading local counterparts;
  - **Country risk**: investments are made mainly in major European financial markets.
- **Securities other than investments** amount to 754 million euros at December 31, 2012 (1,007 million euros at December 31, 2011). Such forms of investment represent alternatives to the investment of liquidity with the aim of raising the return. They include: Italian treasury bonds (BTPs) purchased by Telecom Italia S.p.A. and Telecom Italia Finance S.A., amounting respectively to 358 million euros and 204 million euros, Italian Treasury Credit Certificates (CCTs) for 5 million euros (assigned to Telecom Italia S.p.A. as the holder of trade receivables, as stated by the Italian Ministry of the Economy and Finance Decree of December 3, 2012) and 183 million euros of bonds purchased by Telecom Italia Finance S.A. with different maturities, all with an active market and consequently readily convertible into cash. The BTPs and CCTs, which represent investments in Sovereign debt securities , were purchased in compliance with the Guidelines for the Management and control of financial risk adopted by the Telecom Italia Group in August 2012, in replacement of the previous policy in force since July 2009. For further details please see *Note Financial Risk Management* of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Treasury policies

The Group uses a variety of instruments to finance its operations and raise liquidity, in particular bond issues, alongside committed and uncommitted bank lines.

Off-Balance Sheet Arrangements

As of December 31, 2012, the Telecom Italia Group had the following items that are considered to be off-balance sheet arrangements.

Guarantees for 18 million euros, net of back-to-back guarantees received, by Telecom Italia on behalf of associates (5 million euros) and other third parties for medium/long-term financial transactions.

Guarantees were provided by banks and other financial institutions on behalf of Telecom Italia to Group companies, amounting to 5,213 million euros, to guarantee financing received (2,343 million euros) and performance under outstanding contracts (2,870 million euros).

Among the guarantees provided by banks and other financial institutions on behalf of Telecom Italia are two guarantees in favor of the Ministry of Economic Development for the auction to assign the user rights for the 800, 1800 and 2600MHz frequencies. The guarantees amount, respectively, to 38 million euros (for the commitment undertaken by the Company to build equipment networks according to eco-sustainability characteristics) and 456 million euros (for the request to pay back the total amount owed over a period of 5 years). In particular, the Company has made a commitment to achieve energy savings in the new LTE technologies of approximately 10% on infrastructure and 20% on transmission devices over a period of 5 years (compared to energy consumed by current technology).

For further details please see Note Contingent liabilities, other information, commitments and guarantees of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

Contractual Obligations and Commitments

The following table aggregates our contractual obligations and commitments with definitive payment terms which will require significant cash outlays in the future based on nominal amounts.

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As of December 31, 2012, the **nominal repayment amounts of payables** and the relating expiration dates were as follows:

	Amounts due as of December 31,						
	2013	2014	2015	2016	2017	After 2017	Total
	(millions of euros)						
Bonds	2,894	2,546	2,544	2,250	2,919	13,170	26,323
Amounts due to banks, other financial payables and liabilities	1,416	2,753	1,118	624	818	1,569	8,298
Finance lease liabilities	205	108	144	151	162	594	1,364
Total	**4,515**	**5,407**	**3,806**	**3,025**	**3,899**	**15,333**	**35,985**
Current financial liabilities	638						638
Total	**5,153**	**5,407**	**3,806**	**3,025**	**3,899**	**15,333**	**36,623**

For further details please see also Note Derivatives and Note Other information, Operating leases of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

5.3.3 Capital Expenditures

The table below sets forth, for the periods indicated, our total capital expenditures (on an accrual basis) allocated to the Business Units at December 31, 2012.

	Year ended December 31,		
	2012	2011	2010
	(millions of euros)		
Purchase of tangible assets:			
Domestic	1,856	1,821	1,845
Brazil	908	769	758
Argentina	413	404	156
Media, Olivetti and Other Operations	24	35	43
Adjustments and eliminations			
Total purchase of tangible assets(1)	**3,201**	**3,029**	**2,802**
Purchase of intangible assets(2)	**1,995**	**3,066**	**1,781**
Total capital expenditures(3)	**5,196**	**6,095**	**4,583**

(1) Purchase of tangible assets is mainly related to local and long distance networks, exchange equipment, investments in subscribers equipment, radio and transmission equipment.

(2) Purchase of intangible assets includes expenditures for software for telecommunications systems and licenses.

(3) Intercompany capital expenditures are adjusted to eliminate intercompany profit.

In the three years ended December 31, 2012, 2011 and 2010, cash flows from operating activities exceeded capital expenditures on an accrual basis. For further details please see 5.3.2 Capital Resources , 5.2.7 Results Of Operations Of Business Units For The Year Ended December 31, 2012 Compared With The Year Ended December 31, 2011 , 5.2.9 Results Of Operations Of Business Units For The Year Ended December 31, 2011 Compared With The Year Ended December 31, 2010 .

The capital expenditures planned for the 2013-2015 period at Telecom Italia Group level, will be approximately 16 billion euros, excluding the acquisition of spectrum in Argentina.

In particular:

- **Domestic Business Unit**: cumulative capital expenditures for the 2013-2015 period will be kept at 9 billion euros; continued strengthening of the Network infrastructure with a strong focus on Fiber and LTE deployment, to support wave of data growth, ensuring quality and performance excellence in fixed and mobile access. The increase in innovative capital expenditure will be balanced by efficiencies and right spending in other areas;

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- **Brazil Business Unit** (Tim Brasil): cumulative capital expenditures will stand at 10.7 billion Brazilian reais in the 2013-2015 period, with a confirmed strong focus on increasing the network capacity with a priority on quality improvement; and

- **Argentina Business Unit**: capital expenditures will be 4.7 billion Argentine pesos in 2013 (17% capital expenditures on revenues, excluding spectrum acquisition). The capital expenditures /revenues trend will grow in 2013-2015 period compared to 2012. Capital expenditures priority focus is to deliver better network service quality, extending reach and capacity of mobile access, especially for mobile data, and to accelerate FTTC deployment.

The Telecom Italia Group expects to fulfill its future commitments for capital expenditures primarily through the use of cash generated from operations.

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For details about market risk disclosures please see Item 11. Quantitative And Qualitative Disclosures About Market Risks .

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Item 5. Operating And Financial Review And Prospects Research, Development And Innovation

5.4 RESEARCH, DEVELOPMENT AND INNOVATION

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

Activities to enhance and generate competitive advantage for the Group are of particular importance and are pursued through strategic management of the relationship between research, Intellectual Property Rights (IPR) and business, aimed at developing the company s patent portfolio. 14 new applications for patents were filed during 2012.

In order to support entrepreneurial and research projects in the Web 2.0 sector, Telecom Italia launched Working Capital in 2009, which has become a blueprint for initiatives to support innovation. The project intends to promote the development of a new generation of Italian entrepreneurs, providing them with financial support, skills, technologies and dedicated services. The plan for 2013 is to create 3 accelerators (one each in Milan, Rome and Catania), centers of excellence for innovation, providing places to study, test and implement projects.

At the end of 2012, the Changemakers project was launched to identify and support the development of 10 new entrepreneurial ideas presented by talented young people to improve the lives of at least 10 million citizens. The young people selected will be given the opportunity to join a management support process that will begin in March 2013 with an 8-week residential experience on a campus where participants will be shadowed by teachers and mentors with recognised expertise.

Projects and initiatives

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

- New generation network;
- Future Internet applications;
- Positive environmental impacts;
- Positive social impacts.

New generation network projects

- Electromagnetic compatibility analyses continued on the new generation wireless LTE (Long Term Evolution) networks currently being designed. The tests focused in particular on the interference issues associated with the proximity in the 800 MHz band spectrum between LTE channels and digital TV (DVB-T) channels and the issues arising from compliance with legal restrictions regarding emissions from the electromagnetic fields of antenna sites.

- A technical specification was drawn up for the creation of Telecom Italia Sparkle s new Pan European Backbone. This is a long distance transport network (transmission backbone) created using the latest optical interface technologies that provide high transmission speeds (up to 100 Gbit/s) and flexibility of operation with transmission flow reconfiguration carried out inside the new network equipment (Reconfigurable Optical Add-Drop Multiplexer and OTN Cross Connect).

- Live TV broadcast of the Turin Marathon for RAI achieved with an innovative architecture that uses the LTE network to receive live video signals from motorbikes and remote controlled drones. The initiative allowed production costs to be reduced and avoided the use of helicopters for radio bridging and filming, with positive environmental impacts in terms of a reduction in fuel consumption and therefore atmospheric emissions.

- Continuation of the EARTH (Energy Aware Radio and NeTwork TecHnologies) project, which began in January 2010 and is scheduled to last two and a half years. Funded by the European Union, the project addresses broad themes including:

    - the development of a new generation of devices and components, focusing in particular on mobile systems such as LTE and its evolutions (LTE-Advanced), while not excluding 3G technologies (UMTS, HSPA);

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- the adoption of new network management system development strategies;

- the use of innovative algorithms for the efficient use of radio resources.

The project aims to reduce system energy use by a factor of more than 50%, with consequent benefits in terms of savings and lower emissions. A demonstrator was built at the Turin laboratories.

- During the last quarter of 2012, the METIS (Mobile and wireless communications Enablers for Twenty-twenty (2020) Information Society) project was launched, which will run for 30 months in total. European FP7 financing programme approved in the context of Call 8 . The project involves 29 partners, including the main equipment manufacturers, universities, research centres and operators, including Telecom Italia, with a significant amount of resources. The aim of the project is to set up the new radio system beyond LTE, working in a number of innovative design directions that focus in particular on communication between objects and equipment, with a view to achieving greater overall energy efficiency. As part of the Metis project, Telecom Italia is actively involved in establishing guidelines for designing the new system, as well as pursuing the specific subject of multi-node communication.

- The last quarter of 2012 also saw the launch of the iJOIN (Interworking and JOINt Design of an Open Access and Backhaul Network Architecture for Small Cells based on Cloud Networks) project funded by the European Union and lasting 30 months. The project introduces the concept of RAN-as-a-Service (RANaaS), i.e. a mobile network in which radio functions are managed flexibly and in a centralised way through an open IT platform based on a cloud infrastructure, allowing greater energy efficiency to be achieved.

The project, in which Telecom is participating as the sole operator and with a leadership role in the coordination activities, will present solutions developed internally regarding the deployment of microcells with fibre backhauling and potential centralised control.

Future Internet application projects

- Telecom Italia has confirmed itself as a protagonist in the development of NFC (Near Field Communications), the technology that allows electronic transactions to be performed with a mobile phone. When it was previewed in Milan, during the Mobile Money Summit event organised by GSMA, a group of over 1,000 people tested the new NFC services around the city while going about their usual everyday activities. In particular, the system allowed them to pay for bus, tram, underground and train tickets, make purchases from around a thousand different stores using the credit card on the smartphone SIM card, use coupons and discount vouchers, all in full compliance with the requirements for the security and privacy of transactions. NFC technology is also used by employees working at Telecom Italia s 3 sites to access the company s offices, pay for meals in the canteen, cafés, and make purchases from vending machines. It is also the basis for the Share IT service prototype for sustainable mobility, whereby an NFC smartphone can be used both to book a car and to access and use the car itself.

- Over the past few years, the way in which we interact with the world around us and the objects within it has changed. The Augmented Reality project allows the outside world to be combined with digital information and content that is invisible to the human eye but visible to the watchful eye of the mobile phone. The technology used allows interactive objects to be superimposed on the screen, making reality clickable and connected . There are dozens of potential applications: from searching for places of interest for tourism (including restaurants and museums) to social activities, enhanced reading of books/magazines, seeing inside objects and interacting with them, enhanced homes, 3D interaction and many more.

- A number of young researchers working at the CNR institute for computing and high performance networks, who set up the Eco4Cloud company in 2010, have devised an Internet algorithm that allows an energy saving of up to around 35%, by observing the behaviour of ants. On average, only 30% of a computer s capacity is used. Rather than distributing the workload equally among all the computers connected to a network (1000 computers used at 50% capacity use more energy than 500 used at 100% capacity) half of them could be switched off or put into low energy hibernation. In November 2012, the project won the Working Capital special award, with which Telecom Italia has enhanced and supported new business ideas, and last July the algorithm was tested on 32 computers at the company s data processing centre in Bari, confirming the specified energy saving.

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Projects with positive environmental impacts

- In July 2012, Telecom Italia, Enel Distribuzione, Indesit Company and Electrolux Appliances set up the non-profit-making and legally recognised Energy@home association with the aim of using new computer and electronic technologies to redesign homes as ecosystems of intercommunicating devices: meter and electricity system, domestic appliances and broadband telecommunication network. Communication allows these systems to integrate smartly, becoming nodes in the Internet of Things in order to reduce waste, increase the reliability and security of the domestic energy system, but above all give consumers more information and choice, educating them in the virtuous use of products and encouraging sustainable lifestyles. The Association is the result of a collaborative project launched in 2009, which has already helped to create a prototype currently being tested by 10 Italian households. The Energy@home system allows power consumption to be monitored and displayed in real time remotely, producing cost information and detailed analysis reports for each individual domestic appliance.

- In the field of sustainable mobility, Telecom Italia is working with the Fiat Research Centre in the context of the Connected Car project to develop solutions that allow mobile terminals to integrate with units installed in vehicles, exchange data and share audio and video resources, thus enabling new services for passengers and drivers. The collaboration has led to the creation of an initial prototype in the laboratory which, once connected to a vehicle, allows fuel consumption and the condition of the vehicle to be monitored using the mobile phone in the car. Again in the context of ICT solutions applied to the world of transport, Telecom Italia is a long-standing member of the main industry associations (ERTICO, TTS Italia, GSMA CCF) and has been active at European level in the development of ITS (Intelligent Transport Systems) architectures and solutions and standardisation activities (ETSI TC ITS) supporting European legislation for the sector, in line with the ITS Action Plan published by the European Commission and currently being transposed by EU Member States.

- As part of the activities devoted to developing new mobile access technologies, tests are being carried out on Active Antenna Systems technology, based on a type of antenna that includes active elements and is normally linked by optical fibre to the connected part at the foot of the radio station. This solution, which involves the use of innovative algorithms for efficient use of radio resources, also allows the energy efficiency of the Radio Base Stations (RBS) to be improved by replacing coaxial cables with optical fibres in the aerial cable. Additional benefits are also expected, again in terms of consumption, as a result of the introduction of appropriate beamforming technologies (generating specific radiation patterns).

- Work continued on the ECONET (low Energy COnsumption NETworks) project lasting three years and officially launched in October 2010. Funded by the European Union, the project focuses on the energy used by systems constituting the fixed telecommunication network, for both operators and customers. ECONET, which brings together a consortium of 15 partners including industries, universities, research centres and SMEs from several European and non-European countries, aims to develop and test new integrated control technologies and mechanisms to enable energy saving by the dynamic adaptation of network capacity and resources according to the actual traffic load and requirements of users, while ensuring quality of service at the same time. The aim is to allow the energy requirement of equipment to be reduced by 50% in the short to medium term and 80% in the long term, based on an unchanged business scenario.

- Telecom Italia coordinated the specific activity relating to Common Power Supplies for fixed terminals in the context of the Home Gateway Initiative (HGI), the final document of which (published in April 2010) provided guidance for the transposition of this specification in the ETSI ATTM context. A number of single power supply prototypes were tested by TILab, which also carried out a comparative LCA (Life Cycle Assessment) of the HGI/ETSI solution compared to the power supplies previously used for the access gateways installed until 2009. With regard to common power supplies for mobile terminals, Telecom Italia worked with the ITU-T to review the L.1000 Recommendation regarding the Universal Mobile Charger, with the aim of reducing the cable and connector options as much as possible and thus converging towards a single power supply solution. For this purpose, the ITU-T issued a specific press release in which Telecom Italia is mentioned first in the list of companies involved in dealing with this issue.

Projects with positive social impacts

· Telecom Italia has contributed with technological support to supplying networks, services and tutors in the context of the Working Capital programme for a project implemented by Compagnia di San Paolo in the field

of Social Housing. The project concerned a building used temporarily in the area of Porta Palazzo in Turin, which has offered temporary users (university students, workers under mobility procedure, employees with no job security, young couples, people leaving sheltered communities) and city users (tourists) 28 apartments since 2012 for a total of 50/60 users. The objective has been to allow temporary and city users to share accommodation, telecommunication and ICT services, as well as social services including entertainment, tourism, training, etc. The project is of great social importance and significance in the urban environment as it promotes interaction among the temporary users and their integration in the social context of the city.

- A social reading tool called SOCIETY (SOCIal Ebook communiTY) was launched which provides a new way of teaching, promoting technological evolution in schools and integrating traditional teaching methods with the potential offered by new communication technologies. Social reading is an emerging technique for sharing the reading experience: the reader is no longer passive but becomes a contributor and to a certain extent the author of the book itself. In this new teaching context, new forms of learning can also develop: teachers can guide students in reading a passage, comment on it together with them, add notes, analyse them in class and set a reading/study task to be completed by students on their own at home.

- In the context of reading and social and collaborative teaching, Telecom Italia is also dealing with the subject of dyslexia, which is a growing phenomenon in schools (10-20% of the school age population have learning difficulties and in 2-5% of cases these are attributable to dyslexia-related disorders). The first stage of the project, carried out with the Turin-based Egò association, is intended to map the actual needs of the individual by means of interviews with the people involved (psychologists, speech therapists, teachers, parents and young people affected by dyslexia). A number of joint initiatives are being launched at both European (EIT projects) and national level (e.g. projects with the ASPHI association and with the Universities of Modena and Reggio Emilia and Eastern Piedmont) to identify effective functions to support dyslexic people, both at school and at home, through an app installed on a tablet computer.

- Testing of the HELP telemedicine project has been launched at the Polytechnic of Palermo for patients suffering from Parkinson s disease, with the aim of improving their quality of life. Through a capsule inserted in a dental prosthesis for the gradual release of drugs and using mobile phones connected to the TIM network, doctors can interact with the equipment and monitor the clinical parameters of patients remotely. HELP was named winner of the AAL (Ambient Assisted Living Joint Programme) Award for 2012.

For additional details, reference should be made to the Note Other information , of the Notes to the Consolidated Financial Statements included elsewhere herein.

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Item 5. Operating And Financial Review And Prospects

Cautionary Statement For Purposes Of The Safe Harbor Provisions Of The United States Private Securities Litigation Reform Act Of 1995

5.5 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. The foregoing discussion in Item 5 Operating and Financial Review and Prospects and the following discussion under Item 11 Quantitative and Qualitative Disclosures About Market Risks contain 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.

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 2013-2015 period;
- our ability to successfully achieve our debt reduction and other targets;
- the increasing competition from global and local OTT (Over The Top) players (operators offering contents and services on the internet without owning its own proprietary telecommunications network infrastructure);
- the continuing impact of increased competition in our markets, including competition from established domestic competitors and global and regional alliances formed by other telecommunications operators in our core Italian domestic fixed-line and wireless markets and our other principal markets;
- the continuing effects of the global economic crisis in the principal markets in which we operate, including, in particular, our core Italian market;
-

our ability to introduce new services to stimulate increased usage of our fixed and wireless networks to offset declines in the traditional voice business mainly due to the continuing impact of regulatory required price reductions, market share loss and pricing pressures generally;

- our ability to successfully implement our internet and broadband strategy;
- the impact of regulatory decisions and changes in the regulatory environment in Italy and other countries in which we operate, including recent changes to allowable charges for data and voice roaming;
- the impact of economic development generally on our international business and on our foreign investments and capital expenditures;
- as our services are technology-intensive, our ability to develop new technologies in order to avoid our services becoming non-competitive;
- the impact of political developments in Italy and other countries in which we operate;
- the impact of fluctuations in currency exchange and interest rates;
- our ability to build up our business in adjacent markets and in international markets (particularly in Brazil and Argentina), 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 (such as those in Brazil and Argentina);
- the amount and timing of any future impairment charges for our authorizations, goodwill or other assets; and
- the outcome of litigation, disputes and investigations in which we are involved or may become involved.

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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.

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Item 6. Directors, Senior Management and Employees Directors

Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.1 DIRECTORS

On April 12, 2011 the Shareholders Meeting of the Company elected the present Board of Directors of Telecom Italia.

The Shareholders Meeting established the number of Directors at 15 and their term of office for three years, until the Shareholders Meeting which will approve the financial statements of the Company for the year ended December 31, 2013; set the overall annual remuneration for the Board of Directors at 2,200,000 euros (to be divided among the members thereof in accordance with the resolutions to be adopted by the Board itself); authorized the Directors to continue with the activities specified in their respective *curricula vitae*, and released them from restrictions on competition, as permitted under Article 2390 of the Italian Civil Code.

On April 13, 2011, the Board of Directors elected Franco Bernabè as Executive Chairman of the Board and Chief Executive Officer of Telecom Italia S.p.A., Aldo Minucci as Deputy Chairman and Marco Patuano as Domestic Managing Director and Chief Operating Officer of the Company.

Following the resignation tendered on June 6, 2011 by Ferdinando Beccalli Falco and the termination on November 16, 2011 of Francesco Profumo (who was appointed Italian Minister of Education on that day), at its meetings on August 4, and December 1, 2011 respectively the Board of Directors co-opted Lucia Calvosa and Massimo Egidi as Company Directors.

On May 15, 2012, the Shareholders Meeting confirmed Lucia Calvosa and Massimo Egidi as Directors, with their term of office to run until the shareholders meeting approving the financial statements for the year ended December 31, 2013.

Consequently, at April 10, 2013 the Board of Directors of Telecom Italia was composed as follows:

Name	Age	Position	Appointed
Franco Bernabè	64	Executive Chairman and Chief Executive Officer/Director	2011
Aldo Minucci	66	Deputy Chairman/Director	2011
Marco Patuano	48	Domestic Managing Director and Chief Operating Officer/Director	2011
César Alierta Izuel	67	Director	2011
Tarak Ben Ammar	64	Director	2011
Lucia Calvosa(1)	51	Director	2011
Elio Cosimo Catania(1)	66	Director	2011
Massimo Egidi(1)	70	Director	2011
Jean Paul Fitoussi(1)	70	Director	2011

Gabriele Galateri di Genola	66	Director	2011
Julio Linares López	67	Director	2011
Gaetano Micciché	62	Director	2011
Renato Pagliaro	56	Director	2011
Mauro Sentinelli(1)	66	Director	2011
Luigi Zingales(1)	50	Director	2011

(1) Independent Directors. For details on the criteria applied to determine independence, see Item 10 Additional Information 10.1 Corporate Governance .

At April 10, 2013 the Secretary of the Board of Directors was the General Counsel of Telecom Italia, Antonino Cusimano.

In 2012:

· the Board of Directors met twelve times, with meetings generally scheduled pursuant to a calendar set forth in advance;

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- the Executive Committee (as of December 31, 2012 composed of Franco Bernabè Chairman, Marco Patuano, Elio Cosimo Catania, Julio Linares López, Aldo Minucci, Renato Pagliaro and Mauro Sentinelli) met two times;

- the Internal Control and Corporate Governance Committee (as from December 6, 2012, the Control and Risk Committee; as of December 31, 2012 composed of Elio Cosimo Catania Chairman, Lucia Calvosa, Jean Paul Fitoussi, Mauro Sentinelli and Luigi Zingales) held twenty meetings. Where deemed desirable in light of the issues on the agenda, the Committee and the Board of Auditors held joint meetings;

- the Nomination and Remuneration Committee (as of December 31, 2012 composed of Elio Cosimo Catania Chairman, Jean Paul Fitoussi, Massimo Egidi and Gabriele Galateri) met ten times.

For a detailed description of Telecom Italia s corporate governance, including activities, responsibilities and organization of the Board of Directors and the Committees, see Item 10 Additional Information 10.1. Corporate Governance .

* * *

6.1.1 Biographical Data

The following are the selected biographical data of the Directors in charge as of April 10, 2013.

Franco Bernabè: Franco Bernabè was born in Vipiteno/Sterzing (Bozen) in 1948. He was appointed Executive Chairman of Telecom Italia by the Board of Directors on April 13, 2011; previously he had served as the Managing Director and Chief Executive Officer as from December 2007. After earning his degree with honors in Economics and Political Science at the University of Turin in 1973, Mr. Bernabè worked for two years as a post-graduate fellow at the Einaudi Foundation. He began his professional career in 1976 as a Senior Economist at the OECD Department of Economics and Statistics in Paris. In 1978 he joined the Planning Department of FIAT as Chief Economist. In 1983 he joined Eni as an Assistant to the Chairman and became subsequently the Head of Corporate Planning, Financial Control and Corporate Development. From 1992 to 1998 Mr. Bernabè was CEO of Eni. During this two terms, he achieved the turnaround of the company and its successful privatization bringing Eni to be one of the largest oil companies by market capitalization worldwide. In November 1998 he became CEO of Telecom Italia, a position he retained until 1999, when he left following the takeover of Telecom Italia by Olivetti. At the end of 1999 he founded FB Group, an investment company active in the areas of financial advisory, ICT and renewable energy. From 2004 to 2007, Mr. Bernabè was Vice Chairman of Rothschild Europe.

Aldo Minucci: Aldo Minucci was born in Reggio Calabria in 1946. He was appointed Deputy Chairman of the Board of Directors on April 13, 2011. Mr. Minucci has been a Director of Telecom Italia since April 16, 2007. After graduating in Law, in 1972 he was employed by Assicurazioni Generali S.p.A., working in the Tax Consulting Service, for which he became Manager in 1983. In 1993 he was appointed Central Executive Officer with responsibility for the Administration and Tax Coordination Service, and supervision of the Tax Consultancy Service. In 1995 he took on the role of Deputy General Manager for Technical-Commercial Coordination for the Insurance Companies in Italy, and he is Supervisor of the Group s Internal Audit Service. Mr. Minucci is Director of AC.E.GA.S. S.p.A.. He is also Chairman of GENERTEL S.p.A., ANIA (National Association of Insurance Companies) and ANIA per la Sicurezza Stradale Foundation.

Marco Patuano: Marco Patuano was born in Alessandria in 1964. Mr. Patuano was appointed Domestic Managing Director and Chief Operating Officer by the Board of Directors on April 13, 2011. Previously he had been Head of Domestic Market Operations since November 2009. He began his career at SIP Central Management in May 1990. From 1990 to 2002, he worked in various departments at Administration, Finance and Control. He was promoted through the ranks at Financial Management between 1998 and 2002. In April 2003, he became CFO at Tim Brasil and Telecom Italia America Latina S.A., a Group subsidiary based in Brazil. Between 2004 and 2006, he served as General Manager at Telecom Italia Latam. In 2006, he moved to Telecom Argentina as Head of Fixed-Line Telephony. He served as General Manager, Operations for Telecom Argentina between May 2007 and July 2008. From August 2008 to November 2009 he was Telecom Italia s Chief Financial Officer. Mr. Patuano is also member of the Board of Olivetti S.p.A., Matrix S.p.A., Telecom Italia Foundation, Bocconi Foundation and UPA (Utenti Pubblicità Associati).

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César Alierta Izuel: César Alierta Izuel was born in Zaragoza in 1945. Mr. Alierta took a degree in law from the University of Zaragoza and earned an MBA at Columbia University (New York). Mr. Alierta has been a Director of Telecom Italia since November 8, 2007. He has been Chairman and Executive Chairman of the Board of Directors of Telefónica, S.A. Mr. Alierta began his career in 1970 as general manager of the capital markets division at Banco Urquijo, S.A. in Madrid, where he worked until 1985. Subsequently, he founded and served as chairman of Beta Capital Sociedad de Valores, S.A. which he combined as from 1991 with his post as chairman of the Spanish Financial Analysts Association (Asociación Espanola de Analistas Financieros). Between 1996 and 2000, he was director and chairman of Tabacalera. S.A. At that time Tabacalera, S.A. changed its name into Altadis. S.A. (following its merger with the French Group, Seita-Société Nationale D Exploitation Industrielle des Tabacs et Allumettes) and he became director and chairman of Altadis, S.A. He has also been a member of the board of directors of the Madrid Stock Exchange (Bolsa de Madrid), Plus Ultra Compania de Seguros y Reaseguros, S.A. and of Iberia S.A. In January 1997 Mr. Alierta was appointed as Director of Telefónica and on July 26, 2000 he was appointed as Executive Chairman. Mr. Alierta has been a Director of China Unicom (Hong Kong) Ltd since October 15, 2008 and of International Consolidated Airline Group (IAG) since September 2010. He is currently a member of the Columbia Business School Board of Overseers, and Chairman of Social Board of the UNED (National Long Distance University).

Tarak Ben Ammar: Tarak Ben Ammar was born in Tunis in 1949. Mr. Ben Ammar has been a Director of Telecom Italia since April 14, 2008. He started his career in 1977, as a film producer. In 1990, he formed Quinta Communications, a company used as a vehicle for a number of investments and as a production and distribution company, that was also engaged in trading of audiovisual rights (acquired from U.S. producers and sold to European Broadcasters); in addition Quinta diversified its activities by building up a portfolio of strategic investments in the media services industry. In addition, Mr. Ben Ammar established close working relationships with a selected number of prominent International investors in the media industry. Mr. Ben Ammar was awarded the Legion d Honneur in 1984 for his cultural contributions. Mr. Ben Ammar is Chief Executive Officer of Europa TV, Prima TV, Ex Machina SAS, Andromeda Tunisie SA, Promotions et Participations International SA, Holland Coordinator & Service Company Italia S.p.A., Eagle Pictures S.p.A. He is a member of the Board of Director of Mediobanca S.p.A. and of other companies.

Lucia Calvosa: Lucia Calvosa was born in Rome in 1961. She was appointed as a member of Telecom Italia Board of Directors on August 4, 2011. She is a professor of commercial law in the Faculty of Economics of Pisa University. After graduating in 1983 in Pisa, she worked at Pisa University throughout her academic career. After obtaining a permanent position as a researcher, she qualified as an associate professor in 1998, and as a full professor in 2000. In the Faculty of Economics at Pisa, in addition to teaching Commercial Law and Bankruptcy Law in the Faculty of Economics, she also taught Private Law and Banking Law for some years. She was appointed to chair the degree course in Economics and Commerce and served two terms of office, chairs the Scientific Teaching Committee of her regional professional association of chartered accountants (Associazione Ordine Dottori Commercialisti dell Alto Tirreno) and is a member of the Board of academic tutors for postgraduate research in Italian and international commercial law at Cattolica University in Milan. From 2005 to 2012 she was a member of the Board of Directors of the Fondazione Teatro di Pisa, and of the Board of Directors of the Fondazione Arpa. From 2009 to 2012 she was a member of the Board of Directors of the Pisa Chamber of Commerce. From 2008 to 2012 she was a member of the Fondazione Cassa di Risparmio di San Minato. From June 2008 to April 2011 she was Chairman of the Cassa di Risparmio di San Miniato S.p.A. Presently she is a member of the Fondazione Cassa di Risparmio di Pisa.

Elio Cosimo Catania: Elio Cosimo Catania was born in Catania in 1946. Mr. Catania has been a Director of Telecom Italia since April 14, 2008. He graduated in Electrical Engineering at Rome University and earned a Master in Management Science at Sloan Management School, MIT, Boston. Elio Cosimo Catania performed a large proportion of his managerial work at IBM, which he joined in 1970. He operated in four continents and held the following posts, among others: President of IBM Latin America, based in New York; Vice President of Marketing for IBM Europe, based in Paris; President and Chief Executive of IBM Italia; President of IBM South Europe. From 2004 to 2006 he has been Chairman and Chief Executive Officer of Ferrovie dello Stato. Mr. Catania was Chairman and Managing Director of ATM Group (Milan Transport Company) from May 2004 to 2011. He is Member of the Board of Management of Banca Intesa SanPaolo, Vice Chairman of Assonime (Association of Italian Joint Stock Companies), Vice President of the Council for Relations between Italy and the United States (CRISU), Member of the Committee of Confindustria and was awarded the Cavaliere del Lavoro honor in 2001.

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Massimo Egidi: Massimo Egidi was born in Turin in 1942. He was appointed as a member of Telecom Italia Board of Directors as of December 1, 2011. He is a professor of Economics at the LUISS Guido Carli University in Rome of which he has been the Dean since 2005. His university career took place in Turin, at the Polytechnic and then at the University s Faculty of Political Sciences (1965-86), then in Trento (from 1987 to 2004) and finally in Rome (2005 to date). He was the Dean of the University of Trento, from 1996 to 2004. He is currently Chairman of the Bruno Kessler Foundation of Trento. He is also a member of the Università Italo Francese and is a founding member of the Università Italo Tedesca, of which he is currently the Chairman pro tempore. He is co-chairman of the Herbert Simon Society and director of the Laboratory of Experimental and Computational Economics (CEEL, Trento). He is also a member of many scientific and academic committees, including the Scientific Committee of ESNIE European School on New Institutional Economics, the Université de Paris X, of the Doctorate in Economics at Sciences Po (Paris). He was responsible for the National Research Programme in the sector of Economics and Social Sciences 2009-2013. He is also a member of the Scientific Committee of Confindustria.

Jean Paul Fitoussi: Jean-Paul Fitoussi was born in La Goulette (Tunisia) in 1942. Mr. Fitoussi has been a Director of Telecom Italia since May 6, 2004. Mr. Fitoussi is Professor Emeritus of Economics at the Institut d Études Politiques in Paris, where he has taught from 1982 to 2010. He is currently research Director at the Observatoire Français des Conjonctures Economiques (OFCE), an economic research and forecasting institute. Mr. Fitoussi graduated cum laude in Law and Economics from the University of Strasbourg with a thesis on inflation, equilibrium and unemployment. He began his academic career as a professor at the University of Strasbourg. Between 1979 and 1983 he taught at the European University Institute, Florence, and in 1984 was visiting professor at the University of California, Los Angeles. Since 1998 he has been a member of the board of the École Normale Supérieure. In 1997 he became a member of the Prime Minister s Council for Economic Analyses. In 1996 he was named to the Commission Économique de la Nation. He was secretary of the International Economic Association beginning in 1984 and has been an expert for the Economic and Monetary Committee of the European Parliament. Between 1990 and 1993 he was Chairman of the Economic Council of the European Bank for Reconstruction and Development. In the field of publishing, Mr. Fitoussi is managing editor of the Revue et Lettre de L OFCE, member of the Editorial Board of Labour and The International Journal of Development Planning Literature and the scientific committee of International Labour Review and Critique Internationale. His writing appears regularly in newspapers in France and abroad and he is commentator for La Repubblica and Le Monde. From 2000 to 2010 he was President of the Scientific Committee at the Institut d Etudes Politiques. In the field of research, Mr. Fitoussi has concentrated on inflation theory, unemployment, foreign trade and the role of macroeconomic policy. As President of the OFCE and founder of its International Economic Policy Group (of which he is a member), he has made numerous contributions to the current economic policy debate, particularly on the issues of economic integration and transition. Mr. Fitoussi has received the Association Français de Sciences Économiques (French Association for Economic Sciences) Award, and the Rossi Award from the Académie des Sciences Morales et Politiques (Academy of Moral and Political Sciences). He has been awarded various honours including the Honorary Deanship of the Faculty of Economics in Strasbourg, Honoris Causa degree at the Buenos Aires University, and in his own country the decorations of officier de l Ordre National du Mérite (Knight of the National Order of Merit) and officier de la Legion d Honneur (Knight of the Legion of Honour). He is a Member of various boards of national and international businesses, foundations and organizations (member of the Board of Directors of FNSP and of the Supervisory Board of Intesa SanPaolo, member of Executive Committee of the Association Internationale de Sciences Economiques, Chairman of the Commission des Nations-Unies sur la reforme du systeme monetaire financier international).

Gabriele Galateri di Genola: Gabriele Galateri di Genola was born in Rome in 1947. He was Chairman of Telecom Italia from December 2007 to April 2011. Since April 8, 2011 he has been Chairman of Assicurazioni Generali S.p.A. After earning his MBA at the Columbia University Business School, Mr. Galateri di Genola began his career in 1971 at the Headquarters of the Banco di Roma, where he started as Head of the Financial Analyses Office before being appointed to manage the International Loans Office. From 1974 to 1976 he worked as Financial Director of the Saint Gobain Group in Italy. In 1977, he joined FIAT S.p.A., where he moved from Head of North, Central and South American Operations at the International Finance Office, to Head of International Finance and, ultimately, to Director of Finance. Mr. Galateri di Genola became CEO of Ifil S.p.A. in 1986. In 1993, he took on the positions of CEO and General Manager of IFI, which he retained until 2002. In June 2002, he was appointed CEO of FIAT S.p.A.. He was a Chairman of TIM Brasil Serviços e Participações S.A. from February 2010 to April 2, 2013, Chairman of TIM Participações S.A. from August 2008 to January 2009 and a non-executive Board member of TIM Participações S.A. from January 2009 to April 2, 2013; he is a non-executive Board member

of SAIPEM S.p.A., Italmobiliare S.p.A., Azimut-Benetti, Accademia Nazionale Santa Cecilia Foundation and Edenred S.A.. He is also Chairman of the Istituto di Tecnologie and member of the International Advisory Board of the Columbia Business School.

Julio Linares López: Julio Linares López was born in Medina de Pomar (Spain) in 1945. He has been a Director of Telecom Italia since November 8, 2007 and member of the Executive Committee since April 15, 2008. Mr. Linares has been a member of the Board of Directors and Chief Operating Officer for Telefónica since December 19, 2007. In May 1970, he joined Telefónica s Research and Development Center, where he held several positions until he was appointed head of the Technology Department. In April 1990, he was appointed General Manager of Telefónica Investigación y Desarrollo, S.A. In December 1994, he became deputy general manager of Marketing and Services Development department in the commercial area and subsequently, deputy general manager far Corporate Marketing. In July 1997, he was appointed chief executive officer of Telefónica Multimedia S.A. and chairman of Telefónica Cable and Producciones Multitemàtícas S.A. In January 2000, he was appointed executive chairman of Telefónica de Espana, S.A., a position which he held until December 2005, when he was appointed managing director for Coordination, Business Development and Synergies of Telefónica. He is also a member of the Board of Directors of Telefónica Espana, Telefónica Europe, Telefonica Latinoamerica and of the Social Council of the Complutense University of Madrid. Mr. Linares holds a degree in telecommunications engineering from the Polytechnic University of Madrid (Universidad Politécnica de Madrid).

Gaetano Miccichè: Gaetano Miccichè was born in Palermo in 1950. Mr. Miccichè has been a Director of Telecom Italia since July 24, 2007. He graduated in Law and then obtained a Master in Business Administration with merit at the SDA Bocconi. He began his professional experience in 1971 as Manager for Corporate Clients at Cassa Centrale Risparmio Province Siciliane. In 1989 he was appointed Central Financial Director at Rodriguez S.p.A., world leading company in the high-speed navigation sector. From 1992 to 1995 he was Managing Director and later Liquidating Administrator at Gerolimich Unione Manifatture, Holding Company with stakes in various industrial sectors. In 1996 he became General Manager of Santavaleria S.p.A., industrial Holding Company in chemical and glass sectors. From 1997 to 2002 he was Chief Executive Officer and General Manager of Olcese S.p.A. Since 2002 he has been in Intesa Sanpaolo S.p.A. as Head of Corporate & Investment Banking Division. Since 2007 Mr. Miccichè has been Chief Executive Officer of Banca IMI. He is also Member of the Board of Directors of Alitalia Compagnia Aerea Italiana S.p.A., Prada S.p.A., Edison S.p.A., Borsa Italiana S.p.A., Banca Infrastrutture Innovazione e Sviluppo S.p.A., Banca Caboto S.p.A., 21 Investimenti S.p.A., Nuovo Trasporto Viaggiatori S.p.A. and of the other companies. He is member of Supervisory Board of Fondazione Ricerca e Imprenditorialità.

Renato Pagliaro: Renato Pagliaro was born in Milan in 1957. Mr. Pagliaro has been a Director of Telecom Italia since May 6, 2004. A registered auditor, with a Degree in Corporate Economics from Bocconi University, he joined Mediobanca Banca di Credito Finanziario S.p.A. in 1981, where he has held positions of increasing responsibility. In April 2003 he was appointed Co-General Manager and Secretary to the Board of Directors of Mediobanca S.p.A.; he was Chairman of the Management Board from July 2007 to October 2008 and Managing Director of Mediobanca S.p.A. from October 2008 to May 2010. From 1993 to 2012 he was a member of the Board of Auditors of Istituto Europeo di Oncologia S.r.l. In May 2010 he was appointed Chairman of the Board of Directors of Mediobanca. He is a Director of Pirelli & C. S.p.A.

Mauro Sentinelli: Mauro Sentinelli was born in Rome in 1947. Mr. Sentinelli was appointed a Director of Telecom Italia on April 29, 2010. An electronic engineer with a masters degree in telecommunications, Mr. Sentinelli joined SIP (presently Telecom Italia) in 1974, where he specialized in the mobile business. In 1991 he became Director of Marketing and Planning in the Mobile Division of the company and in 1994 he was appointed Deputy Managing Director of Telecom Italia s Mobile Division (to become a separate company in 1995 as a result of the Tim de-merger). In May 1997 he left TIM for an experience in the U.S. and in July 1999 he returned to TIM as Group Managing Director. In April 2002 he became a director of TIM, finally leaving the company in January 2005. He was Deputy Chairman of the GSM Association from 2003 to 2008. In 2009 Mr. Sentinelli was appointed Director in Barthi Airtel first Indian TLC operator. Presently Mr. Sentinelli is a Member of the Board of GSMA Ltd, the industrial branch of the GSM Association, Ecotel International S.r.l., Bellariva Enertel 09 S.r.l. and of the Maruzza Lefebre D Ovidio Foundation.

Luigi Zingales: Luigi Zingales was born in Padua in 1963. Mr. Zingales has been a Director of Telecom Italia since April 16, 2007. Luigi Zingales is the Robert C. McCormack Professor of Entrepreneurship and Finance at the

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Graduate School of Business of the University of Chicago, where he has been a member of the faculty since 1992. In 2005-2006 he held the Taussig Research Professorship at Harvard University. He is a faculty research fellow of the NBER, a research fellow of the Centre for Economic Policy Research (CEPR), a member of the Committee on Capital Market Regulation, and of the United Nation Advisory Board on Microfinance. In 2003 he won the Bernacer Prize for the best young European financial economist. From 2005 to 2009 he was a director of the American Finance Association. His research interests span from corporate governance to financial development, from political economy to the economic effects of culture. He has published extensively in the major economics and financial journals. He is an editorialist for Il Sole 24 ore (the leading Italian financial newspaper) and for L Espresso.

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6.2 EXECUTIVE OFFICERS

As of April 10, 2013 the executive officers of Telecom Italia and their respective positions were as follows:

Name	Age	Position	Appointed
Directors:			
Franco Bernabè	64	Executive Chairman and Chief Executive Officer(1)	2011
Marco Patuano	48	Domestic Managing Director and Chief Operating Officer (1)	2011
Managers(2):			
Simone Battiferri	45	Head of Business	2012
Stefano De Angelis	45	Dirección General Ejecutiva (CEO) Telecom Argentina	2013
Franco Brescia	51	Head of Public & Regulatory Affairs	2011
Paolo Vantellini	51	Head of Business Support Office	2013
Antonino Cusimano	48	Head of Legal Affairs	2008
Piergiorgio Peluso	45	Chief Financial Officer and Head of Administration Finance and Control	2012
Antonio Migliardi	54	Head of Human Resources and Organization	2008
Giuseppe Roberto Opilio	54	Head of Technology	2011
Luca Rossetto	50	Head of Consumer	2011
Alessandro Talotta	46	Head of National Wholesale Services	2011
Andrea Mangoni	49	General Manager South America	2012
Rodrigo Abreu	43	CEO Tim Participacoes	2013

(1) Appointed by the Board of Directors on April 13, 2011.

(2) On May 4, 2012, Mr. Luca Luciani, the CEO of Tim Participações and executive officer of Telecom Italia, resigned from Tim Brasil and Tim Participações, giving up all his mandates in the Group s companies.

The following are the selected biographical data of the executive officers, other than Directors (for the biographical data of Mr. Franco Bernabè and Mr. Marco Patuano, please see above under 6.1 Directors):

Simone Battiferri: Mr. Battiferri was born in Rome in 1967. Since December 27, 2012 he has been Business Director. From December 30, 2011 to December 26, 2012 he was Head of Top Clients and Public Sector at Telecom Italia. He started with the Telecom Italia Group in 2001 as Head of Marketing in Datacom eBusiness Solutions Business Unit. At the end of 2001, in the context of the new organisational model involving the merger of the previous Business Units into Telecom Italia Wireline, he became Head of Web Services Marketing, and remained there until April 2004, when he became Head of the Business Opportunity Evaluations Area in the International Business sector.

This marked the start of his involvement in the international activities, which last until the beginning of 2010. In April 2006 he became Head of Marketing in Telecom Argentina, occupying this position until April 2007, when he was appointed COO of the Wireline Unit in the same company. In July 2009, after the merging of the Top Clients Unit into the Wireline one, he became COO of the new Wireline & Top Clients Unit.

In February 2010 he came back to Italy to be appointed Head of Top Clients at Telecom Italia.

Before entering the Telecom Italia Group he spent several years in Etnoteam, where he occupied increasingly important positions and left the company as VP for the Telecommunications & Media Market and Director of Etnoteam Labs.

Among his various professional experiences before Etnoteam, in Italy and abroad (mainly in the United States, as well as Germany and the Czech Republic), he conducted research & development activities with the La Sapienza University of Rome in the Rome Electrical Machine and Power Electronics Group (REMPEG). Mr. Battiferri is also member of the Board of Directors of Telecom Italia Sparkle S.p.A. and Path.Net S.p.A.

Franco Brescia: Mr. Brescia was born in San Costantino Albanese (Potenza) in 1961. Since April 15, 2011 he has been Head of Public and Regulatory Affairs at Telecom Italia.

After graduating cum laude in Business and Economics at La Sapienza University of Rome, he began his professional career in 1985 as a researcher at Censis.

From 1987 to 1989 he was National Press, Research and Parliament Relations Manager at the Italian Confederation of Cooperatives.

In December 1989 he joined Stet-Telecom Italia Group, where he was given progressively increasing responsibilities in the fields of Management Control, Marketing, International, Press and Institutional Relations until he became Staff Head of Presidents and Deputy Managers.

In 2003 he joined Poste Italiane as Head of Local Institutional Affairs.

In October 2006 he joined Telecom Italia, where he took different positions: first he was Assistant to the Chairman; in December 2006 he was appointed Head of Public Affairs; in May 2007 he became Head of Business Management & Intellectual Property Rights; from February 2008 he was an Executive Assistant to the Deputy Manager; in February 2010 he was appointed Head of Institutional Relations.

Franco Brescia also obtained a Master s degree in Communication at La Sapienza University of Rome and a Master s degree in Lobbying e Public Affairs at Lumsa University of Rome. Moreover, he is a Contract Professor.

Antonino Cusimano: Mr. Cusimano was born in Palermo in 1964. Since September 15, 2008 he was Head Legal Affairs and General Counselof Telecom Italia, Secretary to the Board of Directors since April 13, 2011.

Mr. Cusimano was an associate at Hill Taylor Dickinson, London, prior to joining the Pittsburgh based company, PPG Industries Inc. in 1994. He was appointed General Counsel of PPG Industries Europe in 2000, with responsibility for a wide range of legal and business issues. From 2003 to 2005 he served as General Manager, Environmental, Health and Security Protection of PPG Industries Europe and between May and December 2005, he held the position of Corporate Counsel.

Mr. Cusimano joined General Electric, Oil & Gas based in Florence serving as Senior Counsel Global Services and Transactions. During his time at GE, he was a Director and Vice President at Nuovo Pignone Holding S.p.A. and Nuovo Pignone S.p.A.

Rodrigo Modesto de Abreu: Mr. Abreu was born in São Paulo in 1969. He holds a degree in electrical engineering from the University of Campinas and an MBA from the Stanford Graduate School of Business. With more than 20 years of experience in the Telecommunications and Information Technology, Mr. Abreu worked in various companies in the sector in Brazil and abroad. Mr. Abreu served as strategic consultant at McKinsey & Co in the United States. In Brazil, was named CEO of Promon IP in 2000, later became CEO of Telecom Promon and the following year, CEO Promom Technology. In 2004, he assumed the presidency of Nortel Networks Brazil and his last work experience was as president of Cisco in Brazil, where he served for 7 years.

Stefano De Angelis: Mr. De Angelis was born in Rome in 1967 and holds a degree in Economics and Business Administration from Università degli Studi La Sapienza, Rome, Italy and also an MBA from Scuola di Amministrazione Aziendale dell Università di Torino, Italy. He was appointed as Chief Executive Officer of the Telecom Argentina Group in February 2013. From September 2007 until February 2013 Mr. De Angelis was Director of Administration, Planning and Control in Telecom Italia S.p.A. Before that, he was the Chief Financial and Investor Relations Officer of TIM Participações S.A. between 2006 and 2007. He also served as Chief Administration, Finance and Control Officer of the TIM Companies in Brazil since July 2004. Between 2002 and 2004, he was responsible for the planning and controlling operations of Telecom Italia Mobile S.p.A. in Italy. Mr. De Angelis also worked in the Consodata Group Ltd, H.M.C. S.p.A., Stet S.p.A. and at Fiat Geva S.p.A. He was member of the Board of Directors of TIM Participações S.A. from February 2011 to April 11, 2013.

Antonio Migliardi: Mr. Migliardi was born in Reggio Calabria in 1958. On May 1, 2008, he became Head of Human Resources and Organization of Telecom Italia. After graduating in Law, Mr. Migliardi began his career at SIP (later Telecom Italia) with responsibility for Human Resources. At first, he was Responsible for Human Resources and Industrial Relations Regional Dept., then he assumed a central

responsibility in the Industrial Relations Sector. From 1998 to 2004 he was in charge of the Development and Organization Dept. in FS Group. Reporting to the Chief Executive Officer and the Managing Director of the Group, he was appointed to head the project and implement the reorganization of the Italian railways. He was appointed as internal member of Trenitalia s (the most important subsidiary of F.S. Group, constituted in 2000) board. In charge of Trenitalia s System Dept. (logistics & maintenance, Information and Communication Technology and Total Quality Management), he reported to the Chief Executive Officer, mission and corporate goals: obtaining the alignment of these systems to the new competitive scenario in which Trenitalia had to act in the coming years. As head of Total Quality Management, he was also member of the board of Qualital (an Italian consortium for the Engineering of Total Quality). From 2004 to 2006 he was with Alitalia, reporting to the Chief Executive Officer, as Chief Production Officer (Flight Ops, Ground Ops, Maintenance etc.) and Accountable Manager according to the

international regulations (JAR Ops) until the recapitalization of the Company. From 2006 to 2008 he was in charge of Human Resources and Organization Dept. of Vitrociset. Mr. Migliardi is also member of the Board of Directors of Telecontact S.p.A. and Telecom Italia Sparkle S.p.A.

Piergiorgio Peluso: Mr. Peluso was born in Rome in 1968. Since September 26, 2012 he has been Head of Administration, Finance and Control at Telecom Italia. After graduating in Economic and Social Sciences from the Università Commerciale Luigi Bocconi in 1992, with a specialization in Finance, from 1992 to 1994 he held the position of experienced accountant at Arthur Andersen & Co.. Following a period at Mediobanca as Senior Financial Analyst (1994-1998) and with Credit Suisse First Boston as Vice President of Financial Institutions Group (1998-2000) and Mergers & Acquisitions Group (2000-2001), in 2002 he joined Medio Credito Centrale S.p.A. (Capitalia Group) as Central Director Advisory Area. He retained this position until 2005, when he was appointed Central Director at Capitalia S.p.A. From 2007 to 2009, following the merger of Capitalia S.p.A. and UniCredit Group S.p.A., he was Head of Investment Banking Italy at UniCredit Group S.p.A.. In 2009 he was appointed CEO of UniCredit Corporate Banking S.p.A.. Following the merger of UniCredit Corporate Banking S.p.A. with UniCredit S.p.A., in 2010 he was appointed Head of Corporate & Investment Banking Italy, UniCredit Group. From 2011 to September 2012 he was Managing Director of Fondiaria SAI S.p.A. He is a non-executive member of the Board of Directors of TIM Participações S.A. since April 11, 2013.

Giuseppe Roberto Opilio: Mr. Opilio was born in Rome in 1958. Since April 15, 2011 he has been Head of Technology at Telecom Italia.

Mr. Opilio began his career at the Parfina Group (a chemicals company) in 1982 as an assistant to the plant manager.

In 1983, he joined GEPI as Head of Organizational Consulting/Group EDP.

He moved to management consulting company Galgano in 1988 to work as operations manager.

He joined TIM in 1991 as Head of Organizational Development. In 2001, he was appointed Director of Human Resources, a position he held until 2004, when he was named Head of Customer Operations.

Following the merger of TIM and Telecom Italia, he went to run Business Customer Operations (fixed-line/mobile integration), and later became Head of Group Quality.

In February 2008 he was appointed Manager of the Open Access Department.

He won the Human Resources Excellence Award (AIDP-EAPM) in 2001.

Mr. Opilio was a director at a number of companies, including STET Hellas (Greece), Atesia, Assida, and Telecontact. Mr. Opilio is also member of the Board of Directors of Telecom Italia Sparkle S.p.A.

Luca Rossetto: Mr. Rossetto was born in Biella in 1962. Since April 15, 2011 he has been Consumer Director at Telecom Italia.

His professional career began in Tekfen Group in 1985.

From 1987 to 1992 he was Senior Expert in Andersen. From 1993 to 1998 he was in Boston Consulting Group, first as a Consultant and later as a Project Manager.

In 1998 he joined Autogrill S.p.A., where he first held the position of Sales and Logistic Director, then became General Manager in 2000. From 2002 to January 2005 he was in Vodafone as Chief Operating Officer and member of the Board of Directors. In 2005 he was appointed Chief

Executive Officer in La Rinascente/UPIM S.p.A., a position he maintained until 2009. From 2009 to April 2011 he worked as a Consultant. In April 2011 he joined Telecom Italia as Consumer Director.

Alessandro Talotta: Mr. Talotta was born in Catanzaro in 1966. Since April 15, 2011 he has been Head of National Wholesale Services at Telecom Italia and member of the Board of Directors of Telecom Italia Sparkle and since May 18, 2012 is member of the Board of Directors of Trentino N.G.N.

He began his career in 1990 at Italtel S.p.A. (Società Italiana per le Telecomunicazioni) in the Strategic Planning and Marketing Development, where for six years he worked as Senior Manager.

In 1996, he joined Infostrada S.p.A. as Head of Strategic Planning and National/International Interconnection.

He remained at Infostrada after Enel s 2001 acquisition of the company from Vodafone, as head of Fixed and Mobile International Carrier Development.

That same year he moved to the Telecom Italia Group as Operations Supervisor. Before the year was out, he was put in charge of National Wholesale Services Marketing, Sales, Customer Service, Project management and Pricing for Wholesale, as well as overseeing operational services for this business segment.

In 2005, after Telecom Italia Mobile (TIM) merged into the Telecom Italia Group, the Wholesale department took over responsibility for mobile network services too. In 2008, Mr. Talotta joined the Business Strategies &

International Development Management unit with the same responsibilities as before. Mr. Talotta was appointed Manager and Executive Vice President of Telecom Italia National Wholesale Services from December 2001 to April 2008.

In April 2008 he was appointed Chief Regulatory Officer of Telecom Italia and Member of the CROG at the GSMA. He is also a Deputy Chairman of the IPTV Association.

Paolo Vantellini: Mr. Vantellini was born in Varedo (MB) in 1961. Since December 18, 2012, he has been the Head of the Business Support Officer department of Telecom Italia, ensuring coordination of the processes of supply chain, property asset development and management, energy procurement requirements optimisation and management, quality and customer satisfaction and compliance of Domestic activities. After graduating in Business Economics with a major in Corporate Finance from Luigi Bocconi Business University in Milan, in 1984, he started working as a lecturer for the Corporate Finance Unit at SDA Bocconi School of Management. In 1990 he was appointed Lecturer in Corporate Finance on the MBA course at SDA Bocconi and Contract Professor in Industrial Company Economics at Bocconi University. Until 2010 he continued as a contract professor in Economics and Business Management, then in Corporate Finance and finally in Business Financial Policy Master of Science course. At the same time he worked as a business consultant in Corporate Finance, company valuation and corporate governance. During the period 1997-2012 he became Member of the Boards of Directors and of Statutory Auditors at various companies including Director of Banco Ambrosiano Veneto S.p.A. from 1997 to 2000, Director of Lavorwash S.p.A. (from 2002 to 2004), a listed company, Director of Esprinet S.p.A. (from 2001 to 2009), a listed company, at which he was a member of the Committee for Internal Control and the Strategies and Investments Committee, Director of BNP Paribas Personal Finance S.p.A., BNL group, Chairman of the Board of Statutory Auditors of Investindustrial Advisors S.p.A., Member of the Board of Auditors of FOMAS HOP S.p.A., Chairman of the Board of Statutory Auditors of Nomura SIM S.p.A., Member of the Board of Auditors of ATEL Impianti S.p.A., Chairman of the Board of Directors of SIRTI S.p.A. in 2011-2012, Chairman of the Board of Directors of several Intesa Group vehicle companies.

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6.3 BOARD OF AUDITORS

On May 15, 2012 the Shareholders Meeting appointed the present Board of Statutory Auditors, that will remain in office until approval of the 2014 annual financial statements.

On September 18, 2012 the Acting Auditor Sabrina Bruno resigned and was replaced by Roberto Capone, who had been appointed as an alternate by the May 15, 2012 Shareholders Meeting and will remain in office until the Shareholders Meeting, to be held on April 17, 2013. At such Shareholders Meeting it will be proposed that Roberto Capone be confirmed as Acting Auditor and that Fabrizio Riccardo Di Giusto be appointed as a new Alternate Auditor.

The following table lists the members of the Telecom Italia Board of Statutory Auditors as of April 10, 2013.

Name	Position	Appointed
Enrico Maria Bignami(1)	Chairman	2012
Gianluca Ponzellini	Acting Auditor	2012
Roberto Capone(1)	Acting Auditor	2012
Salvatore Spiniello	Acting Auditor	2012
Ferdinando Superti Furga	Acting Auditor	2012
Franco Patti(1)	Alternate Auditor	2012
Vittorio Giacomo Mariani	Alternate Auditor	2012
Ugo Rock	Alternate Auditor	2012

(1) Elected by minority shareholders.

The positions held by the members of the Board of Statutory Auditors in other listed companies are shown below:

Enrico Maria Bignami	Chairman of the Board of Auditors of Biancamano S.p.A.
Gianluca Ponzellini	Chairman of the Board of Auditors of De Longhi S.p.A.; member of the Supervisory Board of Intesa Sanpaolo S.p.A.
Salvatore Spiniello	Chairman of the Board of Auditors of Telecom Italia Media S.p.A.; Director of Fondiaria SAI S.p.A.
Ferdinando Superti Furga	Chairman of the Board of Auditors of Arnoldo Mondadori S.p.A. and Saras S.p.A.

For a detailed description of Telecom Italia s corporate governance, including activities and responsibilities of the Board of Auditors (acting as Audit Committee of the Company) and the mechanics for its appointment, see Item 10 Additional Information 10.1 Corporate Governance .

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6.4 EXTERNAL AUDITORS

The audit of Italian issuers and their groups is governed by legislative decrees on statutory audits of annual accounts and consolidated accounts. In particular, such legislative decrees fix the duration of audit engagements at nine years and prohibit the renewal or the re-engagement unless at least three years have elapsed from the date of termination of previous assignment.

The Shareholders Meeting held on April 29, 2010 appointed PricewaterhouseCoopers S.p.A. as Telecom Italia s independent auditors for the nine-year period 2010-2018 beginning with the financial year ended December 31, 2010.

Italian audit principles require that, in case of corporate groups, the audit firm of Telecom Italia should carry out the audit of the group s most important entities in terms of the nature of operations, in such a way that it can act as the main group audit firm and express a professional evaluation on the financial statements in their entirety. In addition, the Guidelines for the Appointment of external Auditors (the **Group Procedure**), issued by Telecom Italia in March 2010 in view of the engagement of PricewaterhouseCoopers S.p.A. for the 2010-2018 period, provides that the auditor of Telecom Italia is the principal auditor of the entire group headed by Telecom Italia and consequently is the auditor to be preferred in the conferral of appointments by subsidiaries for mandatory auditing.

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6.5 EMPLOYEES

6.5.1 Employees and Changes in the Telecom Italia Group

The number of Group employees at December 31, 2012 and 2011 was the following:

	Year ended December 31,		
	2012	2011	Changes
		(units)	
Employees Italy	54,380	56,838	(2,458)
Employees Foreign	28,761	27,274	1,487
Total Employees at payroll	**83,141**	**84,112**	**(971)**
Employees with temporary work contracts	43	42	1
Employees allocated to non-current assets held for sale			
Total Employees	**83,184**	**84,154**	**(970)**

The workforce turnover is detailed as follows:

- the exclusion of Matrix from the scope of consolidation (253 units);
- the workforce turnover down by 718 units. The workforce turnover is detailed below by individual Business Unit:

	Hirings	Terminations	Changes
		(units)	
Domestic	958	3,030	(2,072)
Brazil	5,793	4,710	1,083
Argentina	1,340	889	451
Media, Olivetti, Other Operations	130	310	(180)
Turn over	**8,221**	**8,939**	**(718)**

Telecom Italia S.p.A.

Year ended December 31,

	2012	2011	Changes
		(units)	
Personnel on payroll	44,606	47,801	(3,195)

The reduction of 3,195 units recorded, was due to:

- the exclusion of 1,179 units due to the transfer of the Information Technology department to SSC (now Telecom Italia Information Technology);
- the inclusion of 118 units due to the merger of TI Audit into Telecom Italia;
- a balance of 27 units departing to join other Group companies;
- workforce turn over down by 2,107 units, as detailed below:

	Hirings	Terminations	Changes
		(units)	
Telecom Italia S.p.A. Turn over	297	2,404	(2,107)

Tim Brasil group

	Year ended December 31,		
	2012	2011	Changes
		(units)	
Tim Brasil group Total	11,622	10,539	1,083

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The increase of 1,083 units recorded was due to:

· the inclusion of 17 units from other Group companies;

· workforce *turn over* up by 1,066 units, as detailed below:

	Hirings	Terminations (units)	Changes
Tim Brasil group Turn over	5,776	4,710	1,066

Argentina Business Unit

	Year ended December 31,		
	2012	2011 (units)	Changes
Argentina Business Unit Total(*)	16,800	16,349	451

(*) Not includes employees with temporary work contracts: 3 and 1 as of December 31, 2012 and 2011.

The increase of 451 units recorded was due to:

· workforce *turn over* up by 451 units, as detailed below:

	Hirings	Terminations (units)	Changes
Argentina Business Unit Turn over	1,340	889	451

6.5.2 Industrial Relations

Telecom Italia

On December 31, 2011, the National Collective Labour Agreement for employees of telecommunication service operating companies expired. During the first half of 2012, negotiations were launched for the renewal of this contract, coordinated by the Italian telecommunications employers trade association Assotelecomunicazioni (ASSTEL). On February 1, 2013, ASSTEL and employees trade unions representing a majority of the employees of the Italian telecommunications sector (SLC CGIL, FISTel CISL, UILCOM UIL and UGL Telecomunicazioni) signed an agreement for the renewal of the National Collective Labour Agreement for the employees of telecommunication service companies, applicable to the three-year period 2012-2014. Currently, as part of the due enactment process, final meetings with employee representatives are being held. The agreement will come into force after it has been approved by such employee meetings, that is, after signatory unions have put aside their reservations. The renewed National Collective Labour Agreement will be binding upon Telecom Italia S.p.A., Telecom Italian Sparkle S.p.A., Telecom Italia Information Technology S.r.l., Telecontact Center S.p.A., Path.Net S.p.A., HR Services S.r.l. and Telsy S.p.A.

In January 2012, an agreement was signed with the most representative trade unions, providing for the introduction of new working hours within the Fixed Customer Operations Consumer 187 Business Service function, our customer service line for landline customers, aimed at improving customer satisfaction. In this context, the company and the unions also envisaged, in a specific agreement, modifications intended to improve work-life balance (*e.g.*, more flexible working hours for pregnant women) and the working environment.

On March 27, 2013, Telecom Italia and the most representative trade unions reached an agreement relating to workforce redundancies and productivity improvements. With respect to 3,000 surplus employees identified for the period 2013-2014, the agreement provides that 2,500 employees will be retained through the regime of solidarity contracts (*contratti di solidarietà*) (providing for a reduction of working hours) covering around 32,000 employees, while another 500 employees will be gradually cut through ordinary fluctuation (voluntary retirements and reaching of legal pension age). While the agreement thus avoids immediate layoffs, it also enables Telecom Italia to respect its three-year plan efficiency targets. In particular, Telecom Italia has committed to postpone the envisaged spin-off of the Caring Services division until April 1, 2014, in turn for the trade union s agreement that 47 Caring Services points of presence be closed. The agreement further provides that our maintenance and customer repair team engineers will increasingly work from their homes and receive a company car equipped with

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a navigation and geolocation system, allowing this team to operate more flexibly, efficiently and with significantly improved reaction times. Finally, the agreement includes certain Telecom Italia commitments relating to the Directory Assistance function and sets out a new bonus regime for the 2013-2015 period. Pursuant to this regime, bonuses will be linked to the achievement of annual targets relating to the company s financial (EBITDA, revenues) and customer satisfaction survey results.

During the first half of 2012, numerous agreements were reached and signed with trade unions for training programmes. Training plays an important role in the process of teaching new skills and preventing professional obsolescence and is a recurring feature in the application of the guidelines established by in prior labour agreements.

On December 31, 2011, the performance bonus agreement expired. Since no negotiations could be held for the new premium while negotiations were under way for the first level collective labour agreement, Telecom Italia decided to recognise the contribution made by employees to the economic and productive performance of the company by disbursing a fixed amount for each contract level for the period January 1, June 30, 2012.

In this respect, a specific agreement was reached with trade union representatives in June.

Also in June 2012, senior executives presented the trade unions with the guidelines for Telecom Italia Domestic s 2012-14 business plan.

The content of the presentation was then discussed in detail. Telecom Italia will continue implementing its cost control policy in 2013 and 2014, focusing on improving efficiency, setting up discussion meetings with the trade unions. It will also be working with the Unions to verify that the Government creates the conditions for completion of the social safety net plan required by the agreement signed with the Ministry of Economic Development and the Ministry of Labour on August 4, 2010.

Telecom Italia made a specific commitment to protect workers who left the company before December 31, 2012 under mobility procedure (on a voluntary basis and according to the non-opposition criterion under existing agreements), if, following legislative changes, they found themselves unable to qualify for a pension; the guarantees offered by the Company provide that, at the end of the redeployment period, these workers will be hired on fixed-term contracts, under the same financial conditions and job categories they had at the time of their termination, for the period needed to qualify for a pension according to current legal provisions. In this respect, agreements were signed in October 2012 with the most representative trade unions according to Telecom Italia S.p.A., Telecom Italia Sparkle S.p.A. and Shared Services Center S.r.l.

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Item 6. Directors, Senior Management and Employees Compensation Of Directors, Officers and Members of the Board of Auditors

6.6 COMPENSATION OF DIRECTORS, OFFICERS AND MEMBERS OF THE BOARD OF AUDITORS

6.6.1 Compensation of Directors

The General Shareholders Meeting held on April 12, 2011 set the maximum total annual remuneration of the Board of Directors (to remain in office for a three-year term, until the approval of the 2013 financial statements), according to article 2389, first paragraph, of the Italian Civil Code up to 2.2 million euros, such amount to be divided amongst the directors in accordance with the resolution adopted by the Board itself in connection therewith.

According to the resolution adopted by the Board on May 5, 2011, as subsequently amended, the above mentioned overall amount was distributed as follows (gross amounts on a yearly basis):

- 110,000 euros to be paid to each director in office;
- an additional 35,000 euros to be paid to each member of the Executive Committee;
- an additional 45,000 euros to be paid to each member of the Internal Control and Corporate Governance Committee;
- an additional 20,000 euros to be paid to each member of the Nomination and Remuneration Committee;
- an additional 20,000 euros to be paid to the director appointed to the Supervision Panel set up under Legislative Decree 231/2001. With effect from May 2012, with the assignment of the functions of Supervisory Panel under Legislative Decree no. 231/2000 to the Board of Statutory Auditors, this remuneration is no longer paid (see Item 10 Additional Information 10.1 Corporate Governance);
- an additional 90,000 euros to be paid to the Deputy Chairman (Aldo Minucci), in view of his responsibilities for the internal control system. After the Deputy Chairman gave up his responsibilities for the internal control system (August 1, 2012), on November 8, 2012 the Board of Directors decided to divide the above compensation between the Deputy Chairman and Director Galateri, who has been assigned the role of link between the Board and the control functions which report directly to the Board.

The total compensation paid by Telecom Italia and by the Telecom Italia Group subsidiaries in 2012 to the members of the Board of Directors of Telecom Italia was 4.8 million euros.

Following the renewal of the Board of Directors (Shareholders Meeting of April 12, 2011) the remuneration package of the Executive Chairman (Mr. Bernabè, who is not an employee of the Company), for the three years of his appointment to the board, has been agreed by contract as follows:

- fixed annual remuneration of 110,000 euros gross for his position as a Director;

- fixed annual remuneration of 1.4 million euros gross for his position as Chairman of the Board of Directors;

- fixed annual remuneration of 35,000 euros gross for his position as member of the Executive Committee;

- variable remuneration linked to annual performance objectives, with a target value equal to his fixed annual remuneration for the position of Chairman of the Board of Directors and a range of between 50% and 150%, depending on the level of achievement of the targets assigned;

- one-off participation in the Long Term Incentive Plan 2011, with pay opportunity at target corresponding to 300% of his fixed annual remuneration for the position of Chairman of the Board of Directors, consisting of:

  - a cash bonus of 2.1 million euros (150% of the fixed annual remuneration); and

  - 2,253,702 ordinary shares (150% of the fixed annual remuneration expressed in shares, valued according to the average of official prices of Telecom Italia ordinary shares between 7 June and 6 July 2011);

- benefits similar to those granted to Group executives (company car, medical and accident insurance, complementary healthcare, complementary welfare) enjoyed free of any direct or indirect charges, with a corresponding increase in the remuneration for the position of Executive Chairman by the amount required to pay the tax applicable to taxed benefits. With specific reference to complementary welfare, provision is made for the Company to make an annual net payment to the Company complementary welfare fund amounting to (i) 10% of his fixed remuneration and (ii) 10% of the annual bonus applicable for achievement of the target results.

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Provision was also made for the payment to the Executive Chairman of amounts due until the end of the period of office, including the variable component, calculated to correspond to the average of disbursements already made, in the event of early termination of his term of office (i) for objective reasons, (ii) on the company s initiative without just cause, (iii) on the initiative of Mr. Bernabè with just cause. Finally, the Company has reserved the right to enter into a one year non-competition agreement, in exchange for a one-off payment equal to a year s remuneration (fixed component and variable component calculated to correspond to the average of disbursements already made), to be implemented after termination.

The remuneration package of the Domestic Managing Director and Chief Operating Officer of the Company (Mr. Patuano, who is an employee of Telecom Italia) has been agreed by contract as follows, subject to waiver of the remuneration due for the position of Director and member of the Executive Committee:

- fixed annual remuneration of 1.0 million euros gross as the annual gross remuneration for his employment relationship with the Company;
- variable remuneration for the position of Chief Executive Officer linked to annual performance objectives, with a target value equal to his fixed annual remuneration and a range of between 50% and 150%, depending on the level of achievement of the targets assigned;
- one-off participation in the Long Term Incentive Plan 2011, with pay opportunity at target corresponding to 300% of his fixed annual remuneration, consisting of
  - a cash bonus of 1.5 million euros (150% of the fixed annual remuneration) and
  - 1,609,787 ordinary shares (150% of the fixed annual remuneration expressed in shares, valued according to the average of official prices Telecom Italia ordinary shares between 7 June and 6 July 2011);
- benefits similar to those granted to Group executives (company car, accident and medical insurance, complementary healthcare, complementary welfare).

Provision was also made for the payment of remuneration for the special position held (short term variable remuneration value, calculated as the average of the amounts received since 2011), in the event of early termination due to (i) early withdrawal of the administration relationship by the Company without just cause; (ii) resignation by Mr. Patuano at the request of the Board of Directors; (iii) resignation by Mr. Patuano with just cause. The procedure set forth in the collective labour agreement for company executives was established as being applicable in the event of a termination of employment relationship by the Company (unless there is just cause) or resignation requested by the Board of Directors. Finally, the Company has reserved the right to enter into a one year non-competition agreement, in exchange for a one-off payment equal to a year s remuneration (fixed component and variable component calculated to correspond to the average of disbursements already made), to be implemented after termination.

The performance indicators for short-term variable component of compensation for the year 2012 were established as follows, on the basis of a proposal by the Nomination and Compensation Committee and with the approval of the Board of Statutory Auditors:

- Executive Chairman of the Board of Directors and Chief Executive Officer of Telecom Italia
  - Consolidated Net Income post minorities (weight: 25%),
  - Consolidated Net Financial Position (weight: 15%),
  - Consolidated Organic ebitda (weight: 20%),
  - Group Total Organic Revenues (weight: 20%).
- Domestic Managing Director and Chief Operating Officer of the Company
  - Consolidated Net Income post minorities (weight: 15%),
  - Italy Net Financial Position (weight: 20%),
  - Telecom Italia Domestic ebitda (weight: 10%),
  - Telecom Italia Customer Satisfaction Index (weight: 10%),
  - Domestic Organic Total Revenues (weight: 25%).

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The targets for the above parameters were set in accordance with the 2012 budget and allowed for a negative deviation down to a minimum threshold value and a maximum payout for the achievement of predetermined positive deviations. Deviations were differentiated according to the relevant indicators and intermediate performance results were to be measured proportionally. In addition to the parameters linked with the 2012 budget (the total weight of which was 80%) there was an ordinary share valuation indicator for the period January 2012-January 2013 (the weight of which was 20%) with respect to a basket consisting of Vodafone, Telefónica, Deutsche Telekom, France Télécom, Teliasonera, Telenor, KPN, Swisscom, British Telecom, as well as Telecom Italia itself. The access threshold was the positioning of the Company at third place in the ranking.

The final pay-outs of the short term compensation of the Executive Chairman and the Domestic Managing Director for the year 2012 were 37.5% and 27.7% of their fixed compensation, that are 525,000 and 277,000 euros, respectively.

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Item 6. Directors, Senior Management and Employees **Compensation Of Directors, Officers and Members of the Board of Auditors**

The following table lists the Directors who served during 2012 and their respective compensation as of December 31, 2012, according to the disclosure format set forth by Consob, the Italian market regulator (Regulation for the implementation of Legislative Decree dated February 24, 1998, adopted by Consob under Resolution 11971 dated May, 14, 1999 and subsequent amendments and additions):

Name and surname	Position	Period for which the position was held	Expiry of term of office	Remuneration						Fair Value of equity remuneration	Compensation for loss of office or termination of employment
				Fixed remuneration	for involvement in committees	Variable non-equity remuneration		Non-monetary benefits	Other remuneration	Total		
						Bonuses and other incentives	Profit sharing					
				(thousands of euros)								
Franco Bernabè(1)	Executive Chairman and CEO	1/1 12/31/2012	12/31/2013	1,918	35	525		490		2,968	313	
Marco Emilio Angelo Patuano(2)	Domestic Managing Director and COO	1/1 12/31/2012	12/31/2013	1,005		279		38		1,322	224	
Aldo Minucci(3)	Deputy Chairman Director	1/1 12/31/2012	12/31/2013	169	35					204		
Cesar Izuel Alierta(4)	Director	1/1 12/31/2012	12/31/2013	110						110		
Tarak Ben Ammar(5)	Director	1/1 12/31/2012	12/31/2013	110						110		
Lucia Calvosa(6)	Director	1/1 12/31/2012	12/31/2013	110	45					155		
Elio Catania(7)	Director	1/1 12/31/2012	12/31/2013	110	100					210		
Massimo Egidi(8)	Director	1/1 12/31/2012	12/31/2013	110	19					129		
Jean Paul Fitoussi(9)	Director	1/1 12/31/2012	12/31/2013	118	65					183		
Gabriele Galateri di Genola	Director	1/1 12/31/2012	12/31/2013									
(I) Remuneration in the company that draws up the financial statements(10)				*117*	*20*					*137*		
(II) Remuneration from subsidiaries and associates(11)				*67*						*67*		
(III) Total				**184**	**20**					**204**		
Julio Linares Lopez(12)	Director	1/1 12/31/2012	12/31/2013	110	35					145		
Gaetano Miccichè(13)	Director	1/1 12/31/2012	12/31/2013	110						110		
Renato Pagliaro(14)	Director	1/1 12/31/2012	12/31/2013	110	35					145		
Mauro Sentinelli(15)	Director	1/1 12/31/2012	12/31/2013	110	80					190		
Luigi Zingales(16)	Director	1/1 12/31/2012	12/31/2013	110	45					155		
Andrea Mangoni	South America Gen. Man.	8/1 12/31/2012	4/30/2013									
				557		*363*		*40*		*960*		

(I) Remuneration in the company that draws up the financial statements(17)								
(II) Remuneration from subsidiaries and associates(18)			*335*				*335*	
(III) Total			**892**		**363**	**40**	**1,295**	
Luca Luciani	Diretor Presidente Tim Part.	1/1 5/4/2012 5/4/2012						
(I) Remuneration in the company that draws up the financial statements			*289*		*300*	*54*	*643*	*4,400*
(II) Remuneration from subsidiaries and associates(19)			*183*				*183*	
(III) Total			**472**		**300**	**54**	**826**	**4,400**
(I) Total remuneration in the company that draws up the financial statements			***5,273***	***514***	***1,467***	***622***	***7,876***	***537***	***4,400***
(II) Total remuneration from subsidiaries and associates			***585***				***585***	
(III) Total			**5,858**	**514**	**1,467**	**622**	**8,461**	**537**	**4,400**

(1) The fixed remuneration includes the remuneration pursuant to article 2389, paragraph 3, of the Italian Civil Code (1,400,000 euros) and paragraph 1 of the Italian Civil Code (110,000 euros) including other remuneration offsetting the tax burdens applicable to taxed benefits (408,000 euros). The remuneration for involvement in committees refers to the remuneration received as member of the Executive Committee. The amount of bonuses and other incentives refers to the bonus relating to the financial year for targets achieved in the year itself, assessed on the basis of the official closing statements.

(2) The fixed remuneration includes the remuneration for work as employee (1,000,000 euros) and travel expenses (5,000 euros). The amount of bonuses and other incentives refers to the bonus relating to the financial year for targets achieved in the year itself, assessed on the basis of the official closing statements (277,000 euros) including other remuneration offsetting the tax burdens applicable to taxed benefits relating to employment (2,000 euros).

(3) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code) 110,000 and as Vice Chairman (with responsibility for the operation of the internal control system for the period 1/1 1/8/2012 59,000). The remuneration for involvement in committees refers to the remuneration received as member of the Executive Committee.

(4) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code). This remuneration is not received by the person concerned but paid to Telefonica S.A.

(5) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code).

(6) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code). The remuneration for involvement in committees refers to the remuneration received as member of the Internal Control and Corporate Governance Committee.

(7) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code). The remuneration for involvement in committees refers to the remuneration received as member of the Executive Committee 35,000 euros, the Nomination and Remuneration Committee 20,000 euros and of the Internal Control and Corporate Governance Committee 45,000 euros.

(8) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code). The remuneration for involvement in committees refers to the remuneration received as member of the Nomination and Remuneration Committee for the period 1/19-12/31/2012.

(9) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code) 110,000 euros and of the Supervisory Board pursuant to Legislative Decree 231/2001 for the period 1/1 5/28/2012 8,000 euros. The remuneration for involvement in committees refers to the remuneration received as member of the Internal Control and Corporate Governance Committee 45,000 euros and Nomination and Remuneration Committee 20,000 euros.

(10) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code) 110,000 euros and as link between the Board of Directors and the corporate control departments which report hierarchically to the Board for the period 11/8 12/31/2012 7,000 euros. The remuneration for involvement in committees refers to the remuneration received as member of the Nomination and Remuneration Committee.

(11) This amount refers to the remuneration received as member of the Board of Directors in TIM Participações 168,000 R$ converted into euros at the average exchange rate for 2012 at 12/31/2012 (Real/ 2.50953).

(12) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code). The remuneration for involvement in committees refers to the remuneration received as member of the Executive Committee. This remuneration is not received by the person concerned but paid to Telefonica S.A.

(13) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code). This remuneration is not received by the person concerned but paid to Intesa San Paolo S.p.A.

(14) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code). The remuneration for involvement in committees refers to the remuneration received as member of the Executive Committee. This remuneration is not received by the person concerned but paid to Mediobanca S.p.A.

(15) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code). The remuneration for involvement in committees refers to the remuneration received as member of the Executive Committee 35,000 euros and of the Internal Control and Corporate Governance Committee 45,000 euros. This remuneration is not received by the person concerned but paid to Ecotel International S.r.l.

(16) The fixed remuneration refers to the remuneration received as member of the Board of Directors (pursuant to article 2389, subsection 1, of the Italian Civil Code). The remuneration for involvement in committees refers to the remuneration received as member of the Internal Control and Corporate Governance Committee.

(17) The fixed remuneration includes the remuneration for work as employee (441,000 euros) for the entire financial year 2012, and travel expenses (116,000 euros). The amount of bonuses and other incentives refers to the bonus relating to the financial year for targets achieved in the year itself, assessed on the basis of the official closing statements (113,000 euros) and to the bonus for managerial services in South America 250,000 euros.

(18) This amount refers to the remuneration received for the appointment in TIM Participações converted into euros at the average exchange rate for 2012 at 12/31/2012 (Real/ 2.50953).

(19) The amount relating to the local work contract has been converted into euros at the average exchange rate for 2012 at 5/31/2012 (Real/ 2.50826).

Applicable Italian law requires disclosure of individual compensation in the form of stock options for members of the Board of Directors.

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Item 6. Directors, Senior Management and Employees **Compensation Of Directors, Officers and Members of the Board of Auditors**

The following table have been prepared according to the format required by the Regulation for the implementation of Legislative Decree dated February 24, 1998, adopted by Consob under Resolution 11971 dated May, 14, 1999 and subsequent amendments and additions.

		Options held at the beginning of the financial year			Options assigned during the financial year						Options exercised during the financial year			Options expired during the financial year	Option held at t end of t financia year
B	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Position	Plan and respective resolution	Number of options	Exercise price	Possible exercise period (from to)	Number of options	Exercise price	Possible exercise period (from to)	Fair value on assignment date	Date of assignment	Market price of underlying options on assignment of options	Number of options	Exercise price	Market price of underlying shares on exercise date	Number of options	(15)= (2)+(5) (11)-(14
Director(*)	TOP 2008 4/15/2008	2,250,000	1.95	4/15/2011 4/15/2014											2,250,0
Chairman	TOP 2008 4/15/2008	6,300,000	1.95	4/15/2011 4/15/2014											6,300,0
eration in the company p the financial		8,550,000													8,550,0
eration from and associates															
		8,550,000													**8,550,0**

(*) The 2008 TOP Plan was assigned at the time when Mr. Galateri was Chairman of the Board of Directors.

For further details, please see Note Stock option and performance share granting plans of the Telecom Italia Group of the Notes to the Consolidated Financial Statements, included elsewhere herein.

6.6.2 Compensation of Executive Officers

The total compensation due by the Company or by any of the Company s subsidiaries in 2012 to the Company s executive officers (including the Executive Chairman and Chief Executive Officer of the Board of Directors and the Domestic CEO) was 16,515 thousand euros.

There is no generalized standard practice regarding severance pay for key managers with strategic responsibilities. However, the general policy established since 2008 is the following:

- at the time of appointment to an executive position, an executive who already has an employment contract with the Group will be subject to the provisions of the collective labour agreement for company executives;

- at the time of engagement of an executive from outside the company, any severance clauses will not normally exceed the maximum amount payable under the collective labour agreement for executives;

- in the event of specific executive staff redundancy campaigns, more generous payments may be made than are required by the collective labour agreement.

There are no general non-competition policies for key managers with strategic responsibilities. For a small number of key managers with strategic responsibilities there is still a duty not to compete with group companies under agreements signed prior to 2008, for which the respective consideration has already been disbursed.

The specific provisions applicable to the current Executive Chairman and Chief Executive Office of the Board of Directors, who has no work relationship with the Company other than his relationships as Executive Director of Telecom Italia, and the current Domestic Managing Director, who is an employee of the Company, are described under 6.6.1 Compensation of Directors .

Applicable Italian law requires disclosure of individual compensation in the form of stock options for General Managers and, in the aggregate and divided by plan, the stock options granted by Telecom Italia S.p.A. to Executive Officers.

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Item 6. Directors, Senior Management and Employees **Compensation Of Directors, Officers and Members of the Board of Auditors**

The following tables have been prepared according to the format required by the Regulation for the implementation of Legislative Decree dated February 24, 1998, adopted by Consob under Resolution 11971 dated May 14, 1999 and subsequent amendments and additions.

A	B	(1)	(2)	(3)	Financial instruments assigned during the financial year					Financial instruments vested during the financial year and not assigned	Financial instruments vested during the financial year and assigned		Financia instrumen for the year
Name and Surname	Position	Plan and respective resolution	Number and type of financial instruments	Vesting Period	Number and type of financial instruments	Fair value on assignment date	Vesting Period	Date of assignment	Market price on assignment	Number and type of financial instruments	Number and type of financial instruments	Value on assignment date	Fair value
Franco Bernabè	Chairman	LTI 2011 07/07/2011			3,380,553	939	Apr 2011 Mar 2014	July 7, 2011	0.90459				313
Marco Patuano	CEO	LTI 2011 07/07/2011			2,414,681	671	Apr-2011 Mar-2014	July 7, 2011	0.90459				223
(I) Remuneration in the company that draws up the financial statements					**5,795,234**	**1,610**							**536**
(II) Remuneration from subsidiaries and associates													
(III) Total						**1,610**							**536**

6.6.3 Compensation of Members of the Board of Auditors

The General Shareholders Meeting of May 15, 2012 (which appointed the current Board of Auditors) authorized annual compensation of 95,000 euros for each Auditor and 135,000 euros for the Chairman of the Board of Auditors. Such compensation took into account the role of Board of Statutory Auditors acting as Supervisory Panel established under Legislative Decree 231/2001.

The total compensation paid by the Company or by any of the Telecom Italia Group subsidiaries in 2012 to the members of the Board of Auditors was 600 thousand euros.

The following table sets forth the members of the Board of Auditors in office during 2012 and the compensation received by the Board of Auditors for services rendered during the year ended December 31, 2012:

Individuals	Description of the position			Compensation				
Name	Position held	Period during which position was held	Office expiry	Compensation base	Non cash benefits	Bonuses and other incentives	Other Compensations	Total
				(thousand of euros)				
Enrico Maria BIGNAMI	Chairman	1/1-12/31/2012	31/12/2014	129				129
Sabrina BRUNO	Acting Auditor	5/16-9/18/2012	31/12/2014	33				33
Roberto CAPONE	Acting Auditor	9/19-12/31/2012	Next shareholders meeting	27				27
Gianluca PONZELLINI	Acting Auditor	1/1-12/31/2012	31/12/2014	89				89
Lorenzo POZZA	Acting Auditor	1/1-5/15/2012	31/12/2014	30				30
Salvatore SPINIELLO	Acting Auditor	1/1-12/31/2012	31/12/2014					
(I) Remuneration in the company that draws up the financial statements				*89*				*89*
(II) Remuneration from subsidiaries and associates(1)				*101*				*101*
(III) Total				**190**				**190**
Ferdinando SUPERTI FURGA(1)	Acting Auditor	1/1-12/31/2012	31/12/2014	95				95
(I) Remuneration in the company that draws up the financial statements				***492***				***492***
(II) Remuneration from subsidiaries and associates(2)				***101***				***101***
(III) Total				**593**				**593**

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(1) This amount includes the remuneration received as member of the Board of Statutory Auditors (89,000 euros) and Chairman of the Supervisory Board pursuant to Legislative Decree 231/01 for the period 1/1 5/15/2012 (6,000).

(2) This amount refers to the remuneration received for the office of Chairman of the Board of Statutory Auditors of the listed subsidiary Telecom Italia Media S.p.A. (43,000 euros); for the office of independent Director (50,000 euros) and for the office of member of the Supervisory Board (8,000 euros) of the affiliated companies Italtel Group and Italtel S.p.A. (remuneration paid by the latter company), held for the period 1/1 12/31/2012).

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Item 6. Directors, Senior Management and Employees Options To Purchase Securities From Registrant

6.7 OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT

At December 31, 2012, the outstanding stock option plans related to options which give the right to subscribe for new Telecom Italia Ordinary Shares and new Tim Participações ordinary shares. In addition, at December 31, 2012 other Telecom Italia S.p.A. equity compensation plans were outstanding.

For further details, see *Note Equity compensation plans* of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

The Telecom Italia Shareholders Meeting held on May 15, 2012 resolved to launch the Long Term Incentive Plan 2012 . The new plan replicates the basic rationale of the Long Term Incentive Plan 2011. It covers top management and selected management. The plan is formulated according to a rolling perspective so that, normally, each year a new incentive cycle comes into effect, factored over the time frame of the company s strategic planning.

The objective of the plan is to reinforce the connection between management s compensation and, on one hand, the company performance defined in the business plan 2012-2014 (absolute performance: 35% weighted), and on the other hand, the growth of value relative to a group of peers (relative performance: 65% weighted).

The plan calls for granting:

- to selected management, a cash bonus, with the option of investing 50% of the bonus in Telecom Italia Ordinary Shares at market price and the grant of bonus Matching Shares when specific conditions are met two years after subscription;

- to top management, a 50% bonus in cash and 50% for rights to a bonus grant of Telecom Italia Ordinary Shares after two years;

On June 28, 2012, the Telecom Italia Board of Directors approved the start of the Plan, which covered 19 top managers and 127 selected members of management. At December 31, 2012, this situation remained unchanged.

On December 31, 2012 the three-year performance period of the Long Term Incentive Plan 2010-2015 (which covered selected managers) expired. The Board of Directors on March 7, 2013 acknowledged that the Total Shareholders Return performance criterion (relative performance: 65% weight) had not been met, while the absolute performance requirement (35% weight) was over the minimum threshold, for an individual pay-out equalling 4% of the annual remuneration of the beneficiaries.

On September 5, 2012, the shareholders meeting of Tim Participações S.A. approved the second granting of stock options for managers in key positions in the company and its subsidiaries. In keeping with the structure of the plan initiated in 2011, the exercise of the options is subordinate to the simultaneous achievement of two performance targets: increase in the value of TIM shares and performance of TIM shares against a benchmark index composed of TLC and Media Technology companies listed on the Bovespa and in the Bovespa indices.

Of the options assigned in 2012, a third can be exercised at the end of September 2013, another third from September 2014 and the remaining third from September 2015.

On September 5, 2012, the grantees of the options were granted the right to purchase a total of 2,661,752 shares. As of December 31, 2012, there were no options that could have already been exercised.

The Board of Directors on March 7, 2013, taking account of the overall performance of the Company, resolved to suspend the launch of a new Long Term Incentive cycle, while it submitted for approval to the Shareholders Meeting on April 17, 2013 a new Employee Share Ownership Plan. The scheme makes available a total of 54,000,000 ordinary shares at a 10% discount off the market price, and in any case not below par value, in possible installments. Individuals who hold shares for one year, and providing they remain employees, will be granted one free bonus share for every three shares purchased. To service the plan, it is proposed that the Board of Directors be granted powers to increase share capital by a maximum 39,600,000, part paid and part without charge, via the assignment of profits or profit reserves.

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Item 7. MAJOR SHAREHOLDERS AND RELATED-PARTY TRANSACTIONS

7.1 MAJOR SHAREHOLDERS

At December 31, 2012, according to the shareholders register and other information in the Company s possession, the parties which held shares with voting rights, directly or indirectly, in excess of 2% of the ordinary share capital of Telecom Italia were the following:

		As of December 31, 2012	
Major Shareholders	Type of ownership	No. Ordinary Shares	% of ordinary share capital
Telco S.p.A.	(direct)	3,003,586,907	22.39
Findim Group S.A.	(direct)	668,931,444	4.99

As of April 10, 2013, the above mentioned position is the following:

		As of April 10, 2013	
	Type of ownership	No. Ordinary Shares	% of ordinary share capital
Telco S.p.A.	(direct)	3,003,586,907	22.39
Findim Group S.A.	(direct)	668,931,444	4.99

At December 31, 2012, Telecom Italia held 37,672,014 of its own Ordinary Shares, while the subsidiary Telecom Italia Finance S.A. held another 124,544,373 Ordinary Shares, for a total of 1.21% of capital with voting rights.

For more details about the significant changes in the percentage of ownership held by major shareholders organizational structure, please see Item 4. Information on the Telecom Italia Group 4.1 Business 4.1.1 Background .

7.1.1 Shareholders Agreements

The information contained herein regarding shareholders agreements has been derived from publicly available information filed by the parties involved with regulatory authorities. So far as Telecom Italia is aware, no facts have been omitted herein which would render the information misleading. No further or other responsibility in respect of such information is accepted by Telecom Italia.

On February 29, 2012 the shareholders of Telco (Generali Group with a 30.58% stake, Intesa Sanpaolo with a 11.62% stake, Mediobanca with a 11.62% stake and Telefónica with a 46.18% stake) terminated the New Shareholders Agreement (the last version of an agreement initially made on April 28, 2007, and then amended on October 25, 2007, November 19, 2007, October 28, 2009, January 11, 2010 and December 10, 2010), and entered into the 2012 Shareholders Agreement, on the same terms and conditions as the pre-existing one, with a duration until February 28, 2015.

The 2012 Shareholders Agreement defines, among other things, the criteria for the composition of the slate of candidates for appointment to the Board of Directors of Telecom Italia:

- Telefónica, insofar as it holds at least 30% of Telco s share capital, will be entitled to designate two candidates;

- the other shareholders of Telco, as they hold the absolute majority of its share capital, have the right to designate the other members on the slate, of whom three candidates unanimously and the others on a proportional basis.

The 2012 Shareholders Agreement provides that the Telecom Italia Group and the Telefónica Group are managed autonomously and independently. In particular, the Board members designated by Telefónica to serve in Telco and Telecom Italia are instructed by Telefónica not to attend or vote in board meetings that examine proposals and resolutions regarding the policies, management and operations of companies directly or indirectly controlled

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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 regarding Brazil and Argentina take account (i) of the prescriptions imposed by the Brazilian telecommunications authority (Anatel) and by the Brazilian Antitrust Commission (CADE) and (ii) of the *Compromiso* signed before the Comisión Nacional de Defensa de Competencia of Argentina (CNDC) on October 6, 2010 by the contracting parties, by Telco and as intervening parties in order to execute the obligations assumed by Telecom Italia, Telecom Italia International N.V., Sofora Telecomunicaciones SA, Nortel Inversora SA, Telecom Argentina SA, Telecom Personal SA, Telefónica de Argentina SA, and Telefónica Moviles SA.

Consistently with the provisions of the agreement, board members Alierta and Linares undertook at the time of their appointment not to participate in the discussion and voting of the Board of Directors (as well as of the Executive Committee) of Telecom Italia when matters are proposed or discussed that relate to the activities of the Company and its subsidiaries in the telecommunications markets of Brazil and Argentina, as well as, in general, in all cases where there could be possible prejudice to the Telecom Italia Group.

As indicated above, the 2012 Shareholders Agreement has a duration until February 28, 2015. Each party:

- may request the de-merger of Telco by sending a communication to the other parties between August 1, and August 28, 2014, with an obligation to give effect to the de-merger within the subsequent six months;
- may withdraw from the agreement and request the de-merger of Telco by sending a communication to the other parties in the period between September 1, and September 28, 2013, with an obligation to give effect to the de-merger within the subsequent six months.

At the same time as signing the 2012 Shareholders Agreement, on February 29, 2012 Telco and Telefónica renewed and extended to February 28, 2015 the option to purchase shares in the Company initially agreed on November 6, 2007 and then amended on October 28, 2009. In accordance with the existing agreements, in the case of dissent by Telefónica from the decision by the Telco Board of Directors to transfer or set up encumbrances on the Telecom Italia shares in its portfolio, Telefónica could alternatively purchase the Telecom Italia shares from Telco at the same price and under the same conditions offered by a third party proposing to buy them, or require the de-merger of Telco.

7.1.2 Shareholders Ownership

v Board of Directors

In accordance with applicable Italian law, the following table shows the investments held in Telecom Italia S.p.A. and in the related subsidiaries by all the individuals who, during 2012 or a part of that year, have held the post of director in Telecom Italia S.p.A.

Name	Company	Class of shares	Number of shares held at the end of 2011	Number of shares purchased in 2012	Number of shares sold in 2012	Number of shares held at the end of 2012 (or as of the

			(or at the date of appointment)		date on which individual left post, if before)
Franco BERNABÈ	Telecom Italia S.p.A.	Ordinary(1)	318,000	150,000	468,000
		Savings(2)	330,000	150,000	480,000
Aldo MINUCCI	Telecom Italia S.p.A.	Ordinary	2,595		2,595
Marco PATUANO	Telecom Italia S.p.A.	Ordinary		70,000	70,000
		Savings		30,000	30,000
Gabriele GALATERI DI GENOLA	Telecom Italia S.p.A.				
		Ordinary	352,000		352,000
		Savings	176,000		176,000
Renato PAGLIARO	Telecom Italia S.p.A.	Savings	60,000		60,000
Luigi ZINGALES	Telecom Italia S.p.A.	Ordinary	58,000		58,000

(1) Of which 18,000 shares held indirectly.

(2) Of which 30,000 shares held indirectly.

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v **Board of Auditors**

In accordance with applicable Italian law, the following table shows the investments held in Telecom Italia S.p.A. and in the related subsidiaries by all the individuals who, during 2012 or a part of that year, have held the post of statutory auditor in Telecom Italia S.p.A.

Name	Company	Class of shares	Number of shares held at the end of 2011 (or at the date of appointment)	Number of shares purchased in 2012	Number of shares sold in 2012	Number of shares held at the end of 2012 (or as of the date on which individual left post, if before)
Roberto CAPONE	Telecom Italia S.p.A.	Ordinary	1,319			1,319

v **Executive Officers**

In accordance with applicable Italian law, the following table shows the investments held in Telecom Italia S.p.A. and in the related subsidiaries by all the individuals who, during 2012 or a part of that year, have held the post of executive officers in Telecom Italia S.p.A.

Company	Class of shares	Number of shares held at the end of 2011 (or at the date of appointment)	Number of shares purchased in 2012	Number of shares sold in 2012	Number of shares held at the end of 2012 (or as of the date on which individual left post, if before)
Telecom Italia S.p.A.(1)	Ordinary	31,412	10,000	10,000	31,412
Telecom Italia S.p.A.	Savings	55,484			55,484
Telecom Italia Media S.p.A.	Ordinary	4			4

(1) Of which 3,460 shares held indirectly.

* * *

As of April 10, 2013 no member of the Board of Directors, Board of Auditors or Executive Officers beneficially owned more than 1% of the Ordinary Shares or Savings Shares.

7.1.3 Continuing Relationship with the Italian Treasury

The Italian Treasury continues to be in a position to exert certain powers with respect to Telecom Italia through the exercise of the special powers included in Telecom Italia s Bylaws. Such powers, the so-called golden share, were established in 1997 according to Law No. 474/1994, when Telecom Italia formerly controlled by the Italian Treasury was privatized.

On May 22, 2003, taking into account the proposed merger of Telecom Italia into Olivetti S.p.A., a Decree by the Minister of Economy and Finance, in agreement with the Minister for Productive Activities, maintained the power of approving the acquisition of major shareholding in the company s voting capital (3% of Telecom Italia s voting share capital or more) and the power of veto over resolutions to dissolve the company, approve mergers, demergers or dispositions of the business, transfer the registered office abroad, change the corporate purposes or amend and modify the special powers. On the other hand, the Treasury s power to approve major shareholders agreements and the power to appoint one Director and one Statutory Auditor were relinquished.

Law No. 350/2003, adopted in December 2003, significantly modified the rules governing the special powers, of the Italian Government with respect to privatized companies stating, in particular, that the Government no longer has the power to approve or disapprove the acquisition of material interests in the share capital of such companies, but instead may object, within a ten-day period, in case of prejudice to vital State Interests and each time there is the need to protect subsequent undeniable reasons of public interest, in accordance with specific criteria set forth in an ad-hoc decree of the Government dated June 10, 2004.

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As a result, on April 1, 2005 a new Decree by the Minister for Economy and Finance, in agreement with the Minister for Productive Activities redefined accordingly the content of the special powers clause in the Telecom Italia bylaws, and stated its exact wording. Subsequently the relevant provision of the bylaws was amended accordingly.

On March 26, 2009, the European Court of Justice declared that, by adopting the provisions contained in decree of the Government dated June 10, 2004 defining the criteria for the exercise of the special powers, the Italian Republic failed to fulfil its obligations under the EC Treaty. Specifically, infringement of Articles 43 (freedom of establishment) and 56 (freedom of movement of capital) of the EC Treaty arose from the fact that the Decree of 2004 did not make sufficiently clear the conditions for the exercise of the special powers, and did not enable investors to know in what situations the powers would be used. The extremely broad description of the circumstances permitting recourse to these special powers gave those powers a discretionary nature. As a result, the above factors discourage investors generally and more specifically those contemplating investing in Italy with a view to exerting some influence on the management of the companies to which the legislation at issue applies.

As a result of the ruling by the European Court of Justice the Prime Minister s Decree dated June 10, 2004 was amended on May 20, 2010. As a result of these amendments, presently the special powers may only be exercised when justified by substantial and compelling reasons of general interest, particularly with regard to public order, security, health and defense, as appropriate and proportionate to the protection of those interests.

On May 14, 2012 a new law was published, containing Regulations relating to the special powers on share ownership in the sectors of defence and national security, and regarding activities of strategic importance in the energy, transport and communication sectors . The regulations provide that, at the moment the implementing Prime Ministerial decrees come into force with respect to *the networks and systems, goods and relationships of strategic importance for the communications* [ ] *sector* , the statutory clauses on special powers will cease to have effect to be replaced by these regulations. In brief, the new regulations will provide:

- the Italian Government with the authority to impose conditions and possibly to oppose the purchase, for any reason whatever, by non-EU citizens, of controlling shareholdings in companies which hold strategic assets identified in the regulations. Any right to purchase by a non-EU entity will in any case be permitted solely on condition of reciprocity in the purchaser s home jurisdiction;

- a power of veto granted to the Italian Government (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 the company s by-laws purpose, company dissolution or amendment in by-laws provisions relating to limitations of voting rights.

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7.2 RELATED-PARTY TRANSACTIONS

There are no significant transactions with related parties, including intragroup transactions, which are non recurring or unusual and/or atypical in nature. Such transactions, when not dictated by specific laws, are usually conducted at arm s length.

For further information on related party transactions please see Note Related party transactions of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

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Item 8. FINANCIAL INFORMATION

8.1 HISTORICAL FINANCIAL STATEMENTS

See Items 18 and 19 for a list of financial statements and other financial information filed with this report.

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8.2 LEGAL PROCEEDINGS

We are continuously involved in disputes and litigation with regulators, competitors and other parties.

For further details, please see Note Contingent liabilities, other information, commitments and guarantees to the Consolidated Financial Statements included elsewhere in this Annual Report.

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Item 9. Listing Trading Of Telecom Italia Ordinary Shares And Savings Shares

Item 9. LISTING

9.1 TRADING OF TELECOM ITALIA ORDINARY SHARES AND SAVINGS SHARES

The principal trading market for the Ordinary Shares and the Savings Shares is on Mercato Telematico Azionario or (**Telematico**), an automated screen trading system managed by Borsa Italiana (See 9.2 Securities Trading in Italy).

Ordinary and Savings Share ADSs, each representing respectively ten Ordinary Shares and ten Savings Shares have been listed on the NYSE since August 4, 2003. JPMorgan Chase Bank is the Company s Depositary issuing ADRs evidencing the Ordinary Share ADSs and the Savings Share ADSs.

The table below sets forth, for the periods indicated, reported high and low official prices of the Ordinary Shares on Telematico and high and low closing prices of Ordinary Share ADSs on the NYSE from the First Quarter of 2008.

	Telematico		NYSE	
	High	Low	High	Low
	( )		(U.S.$)	
2008:				
First Quarter	2.143	1.212	31.180	18.820
Second Quarter	1.485	1.257	23.540	19.380
Third Quarter	1.347	1.050	21.270	14.800
Fourth Quarter	1.169	0.759	16.250	9.530
2009:				
First Quarter	1.193	0.780	16.540	9.640
Second Quarter	1.048	0.920	14.360	11.960
Third Quarter	1.253	0.946	18.500	13.130
Fourth Quarter	1.218	1.050	17.990	15.150
2010:				
First Quarter	1.138	1.019	15.910	13.970
Second Quarter	1.134	0.889	15.460	10.500
Third Quarter	1.089	0.890	14.080	11.200
Fourth Quarter	1.109	0.951	15.610	12.320
2011:				
First Quarter	1.144	0.984	15.940	13.130
Second Quarter	1.090	0.897	15.650	12.690
Third Quarter	0.953	0.728	13.930	10.000
Fourth Quarter	0.941	0.768	13.510	10.180
2012:				
First Quarter	0.923	0.772	12.300	10.170
Second Quarter	0.892	0.663	11.980	8.200
Third Quarter	0.847	0.618	10.990	7.370
Fourth Quarter	0.801	0.671	10.480	8.430
2013:				
January	0.765	0.696	10.160	9.100

February	0.730	0.551	9.960	7.210
March	0.619	0.547	8.000	7.050
April (through April 10, 2013)	0.597	0.542	7.840	6.870

Source: Reuters data

At the close of business on April 10, 2013 there were 29,310,298 Ordinary Share ADSs outstanding held by 122 registered holders. One of the registered holders is the Depository Trust Company (**DTC**) which holds 29,301,130 Ordinary Share ADSs on behalf of beneficial holders.

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Item 9. Listing **Trading Of Telecom Italia Ordinary Shares And Savings Shares**

The table below sets forth, for the periods indicated, reported high and low official prices of the Savings Shares on Telematico and high and low closing prices of the Savings Share ADSs on the NYSE from the First Quarter of 2008.

	Telematico		NYSE	
	High	Low	High	Low
	( )		(U.S.$)	
2008:				
First Quarter	1.609	0.942	23.570	14.750
Second Quarter	1.179	1.016	18.520	15.630
Third Quarter	1.067	0.803	16.740	11.270
Fourth Quarter	0.811	0.552	11.340	6.710
2009:				
First Quarter	0.859	0.610	12.040	7.510
Second Quarter	0.814	0.633	10.910	8.590
Third Quarter	0.875	0.665	12.910	9.250
Fourth Quarter	0.861	0.749	12.770	10.780
2010:				
First Quarter	0.880	0.762	12.020	10.620
Second Quarter	0.900	0.714	12.190	8.490
Third Quarter	0.888	0.722	11.430	9.230
Fourth Quarter	0.893	0.802	12.590	10.490
2011:				
First Quarter	1.014	0.822	14.180	10.830
Second Quarter	0.959	0.766	13.760	10.910
Third Quarter	0.806	0.667	11.730	9.170
Fourth Quarter	0.788	0.656	11.270	8.460
2012:				
First Quarter	0.752	0.634	9.930	8.420
Second Quarter	0.744	0.543	9.950	6.690
Third Quarter	0.699	0.522	9.040	6.210
Fourth Quarter	0.695	0.581	8.960	7.390
2013:				
January	0.654	0.607	8.640	7.900
February	0.626	0.489	8.510	6.410
March	0.545	0.478	7.170	6.040
April (through April 10, 2013)	0.525	0.476	6.890	5.960

Source: Reuters data

At the close of business on April 10, 2013, there were 18,543,405 Savings Share ADSs outstanding held by 18 registered holders.

One of the registered holders is the Depository Trust Company (**DTC**) which holds 18,539,447 Savings Share ADSs on behalf of beneficial holders.

Fluctuations between the Euro and the U.S. dollar will affect the dollar equivalent of the price of the Ordinary Share and the Savings Shares on Telematico and the price of the Ordinary Share ADSs and the Savings Share ADSs on the New York Stock Exchange.

On April 5, 2013 the Noon Buying Rate for the Euro was U.S.$ 1.3027 = 1.00.

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9.2 SECURITIES TRADING IN ITALY

Italian equity securities are traded on the regulated electronic stock market Mercato Telematico Azionario or MTA (**Telematico**), which operates under the control of the Commissione Nazionale per le Società e la Borsa (the National Commission for Companies and the Stock Exchange or **Consob**), the public authority in charge of regulating the securities markets and all public offerings of securities in Italy in order to ensure the transparency and regularity of trading and protect investors.

Telematico is managed by Borsa Italiana, a joint stock company part of the London Stock Exchange Group, responsible for the organization and management of the Italian stock exchange.

Securities transactions on Telematico are settled on a cash basis. Cash transactions are settled on the third trading day following the trading date. Borsa Italiana publishes information on transactions in each listed security, including the volume traded and the high and low prices of the day. No last price is reported, but an official price calculated as a weighted average price of all trades performed during the trading day and a reference price as for the closing auction price. The Bank of Italy, in accordance with Consob, regulates the governing of the clearing system that is currently performed in Italy on an exclusive basis by Monte Titoli (a centralized securities clearing system owned by certain major Italian banks and financial institutions).

If in the course of a trading day the maximum price variation between two consecutive contracts is ±5%, or maximum price variation of the contracts with respect to the reference price is ±10% an automatic five-minute suspension is declared. Furthermore Borsa Italiana has the authority to suspend trading in any security in response to extreme price fluctuations or for other reasons.

The most liquid shares traded on Telematico, including the Telecom Italia ordinary shares, are traded on Mercato After Hours , an automated screen trading system managed by Borsa Italiana. Mercato After Hours operates, from 6.00 p.m. to 8.30 p.m., substantially under the same rules as Telematico except that the price of any security may not fluctuate by more than 3.5% from the reference price of said securities on Telematico on the same day.

The FTSE MIB Index is the primary benchmark index for the Italian equity market. Capturing approximately 80% of the domestic market capitalisation, the FTSE MIB Index measures the performance of the 40 most liquid and capitalised Italian shares and seeks to replicate the broad sector weights of the Italian stock market. The index is derived from the universe of stocks trading on Borsa Italiana s Telematico market.

The index is calculated in accordance with the Industry Classification Benchmark (**ICB**) where main sectors are: Oil & Gas, Constructions & Material, Industrials Goods and Services, Automobiles & Parts, Media, Telecommunications, Utilities, Banks, Technology, Insurance and Personal & Household Goods. Each FTSE MIB constituent is weighted by its free float capital, considering the effective number of shares tradable in the market. Index Constituents weights are capped at 15%; they are reviewed and their weights are rebalanced quarterly (March, June, September and December). The weighting structure can also be changed following extraordinary events (if the capital of a stock increases or other events).

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9.3 CLEARANCE AND SETTLEMENT OF TELECOM ITALIA SHARES

All financial instruments publicly traded on regulated markets including treasury bonds are dematerialized. Companies that issue financial instruments that are publicly traded on regulated markets must inform Monte Titoli, which will open an account in the name of each company in its register.

Beneficial owners of Ordinary Shares and Savings Shares must hold their interests through specific deposit accounts with any participant having an account with Monte Titoli. The beneficial owners of Ordinary Shares and Savings Shares held with Monte Titoli may transfer their shares, collect dividends, create liens and exercise other rights with respect to those Ordinary Shares and Savings Shares through such accounts and may no longer obtain physical delivery of share certificates in respect of their Ordinary Shares and Savings Shares. All new issues of Ordinary Shares and Savings Shares and all other transactions involving Ordinary Shares and Savings Shares must settle electronically in book-entry form.

Ordinary Shares and Savings Shares are accepted for clearance through Euroclear and Clearstream. Holders of shares may elect to hold such Ordinary Shares and Savings Shares through Euroclear or Clearstream (outside the United States).

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Item 10. Additional Information Corporate Governance

Item 10. ADDITIONAL INFORMATION

10.1 CORPORATE GOVERNANCE

General

The Company s corporate governance system is made up of a series of principles, rules and procedures drawn from applicable laws and regulations and from international best practices. The system, designed and constructed bearing in mind the principles formulated by the Committee for Corporate Governance of Borsa Italiana, has been implemented with the adoption of codes, regulations and policies covering the activity of all the organizational and operational components of the Company. Most of these documents are available in an English language version on the Internet at www.telecomitalia.com under Governance .

According to applicable Italian law, listed issuers shall annually disclose information on their compliance with codes of conduct issued by regulated stock exchange companies (such as the aforementioned Corporate Governance Code by Borsa Italiana) or by trade associations.

v Changes in the Regulatory Framework

Law no. 120 of July 12, 2011, amending articles *147-ter* and 148 of Legislative Decree no. 58 of February 24, 1998, set forth the principle of gender balance in the Board of Directors and Board of Auditors of listed companies. The rule is mandatory for three periods of office from the first subsequent renewal one year after the regulations came into force (in August 2011) and requires that one fifth of the persons appointed in the first period of office, and one third of those appointed for the following two periods of office be reserved for the less represented gender, rounding up fractions to the nearest whole number, as detailed by Consob Resolution no. 18079 of January 20, 2012 (new article 144-*undecies* of the Issuer Regulations).

The Shareholders Meeting held on July 15, 2012 amended the Company s bylaws consistently with the aforementioned gender diversity principle.

The Company complies with the recommendations set forth by the Code of Self Discipline of the Committee for Corporate Governance of Borsa Italiana. Such document was amended in December 2011, with significant changes regarding internal controls, to be implemented by the issuers by the end of 2012. To this end, on December 6, 2012 Telecom Italia rescinded its own internal code, considered obsolete, and adopted corporate governance principles (the Corporate Governance Principles) that amend and/or supplement the framework of applicable rules regarding the duties and operation of the corporate bodies, referring to the principles and criteria of the Borsa Italia Code (December 2011 edition) for the remainder.

In relation to the internal Code previously in force, the new Corporate Governance Principles:

reaffirm the responsibilities of the Board of Directors, with a greater focus on the internal control and risk management system;

simplify the listing of strategic operations subject to prior board resolutions, making clear that the listing is given by way of example;

confirm the principles by which the Board operates, introducing the principle of advance scheduling of Board agenda items;

confirm the presence of a Lead Independent Director and three Board committees: the Executive Committee, the Nomination and Remuneration Committee, and the Control and Risk Committee (which replaces and incorporates the responsibilities of the Committee for Internal Control and Corporate Governance);

transfer the issue of the annual appraisal of the Board of Directors from the Committee for Internal Control and Corporate Governance to the Nomination and Remuneration Committee;

introduce specific references to the procedures designed to assure that the undertakings given to the Brazilian and Argentine authorities to ensure the separateness of Telefónica in the management of the Group s South American subsidiaries are respected;

renew the internal control and risk management system rules in their entirety.

The articles regarding the management of corporate information, transactions with related parties, shareholders meetings and relations with investors and shareholders have been abolished.

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Item 10. Additional Information **Corporate Governance**

v **Code of Ethics and Conduct**

The Code of Ethics and Conduct (the **Code of Ethics**) of the Telecom Italia Group is central to Telecom Italia Group s system of corporate governance as it spells out the Company s fundamental values and the principles considered necessary to ensure an ethically oriented conduct of business. The Code can be considered as the basis of the whole corporate governance system, since every instrument of corporate governance is based on the principles of transparency, fairness and loyalty specified in the Code. The Code specifies the principles to be respected in relations with all the main stakeholders of the Company: shareholders, financial markets, customers, local communities and employees.

The Code of Ethics was drawn up on the basis of generally accepted ethical principles and in accordance with the highest international standards, taking into account the principles of Section 406 of the Sarbanes Oxley Act.

As with all of the Company s corporate governance codes and principles, the Code of Ethics is updated in order to conform it to the developments in the applicable law and market regulations, taking into account national and international best practices.

The Board of Directors on December 6, 2012 acknowledged the launch of a comprehensive update programme of the Group s Compliance Program, with particular focus on the Code of Ethics and Conduct, as well on the Organizational Model pursuant to Legislative Decree n. 231/2001.A stepwise approach was defined for the Code of Ethics, starting from a few focused additions in the current Code and ending with a general review of the whole document to be completed by the end of 2013. The Board of Directors has also adopted a specific policy framework for compliance with applicable anti-corruption laws and regulations.

For further details, please see Item 16B. Code of Ethics and Conduct .

v **Board of Directors**

The Company s system of corporate governance is centered around the Board of Directors. The Corporate Governance Principles of Telecom Italia supplement the applicable rules concerning the tasks and functioning of the Board of Directors and all the directors are required to comply with the Corporate Governance Principles.

Such Principles have been adopted by the Board of Directors as a self-regulatory measure only and can therefore be amended at any time with a resolution adopted by the Board and promptly disclosed to the market.

Since 2005, Telecom Italia s directors have carried out an annual Board performance evaluation.

Role and tasks

In accordance with the Italian Stock Exchange Code (by which Telecom Italia fully abides) the Board of Directors plays an active role both in the strategic guidance of the Company and in the control of operations, with the power to formulate strategy and responsibility for intervening directly in decisions having the greatest impact on the activity of the Company and the Group. The Board of Directors shall, in particular, have overall responsibility for the internal control and risk management system, including the definition of the nature and level of risk consistent with the specific strategic objectives of the business.

Pursuant to the Company s Corporate Governance Principles, the following matters are deemed to have a notable effect on the business of the Company and the Group, and as such are subject to resolutions of the board:

- agreements with competitors which, considering the subject, commitments, conditions, or limits that they may produce, have long-term effects on the freedom of strategic business decisions;

- investments and disinvestments exceeding 250 million euros, and in any event purchases or sales of shareholdings, or businesses or business units that are of strategic significance in the overall framework of the business; transactions that, in their execution or upon their completion, can create commitments and/or purchases and/or sales of this nature and scale;

- the acceptance of loans for amounts exceeding 500 million euros and the granting of loans and guarantees in favor of non-subsidiary companies for amounts exceeding 250 million euros; transactions that, in their execution or upon their completion, can create commitments and/or deeds of this nature and scale;

- the above transactions, to be performed by unlisted subsidiaries of the Group, excluding those controlled by listed subsidiaries;

- the listing and delisting of financial instruments issued by the Company or Group companies in regulated markets inside or outside Europe;

- instructions to be given to listed subsidiaries (and their subsidiaries), when the Parent Company exercises its management and coordination activity for the performance of transactions with the characteristics indicated above.

Since 2002, the Company has adopted guidelines for carrying out transactions with related parties in order to ensure both procedural and substantial fairness and transparency.

On November 4, 2010 the Board of Directors introduced the set of procedures currently in force, as amended on June 28, 2012. In addition to related parties , as defined by Consob regulation No. 17221 of March 12, 2010 and IAS 24, the new procedure (effective as from January 1, 2011) must also be applied for self-regulatory principles to participants in shareholders agreements that regulate candidacy to the position of Director of Telecom Italia, in the case of a majority slate. The procedure classifies the transactions in different categories and, according to this classification, different assessment and approval procedures are applied, if these transactions are to be carried out with related parties.

For information on the subject of related-party transactions, see Item 7. Major Shareholders and Related-Party Transactions 7.2 Related-Party Transactions .

In its function of monitoring and guiding the performance of operations, the Board of Directors assesses the adequacy of the organizational, administrative and accounting structure of the Company on the basis of information made available by the management and, with specific reference to the adequacy of the internal control system, in light of the results of the investigations made by the Control and Risk Committee.

The internal control and risk management system is organised and operates according to the principles and criteria set out in the Italian Stock Exchange Code. It is an integral part of the general organisational structure of the Company and the Group, and involves several components that act in a coordinated way according to their respective responsibilities the responsibility of the Board of Directors to direct and provide strategic oversight, the responsibility of the Executive Directors and management to monitor and manage, the responsibility of the Control and Risk Committee and the Head of the Audit Department to overview and provide support to the Board of Directors, and the supervisory responsibilities of the Board of Statutory Auditors.

The Board of Directors, insofar as it is responsible for the internal control and risk management system, defines the guidelines of the system and verifies its adequacy, effectiveness and proper functioning, so that the main corporate risks (including, among others, operational, compliance-related, economic and financial risks) are properly identified and managed over time.

The establishment and maintenance of the internal control system are assigned to the Executive Directors (currently, the Chairman and Chief Executive Officer Franco Bernabè and the Domestic Managing Director, Chief Operating Officer Marco Patuano, each with respect to the area delegated to him), and to the Manager in charge of preparing the Company s financial report for his area of responsibility (such position is held

by the Head of Administration, Finance and Control, Piergiorgio Peluso, who took over the role held by Andrea Mangoni in the board meeting on September 13, 2012), so as to ensure the overall adequacy of the system and its functionality, in a risk-based perspective, which is also taken into account in determining the agenda for the Board s proceedings.

The Board of Directors at its meeting on April 13, 2011 charged the Deputy Chairman with responsibility for the internal control system; the Deputy Chairman exercised his role not as such, but in terms of representing the Board of Directors in its entirety towards the various bodies responsible for the internal control system. In the Board meeting on August 1, 2012, the Deputy Chairman renounced this responsibility and the Board resolved (i) to confirm, in relation to the Internal Audit Manager, and point out, in relation to the Group Compliance Officer and the IT & Security Compliance Department Manager, that they report directly to the full Board; (ii) to attribute the role of link between the Board of Directors and said control structures to a non-executive Director. This role was assigned to Director Gabriele Galateri di Genola in the meeting on November 8, 2012.

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The assessment of the performance of operations is based on a continuous flow of information coordinated by the Chairman of the Board of Directors and directed towards the non-executive directors and the members of the Board of Statutory Auditors. Assessments are made, notably, with a comparison of the results achieved with those budgeted during the examination of the financial reports.

Meetings

The Corporate Governance Principles require the Board to meet periodically (and at least quarterly).

Through April 10, 2013, in 2013 the Board of Directors has had 4 meetings.

When board meetings are to be held, documentation permitting effective participation in the proceedings is provided well in advance, subject to circumstances of the case (as a rule, the Friday preceding the day on which the meeting is to be held, which is normally a Thursday), to enable informed participation in the meetings. When required by the subjects discussed, representatives of the Company management or external consultants are invited to take part, who ensure the necessary technical and professional support.

Appointment of Directors

As noted above, Telecom Italia s bylaws (Article 9) provide for the Board of Directors to be elected by the Shareholders Meeting through a slate system, which is presently mandatory under Italian law.

The slate system is designed to ensure the presence on the Board of Directors of persons drawn from slates presented by minority shareholders. Shareholders who together hold at least 0.5% of the ordinary share capital (or the different stake annually required to this end by Consob), can put forward slates of candidates. The slates and the accompanying documentation (such as the curricula vitae of the candidates) must be filed at the Company s registered office at least 25 days and made available to the public at least 21 days before the date scheduled for the shareholders meeting. Consob requires the Company to make the slates and the relevant information available to the public at its registered office, at Borsa Italiana and on its website www.telecomitalia.com. According to Telecom Italia s bylaws, slates of candidates can be put forward also by the outgoing Board of Directors. The Board of Directors is elected as follows:

- four fifths of the directors to be elected are chosen from the slate that obtains the majority of the votes cast by the shareholders, in the order in which they are listed on the slate; in the event of a fractional number, it is rounded down to the nearest whole number;

- the remaining directors are chosen from the remaining slates. To that end, the votes obtained by the various slates are divided successively by whole numbers from one up to the number of directors to be appointed and the results (quotients) obtained are assigned to the candidates on each slate in the order specified thereon. On the basis of the quotients assigned, the candidates on the various slates are arranged in a single decreasing ranking. Those who have obtained the highest quotients are elected.

An amendment to the Company s bylaws was approved by the Shareholders Meeting held on May 15, 2012 to the effect that all slates that present three or more candidates should have a gender ratio of at least 1:3 among the candidates (1:5 on the occasion of the first application). In case the vote on the slates does not fulfill the diversity requirement in the composition of the Board, the appointment of the last of the persons elected from the majority slate who are of the more represented gender will be forfeited, and they will be replaced with the first unelected candidates of the less represented gender on the same slate, in the number needed to ensure the prescribed gender balance. In any case, should the slate mechanism fail, the Shareholders Meeting retains the right to appoint directors by a subsequent vote, applying the legal majorities, so that the so-called gender diversity requirement may in any event be ensured in the composition of the Board.

The shareholders meeting held on April 12, 2011, established the number of Telecom Italia directors at 15 and appointed the Board for a three-year period. The slate of candidates proposed by Telco S.p.A. obtained the highest number of votes and therefore 12 out of 15 of Telecom Italia s Directors were elected from that slate (Cesar Alierta Izuel, Tarak Ben Ammar, Franco Bernabè, Elio Cosimo Catania, Jean Paul Fitoussi, Gabriele Galateri di Genola, Julio Linares Lopez, Gaetano Miccichè, Aldo Minucci, Renato Pagliaro, Marco Patuano and Mauro Sentinelli); the remaining three directors (at the time Luigi Zingales, Ferdinando Falco Beccalli and Francesco

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Profumo) were elected from the slate proposed by a group of institutional shareholders. Subsequently Ferdinando Beccalli Falco was replaced by Lucia Calvosa and Francesco Profumo was replaced by Massimo Egidi. See: Risks associated with Telecom Italia s ownership chain under Item 3. Key Information 3.1 Risk Factors .

With respect to the current composition of the Board, see above Item 6- Directors, Senior Management and Employees .

Composition

According to the bylaws, the shareholders meeting decides the exact number of Board members within a minimum and a maximum number (from 7 to 19). Directors may serve for a maximum term of three years, they may be re-elected and there is no statutory age limit for their eligibility. There are no provisions in Italian law that set age or shareholding requirements for directors qualification. There are no provisions in the Telecom Italia bylaws relating to the retirement of a director under an age limit requirement or a shareholding requirement for director s qualification.

If during the term of the Board of Directors one or more directors cease to hold such position for any reason, the Board of Directors is allowed to appoint replacements by a resolution approved by the Board of Auditors. The directors so appointed will remain in office until the next Shareholders Meeting. As a rule, the replacements finally appointed by the Shareholders Meeting will remain in office for the same term as the other members already in office at the time of their appointments; the Shareholders Meeting may establish a different term of office for them. In the event of replacement of an independent board member, the Appointment and Remuneration Committee is responsible for proposing a candidate.

Article 3 of the Company s Corporate Governance Principles establishes a cap on the maximum number of positions that Telecom Italia directors may hold in management and control bodies of other companies. The general rule is that the position of Telecom Italia director is not compatible with directorships or auditorships in more than five companies, other than Telecom Italia subsidiaries or affiliates, when such companies:

- are listed and included in the FTSE/MIB index; and/or
- operate prevalently in the financial sector on a public basis; and/or
- engage in banking or insurance.

The directorship in Telecom Italia is also considered not compatible with holding more than three executive positions in companies of the types specified above. The Board of Directors may nonetheless permit exceptions to these rules, such exceptions to be made public. If a Director holds office in more than one company belonging to the same Group, only one office held within that Group is taken into account, when calculating the number of offices.

Impact of Shareholders Agreements on the Nomination of Telecom Italia Group s Companies Boards

Telco is Telecom Italia s main shareholder with an interest of 22.38% in the ordinary share capital. In turn Telco is owned by Intesa S.p.A. (11.62%), Mediobanca S.p.A. (11.62%), companies belonging to the Generali Group (30.58%) and Telefónica S.A. (46.18%).

On the basis of information in the public domain, the shareholders of Telco signed an agreement that, among other things, lays down the criteria pursuant to which the board of directors of Telco will approve the list of candidates to be submitted to the shareholders meeting of Telecom Italia for the appointment of the directors of Telecom Italia. The criteria are set out below:

- Telefónica, to the extent holding at least 30% of Telco s share capital, will have the right vis-à-vis the other shareholders to designate two directors of Telecom Italia: (a) to be included as designees for appointment in the board of Telecom Italia in the list presented by Telco, and (b) to the extent feasible, with respect to the substitution of such directors;

- the other shareholders of Telco, to the extent holding at least 50% plus one share of Telco s share capital, will designate the other members of the list as follows: (a) three members unanimously and (b) the remaining members on a proportional basis as set out in the shareholders agreement.

The agreement among Telco shareholders provides for the Telecom Italia Group and the Telefónica Group to be run autonomously and independently and contains specific provisions to this end. See Item 7. Major Shareholders and Related-Party Transactions Item 7.1.1. The Shareholders Agreements .

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Independent Directors

At least two members of the Board of Directors must satisfy the independence requirements set forth by the Consolidated Law on Finance for the members of the Board of Auditors. Moreover, Article 3 of the Corporate Governance Principles incorporate by reference the independence criteria set out in the Borsa Italiana s Corporate Governance Code.

To qualify as independent under Borsa Italiana s Corporate Governance Code and the Company s Corporate Governance Principles, Telecom Italia directors should not maintain, nor have recently maintained, directly or indirectly any business relationships with the issuer or persons linked to the issuer (Group companies, executive directors or members of their families), of such a significance as to influence their autonomous judgment, and should not be in a position to influence the Company as a consequence of the shares they hold or their participation in shareholders agreements. Specific presumptions are listed in Borsa Italiana s Corporate Governance Code.

The Board of Directors verifies the independence requirements at the first meeting after the appointment of the Board and subsequently once a year. On the basis of the declarations made by the interested parties and verified by the Board of Directors, at present 6, out of the 15 directors are considered independent, according to the criteria set forth by the Consolidated Law on Finance as well as the criteria set forth by Borsa Italiana Code: Lucia Calvosa, Elio Cosimo Catania, Massimo Egidi, Jean Paul Fitoussi, Mauro Sentinelli and Luigi Zingales. The Board of Auditors verified the correct application of the principles adopted by the Board to evaluate the independence of directors.

See Item 16G. Corporate Governance 16.1. Differences in Telecom Italia s Corporate Governance and New York Stock Exchange Corporate Governance Practices .

Executive Directors and Activities of the Board

The authority to grant delegated powers to directors and revoke such mandates is reserved to the Board of Directors, which also establishes their objects, limits, manner of exercise and the intervals of not more than three months at which persons with delegated powers must report on their activity, the general results of operations, and the transactions of greatest economic, financial or balance sheet significance concluded by the Company or its subsidiaries.

The Board of Directors entrusted the Executive Directors with the following powers and responsibilities:

- to the Executive Chairman (Franco Bernabè), in addition to legal representation of the Company, as provided for in the bylaws,the following powers:
  - overall governance of the Group, including coordinating the activities of the Chief Executive Officer, and defining the Company s strategic guidelines;

- responsibility for extraordinary transactions and extraordinary finance operations to be proposed to the Board of Directors;

- to the Domestic Managing Director, in addition to legal representation of the Company, as provided for in the bylaws,the responsibility for the overall governance of operations in Italy.

There are no other Telecom Italia executive directors. As of April 10, 2013, Telecom Italia s non-executive directors are: Cesar Alierta Izuel, Tarak Ben Ammar, Lucia Calvosa, Elio Cosimo Catania, Massimo Egidi, Jean Paul Fitoussi, Gabriele Galateri di Genola, Julio Linares Lopez, Gaetano Miccichè, Aldo Minucci, Renato Pagliaro, Mauro Sentinelli, Luigi Zingales.

As a result of the Telco shareholders agreement providing for the Telecom Italia Group and the Telefónica Group to be run autonomously and independently, Cesar Alierta Izuel and Julio Linares Lopez committed not to take part in any discussion or to vote in matters concerning activities of Telecom Italia or Telecom Italia s subsidiaries in the Brazilian or Argentinian telecommunications markets.

In addition,

- in compliance with the ANATEL Ruling, issued on October 23, 2007 and subsequently on July 7, 2009, in 2007 the Board of Directors of Telecom Italia adopted an ad hoc internal procedure aimed at assuring the

segregation of Telecom Italia s activities in Brazil from any potential influence of Telefónica. This procedure was subsequently amended and updated in September 2009 and in January 2012; on April 28, 2010, the board of the Brazilian Antitrust Commission (CADE) approved the acquisition by Telco of an indirect minority shareholding in Telecom Italia in 2007, subject to the simultaneous signing of an agreement, by and between all the Telco shareholders Mediobanca, Generali, Intesa Sanpaolo and Telefónica and CADE, which was aimed at maintaining the separation and independence of the Telefónica and Telecom Italia groups in the business carried out in Brazil, preserving competition conditions in that market. Tim Brasil executed such agreement exclusively as an intervening party, on behalf of the Telecom Italia Group since the latter was not formally a party of the antitrust proceedings. As occurred for the measures imposed by Anatel, the undertakings given to CADE were incorporated in a special internal procedure (as per a resolution by the Board of Directors on May 6, 2010), amended in January 2012;

· as a result of having reached an agreement with the Argentinean authorities, a further procedure was introduced by the Board of Directors of Telecom Italia on November 4, 2010, taking into account the undertakings by the Group toward Argentina s CNDC to obtain approval of the transfer of 8% of Sofora S.A. to Telecom Italia International N.V. These commitments were aimed at maintaining the separation and independence of the Telefónica and Telecom Italia groups in the activities carried out in Argentina. Please see Item 7. Major Shareholders and Related Party Transactions 7.1.1. The Shareholders Agreement .

See Item 7. Major Shareholders and Related-Party Transactions Item 7.1.1. The Shareholders Agreements .

Internal Committees

According to article 13 of the Bylaws, the Board may set up committees from among its members charged with giving advice and making proposals and shall establish their powers and duties. The Corporate Governance Principles provide for three Committees: the Executive Committee, the Nomination and Remuneration Committee and the Control and Risk Committee (formerly the Internal Control and Corporate Governance Committee).

With regard to the composition, while the Executive Committee consists of the Executive Directors (Executive Chairman and Domestic Managing Director) and of non-executive directors, with the Chairman of the Committee being the Chairman of the Board of Directors, both the Control and Risk Committee and the Nomination and Remuneration Committee are composed of non-executive directors the majority of which are required to be independent directors, including at least one drawn from a minority list.

Executive Committee

The Executive Committee is composed of the Executive Directors (who coordinate the Committee s activity with the management) and non-executive directors. The Committee s Chair is entrusted to the Chairman of the Board of Directors.

As per Telecom Italia s Corporate Governance Principles the Committee is charged with monitoring the performance of operations at Company and Group level, approving the executive directors proposals for macro organizational arrangements, submitting opinions to the Board on the budget, strategic transactions and the strategic, business and financial plans of the Company and the Group and performing any other tasks delegated by the Board of Directors.

Control and Risk Committee

The Committee assists the Board of Directors in the performance of its tasks in matters concerning internal control and assesses, together with the manager responsible for preparing the Company s financial reports and the external auditor, the correctness of the application of accounting standards and their uniformity for the purpose of preparing consolidated financial statements.

In Telecom Italia the Committee also:

· monitors compliance with the rules of corporate governance and their updating;

· expresses its opinion on the proposals for appointing, removing and assigning duties to the person responsible for internal control and the manager responsible for preparing the Company s financial reports;

· defines the procedures and time limit for conducting the board performance evaluation ; and

· performs the additional tasks that may be assigned to it by the board of directors.

Nomination and Remuneration Committee

The Committee is charged with putting forward proposals for the remuneration of the directors who hold particular offices, division of the overall amount set forth by the Shareholders Meeting as the annual remuneration for the Board as a whole and criteria for the remuneration of the Company s senior management, nomination of candidates for the Board of Directors in the event of replacement of an independent board member and defining procedures and time limit for conducting the annual board performance evaluation.

For more information concerning the remuneration of directors and top management see Item 6. Directors, Senior Management and Employees 6.6 Compensation of Directors, Officers and Members of the Board of Auditors .

Internal Control System

The internal control system is a set of rules, procedures and organizational structures that, through a process of identifying, measuring, managing and monitoring the main risks, allows the sound and fair operation of the company in line with the pre-established objectives. As such this process is aimed at pursuing the values of both procedural and substantial fairness, transparency and accountability, which are considered key factors for managing Telecom Italia s business, in compliance with the Code of Conduct and Ethics of the Group and the Company s Corporate Governance Principles. This process, constantly monitored with a view to progressive improvement, is intended to ensure, in particular, the efficiency of company operations and entrepreneurial conduct, its transparency and verifiability, the reliability of information and management and accounting data, and compliance with applicable laws and regulations as well as the safeguarding of company integrity and its assets, in order to prevent fraud against the Company and the financial markets.

The Board of Directors, insofar as it is responsible for the internal control system, sets the guidelines, verifying its adequacy, effectiveness and proper functioning, so that the main company risks (operational, compliance-related, economic and financial) are properly identified and managed over time.

In the exercise of its responsibility for the internal control system the Board benefits from the activities of the Control and Risk Committee, but also of the Head of the Internal Audit Department, a manager who is given an adequate level of independence and means suitable to perform this duty. The Head of the Audit Department assesses the adequacy, full functioning and effectiveness of the control and risk management system and consequently proposes corrective measures in case of anomalies and malfunctions.

In particular, in accordance with the provisions of the Corporate Governance Code of Borsa Italiana, the Head of the Audit Department:

The Head of the Audit Department also has a role in ensuring respect of the principles and values expressed in the Code of Ethics and Conduct, by handling reports from employees, collaborators, consultants, employers and third parties in business relationships with the Group on violations of laws or regulations, of the Code itself, and of internal procedures, as well as irregularities or negligence (including accounting), and promoting the most appropriate resulting initiatives, including the proposal to impose sanctions.

The oversight role of the Head of Internal Audit is directed towards expressing an assessment in terms of reasonable certainty about the capacity of the internal control system to impact on the actual achievement of the objectives assigned to individual company structures (effectiveness profile), taking account of the rational use of resources for their realization (efficiency profile) in the light of the (qualitative/quantitative) risk factors present and the probability of their affecting the achievement of those objectives.

As regards internal controls over financial reporting, the Company has drawn on the substantial work done in order to comply with US reporting requirements to fulfill the transparency requirements introduced by Article 154-*bis* of the Consolidated Law on Finance.

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The Company s internal control system is completed by the so-called 231 Organizational Model, which provides a model of organization and management adopted pursuant to Italian Legislative Decree No. 231/2001, and is aimed at preventing offences that can result in liability for the Company.

The 231 Organizational Model is subject to continuing improvement. Some revisions are made necessary by changes in the law, while others are proposed when deemed appropriate in the light of the results of the model s application.

Monitoring of the functioning and compliance with the model as from May 2012 is performed by the Board of Statutory Auditors (supported in its activities by appropriate offices within the Company) which oversees the operation and observance of the Organizational Model and reports to the Board of Directors the checks it has undertaken and their outcome.

The Organizational Model is a dynamic instrument, which affects the corporate operation and is constantly updated in the light of feedback, as well as the evolution of the regulatory framework. The amendments are drafted by a managerial committee called Steering Committee 231, briefed by the Board of Statutory Auditors acting as Supervisory Panel and approved by the Board of Directors when of a significant nature.

The Organizational Model incorporates, in terms of application, the identified conduct of offences provided for in Legislative Decree 231/2001, excluding those deemed not to be directly applicable for the Telecom Italia Group. In January 2013, a new version of the Model was adopted that incorporated the new identified offences of corruption between private entities and unlawful inducement to promise or give profit to a public official/public service employee, introduced by Law 190 of 6/11/12. As well as adapting and updating the internal control schemes based on the new offences, the new version of the Organizational Model 231 contains an explicit reference to the fight against all forms of corruption and to the Anti-corruption Policy adopted by the Group on December 1, 2012.

v Board of Auditors

Tasks and role

The Board of Auditors verifies compliance with the law and the Bylaws and verifies adherence to the best administration principles, the adequacy and reliability of corporate structures, internal audit procedures and accounting system, and the adequacy of instructions given by the Company to its subsidiaries. The Board of Auditors must receive timely disclosures, at least on a quarterly basis, from the Board of Directors about the company s business and significant transactions performed by the company and its subsidiaries, including related parties transactions. Statutory Auditors must inform the Consob of any irregularity they detect in the course of their duties and are required to attend Shareholders Meetings, Board of Directors meetings and Executive Committee meetings.

In addition to that, under the provisions of Legislative Decree 231/2001, Supervisory Panel functions have been granted to the Board of Auditors.

During 2012, there were 39 meetings of the Board of Statutory Auditors (10 of which were held jointly with the Control and Risk Committee). In addition, its members participated in the meetings of the Board of Directors and the Executive Committee and periodically received the reports from the executive directors, as provided in the above mentioned procedure.

Appointment

Telecom Italia s Board of Auditors is composed of five regular auditors, and four alternate auditors. The Board of Auditors is appointed by the Shareholders Meeting through the slate system under the same procedure used for the election of the Board of Directors. Three regular auditors and two alternate auditor are drawn from the so called majority slate (that is the slate that obtained the majority of the votes cast by the shareholders), two regular auditors and two alternate auditors are taken from the other slates, so called minority slates .

An amendment to the Company s bylaws was approved by the Shareholders Meeting on May 15, 2012 to the effect that all slates that present three or more candidates should have a gender ratio of at least 1:3 among the candidates (1:5 on the occasion of the first application). In case the vote on the slates does not fulfill the diversity

requirement in the composition of the Board, the appointment of the last of the persons elected from the majority slate who are of the more represented gender will be forfeited, and they will be replaced with the first unelected candidates of the less represented gender on the same slate, in the number needed to ensure the prescribed gender balance. In any case, should the slate mechanism fail, the Shareholders Meeting retains the right to appoint auditors by a subsequent vote, applying the legal majorities, so that the so-called gender diversity requirement may in any event be ensured in the composition of the Board.

Pursuant to applicable Italian law, the Chairman of the Board of Auditors is appointed by the shareholders meeting from among the auditors elected from a minority slate .

Auditors serve for a three-year term, may be reappointed and may be removed from their office for just cause and upon a resolution approved by the competent court.

The present Board of Auditors was elected, for a three year term, by the shareholders meeting of May 15, 2012, on the basis of three slates presented respectively by Telco (presently Telecom Italia s largest shareholder), Findim (presently Telecom Italia s second largest shareholder) and by a group of minority shareholders. Salvatore Spiniello, Ferdinando Superti Furga and Gianluca Ponzellini were elected from the majority slate , while Enrico Maria Bignami and Sabrina Bruno (which was subsequently replaced by Paolo Capone, appointed from the same minority slate) were elected from the minority slates . Enrico Maria Bignami was also appointed as Chairman of the Board.

Audit Committee

As described above, the Board of Auditors plays a key role in the Company s system of corporate governance.

More specifically, according to Rule 10A-3 under the 1934 Act and NYSE listing standards, the Board of Auditors has been identified to act as Telecom Italia s Audit Committee. The Board of Auditors meets the requirements of the general exemption contained in Rule 10A-3(c)(3):

- the Board of Auditors is established pursuant to applicable Italian law and Telecom Italia s Bylaws;
- under Italian legal requirements, the Board of Auditors is separate from the Board of Directors;
- the Board of Auditors is not elected by the management of the Company and no executive officer is a member of the Board of Auditors;
- all of the members of the Board of Auditors meet specific independence requirements from the Company and its Group, the management and the auditing firm, as set forth by Italian legal provisions;

- the Board of Auditors, in accordance with and to the extent permitted by Italian law, is responsible for the appointment, retention (via proposal to the shareholders meeting) and oversight of the work of the Company s external auditors engaged for the purpose of issuing the audit report on the annual financial statements;

- the Board of Auditors is authorized to engage independent counsel and other advisers, as it deems appropriate; and

- the Board of Auditors has adopted a complaints procedure in accordance with Rule 10A-3 of the 1934 Act.

In view of its responsibilities under Italian law and the obligations deriving from US law, the Board of Auditors adopted a complaints procedure for receiving, retaining and treating the reports it receives. Such reports can be of the following kinds:

- statements of violations submitted by shareholders concerning matters deemed to be improper;

- complaints by any person, thus including non-shareholders, concerning alleged irregularities, improper facts or, more generally, any problem or issue deemed to merit investigation by the control body;

- complaints specifically regarding accounting, internal accounting controls, or auditing matters; and

- confidential, possibly anonymous submissions of concerns by employees of the Company or the Group regarding questionable accounting or auditing matters.

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A short description of how such reports are to be submitted to the Board of Auditors/Audit Committee is available on the Company s website under Governance .

v Shareholders Meetings

Meetings of Ordinary Shareholders

Holders of Ordinary Shares are entitled to attend and vote at ordinary and extraordinary shareholders meetings. At any Shareholders Meeting, each holder is entitled to cast one vote for each Ordinary Share held. Votes may be cast personally or by proxy. According to the bylaws, the issuer may designate, for each Shareholders Meeting, one or more representatives on whom those entitled to vote may confer a proxy free of charge. The person so designated, and the necessary operating instructions, shall be stated in the notice calling the meeting. Holders of Ordinary Shares can also vote by mail or through a proprietary, web based platform, if so specified in the notice of the specific meeting and in the ways specified therein.

Shareholders Meetings are called by the Company s Board of Directors when required by law or the shareholders or deemed necessary.

Shareholders Meetings must be convened at least once a year. At these ordinary meetings, holders of Ordinary Shares (i) approve the annual accounts, (ii) appoint/revoke directors and auditors and determine their remuneration, when necessary, (iii) vote on other issues defined in the Bylaws, if any, (iv) authorize the completion of the transactions by the directors, if and when the Bylaws call for such previous authorization, it being understood that directors remain directly responsible for the transactions accomplished, and (v) adopt rules of procedure for the shareholders meetings (Meeting Regulations).

Presently Telecom Italia s Bylaws grant the ordinary Shareholders Meeting the power to authorise the execution of transactions with parties related to the Company, as per the specific procedure governing related-party transactions adopted by the Board of Directors on November 4, 2010 and subsequently amended. More specifically, with respect to transactions of major importance, this procedure requires the approval by the Board of Directors, subject to the prior approval of a Committee comprised of all the independent directors. In case this Committee gives a negative opinion on interest and conditions of a transaction of major importance, and this opinion is not superseded through a so called double majority at the meeting of the Board (a general majority, of all the Directors at the meeting, and a specific one, of Independent Directors in non-related positions), in order to be carried out the transaction of major importance, even if authorized by the Board, must be authorized by the shareholders meeting. There it must obtain the favourable vote of the majority of the non-related shareholders entitled to vote.

It is compulsory for issuers to publish their annual report within 120 days of the close of their fiscal year; if the bylaws so provide (and this is the case in Telecom Italia), the approval by the annual general meeting can follow, but in any event the annual general meeting must take place no later than 180 days after the end of the fiscal year.

Extraordinary Shareholders Meetings may be called to pass upon proposed amendments to the Bylaws, capital increases, mergers, dissolutions, issuance of convertible debentures (which can also be delegated to the Board of Directors), appointment of receivers and similar extraordinary actions.

As a rule shareholders are informed of all Shareholders Meetings to be held by publication of a notice at least 30 days (40 days in case of Shareholders Meetings convened to appoint corporate bodies) before the date fixed for the meeting. The notice must be published (either in full or in extract form) in at least one national daily newspaper, posted in the issuer s internet site and filed with the Italian Stock Exchange and Consob. Telecom Italia s bylaws allow the Shareholders Meeting to be called either in a single call or with up to two meeting dates for an ordinary Shareholders Meeting and up to three meeting dates for an extraordinary Shareholders Meeting. When the meeting is convened in a single call the quorums of second calls of ordinary Shareholders Meeting and second calls of extraordinary Shareholders Meeting, as the case may be, apply.

An ordinary Shareholders Meeting is duly constituted on first call with the attendance of at least 50% of the outstanding Ordinary Shares, while on second call there is no quorum requirement. In either case, resolutions are approved by holders of the majority of the Ordinary Shares represented at the meeting.

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Extraordinary Shareholders Meetings are duly constituted with the attendance of shareholders representing at least one-half or more than one-third or at least one-fifth of the company s ordinary share capital, on the first call, second call and third call, respectively. The favorable vote of at least two-thirds of the Ordinary Shares represented at the meeting is necessary for the resolution approval.

To attend and vote at any Shareholders Meeting, holding of shares on the record date (statutorily set at seven trading days before the meeting) is the sole requirement, but to certify that an ad hoc communication by the authorized intermediary must have been received by the Company.

Special arrangements with the Depositary may be required for the beneficial owner of ADRs representing ADSs to attend Shareholders Meetings and exercise voting rights with respect to underlying Ordinary Shares. See 10.5 Description of American Depositary Receipts Voting of Deposited Securities .

Votes cast in the Shareholders Meeting are open, as the minutes of the meeting are required to evidence how attending shareholders voted.

Shareholders may attend the meeting by proxy using a power of attorney. There is no limit to the number of shareholders any one proxy can represent. A proxy may be appointed only for one single meeting (including, however, the first, second and in case of extraordinary meetings third call) and may be substituted by the person expressly indicated in the form or, if the proxy is so authorized, by the substitute the proxy appoints.

Votes by proxy may be solicited and collected for the shareholders meetings of listed companies. Proxy solicitation provisions allow individuals (and even the issuer), to promote the soliciting of votes by proxy at shareholders meetings. There is no ownership requirement to this end. Proxy solicitation is subject to specific rules and disclosure requirements set forth by Consob.

In addition to that, shareholders associations composed of at least 50 people, each with no more than 0.1% voting share capital, may collect proxies among their group, without any specific disclosure requirement. In order to facilitate such operation among employee shareholders, the Bylaws provides that special measures will be made available to such shareholders associations in order to facilitate dissemination of information about solicitation and proxy collection operations.

Ordinary Shareholders may also vote by mail. The vote by mail cannot be cast by proxy. The system is essentially based on the following principles: (a) the notice calling the shareholders meetings must specify that shareholders can vote by mail and must describe the procedures they have to follow; (b) shareholders wishing to vote by mail (to be duly entitled to vote through timely communication to the issuer, as described above) must send the company a special form (so called ballot) made available for such purpose by the issuer, which has to comply with specific Consob requirements; (c) votes cast by mail must be delivered to the company at least on the day before the Shareholders Meeting takes place; and, finally, (d) votes cast by mail remain valid for the second and third calls of the meeting and can be revoked by a written declaration until the day before the meeting, or directly in the meeting through an ad-hoc statement by the interested party.

The Company s bylaws provide that, if the notice of the meeting specifies it and in the ways described therein, Ordinary Shareholders may also vote electronically, in advance of the meeting.

The shareholders meetings shall be called when requested by shareholders representing at least 5% of a company s share capital. In the case the directors or in their place the statutory auditors don t call the Shareholders Meeting, the Court orders with a decree the call of the Shareholders Meeting, after having heard the directors and statutory auditors, if the refusal is unjustified. Shareholders are not allowed to present requests on topics upon which the Shareholders Meeting resolves, pursuant to Italian law, on directors proposal or on a project basis or on their reports only.

Shareholders representing at least 2.5% of the share capital may request, within ten days of the publication of the notice convening the meeting, addition to the agenda of the shareholders meeting or presentation to the shareholders meeting of alternative proposals for resolution on items already on the agenda. Added items and alternative proposed resolutions on items already on the agenda, have to be disclosed in the same ways as the notice calling the meeting, at least fifteen days prior to the date scheduled for the shareholders meeting.

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Additions to the agenda and/or alternative proposed resolutions cannot be submitted for matters on which the shareholders meeting is required by law to resolve on proposals put forward by the directors or on the basis of a plan or report by the Board of Directors.

The Shareholders Meeting on May 6, 2004 adopted a set of Rules of Proceeding, which apply to both Ordinary and Extraordinary meetings, which were amended by the shareholders Meeting of April 12, 2011. The current version of the Rules is posted on the Company s website under Governance .

Meetings of Savings Shareholders

Although holders of Savings Shares are not entitled to vote in meetings of holders of Ordinary Shares, they are entitled to attend special meetings of holders of Savings Shares (**Special Meetings**) and to appoint a joint representative (the **Joint Representative**) to represent them, with respect to the Company.

The Joint Representative, who is appointed by the Special Meeting or, in default, by the Court, is entitled (i) to inspect certain corporate books of the Company, (ii) to attend the Shareholders Meetings and (iii) to challenge in court the resolutions adopted by such meetings. The Joint Representative is appointed for a maximum three-year term and, according to the Bylaws, is kept informed by the Company regarding corporate events that can affect the price trend of Savings Shares. The Savings Shareholders Meeting held on May 28, 2010 appointed Mr. Emanuele Rimini as joint Representative for a three year period which will expire with the Ordinary Shareholders Meeting to be convened for approval of the Company s financial statements for the year 2012.

Special Meetings of Savings Shareholders may be called when deemed necessary or upon request by Savings Shareholders representing at least 1% of the outstanding Savings Shares either by the Joint Representative or by the Company s Board of Directors in order to (a) appoint and revoke the Joint Representative, (b) approve the resolutions of the Shareholders Meetings that may affect the rights of Savings Shares, (c) set up an expense fund for the coverage of costs incurred in protecting rights of the Savings Shareholders, (d) negotiate possible disputes with the Company; and (e) resolve other issues relating to their position as holders of Savings Shares. To adopt resolutions related to (a), (c) and (e) above, a favorable vote of at least 20% of the Savings Shares is required at Special Meetings held on the first call, a favorable vote of at least 10% is required at Special Meetings held on the second call, and a favorable vote of at least a majority of the Savings Shares present is required at Special Meetings held on the third call. To adopt resolutions related to (b) and (d) above, a favorable vote of at least 20% of the Savings Shares is required at all calls of the Special Meetings.

To attend an vote at any Special Meeting, holding of Savings Shares on the record date (statutorily set at seven trading days before the meeting) is the sole requirement, but to certify that, an ad hoc communication by an authorized intermediary must have been received by the Company. Special arrangements with the Depositary may be required for the beneficial owner of ADRs representing Savings Share ADSs to attend Special Meetings and exercise voting rights with respect to underlying Savings Shares. See 10.5 Description of American Depositary Receipts Voting of Deposited Securities .

v **Disclosure**

Transparent relations with the financial markets, and the provision of accurate information are paramount for the Telecom Italia Group.

A specific procedure (posted on the Company s website under Governance) covers the handling including the public disclosure of inside information concerning Telecom Italia, its unlisted subsidiaries and listed financial instruments, and is addressed to all the members of the governing bodies, employees and outside consultants of Group companies who have potential access to inside information. It also applies as an instruction to all subsidiaries for the purpose of promptly obtaining the necessary information for timely and correct compliance with public disclosure requirements.

With reference to the preparation of the financial statements for 2012, the procedures for the Preparation of the Telecom Italia 2012 annual report for Italian purposes and Telecom Italia 2012 Form 20-F provide for specific mechanisms of upward attestation by the people in charge of the various corporate structures involved in the process of gathering and handling data and drafting the document. This is aimed at giving adequate assurance and support to the senior officers, the Board of Auditors, the Control and Risk Committee and the Board of Directors as a whole in fulfilling their responsibility for oversight of the accuracy and timeliness of required disclosures.

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10.2 EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

Foreign Investment and Exchange Control Regulations in Italy

There are no exchange controls in Italy. Residents of Italy may hold foreign currency and foreign securities of any kind, within and outside Italy. Non-residents may invest in Italian securities and may export cash, instruments of credit and securities, in both foreign currency and euro, representing interest, dividends, other asset distributions and the proceeds of dispositions without restriction other than those outlined below. There are no limitations on the right of non-resident or foreign beneficial owners to vote their Shares except as provided for all Telecom Italia shareholders by law. See 10.4 Description of Capital Stock Limitations on Voting and Shareholdings .

Reporting and record-keeping requirements are contained in Italian legislation which implements an EU Directive regarding the free movement of capital. Such legislation requires that transfers of cash or bearer bank or postal passbooks or bearer instruments in euro or in foreign currency, effected for whatsoever reason between different parties, shall be carried out by means of credit institutions and any other authorized intermediaries when the total amount of the value to be transferred is equal to or more than 1,000 euros. The threshold referred to above also applies when there is reason to believe that several transactions, effected at different times within a certain period of time, constitute part of a single transaction, even if individually below the threshold amount specified. Whenever the execution of such transactions leads to belief that there are irregularities in their performance, such transactions shall be reported in writing to the Italian Central Bank which shall carry out necessary checks. Credit institutions and other intermediaries effecting such transactions on behalf of residents or non-residents of Italy are required to maintain records of such transactions for ten years, which may be inspected at any time by Italian authorities. Non-compliance with the above may result, among others, in administrative fines or, criminal penalties if the transactions fall within a case ruled by the criminal code. Certain additional procedural requirements are imposed for tax reasons. Non-corporate residents of Italy effecting transfers to and from Italy in excess of 10,000 euros in one year must disclose them in their annual income tax returns. Non-corporate residents must also give details in their income tax returns of financial assets held outside Italy at the end of the fiscal year and of transfers in excess of 10,000 euros to, from, within and between foreign countries in connection with such assets during the fiscal year. No tax return is required in respect of foreign investments and foreign income-earning assets that are exempt from income tax or subject to withholding tax in Italy. Such disclosure requirements do not apply (i) if the total value of the investments and assets at the end of the taxable period or the total amount of the transfers effected during the year is not greater than 10,000 euros or (ii) in respect of foreign investments, foreign assets or transfers within the EU (except for transfer from or to Italy). For corporate residents there is no requirement for such a declaration because their financial statements (on the basis of which their tax returns are prepared) already contain the information.

There can be no assurance that the present regulatory environment in or outside Italy will endure or that particular policies presently in effect will be maintained, although Italy is required to maintain certain regulations and policies by virtue of its membership in the EU and other international organizations and its adherence to various bilateral and multilateral international agreements.

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10.3 DESCRIPTION OF BYLAWS

Object

Telecom Italia s corporate purpose is described in Article 3 of the Bylaws and consists of:

- to install and operate fixed or mobile equipment and installations for the purpose of providing and operating telecommunications services and to carry out the activities directly or indirectly related thereto;
- to hold interests in other businesses falling within the scope of the above stated corporate object or otherwise related thereto; and
- to control and provide the strategic, technical, administrative and financial coordination, overseeing and managing the financial activities of controlled companies and businesses, and carrying out all transactions related thereto.

Directors

There are no provisions in the Bylaws relating to: (1) the power of a director to vote on a proposal in which such director is materially interested, (2) the power of a director to (in the absence of an independent quorum) vote compensation to himself or any member of its body, (3) the power of a director to borrow money from the Company, (4) the retirement of a director under an age limit requirement and (5) the number of shares required for director s qualification.

The Board of Directors grants specific positions to any of its members in compliance with the Bylaws of the company; such positions include, among others, those of Chairman and Managing Director. According to Italian law the remuneration corresponding to such positions is then defined by the Board of Directors in its discretion, after acknowledging the opinion of the Board of Auditors.

There are no provisions in Italian law that govern the issue of directors borrowing money from the company and that set age or shareholding requirements for director s qualification.

Recent amendments

The shareholders meeting held on May, 15 2012 approved amendments to articles 9 and 17 of the Company Bylaws (gender quotas) governing appointments to the Board of Directors and Statutory Board of Auditors to ensure balance between the male and female members, as required by law.

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10.4 DESCRIPTION OF CAPITAL STOCK

As of April 10, 2013, the subscribed and fully paid-up capital stock was equal to 10,693,628,019.25 euros divided into 13,416,839,374 Ordinary Shares and 6,026,120,661 Savings Shares, each with a par value of 0.55 euros. On March 7, 2013 the Board of Directors resolved to issue for cash up to 576,544 Ordinary Shares, to be offered to the beneficiaries of the 2010-2015 Long-Term Incentive Plan with a time limit for subscription set at April 30, 2013, providing that if the increase resolved is not fully subscribed within that time limits, the capital will be increased by an amount equal to the subscriptions received up to such time. As of April 10, 2013 no such Ordinary Share has been issued yet.

For five years starting from April 29, 2010 the Directors may increase the share capital as follows:

- to service the implementation of the 2010-2015 Long-Term Incentive Plan, in the maximum amount of 5,000,000 euros by the allotment of the corresponding maximum amount of profits pursuant to Art. 2349 of the Civil Code, by the issuance of the number of ordinary shares with a par value of Euro 0.55 each necessary for the allotment of one bonus share for every share subscribed for cash by employee beneficiaries of the 2010-2015 Long-Term Incentive Plan within the time periods and under the terms and conditions provided for therein.

For five years starting from April 12, 2011 the Directors may increase the share capital to service the Long Term Incentive Plan 2011 as follows, as approved by the Company Shareholders Meeting of that date:

- (i) for cash, by the issue of new ordinary shares of Euro 0.55 par value each, with regular dividend entitlement, up to a maximum amount of 5,000,000 euros, excluding the right of pre-emption pursuant to article 2441, subsection 8, of the Italian Civil Code, and of article 134, subsection 2, of legislative decree no. 58/1998, to be reserved for some of the employees who are beneficiaries of the Long Term Incentive Plan 2011 as previously identified by the Board of Directors of the Company, and then, subsequently (ii) for a maximum amount of 5,000,000 euros by allocation of the corresponding maximum amount of profits or retained profits pursuant to article 2349 of the Italian Civil Code, by the issue of a sufficient number of ordinary shares for the allocation of one free share for every paid share subscribed, as above, subject to the terms and conditions and by the methods specified in the Long Term Incentive Plan 2011 ;

- up to a maximum amount of 5,500,000 euros by allocation of the corresponding maximum amount of profits or retained profits pursuant to article 2349 of the Italian Civil Code, with the issue of ordinary shares reserved to some of the employees who are beneficiaries of the Long Term Incentive Plan 2011 as previously identified by the Board of Directors of the Company, subject to the terms and conditions and by the methods specified in the Long Term Incentive Plan 2011 .

Regarding the increase in capital for cash, the Board of Directors shall establish the share issue price (inclusive of the share premium) in accordance with the provisions of the Long Term Incentive Plan 2011 , and shall also set the period of time within which they may be subscribed, providing that, if the resolved increase should not be fully subscribed within said period of time, the share capital shall be understood to have been increased by an amount equal to the subscriptions received up until that date.

For five years starting from May 15, 2012 the Directors may increase the share capital to service the Long Term Incentive Plan 2012 as follows, as approved by the Company Shareholders Meeting of that date:

(i) for cash, by the issue of new ordinary shares of Euro 0.55 par value each, with regular dividend entitlement, up to a maximum amount of 5,500,000 euros, excluding the right of pre-emption pursuant to article 2441, subsection 8, of the Italian Civil Code, and of article 134, subsection 2, of legislative decree no. 58/1998, to be reserved for some of the employees who are beneficiaries of the Long Term Incentive Plan 2012 as previously identified by the Board of Directors of the Company, and then, subsequently (ii) for a maximum amount of 5,500,000 euros by allocation of the corresponding maximum amount of profits or retained profits pursuant to article 2349 of the Italian Civil Code, by the issue of a sufficient number of ordinary shares for the allocation of one free share for every paid share subscribed, as above, subject to the terms and conditions and by the methods specified in the Long Term Incentive Plan 2012 ;

up to a maximum amount of 4,000,000 euros by allocation of the corresponding maximum amount of profits or retained profits pursuant to article 2349 of the Italian Civil Code, with the issue of ordinary shares

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reserved to some of the employees who are beneficiaries of the Long Term Incentive Plan 2012 as previously identified by the Board of Directors of the Company, subject to the terms and conditions and by the methods specified in the Long Term Incentive Plan 2012 .

Regarding the increase in capital for cash, the Board of Directors shall establish the share issue price (inclusive of the share premium) in accordance with the provisions of the Long Term Incentive Plan 2012 , and shall also set the period of time within which they may be subscribed, providing that, if the resolved increase should not be fully subscribed within said period of time, the share capital shall be understood to have been increased by an amount equal to the subscriptions received up until that date.

For five years starting from April 8, 2009 the Directors may increase the share capital in one or more tranches by up to a maximum total amount of 880,000,000 euros by means of cash issues, with or without a share premium, of up to a maximum of 1,600,000,000 ordinary shares with a par value of 0.55 each:

(i) to be offered with the right of pre-emption to persons having entitlement; or, including just a part thereof,

(ii) to employees of Telecom Italia S.p.A. and its subsidiaries with the exclusion of the right of pre-emption pursuant to the combined effects of the last paragraph of Article 2441 of the Civil Code and Article 134(2) of Legislative Decree 58/1998.

Resolutions to increase the share capital adopted by the Board of Directors in exercising the powers attributed above shall set the subscription price (including any premium) and a time limit for the subscription of the shares; they may also provide, in the event that the increase approved is not fully subscribed within the time limit established for each issue, for the capital to be increased by an amount equal to the subscriptions received up to such time.

The Board of Directors may issue, in one or more tranches and for up to a maximum of five years from 8 April 2009, bonds convertible into ordinary shares to be offered with the right of pre-emption to persons having entitlement up to a maximum nominal amount of 1,000,000,000 euros.

In connection with the new Employee Share Ownership Plan, the Shareholders Meeting to be held on May 15, 2012 will be asked to authorize the Board of Directors by amending Article 5 of the Bylaws to increase the Company s share capitalby issuing(i) up to 54,000,000 ordinary shares for cash at a 10% discount off the market price, and in any case not below par value and (ii) up to a maximum amount of 18,000,000 ordinary shares by allocation of profits or retained profits pursuant to article 2349 of the Italian Civil Code, to be granted according to a ratio of one free bonus share for every three shares purchased, in case such shares are held for one year, and providing the subscribers remain employees.

Classes of shares

According to Italian law, Savings Shares may not be issued for an amount which, including other preferred shares, if any, exceeds one-half of the Company s share capital.

Pursuant to Telecom Italia s Bylaws any reduction in share capital made for the purpose of absorbing losses is applied to the par value of the Ordinary Shares until they have been reduced to zero and only then is the par value of the Savings Shares reduced. If, as a consequence of capital reduction, the Savings Shares exceed half of the Company s share capital, such excess must be eliminated within the following two years.

Form and Transfer

The Dematerialization Decree provides for the dematerialization of financial instruments publicly traded on regulated markets, including treasury bonds.

As a result, Ordinary Shares and Savings Shares must be held with Monte Titoli. Most Italian banks, brokers and securities dealers have securities accounts as participants with Monte Titoli, and beneficial owners of Ordinary Shares and Savings Shares may hold their interests through special deposit accounts with any such participant. The beneficial owners of Ordinary Shares and Savings Shares held with Monte Titoli may transfer their Ordinary

Shares, collect dividends and exercise other rights with respect to those shares through such accounts. Such shares held by Monte Titoli are transferred between beneficial owners by appropriate instructions being given to the relevant participants associated with Monte Titoli to debit the account with the bank of the vendor and to credit the account with the bank of the purchaser.

Voting rights relating to Ordinary Shares and Savings Shares that have not been deposited with Monte Titoli may be exercised only by depositing them with an authorized intermediary. The Company may act as an intermediary for its own shares.

Each person owning a beneficial interest in Ordinary Shares and Savings Shares held through Euroclear or Clearstream must rely on the procedures of Euroclear or Clearstream, respectively, and of institutions that have accounts with Euroclear or Clearstream to exercise any rights of a holder of shares. Holders may request Euroclear or Clearstream to transfer their Ordinary Shares and Savings Shares to an account of such holder with a participant of Monte Titoli, in which case such holders may transfer their shares, collect dividends and exercise other shareholder rights through that participant. Any such transfer through that participant is not subject to Italian transfer tax if non-Italian parties are involved. See 10.6 Taxation .

Dividend Rights

Holders of Savings Shares are entitled each year to a distribution with respect to such year s net income in the amount up to 5% of the par value of their shares (so called privilege). If with respect to any year a lesser amount is paid, the entitlement to payment of the shortfall is carried over for two successive years. In the event that dividends are paid to holders of Ordinary Shares, holders of Savings Shares have a preferential right to receive a dividend per share that is higher by 2% of its par value than the dividend per Ordinary Share (so called enhancement).

In case the net income is insufficient, the Annual Ordinary Shareholders meeting is allowed to satisfy both the aforementioned preferential rights (privilege and enhancement) by distributing reserves, when available.

Subscription Rights

New Ordinary Shares and/or Savings Shares may be issued pursuant to a resolution of holders of Ordinary Shares at any extraordinary Shareholders Meeting.

Pursuant to Italian law, shareholders (including holders of Savings Shares) are entitled to subscribe for new issues of Ordinary Shares and/or Savings Shares, debentures convertible into Ordinary Shares and/or Savings Shares and rights to subscribe for Ordinary Shares and/or Savings Shares in proportion to their respective shareholdings.

Nevertheless, subject to certain conditions principally designed to prevent dilution of the rights of shareholders, subscription rights may be waived or limited by resolutions taken by the extraordinary Shareholders Meeting. On the other hand, according to the Bylaws the subscription rights can be excluded by the extraordinary Shareholders Meeting in the amount of 10% of the pre-existent share capital with no special quorum or disclosure requirement, on condition that the subscription price is equal to the shares market price and this is confirmed in the proper independent auditors report.

Shareholders can adopt a resolution, at an extraordinary Shareholders Meeting, to convert available reserves into additional share capital. In such case, either the par value of all outstanding shares is identically raised or the shares resulting from the increase in share capital are allocated to the shareholders in proportion to their ownership before the increase without further contribution or payment from the shareholder.

Liquidation Rights

Subject to the satisfaction of all other creditors, holders of Ordinary Shares are entitled to a distribution in liquidation.

Holders of Savings Shares and preferred shares, if any, are entitled to a preferred right to distribution from liquidation up to their par value. No liquidation dividend is payable to the holders of other classes of shares until

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such preferential right has been satisfied in full. Thereafter, in case of surplus assets, holders of all classes of shares rank equally in the distribution of such surplus assets. Shares rank *pari passu* among themselves in a liquidation.

Purchase of Ordinary Shares or Savings Shares by the Company

The Company may purchase its own Ordinary Shares or Savings Shares subject to certain conditions and limitations. Such purchases must be authorized by a Shareholders Meeting and made only out of retained earnings or distributable reserves as shown on the most recent financial statements approved by the Shareholders Meeting. The par value of the Ordinary Shares or Savings Shares purchased by the Company, including the Ordinary Shares or Savings Shares, if any, held by the Company s subsidiaries, may not exceed 10% of the Company s share capital. The Company may purchase its own Ordinary Shares or Savings Shares:

- by means of a tender offer;
- on regulated markets in accordance with trading methods laid down in the market rules, that do not permit the direct matching of buy orders with predetermined sell orders;
- by means of the purchase and sale of derivative instruments traded on regulated markets that provide for the delivery of the underlying shares, provided the market rules lay down methods for the purchase and sale of such instruments that (i) do not permit the direct matching of buy orders with predetermined sell orders and (ii) ensure the easy participation of investors in the trading of such derivative instruments used for buybacks;
- by granting shareholders, in relation to the shares they hold, a put option to be exercised within a period established by the shareholders meeting authorizing the share purchase programme.

Before entering into transactions aimed at the purchase of its own shares other than by means of a tender offer (which in Italy is governed by specific disclosure requirements), the Company must disclose to the public all the details of the share purchase programme.

Ordinary Shares or Savings Shares purchased and held by the Company or one of its subsidiaries may be disposed of only pursuant to a resolution of the Company s or, if applicable, its subsidiary s shareholders meeting.

As a rule, neither the Company nor any company under its control may vote or subscribe for new Ordinary Shares or Savings Shares of the Company, but the shareholders meeting may authorize the exercise of subscription rights. If no such authorization is granted, the subscription rights accrue to the other holders so long as such Ordinary Shares or Savings Shares are held by the Company or a company under its control. The Ordinary Shares or the Savings Shares, as long as they are owned by the Company, are not entitled to receive dividends.

As of April 10, 2013, Telecom Italia owns 37,672,014 of its own Ordinary Shares, while the subsidiary Telecom Italia Finance S.A. holds another 124,544,373 Ordinary Shares, for a total of 1.21% of capital with voting rights.

In October 2012 the authorization to purchase Telecom Italia S.p.A. savings shares within a maximum expenditure limit of Euro 800,000,000, as per the resolution of the Shareholders Meeting held on April 12, 2011, expired.

Reporting Requirements and Restrictions on Acquisitions of Shares

Pursuant to Italian securities regulations any acquisition or sale of an interest in excess of 2%, 5%, 10%, 15%, 20%, 25%, 30%, 50%, 66.6%, 90% and 95% in the voting shares of a listed company, must be notified to the listed company and to Consob within five trading days (defined as days on which Borsa Italiana is open) following the acquisition or sale. Consob must make such information public within three trading days from the notification.

For the purpose of the aforementioned disclosure obligations, shares of which a party is the principal, even if the voting rights are due or assigned to third parties or suspended, are considered as investments. Shares in relation to which a party is assigned or due voting rights are also considered investments where one of the following criteria or a combination of such, is met: (i) voting rights due as pledgee or usufructuary; (ii) voting rights due as depositary or third party account holder, as long as this right can be exercised at discretion; (iii) voting rights due

by virtue of power of attorney, as long as the right can be exercised at discretion with no specific instructions by the delegating party; (iv) voting rights due on the basis of an agreement envisaging the provisional, paid transfer of it.

The disclosure obligations envisaged above shall also apply to the treasury shares held directly or via subsidiary companies. In the event of shares subject to security lending or contango transactions, the disclosure obligation is both the lender or the contango payer s and the borrower or the contango broker s. For the same disclosure obligation, shall also be included both the shares owned by nominees, trustees or subsidiary companies and the shares of which the voting rights belong or are assigned to such persons.

Shareholder agreements concerning the voting shares of a listed company must be notified to Consob, published in abridged form in the daily press and filed with the Company Register of the place where the company has its registered office if they provide for duties of consultation before voting, set limits on the transfer or provide for the purchase of the relevant shares, have as their object or effect the exercise of a dominant influence on the company, aim to encourage or frustrate a takeover bid or equity swap, including commitments relating to non-participation in a takeover bid. The same rule applies when the shareholder agreements concern the shares issued by a non-listed company that controls a listed company. The notification must include the share ownership of all parties filing it.

When listed companies change their share capital, they must notify Consob and Borsa Italiana of the amount of the share capital and the number and classes of shares into which it is divided. Consob and Borsa Italiana must make the information available to the public no later than the day following the notification. The notification shall be made no later than the day following the event causing such modification or the day following the filing of the amended Bylaws.

In accordance with Italian antitrust laws and regulations, the Antitrust Authority is required to prohibit acquisitions of sole or joint control over a company that would create or strengthen a dominant position in the domestic market or a significant part thereof. However, if the acquiring party and the company to be acquired operate in more than one Member State of the EU and exceed certain revenue thresholds, the antitrust approval of the acquisition falls within the exclusive jurisdiction of the European Commission. See Item 4. Information on the Telecom Italia Group 4.3 Regulation .

Limitations on Voting and Shareholdings

There are no limitations imposed by Italian law or by the Bylaws of Telecom Italia on the rights of non-residents of Italy or foreign persons to hold or vote the Shares other than those limitations resulting from the special powers of the State, which apply equally to all owners of Shares, Italian and foreign alike.

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Item 10. Additional Information Description Of American Depositary Receipts

10.5 DESCRIPTION OF AMERICAN DEPOSITARY RECEIPTS

Following the Merger, Olivetti as the surviving company changed its name to Telecom Italia S.p.A. , succeeded to the Exchange Act registration of Old Telecom Italia and became subject to the foreign private issuer reporting requirements of the Exchange Act. Telecom Italia completed the listing of its Ordinary Share American Depositary Shares and Savings Share American Depositary Shares on the New York Stock Exchange. Telecom Italia has entered into two Deposit Agreements among the Company, JPMorgan Chase Bank, as depositary, and the registered Holders from time to time of ADRs issued thereunder. The first such Deposit Agreement, dated as of July 17, 2003, provides for the deposit of Ordinary Shares in registered form, par value 0.55 euros each and the issuance of the Ordinary Share ADSs; the second such Deposit Agreement, also dated as of July 17, 2003 provides for the deposit of Savings Shares in registered form, par value 0.55 euros each and the issuance of the Savings Share ADSs. Because these agreements are otherwise substantially identical, such agreements (including all exhibits and amendments thereto) are referred to herein as the Deposit Agreement , deposited Shares as well as deposited Savings Shares are referred to as Shares , and the Ordinary Share ADSs or Savings Share ADSs, as the case may be, are referred to as the ADSs . The following is a summary of the material provisions of the Deposit Agreement. This summary does not purport to be complete and is qualified in its entirety by reference to the Deposit Agreement. Copies of the Deposit Agreement are available for inspection at the principal office of the Depositary in New York (the Principal New York Office), which is presently located at 4 New York Plaza, New York, New York 10004. Terms used herein and not otherwise defined shall have the respective meanings set forth in the Deposit Agreement.

ADRs evidencing ADSs are issuable by the Depositary pursuant to the terms of the Deposit Agreement. Each ADS represents, as of the date hereof, the right to receive 10 Ordinary Shares (in the case of each Ordinary Share ADS) or 10 Savings Shares (in the case of each Savings Share ADS) in each case deposited under the Deposit Agreement (together with any additional Ordinary Shares deposited thereunder and all other securities, property and cash received and held thereunder at any time in respect of or in lieu of such deposited Ordinary Shares, the Deposited Securities) with the Custodian, currently the Milan office of BNP Paribas (together with any successor or successors thereto, the Custodian). An ADR may evidence any number of ADSs. Only persons in whose names ADRs are registered on the books of the Depositary will be treated by the Depositary and the Company as Holders.

Deposit, Issuance, Transfer and Withdrawal

In connection with the deposit of Ordinary Shares under the Deposit Agreement, the Depositary or the Custodian may require the following in form satisfactory to it: (a) a written order directing the Depositary to issue or execute and deliver to, or upon the written order of, the person or persons designated in such order an ADR or ADRs evidencing the number of ADSs representing such Deposited Securities (a Delivery Order); (b) proper endorsements or duly executed instruments of transfer in respect of such Deposited Securities; and (c) instruments assigning to the Custodian or its nominee any distribution on or in respect of such Deposited Securities until the Ordinary Shares are registered in the name required by the Depositary or indemnity therefore. As soon as practicable after the Custodian receives Deposited Securities pursuant to any such deposit or pursuant to any distribution upon Deposited Securities or change affecting Deposited Securities, the Custodian shall present such Deposited Securities for registration of transfer into the name of the Custodian or its nominee, to the extent such registration is practicable, at the cost and expense of the person making such deposit (or for whose benefit such deposit is made) and shall obtain evidence satisfactory to it of such registration. Deposited Securities shall be held by the Custodian for the account and to the order of the Depositary at such place or places and in such manner as the Depositary shall determine. The Depositary agrees to instruct the Custodian to place all Ordinary Shares accepted for deposit into a segregated account separate from any Ordinary Shares of the Company that may be held by such Custodian under any other depositary receipt facility relating to the Ordinary Shares. Deposited Securities may be delivered by the Custodian to any person only under the circumstances expressly contemplated in the Deposit Agreement. To the extent that the provisions of or governing the Shares make delivery of certificates therefore impracticable, Ordinary Shares may be deposited by such delivery thereof as the Depositary or the Custodian may reasonably accept, including, without limitation, by causing them to be credited to an account maintained by the Custodian for such purpose with the Company or an accredited intermediary, such as a bank, acting as a registrar for the Ordinary Shares, together with delivery of the documents, payments and Delivery Order referred to herein to the Custodian or the Depositary. Neither the Depositary nor the Custodian shall lend Deposited Securities.

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After any such deposit of Ordinary Shares, the Custodian shall notify the Depositary of such deposit and of the information contained in any related Delivery Order by letter, first class airmail postage prepaid, or, at the request, risk and expense of the person making the deposit, by cable, telex or facsimile transmission. After receiving such notice from the Custodian (or such other evidence as the Company may accept), the Depositary, subject to the Deposit Agreement, shall properly issue or execute and deliver, as the case may be at the transfer office of the Depositary (the Transfer Office), to or upon the order of any person named in such notice, an ADR or ADRs registered as requested and evidencing the aggregate ADSs to which such person is entitled. ADSs may be issued in certificated form or through the direct registration system utilized by the Depositary pursuant to which the Depositary may record the ownership of ADRs without the issuance of a certificate, which ownership shall be evidenced by periodic statements issued by the Depositary to the Holders entitled thereto.

Subject to the terms of the Deposit Agreement, the Depositary may so issue ADRs for delivery at the Transfer Office only against deposit with the Custodian of: (a) Ordinary Shares in form satisfactory to the Custodian; (b) rights to receive Ordinary Shares from the Company or any registrar, transfer agent, clearing agent or other entity recording Share ownership or transactions; or (c) other rights to receive Shares (until such Shares are actually deposited pursuant to (a) or (b) above, Pre-released ADRs) only if (i) Pre-released ADRs are fully collateralized (marked to market daily) with cash or U.S. government securities held by the Depositary for the benefit of Holders (but such collateral shall not constitute Deposited Securities), (ii) each recipient of Pre-released ADRs agrees in writing with the Depositary that such recipient (a) owns such Shares, (b) assigns all beneficial right, title and interest therein to the Depositary, (c) holds such Shares for the account of the Depositary and (d) will deliver such Shares to the Custodian as soon as practicable and promptly upon demand therefore and (iii) all Pre-released ADRs evidence not more than 20% of all ADSs (excluding those evidenced by Pre-released ADRs) provided; however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate. The Depositary may retain for its own account any earnings on collateral for Pre-released ADRs and its charges for issuance thereof. At the request, risk and expense of the person depositing Shares, the Depositary may accept deposits for forwarding to the Custodian and may deliver ADRs at a place other than its office. Shares or evidence of rights to receive Shares may be deposited through (x) electronic transfer of such Shares to the account maintained by the Custodian for such purpose at Monte Titoli S.p.A., (y) evidence satisfactory to the Custodian of irrevocable instructions to cause such Shares to be transferred to such account or (z) delivery of the certificates representing such Shares. If use of the Monte Titoli book-entry system in connection with the Shares is discontinued at any time for any reason, the Company shall make other book-entry arrangements (if any) that it determines, after consultation with the Depositary, are reasonable. Every person depositing Shares under the Deposit Agreement represents and warrants that such Shares are validly issued and outstanding, fully paid, non assessable and free of pre-emptive rights, that the person making such deposit is duly authorized so to do and that such Shares (A) are not restricted securities as such term is defined in Rule 144 under the Securities Act of 1933 unless at the time of deposit they may be freely transferred in accordance with Rule 144(k) and may otherwise be offered and sold freely in the United States or (B) have been registered under the Securities Act of 1933. Such representations and warranties shall survive the deposit of Shares and issuance of ADRs.

Subject to the terms and conditions of the Deposit Agreement, upon surrender of (i) a certificated ADR in form satisfactory to the Depositary at the Transfer Office or (ii) proper instructions and documentation in the case of a Direct Registration ADR, the Holder is entitled to delivery at the Custodian s office of the Deposited Securities at the time represented by the ADSs evidenced thereby. At the request, risk and expense of the Holder of an ADR, the Depositary may deliver such Deposited Securities at such other place as may have been requested by the Holder.

Distributions on Deposited Securities

Subject to the terms and conditions of the Deposit Agreement, to the extent practicable, the Depositary will distribute to each Holder entitled thereto on the record date set by the Depositary therefore at such Holder s address shown on the ADR Register, in proportion to the number of Deposited Securities (on which the following distributions on Deposited Securities are received by the Custodian) represented by ADSs evidenced by such Holder s ADRs:

- *Cash.* Any U.S. dollars available to the Depositary resulting from a cash dividend or other cash distribution or authorized portion thereof (Cash), on an averaged, if possible, or other practicable

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basis, subject to appropriate adjustments for (i) taxes withheld, (ii) such distribution being impermissible or impracticable with respect to certain Holders, and (iii) deduction of the Depositary s expenses in (1) converting any foreign currency to U.S. dollars by sale or in such other manner as the Depositary may determine to the extent that it determines that such conversion may be made on a reasonable basis, (2) transferring foreign currency or U.S. dollars to the United States by such means as the Depositary may determine to the extent that it determines that such transfer may be made on a reasonable basis, (3) obtaining any approval or license of any governmental authority required for such conversion or transfer, which is obtainable at a reasonable cost and within a reasonable time and (4) making any sale by public or private means in any commercially reasonable manner.

- *Shares.* (i) Additional ADRs evidencing whole ADSs representing any Shares available to the Depositary resulting from a dividend or free distribution on Deposited Securities consisting of Shares (a Share Distribution) and (ii) U.S. dollars available to it resulting from the net proceeds of sales of Shares received in a Share Distribution, which Shares would give rise to fractional ADSs if additional ADRs were issued therefore, as in the case of Cash.

- *Rights.* (i) *Warrants* or other instruments in the discretion of the Depositary after consultation with the Company, to the extent practicable, representing rights to acquire additional ADRs in respect of any rights to subscribe for additional Shares or rights of any nature available to the Depositary as a result of a distribution on Deposited Securities (Rights), to the extent that the Company timely furnishes to the Depositary evidence satisfactory to the Depositary that the Depositary may lawfully distribute the same (the Company has no obligation to so furnish such evidence), or (ii) to the extent the Company does not so furnish such evidence and sales of Rights are practicable, any U.S. dollars available to the Depositary from the net proceeds of sales of Rights as in the case of Cash, or (iii) to the extent the Company does not so furnish such evidence and such sales cannot practicably be accomplished by reason of the non- transferability of the Rights, limited markets therefore, their short duration or otherwise, nothing (and any Rights may lapse).

- *Other Distributions.* (i) Securities or property available to the Depositary resulting from any distribution on Deposited Securities other than Cash, Share Distributions and Rights (Other Distributions), by any means that the Depositary may deem equitable and practicable, or (ii) to the extent the Depositary deems distribution of such securities or property not to be equitable and practicable, any U.S. dollars available to the Depositary from the net proceeds of sales of Other Distributions as in the case of Cash. Such U.S. dollars available will be distributed by checks drawn on a bank in the United States for whole dollars and cents (any fractional cents being withheld without liability for interest and added to future Cash distributions).

To the extent that the Depositary determines in its discretion that any distribution is not practicable with respect to any Holder, the Depositary, after consultation with the Company, may make such distribution as it so deems practicable, including the distribution of foreign currency, securities or property (or appropriate documents evidencing the right to receive foreign currency, securities or property) or the retention thereof as Deposited Securities with respect to such Holder s ADRs (without liability for interest thereon or the investment thereof).

There can be no assurance that the Depositary will be able to effect any currency conversion or to sell or otherwise dispose of any distributed or offered property, subscription or other rights, Shares or other securities in a timely manner or at a specified rate or price, as the case may be.

Disclosure of Interests

To the extent that the provisions of or governing any Deposited Securities may require disclosure of or impose limits on beneficial or other ownership of Deposited Securities, other Shares and other securities and may provide for blocking transfer, voting or other rights to enforce such disclosure or limits, Holders and all persons holding ADRs agree to comply with all such disclosure requirements and ownership limitations and to cooperate with the Depositary in the Depositary s compliance with any Company instructions in respect thereof, and the Depositary will use

reasonable efforts to comply with such Company instructions.

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Record Dates

The Depositary shall, to the extent necessary, after consultation with the Company, if practicable, fix a record date (which shall be as near as practicable to any corresponding record date set by the Company) for the determination of the Holders who shall be entitled to receive any distribution on or in respect of Deposited Securities, to give instructions for the exercise of any voting rights, to receive any notice or to act in respect of other matters and only such Holders at the close of business on such record date shall be so entitled.

Voting of Deposited Securities

Upon receipt of notice of any meeting or solicitation of consents or proxies of holders of Shares the Depositary will, unless otherwise instructed by the Company, promptly thereafter, distribute to all Holders a notice containing (i) the information (or a summary thereof) included in any such notice received by the Depositary, including the agenda for the meeting, (ii) a statement that the Holders as of the close of business on a specified record date will be entitled, subject to applicable provisions of Italian law and of the Company s Certificate of Incorporation and Bylaws (any such provisions, if material, will be summarized in such notice), to instruct the Depositary as to the exercise of voting rights, if any (subject to compliance by such Holder with the requirements described below) pertaining to the number of Shares represented by their respective ADSs, (iii) if applicable, a statement as to the manner in which such Holders may request a proper communication to the issuer attesting that beneficial ownership of the related Shares is in the name of the Holders and therefore enabling them to exercise voting rights with respect to the Shares represented by their ADSs without the use of ADS proxy cards, (iv) if applicable, an ADS proxy card pursuant to which such Holder may appoint the Depositary (with power of substitution) as his or her proxy to vote at such meeting in accordance with the directions set out in such ADS proxy card, and (v) such other information, including any such modification to the foregoing procedures as agreed between the Depositary and the Company.

Upon receipt by the Depositary of a properly completed ADS proxy card, on or before the date set by the Depositary for such purpose, the Depositary will attempt, insofar as practicable and permitted under any applicable provisions of Italian law and the Company s Certificate of Incorporation and Bylaws, to vote or cause to be voted the Shares underlying such ADRs in accordance with any nondiscretionary instructions set forth in such ADS proxy card. The Depositary will not vote or attempt to exercise the right to vote that attaches to Shares underlying such ADRs other than in accordance with such instructions.

A Holder desiring to exercise voting rights with respect to the Shares represented by its ADSs without the use of an ADS proxy card may do so by (A) depositing its ADRs in a blocked account with the Depositary until the completion of such meeting and (B) instructing the Depositary to (x) furnish the Custodian with the name and address of such Holder, the number of ADSs represented by ADRs held by such Holder and any other information required in accordance with Italian law or the Company s Certificate of Incorporation and Bylaws, (y) notify the Custodian of such deposit, and (z) instruct the Custodian to issue a communication for such meeting, which gives notice to the Company of such Holder s intention to vote the Shares underlying its ADRs. By giving the instructions set forth under point (B) above, Holders will be deemed to have authorized the Custodian to prohibit any transfers of the related Shares for the blocked period.

A precondition for the issue of the communication for a specific meeting by the Custodian may be that beneficial ownership of the related Shares has been in the name of the Holder for a specific number of days prior to the date of the meeting according to applicable provisions (if any) of Italian laws and regulations and/or applicable provisions (if any) of the Company s Certificate of Incorporation and Bylaws.

Under Italian law, shareholders at shareholders meetings may modify the resolutions presented for their approval by the Board of Directors. In such case Holders who have given prior instructions to vote on such resolutions, and whose instructions do not provide for the case of amendments or additions to such resolutions, will be deemed to have elected to have abstained from voting on any such revised resolution.

When the Company makes its annual accounts available at its offices in connection with a general meeting of shareholders at which a vote will be taken on such accounts, the Company will deliver to the Depositary and the Custodian copies of such accounts. Until such meeting, the Depositary will make available copies of such accounts for inspection at the office of the Depositary in New York (the Transfer Office), the office of the Custodian in Milan, Italy and any other designated transfer offices.

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In the Deposit Agreement, the Depositary and the Company agree to use reasonable efforts to make and maintain arrangements (in addition to or in substitution of the arrangements described in this paragraph) to enable Holders to vote the Shares underlying their ADRs.

Inspection of Transfer Books

The Deposit Agreement provides that the Depositary or its agent will keep books at its Transfer Office for the registration, registration of transfer, combination and split-up of ADRs, and, in the case of Direct Registration ADRs, shall include the Direct Registration System which at all reasonable times will be open for inspection by the Holders and the Company for the purpose of communicating with Holders in the interest of the business of the Company or a matter relating to the Deposit Agreement.

Reports and Other Communications

The Deposit Agreement, the provisions of or governing Deposited Securities and any written communications from the Company, which are both received by the Custodian or its nominee as a holder of Deposited Securities and made generally available to the holders of Deposited Securities, are available for inspection by Holders at the offices of the Depositary and the Custodian and at the Transfer Office. The Depositary will mail copies of such communications (or English translations or summaries thereof) to Holders when furnished by the Company.

On or before the first date on which the Company makes any communication generally available to holders of Deposited Securities or any securities regulatory authority or stock exchange, by publication or otherwise, the Company shall transmit to the Depositary a copy thereof in English or with an English translation or summary. The Company has delivered to the Depositary and the Custodian, a copy of all provisions of or governing the Shares (other than copies of Italian law) and any other Deposited Securities issued by the Company or any affiliate of the Company, if any, and, promptly upon any change thereto, the Company shall deliver to the Depositary and Custodian, a copy (in English or with an English translation) of such provisions (other than copies of Italian law) as so changed.

Changes Affecting Deposited Securities

Subject to the terms of the Deposit Agreement and the ADRs, the Depositary may, in its discretion, amend the ADRs or distribute additional or amended ADRs (with or without calling ADRs for exchange) or cash, securities or property on the record date set by the Depositary therefore to reflect any change in par value, split-up, consolidation, cancellation or other reclassification of Deposited Securities, any Share Distribution or Other Distribution not distributed to Holders or any cash, securities or property available to the Depositary in respect of Deposited Securities from (and the Depositary is hereby authorized to surrender any Deposited Securities to any person and to sell by public or private sale any property received in connection with) any recapitalization, reorganization, merger, consolidation, liquidation, receivership, bankruptcy or sale of all or substantially all the assets of the Company, and to the extent the Depositary does not so amend the ADRs or make a distribution to Holders to reflect any of the foregoing, or the net proceeds thereof, whatever cash, securities or property results from any of the foregoing shall constitute Deposited Securities and each ADS evidenced by ADRs shall automatically represent its pro rata interest in the Deposited Securities as then constituted.

Amendment and Termination of Deposit Agreement

The ADRs and the Deposit Agreement may be amended by the Company and the Depositary, provided that any amendment that imposes or increases any fees or charges (other than stock transfer or other taxes and other governmental charges, transfer or registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or that shall otherwise prejudice any substantial existing right of Holders, shall become effective 30 days after notice of such amendment shall have been given to the Holders. Every Holder of an ADR at the time any amendment to the Deposit Agreement so becomes effective shall be deemed, by continuing to hold such ADR, to consent and agree to such amendment and to be bound by the Deposit Agreement and the ADRs as amended thereby. In no event shall any amendment impair the right of the Holder of any ADR to surrender such ADR and receive the Deposited Securities represented thereby, except in order to comply with mandatory provisions of applicable law. Any amendments or supplements which (i) are reasonably necessary (as agreed by

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the Company and the Depositary) in order for (a) the ADSs to be registered on Form F-6 under the Securities Act of 1933 or (b) the ADSs or Shares to be traded solely in electronic book-entry form and (ii) do not in either such case impose or increase any fees or charges to be borne by Holders, shall be deemed not to prejudice any substantial rights of Holders. Notwithstanding the foregoing, if any governmental body should adopt new laws, rules or regulations which would require amendment or supplement of the Deposit Agreement or the form of ADR to ensure compliance therewith, the Company and the Depositary may amend or supplement the Deposit Agreement and the ADR at any time in accordance with such changed rules. Such amendment or supplement to the Deposit Agreement in such circumstances may become effective before a notice of such amendment or supplement is given to Holders or within any other period of time as required for compliance.

Upon any resignation of the Depositary which does not become effective during the earlier of (i) 90 days from the date of the Depositary shall have resigned as such and (ii) the date on which the Company shall have appointed a successor depositary or on any removal of the Depositary pursuant to the Deposit Agreement, the Depositary may, and shall at the written direction of the Company, terminate the Deposit Agreement and this ADR by mailing notice of such termination to the Holders at least 30 days prior to the date fixed in such notice for such termination. After the date so fixed for termination, the Depositary and its agents will perform no further acts under the Deposit Agreement and this ADR, except to receive and hold (or sell) distributions on Deposited Securities and deliver Deposited Securities being withdrawn. As soon as practicable after the expiration of six months from the date so fixed for termination, the Depositary shall sell the Deposited Securities and shall thereafter (as long as it may lawfully do so) hold in a segregated account the net proceeds of such sales, together with any other cash then held by it under the Deposit Agreement, without liability for interest, in trust for the pro rata benefit of the Holders of ADRs not theretofore surrendered. After making such sale, the Depositary shall be discharged from all obligations in respect of the Deposit Agreement and this ADR, except to account for such net proceeds and other cash. After the date so fixed for termination, the Company shall be discharged from all obligations under the Deposit Agreement except for its obligations to the Depositary and its agents.

Charges of Depositary

The Depositary may charge each person to whom ADSs are issued against deposits of Shares, including deposits in respect of Share Distributions, Rights and Other Distributions, and each person surrendering ADSs for withdrawal of Deposited Securities, U.S.$5.00 for each 100 ADSs (or portion thereof) delivered or surrendered. The Depositary may sell (by public or private sale) sufficient securities and property received in respect of Share Distributions, Rights and Other Distributions prior to such deposit to pay such charge. In addition, the Depositary may charge Holders, a fee for the distribution of securities, such fee being in an amount equal to the fee for the execution and delivery of ADSs referred to above which would have been charged as a result of the deposit of such securities (for purposes hereof treating all such securities as if they were Shares) but which securities or the net cash proceeds from the sale thereof are instead distributed by the Depositary to Holders entitled thereto. The Company will pay all other charges and expenses of the Depositary and any agent of the Depositary (except the Custodian) pursuant to agreements from time to time between the Company and the Depositary, except (i) stock transfer or other taxes and other governmental charges (which are payable by Holders or persons depositing Shares), (ii) cable, telex and facsimile transmission and delivery charges incurred at the request of persons depositing, or Holders delivering Shares, ADRs or Deposited Securities (which are payable by such persons or Holders), (iii) transfer or registration fees for the registration of transfer of Deposited Securities on any applicable register in connection with the deposit or withdrawal of Deposited Securities (which are payable by persons depositing Shares or Holders withdrawing Deposited Securities; there are no such fees in respect of the Shares as of the date of the Deposit Agreement), (iv) expenses of the Depositary in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency) and (v) such fees and expenses as are incurred by the Depositary (including without limitation expenses incurred on behalf of Holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in delivery of Deposited Securities or otherwise in connection with the Depositary s or its Custodian s compliance with applicable law, rule or regulation (see Item 12D. American Depositary Shares).

Liability of Holders for Taxes

If any tax or other governmental charge shall become payable by or on behalf of the Custodian or the Depositary with respect to an ADR, any Deposited Securities represented by the ADSs evidenced thereby or any distribution

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thereon, such tax or other governmental charge shall be paid by the Holder thereof to the Depositary. The Depositary may refuse to effect any registration, registration of transfer, split-up or combination or, only for those reasons set forth in General Instruction I.A.(1) of Form F-6 under the Securities Act, any withdrawal of Deposited Securities until such payment is made. The Depositary may also deduct from any distributions on or in respect of Deposited Securities, or may sell by public or private sale for the account of the respective Holder any part or all of such Deposited Securities (after attempting by reasonable means to notify the Holder thereof prior to such sale), and may apply such deduction or the proceeds of any such sale in payment of such tax or other governmental charge, the respective Holder remaining liable for any deficiency, and shall reduce the number of ADSs evidenced thereby to reflect any such sales of Shares.

In connection with any distribution to Holders, the Company or its agents will remit to the appropriate governmental authority or agency all amounts (if any) required to be withheld and owing to such authority or agency by the Company or its agents; and the Depositary and the Custodian will remit to the appropriate governmental authority or agency all amounts (if any) required to be withheld by the Depositary or the Custodian. The Depositary shall forward to the Company or its agent such information from its records as the Company may request to enable the Company or its agent to file necessary reports with governmental authorities or agencies. If the Depositary determines that any distribution in property other than cash (including Shares or rights) on Deposited Securities is subject to any tax that the Depositary or the Custodian is obligated to withhold, the Depositary may dispose of all or a portion of such property in such amounts and in such manner as the Depositary deems necessary and practicable to pay such taxes, by public or private sale, and the Depositary shall distribute the net proceeds of any such sale or the balance of any such property after deduction of such taxes to the Holders entitled thereto.

The Depositary and the Company agree to use reasonable efforts to make and maintain arrangements (in addition to or in substitution of the arrangements described herein) to enable persons that are considered United States residents for purposes of applicable law to receive any rebates, tax credits or other benefits (pursuant to treaty or otherwise) relating to distributions on the ADSs to which such persons are entitled. Notwithstanding the above, the Company may, by written notice to the Depositary, modify or withdraw the procedures described in this paragraph (including by ceasing to pay to the Depositary any amounts in respect of refunds of Italian withholding taxes), to the extent the Company determines that its participation in the refund process is no longer lawful or practical.

See 10.6 Taxation for additional information on tax issues relating to ADRs.

General Limitations

The Depositary, the Company, their agents and each of them shall: (a) incur no liability (i) if any present or future law, regulation, the provisions of or governing any Deposited Securities, act of God, war or other circumstance beyond its control shall prevent, delay or subject to any civil or criminal penalty any act which the Deposit Agreement or this ADR provides shall be done or performed by it, or (ii) by reason of any exercise or failure to exercise any discretion given it in the Deposit Agreement or this ADR; (b) assume no liability except to perform its obligations to the extent they are specifically set forth in this ADR and the Deposit Agreement without gross negligence or bad faith; (c) in the case of the Depositary and its agents, be under no obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Securities or this ADR; (d) in the case of the Company and its agents hereunder be under no obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Securities or this ADR, which in its opinion may involve it in expense or liability, unless indemnity satisfactory to it against all expense (including fees and disbursements of counsel) and liability be furnished as often as may be required; or (e) not be liable for any action or inaction by it in reliance upon the advice of or information from legal counsel, accountants, any person presenting Shares for deposit, any Holder, or any other person believed by it in good faith to be competent to give such advice or information. The Depositary, its agents and the Company may rely and shall be protected in acting upon any written notice, request, direction or other document believed by them in good faith to be genuine and to have been signed or presented by the proper party or parties. The Depositary and its agents will not be responsible for any failure to carry out any instructions to vote any of the Deposited Securities (provided that such act or omission to act is in good faith), for the manner in which any such vote is cast or for the effect of any such vote. The

Depositary and its agents may own and deal in any class of securities of the Company and its affiliates and in ADRs. Neither the Company, the Depositary nor any of their respective agents shall be liable to Holders or beneficial owners of interests in ADSs for any indirect, special, punitive or consequential damages.

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Prior to the issue, registration, registration of transfer, split-up or combination of any ADR, the delivery of any distribution in respect thereof, or, subject to the last sentence of this paragraph, the withdrawal of any Deposited Securities, and from time to time, in the case of clause (b)(ii) of this paragraph, the Company, the Depositary or the Custodian may require: (a) payment with respect thereto of (i) any stock transfer or other tax or other governmental charge, (ii) any stock transfer or registration fees in effect for the registration of transfers of Shares or other Deposited Securities upon any applicable register and (iii) any applicable charges; (b) the production of proof satisfactory to it of (i) the identity and genuineness of any signature and (ii) such other information, including without limitation, information as to citizenship, residence, exchange control approval, beneficial ownership of any securities, compliance with applicable law, regulations, provisions of or governing Deposited Securities and terms of the Deposit Agreement and the ADRs, as it may deem necessary or proper; and (c) compliance with such regulations as the Depositary may establish consistent with the Deposit Agreement. The Depositary shall provide to the Company, promptly upon its written request, copies of any such proofs of citizenship or residence or other information referred to in (b) above so requested. The issuance of ADRs, the acceptance of deposits of Shares, the registration, registration of transfer, split-up or combination of ADRs or, subject to the last sentence of this paragraph, the withdrawal of Deposited Securities may be suspended, generally or in particular instances, when the ADR register or any register for Deposited Securities is closed or when any such action is deemed necessary or advisable by the Depositary or the Company. Notwithstanding any other provision of the Deposit Agreement or the ADRs, the withdrawal of Deposited Securities may be restricted only for the reasons set forth in General Instruction I.A.(1) of Form F-6 (as such instructions may be amended from time to time) under the Securities Act.

Governing Law

The Deposit Agreement is governed by and shall be construed in accordance with the laws of the State of New York.

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10.6 TAXATION

Unless otherwise indicated, for purposes of the following discussion regarding taxation, the Ordinary Shares and the Savings Shares are collectively referred to as the Telecom Italia Shares .

10.6.1 Italian Taxation

The following is a summary of material Italian tax consequences of the ownership and disposition of Ordinary Shares, Savings Shares or ADSs as at the date hereof. It does not purport to be a complete analysis of all potential tax matters relevant to a decision to hold Ordinary Shares, Savings Shares or ADSs. For purposes of Italian law and the Italian-U.S. Income Tax Convention (the **Treaty**), holders of ADSs which are evidenced by ADRs will be treated as holders of the underlying Ordinary Shares or Savings Shares, as the case may be. The 1999 Treaty between Italy and U.S. entered into force and took effect for taxable periods beginning on or after January 1, 2010.

Income Tax

As a general principle, non-resident taxpayers are liable for Italian income tax with respect to income which is treated as arising in Italy, unless such income is subject to a final withholding tax deducted by the payer of the income. Payments of dividends, either to holders of Ordinary Shares and applicable ADSs or to holders of Savings Shares and applicable ADSs, who are not Italian residents and do not have a permanent establishment in Italy to which dividends are connected are subject to a 20% final withholding tax. The obligation to withhold such tax is imposed on the resident company/intermediary paying the dividends.

All shares of Italian listed companies have to be registered in a centralized deposit system. With respect to dividends paid in connection with shares held in the centralized deposit system managed by Monte Titoli, such as Telecom Italia Shares, instead of the withholding tax mentioned above, a substitute income tax will apply at the same tax rate as the above-mentioned withholding tax. This substitute income tax is levied by, and under the responsibility of, the Italian authorized intermediaries participating in the Monte Titoli system and with whom the securities are deposited and also by non-Italian authorized intermediaries participating, directly or through a non-Italian centralized deposit system, in the Monte Titoli system. With respect to any dividends paid within the above mentioned centralized deposit system, Telecom Italia assumes no responsibility for the withholding of tax at the source (and application of tax treaties, as discussed below) as such responsibility lies entirely on the Italian authorized intermediaries with whom the securities are deposited.

Non-resident holders of Ordinary Shares and applicable ADSs have the right to recover within 48 months from the date of payment of the Italian substitute income tax, up to one-fourth of such 20% substitute tax on their dividend income, upon providing adequate evidence, certified by the tax authorities in their home country, that they paid a corresponding amount of income tax in their home country on the same dividend income.

These refunds are normally subject to extensive delays. In addition, these refunds are an alternative to seeking any relief from double taxation under an income tax treaty, including the Treaty.

U.S. resident beneficial owners of Shares (either Ordinary or Savings Shares) and related ADSs may be entitled to a reduced tax rate on their dividends under the Treaty. Where: (i) a U.S. resident owner qualifies for the benefits of the Treaty and meets all the requirements of the Treaty provision dealing with limitation on benefits, (ii) the U.S. resident owner is the actual beneficial owner of the dividends, and (iii) the dividends paid are not connected with a permanent establishment in Italy through which the U.S. resident owner carries on a business or with a fixed base in Italy through which the U.S. resident owner performs independent personal services, the Treaty generally provides that Italian taxes cannot exceed 15% of the gross amount of the dividend (this 15% rate may be reduced to 5% when the beneficial owner of the dividends is a U.S. company which has owned at least 25 percent of the voting stock of the company paying the dividends for a 12-month period ending on the date the dividend is declared).

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To obtain the reduced tax rate afforded by the Treaty, a beneficial owner of Telecom Italia Shares or ADSs must provide, before the dividend is paid (usually, according to the intermediary s instructions), the intermediary with which the shares are deposited and which participates in the Monte Titoli system with the following documentation:

(i) a declaration by the beneficial owner containing all the data identifying such person as the beneficial owner and establishing the existence of all the conditions necessary for the application of the Treaty; and

(ii) in the case of a U.S. holder, a certification (Form 6166) issued by the U.S. Internal Revenue Service that states that the beneficial owner is a U.S. resident for tax purposes. The certification is valid until March 31 of the year following the submission.

The processing of requests for certification by the U.S. Internal Revenue Service may take a substantial period of time. Accordingly, in order to be eligible for the procedure described below, eligible ADS holders should begin the process of obtaining Form 6166 as soon as possible after receiving instructions from the Depositary on how to claim the reduced rate provided by the Treaty.

The Depositary s instructions, which will be sent to all ADS holders before the dividend payment date, will specify certain deadlines for delivering to the Depositary any documentation required to obtain the reduced rate provided by the Treaty, including the certification that the eligible ADS holders must obtain from the U.S. Internal Revenue Service. In the case of ADSs held through a broker or other financial intermediary, the required documentation should be delivered to such financial intermediary for transmission to the Depositary. In all other cases, the eligible ADS holders should deliver the required documentation directly to the Depositary.

If the holder of Telecom Italia Shares or ADSs fails to obtain the reduced rate provided by the Treaty at the time the dividend is paid, a refund equal to the difference between the Treaty rate and the Italian tax withheld at the payment of dividends may be claimed directly from the Italian tax authorities. Extensive delays have been encountered by U.S. residents seeking payments directly from the Italian authorities.

In the case of dividends paid to a U.S. partnership, the reduction of the tax rate under the Treaty is only available to the extent such dividends are subject to U.S. tax in the hands of the partners.

Capital Gains Tax

Under Italian law, capital gains tax (**CGT**) is levied on capital gains realized by non-residents from the disposal of shares in companies resident in Italy for tax purposes even if those shares are held outside of Italy. However, capital gains realized by non-resident holders on the sale of non-qualified shareholdings (as defined below) in companies whose shares or ADSs are listed on a stock exchange and resident in Italy for tax purposes (as is the case for Telecom Italia) are not subject to CGT.

A qualified shareholding consists of securities (except for Saving Shares and applicable ADSs) that (i) entitle the holder to exercise more than 2% of the voting rights of a company with shares listed on a stock exchange (Telecom Italia is such a company) in the ordinary meeting of the shareholders or (ii) represent more than 5% of the share capital of a company with shares listed on a stock exchange (Telecom Italia is such a

company). A non-qualified shareholding is any shareholding that does not meet the above mentioned requirements to be qualified as a qualified shareholding .

The relevant percentage is calculated taking into account the shareholdings sold during the prior 12-month period (the period starting from the day on which the taxpayer holds shareholding higher than the abovementioned percentages of 2% or 5%).

Pursuant to the Treaty, a U.S. resident will not be subject to Italian CGT on a sale of qualified shareholdings unless the Telecom Italia Shares or ADSs form part of the business property of a permanent establishment of the holder in Italy or pertain to a fixed base available to a holder in Italy for the purpose of performing independent personal services. U.S. residents who sell Telecom Italia Shares or ADSs may be required to produce appropriate documentation establishing that the above mentioned conditions of non-taxability pursuant to the Treaty provisions have been satisfied if CGT would otherwise be applicable.

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Item 10. Additional Information **Taxation**

Inheritance and Gift Tax

The transfers of any valuable asset (including Ordinary Shares, Savings Shares and ADSs) as a result of death or donation (or other transfers for no consideration) and the creation of liens on such assets for a specific purpose are taxed as follows:

(i) transfers in favour of the spouse and of direct descendants or ascendants are subject to an inheritance and gift tax applied at a rate of 4% on the value of the inheritance or the gift exceeding 1,000,000 (per beneficiary);

(ii) transfers in favour of brothers and sisters are subject to an inheritance and gift tax applied at a rate of 6% on the value of the inheritance or the gift exceeding 100,000 (per beneficiary). The same tax rate applies in favour of handicapped individuals on the value of inheritance or gift exceeding 1,500,000 (per beneficiary);

(iii) transfers in favour of all other relatives up to the fourth degree or relatives-in-law up to the third degree, are subject to an inheritance and gift tax applied at a rate of 6% on the entire value of the inheritance or the gift;

(iv) any other transfer is subject to an inheritance and gift tax applied at a rate of 8% on the entire value of the inheritance or the gift.

With respect to listed shares, the value for inheritance and gift tax purposes is the average stock exchange price of the last quarter preceding the date of the succession or of the gift (increased by the interest accrued during the interim). With respect to unlisted shares, the value is determined proportionally to the equity resulting from the last approved balance sheet of the company.

There is currently no gift tax convention between Italy and the United States.

Registration Tax

Contracts relating to the transfer of securities are subject to the registration tax as follows: (i) public deeds and notarized deeds are subject to fixed registration tax at a rate of 168 euros; (ii) private deeds are only subject to registration tax in case of use or voluntary registration.

Stamp taxes and duties

On January 1, 2012, a new law on stamp duty on securities and financial products entered into force. The implementing rules on such stamp duty were provided by Decree of the Ministry of Economy and Finance dated as of May 24, 2012. The stamp tax applies on a yearly basis at the rate of 0.15 per cent (0.1 per cent in 2012) on the market value or if no market value is available on the nominal value or the redemption amount of any financial product or financial instrument (including the Telecom Italia shares or ADSs). The stamp duty cannot be lower than 34.2 euros and, for taxpayers other than individuals, cannot exceed 4,500 euros. In 2012, the cap was 1,200 euros for all taxpayers.

In the absence of specific guidelines, it may be argued that the stamp duty applies to both Italian resident shareholders and to non-Italian resident shareholders, to the extent that the shares (or ADSs) are held with an Italian-based financial intermediary.

Tax on financial transactions

1. Shares and other equity instrument transactions

Law No. 228 as of December 24, 2012 introduced a new tax on financial transactions (FTT). Detailed regulations of such tax were provided by the Decree of the Ministry of Economy and Finance as of February 21, 2013. According to the relevant provisions, from March 1, 2013 the tax on financial transactions generally applies to:

a) transfer of the ownership of shares and participating financial instruments which have been issued by companies registered in Italy; and

b) transfer of the ownership of securities (such as ADSs) representing equity investments referred to in point a) above, irrespective of the country of residence of the issuer of these securities.

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The relevant tax criterion is the place of residence (i.e., the place of the registered office) of the issuer of the shares and the participating financial instruments. So, with reference to the transfer of ADSs, the place of residence of the Depositary is not relevant. Instead the country of residence of Telecom Italia is relevant.

The place where the transfers are completed and the residence of the contractual counterparties is not relevant in defining taxed transactions. Accordingly, transfers performed outside the Italian territory through foreign intermediaries are also subject to tax.

The tax is determined proportionally by applying a percentage rate to the value of the counter value of the transaction that varies in relation to the market on which the transaction is carried out. In particular, transfers of ownership mentioned at points a) and b) above, carried out in a non-regulated market, will be subject to tax at a rate of 0.20 percent (increased to 0.22 percent only in 2013); in contrast, transfers carried out on regulated markets and multilateral trading facilities are subject to tax at the 0.10 percent rate (increased to 0.12 percent only in 2013).

The tax on these types of transactions is owed by the persons to which the ownership of shares, financial instruments and securities representing equity investments (such as ADSs) is transferred, regardless of their country of residence and the place where the contract is concluded.

With reference to the payment of the tax, it should be noted that generally one has to determine a distinction between the person economically affected by the tax and the person liable for the payment of the tax. Economically, the burden of the tax on transfers of shares (or ADSs) and certificates is imposed on the beneficiary of the transfer of the ownership; in contrast, the person liable for the assessment and the payment of the tax is the intermediary (i.e., banks, trust companies, investment firms and other intermediaries) involved in the execution of such transactions. Where several intermediaries are involved in the execution of the transaction, the tax must be paid by the intermediary that receives the order to execute the transaction directly from the purchaser or the final counterparty.

Non-Italian intermediaries and other non-resident persons involved in the transaction must comply with the obligations deriving from the application of such tax through their Italian permanent establishment, if any. Non-Italian intermediaries and other non-resident persons having no permanent establishment in Italy can appoint a tax representative in order to comply with all the relevant tax obligations. In cases other than the above (i.e., where an intermediary is not interposed in a taxable transaction), the obligations, including the payment of the tax, must be fulfilled directly by the foreign person (purchaser), according to guidelines that are still to be issued by the *Agenzia delle Entrate* (i.e., the Italian Revenues Agency). Until guidelines are issued, it is not clear how such tax will be applied to trading of ADSs on the NYSE involving persons or intermediaries not connected with Italy.

Given that the person economically affected by the tax (i.e., the purchaser) and the person liable for the assessment and the payment of the tax (i.e., the intermediary) are generally different, it is anticipated that a withholding mechanism of recovery will be put in place, under which the intermediary will withhold from the purchaser of the financial instrument the amount necessary for the payment of the tax.

10.6.2 United States Federal Income Taxation

The following is a description of the material U.S. federal income tax consequences to the U.S. Holders described below of owning and disposing of Telecom Italia Shares or ADSs representing Telecom Italia Shares, but it does not purport to be a comprehensive description of all tax considerations that may be relevant to a particular person s decision to hold the securities. This discussion applies only to a U.S. Holder that holds Telecom Italia Shares or ADSs as capital assets for U.S. federal income tax purposes. In addition, it does not describe all of the tax consequences that may be relevant in light of the U.S. Holder s particular circumstances, including alternative minimum tax consequences and the potential application of the provisions of the Internal Revenue Code of 1986, as amended (the **Code**), known as the Medicare contribution tax, and tax consequences applicable to U.S. Holders subject to special treatment, such as:

· certain financial institutions;

· dealers or traders in securities who use a mark-to-market method of tax accounting;

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- persons holding Telecom Italia Shares or ADSs as part of a hedging transaction, straddle, wash sale, conversion transaction or integrated transaction or persons entering into a constructive sale with respect to the Telecom Italia Shares or ADSs;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- entities classified as partnerships for U.S. federal income tax purposes;
- tax-exempt entities, including individual retirement accounts or Roth IRAs ;
- persons that own or are deemed to own ten percent or more of the voting stock of Telecom Italia;
- persons who acquired Telecom Italia Shares or ADSs pursuant to the exercise of an employee stock option or otherwise as compensation; or
- persons holding Telecom Italia Shares in connection with a trade or business conducted outside of the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds Telecom Italia Shares or ADSs, the U.S. federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. Partnerships holding Telecom Italia Shares or ADSs and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of holding and disposing of the Telecom Italia Shares or ADSs.

This discussion is based on the Code, administrative pronouncements, judicial decisions, final, temporary and proposed Treasury regulations, and the Treaty, all as of the date hereof, any of which is subject to change, possibly with retroactive effect. It is also based in part on representations by the Depositary and assumes that each obligation under the Deposit Agreement and any related agreement will be performed in accordance with its terms.

A U.S. Holder is a holder who, for U.S. federal income tax purposes, is a beneficial owner of Telecom Italia Shares or ADSs who is eligible for the benefits of the Treaty and is:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

In general, a U.S. Holder who owns ADSs will be treated as the owner of the underlying Ordinary Shares or Saving Shares, as the case may be, represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if a U.S. Holder exchanges ADSs for the underlying Ordinary Shares or Saving Shares, as the case may be, represented by those ADSs.

The U.S. Treasury has expressed concern that parties to whom American depositary shares are released before shares are delivered to the depositary (pre-release), or intermediaries in the chain of ownership between holders and the issuer of the security underlying the American depositary shares, may be taking actions that are inconsistent with the claiming of foreign tax credits by holders of American depositary shares. These actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the creditability of Italian taxes, and the availability of the reduced tax rate for dividends received by certain non-corporate U.S. Holders, each described below, could be affected by actions taken by such parties or intermediaries.

U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and foreign tax consequences of owning and disposing of Telecom Italia Shares or ADSs in their particular circumstances.

This discussion assumes that Telecom Italia is not, and will not become, a passive foreign investment company, as described below.

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Item 10. Additional Information **Taxation**

Taxation of distributions

Distributions made with respect to the Telecom Italia Shares or ADSs (other than certain pro rata distributions of Telecom Italia Shares or ADSs), including any Italian tax withheld, will generally constitute foreign-source dividend income for U.S. federal income tax purposes to the extent such distributions are made from Telecom Italia s current or accumulated earnings and profits, as determined in accordance with U.S. federal income tax principles. Because Telecom Italia does not maintain calculations of earnings and profits under U.S. federal income tax principles, it is expected that distributions will generally be reported to U.S. Holders as dividends. If you are a non-corporate U.S. Holder, subject to applicable limitations that may vary depending on your particular circumstances and the discussion above regarding concerns expressed by the U.S. Treasury, dividends paid to you may be taxable at the favorable rates applicable to long-term capital gains. Non-corporate U.S. Holders should consult their own tax advisers regarding the availability of the reduced tax rate on dividends. If you are a corporate U.S. Holder you will not be entitled to claim a dividends-received deduction for dividends paid on the Telecom Italia Shares or ADSs. The amount of any cash distribution paid in euros, including the amount of any Italian tax withheld, will be included in your income in an amount equal to the U.S. dollar value of such euros on the date of receipt by the Depositary, in the case of U.S. Holders of ADSs, or by the U.S. Holder, in the case of U.S. Holders of Telecom Italia Shares, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. You may have foreign currency gain or loss if the amount of such dividend is not converted into U.S. dollars on the date of its receipt. Gain or loss, if any, recognized on the sale or other disposition of such euros will be U.S.-source ordinary income or loss. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution.

Subject to certain limitations and restrictions and the discussion above regarding concerns expressed by the U.S. Treasury, Italian taxes withheld from distributions on Telecom Italia Shares or ADSs at a rate not in excess of that applicable under the Treaty will be eligible for credit against a U.S. Holder s U.S. federal income tax liability. Italian taxes withheld in excess of the rate applicable under the Treaty will generally not be eligible for credit against a U.S. Holder s U.S. federal income tax liability (See Section 10.6.1 Italian Taxation Income Tax for a discussion of how to obtain the Treaty withholding rate). Instead of claiming a credit, you may, at your election, deduct such Italian taxes in computing your taxable income, subject to generally applicable limitations under U.S. law. An election to deduct foreign taxes instead of claiming foreign tax credits applies to all taxes paid or accrued in the taxable year to foreign countries and possessions of the United States. You should consult your tax adviser concerning the foreign tax credit implications of the payment of any Italian withholding taxes.

Taxation of capital gains

A U.S. Holder will generally recognize U.S.-source capital gain or loss on the sale or other disposition of Telecom Italia Shares or ADSs, which will be long-term capital gain or loss if the U.S. Holder held the Telecom Italia Shares or ADSs for more than one year. The amount of gain or loss will be equal to the difference between the gross amount realized and the U.S. Holder s adjusted tax basis in the Telecom Italia Shares or ADSs, in each case as determined in U.S. dollars. U.S. Holders should consult their own tax advisers about the treatment of capital gains, which may be taxed at lower rates than ordinary income for non-corporate taxpayers, and capital losses, the deductibility of which may be limited.

Passive Foreign Investment Company Rules

Telecom Italia believes that it was not a passive foreign investment company (**PFIC**) for U.S. federal income tax purposes for 2012. However, since PFIC status depends upon the composition of Telecom Italia s income and assets and the market value of Telecom Italia s assets (including, among others, less than 25% owned equity investments) from time to time, there can be no assurance that Telecom Italia will not be a PFIC for

any taxable year. If Telecom Italia were a PFIC for any taxable year during which a U.S. Holder held Telecom Italia Shares or ADSs, certain adverse tax consequences could apply to the U.S. Holder.

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Foreign Financial Asset Reporting

Certain U.S. Holders who are individuals may be required to report information relating to their ownership of an interest in certain foreign financial assets, including stock of a non-U.S. person, generally on an Internal Revenue Service Form 8938, subject to exceptions (including an exception for stock held through a U.S. financial institution). Certain U.S. Holders that are entities may be subject to similar rules in the future. U.S. Holders should consult their tax advisers regarding their reporting obligations with respect to their Telecom Italia Shares or ADSs.

Information Reporting and Backup Withholding

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting, and may be subject to backup withholding, unless (i) the U.S. Holder is an exempt recipient or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding.

The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder s U.S. federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the Internal Service Revenue.

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10.7 DOCUMENTS ON DISPLAY

We file Annual Reports on Form 20-F and furnish periodic reports on Form 6-K to the SEC. You may read and copy any of these reports at the SEC s public reference room in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public from commercial document retrieval services. Some of our SEC filings are also available at the website maintained by the SEC at the website www.sec.gov.

Our ADSs are listed on the New York Stock Exchange under the symbol TI . You may inspect any periodic reports and other information filed with or furnished to the SEC by us at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

As a foreign private issuer, we are exempt from the rules under the Exchange Act which prescribe the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We are subject to the informational requirements of the Italian securities commission and the Italian stock exchanges, and we file reports and other information relating to our business, financial condition and other matters with the Italian securities commission and the Italian stock exchange. You may read such reports, statements and other information, including the annual, semi-annual and quarterly financial statements, at the website www.borsaitaliana.it. Some of our Italian securities commission filings are also available at the website maintained by the Italian securities commission at the website www.consob.it.

As described elsewhere in this Annual Report, certain reports, statements and presentations related to Telecom Italia can be found on our website at www.telecomitalia.com.

We have appointed JPMorgan Chase Bank, N.A. to act as depositary for our ADSs. JPMorgan Chase Bank will, as provided in the deposit agreement, arrange for the mailing of summaries in English of such reports and communications to all record holders of our ADSs. Any record holder of our ADSs may read such reports and communications or summaries thereof at JPMorgan Chase Bank s office located at 4 New York Plaza, New York, New York 10004.

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Item 11. Quantitative And Qualitative Disclosures About Market Risks

Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

With regard to the quantitative and qualitative disclosures about market risks, please see the Note Financial Risk Management of the Notes to the Consolidated Financial Statements included elsewhere herein, which provides:

- the objectives and the policies for the management of the financial risks of Telecom Italia Group, and

- the sensitivity analyses of the market risks we are exposed to.

The above mentioned Note should be read in conjunction with the Note Accounting Policies , Note Derivatives and Note Supplementa Disclosures on Financial Instruments of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report, which provide other information relating to financial instruments.

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Item 12. Description Of Securities Other Than Equity Securities

Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Item 12A. DEBT SECURITIES

Not applicable.

Item 12B. WARRANTS AND RIGHTS

Not applicable.

Item 12C. OTHER SECURITIES

Not applicable.

Item 12D. AMERICAN DEPOSITARY SHARES

Description of fees and charges paid by ADR Holders

As provided for in the American Depositary Receipt included as Exhibit A to the Deposit Agreement between JP Morgan Chase Bank, as depositary (the **Depositary**), Telecom Italia S.p.A. and Holders of American Depositary Receipts dated as of July 17, 2003, holders of American Depositary Shares may be charged, directly or indirectly, the following amounts in relation to the ownership of depositary receipts held in the Company s ADR Program, which amounts are payable to the Depositary.

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Item 12. Description Of Securities Other Than Equity Securities

Category of Service	Depositary Actions	Associated Fee
a) Deposit of underlying shares or surrender of ADRs	Each person to whom ADSs are issued against deposits of shares, including deposits in respect of share distributions, rights and other distributions.(1)	US$5.00 for each 100 ADSs (or portion thereof) delivered or surrendered.
	Each person surrendering ADRs for the withdrawal of deposited securities.	
b) Cash dividends or distributions	Distribution of cash resulting from a cash dividend or other cash distribution.	Subject to deduction of Depositary s expenses in (i) converting foreign currency to US dollars by sale or such other manner considered reasonable by the Depositary (ii) transferring the foreign or US dollars to the United States and (iii) obtaining any license or approval of any governmental authority required for such conversion or transfer.
c) Distribution of securities	Distribution of securities (the fee being an amount equal to the fees for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities).	US$5.00 for each 100 ADSs (or portion thereof) delivered or surrendered.
d) Expenses of the Depositary	Expenses incurred on behalf of Holders in connection with:	
	i) Stock transfer or other taxes and other governmental charges.	As necessary.
	ii) Cable, telex and facsimile transmission and delivery.	US$20.00 per transaction.
	iii) Expenses of the Depositary in connection with the conversion of foreign currency into US dollars (which are paid out of such foreign currency)	As necessary.
	iv) Such fees and expenses as are incurred by the Depositary (including without limitation expenses incurred on behalf of Holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in delivery of deposited securities or otherwise in connection with the Depositary s or its Custodian s compliance with applicable law, rule or regulation.	As necessary.

(1) The Depositary may sell (by public or private sale) sufficient securities and property received in respect of such share distributions, rights and other distributions prior to such deposit to cover such charge.

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Item 12. Description Of Securities Other Than Equity Securities

Direct and indirect payments made by J.P. Morgan to Telecom Italia in relation to the Company s ADR program

J.P. Morgan, as Depositary, has agreed to reimburse the Company for reasonable expenses incurred related to the Company s ADR Program including legal fees, investor relations servicing, investor relations presentations, broker reimbursements, ADR related advertising and public relations, accountant s fees and other bona fide third party expenses. In 2012 the Depositary reimbursed the Company in the amount of US$1,000,000, all of which was used to cover accounting fees incurred in connection with the preparation of the 2010 and 2011 Form 20-F.

As part of its service to the Company, J.P. Morgan has agreed to cover the standard costs associated with the administration of the ADR Program. Such costs include fees and expenses related to (1) general services (administration of the ADR Program, administration of ADR holders accounts, maintenance of the ADR registry and other general services), services related to distribution of dividends and other cash distributions and tax and regulatory compliance services; (2) services related to the annual meeting; and (3) services to investor relations such as market updates, quarterly newsletters and market research.

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Item 13. Defaults, Dividend Arrearages And Delinquencies

PART II

Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

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Item 14. Material Modification to the Rights Of Security Holders And Use Of Proceeds

Item 14. MATERIAL MODIFICATION TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

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Item 15. Controls And Procedures Disclosure Controls And Procedures

Management s Annual Report On Internal Control Over Financial Reporting

Item 15. CONTROLS AND PROCEDURES

15.1. DISCLOSURE CONTROLS AND PROCEDURES

The Company, under the supervision of the Executive Chairman and Chief Executive Officer, of the Domestic Managing Director and Chief Operating Officer and of the Head of Administration, Finance and Control, according to the Company s 404 Process guidelines (revised also to meet the reporting requirements set forth by article 154-bis of the Italian Legislative Decree 58/1998; the aforementioned Italian rule provides for a special report by the Executive Chairman and Chief Executive Officer, the Domestic Chief Executive Officer and Chief Operating Officer and the Head of Administration, Finance and Control of the issuer, broadly corresponding in scope to the certifications and the management s report on internal control over financial reporting required by the Sarbanes Oxley Act) performed an evaluation of the effectiveness of the Company s disclosure controls and procedures as of December 31, 2012. The Company s management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which by their nature can provide only reasonable assurance regarding management s control objectives. Based on this evaluation, the Company s Executive Chairman and Chief Executive Officer, the Company s Domestic Managing Director and Chief Operating Officer and the Company s Head of Administration, Finance and Control concluded that the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) are effective at the reasonable assurance level.

15.2. MANAGEMENT S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company s management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the Company s Executive Chairman and Chief Executive Officer, the Company s Domestic Managing Director and Chief Operating Officer and the Company s Head of Administration, Finance and Control and effected by the Company s Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transaction and dispositions of the assets of the company;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures for the company are being made only in accordance with authorizations of management and directors of the company; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use of disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company s management assessed the effectiveness of the company s internal control over financial reporting as of December 31, 2012. In making this assessment, the Company s management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (**COSO**) in Internal Control-Integrated Framework.

Based on management s assessment, management has concluded that, as of December 31, 2012, the Company s internal control over financial reporting is effective based on those criteria.

PricewaterhouseCoopers S.p.A., the independent registered public accounting firm that audited the consolidated financial statements included in this annual report, has audited the effectiveness of internal control over financial reporting as of December 31, 2012. Their attestation report on internal control over financial reporting is included herein.

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15.3. CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There has been no change in the Company s internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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Item 16A. Audit Committee Financial Expert

Item 16B. Code Of Ethics And Conduct

Item 16. [RESERVED]

Item 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The Board of Auditors in office as of April 10, 2013 determined that each of its members is an audit committee financial expert as defined in Item 16A of Form 20-F. For the names of the members of the Board of Auditors, see Item 6 Directors, Senior Management and Employees 6.3 Board of Auditors .

Item 16B. CODE OF ETHICS AND CONDUCT

On March 23, 2004, Telecom Italia adopted its Code of Ethics and Conduct which applies among the others to the Chairman, the Chief Executive Officer, the Chief Financial Officer, as well as to all the Group s employees in and outside Italy; the suppliers of the Company are required to accept and apply it, too. The Code of Ethics and Conduct has subsequently been amended from time to time by the Board of Directors, which acted on the basis of opinions by the Internal Controls and Corporate Governance Committee (now the Control and Risk Committee) and the Board of Statutory Auditors, in order to conform it to the developments in the applicable law and market regulations, taking into account national and international best practices. The Code of Ethics and Conductin force is available on Telecom Italia s website at www.telecomitalia.com. See also under Item 16G. Corporate Governance 16.1.1 Differences in Telecom Italia s Corporate Governance and New York Stock Exchange Corporate Governance Practices and Item 10 Additional Information 10.1 Corporate Governance .

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Item 16C. Principal Accountant Fees And Services

Item 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

For the year ended December 31, 2012, PricewaterhouseCoopers S.p.A. is serving as Telecom Italia s independent auditor.

PricewaterhouseCoopers means PricewaterhouseCoopers S.p.A., the auditor of the Company, as well as all the Italian and foreign entities belonging to the PricewaterhouseCoopers network.

The following table sets forth the aggregate fees for professional services and other services rendered by PricewaterhouseCoopers in 2012 and in 2011.

Type of Fees	Fiscal year ended December 31, 2012	2011
	(thousands of euros)	
Audit Fees(1)	7,729	7,853
Audit-related Fees(2)	244	422
Tax Fees(3)	157	86
Total	**8,130**	**8,361**

(1) Audit fees consist of fees billed for professional services in connection with Telecom Italia s annual financial statements, reviews of interim financial statements as well as comfort letters issued in relation to capital market transactions, agreed upon procedures for certain financial statement areas, included those required for some transactions by regulations in Italy and abroad, and technical accounting consultations.

(2) Audit-related fees consist of fees billed for professional services rendered in connection with assurance and related services not included under Audit Fees .

(3) Tax fees consist of fees billed for professional services rendered for tax compliance and tax advice.

The Board of Auditors (also in its role as Telecom Italia s Audit Committee), in accordance with and to the extent permitted by applicable Italian law, is responsible for the appointment, retention and oversight of the work of the Company s external auditors engaged for the purpose of issuing the audit report on the annual financial statements. To this effect, according to current Italian law, the Board of Auditors makes a reasoned proposal to the Shareholders Meeting which appoints the external auditors and determines their compensation.

In March 2010, Telecom Italia, together with its Board of Auditors, adopted new Guidelines for the Appointment of external Auditors (the **Group Procedure**). Such procedure became effective concurrently with the appointment of PricewaterhouseCoopers S.p.A. as Telecom Italia s primary independent auditors.

The above mentioned Group Procedure provides instructions, among other things, for the following:

- appointment to audit the Company s financial statements: the appointment is authorized by Telecom Italia s shareholders meeting, acting on a reasoned proposal from the Board of Auditors;

- additional appointments: the pre-approval, by Telecom Italia s Board of Auditors, of certain audit and permissible non-audit services to be provided by the external auditors (and associated persons) and the prohibition for certain services.

An approval is not granted if the service falls within a category of services not permitted by current law or if it is inconsistent with maintaining auditor independence.

According to the Group Procedure, the Telecom Italia Board of Auditors pre-approved the following audit and permitted non-audit services.

Audit Services:

- audit of the financial statements and reporting packages for consolidation of Telecom Italia s subsidiaries;

- review of the working papers of another auditor when necessary for the audit of the financial reports of Telecom Italia or companies it controls;

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Item 16C. Principal Accountant Fees And Services

- verification services for the issue of consent letters;
- audit of financial statements and/or balance sheets to be published in prospectuses and information documents, offering memoranda and the like;
- accounting assistance and advice, including in relation to requests coming from CONSOB, the United States Securities and Exchange Commission and similar authorities;
- audit/verification services in connection with the awarding of grants/loans or obtaining specific tax or social security contribution treatment;
- verification of the conformity of so-called sustainability and social reports;
- issuance of comfort letters in relation to the implementation of extraordinary corporate actions;
- reports and opinions requested under law from the Appointed Auditor;
- attestations to participate in competitive tenders organized by (national or supranational) governmental bodies.

Permitted Non-audit Services:

- agreed procedures for aspects of regulatory accounting;
- accounting due diligence procedures for companies to be sold or acquired.

The Board of Auditors has the right to establish guidelines and qualitative and quantitative criteria regarding the appointment of auditors to provide various services both audit and non-audit services, valid for the entire Group, which it did by requiring the introduction, from January 1, 2012, of an operative procedure which provides for prior examination by the Board of Auditors (even for pre-approved appointments and services) if certain qualitative conditions or when specific quantitative thresholds are exceeded. The Board of Auditors also stated that it will endorse the corresponding determinations adopted by the audit committees of the SEC-registered subsidiary companies, provided that they are made on the basis of rules compliant with the applicable regulations including United States regulations and in conformity with the Group Guidelines in the matter.

Furthermore, in accordance with the Group Procedure above, the Manager responsible for preparing the Company s financial reports (who acts under the supervision of the Telecom Italia Board of Auditors) sends, on a quarterly basis, to the Board of Auditors and the Control and Risk Committee (the former Internal Control and Corporate Governance Committee), the information gathered on any Additional Appointments awarded and services provided. In relation to the above-mentioned appointments, the Board of Auditors and the Control and Risk Committee may have any verifications of compliance deemed necessary carried out by the Internal Control Manager.

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Item 16D. Exemptions From The Listing Standards For Audit Committees

Item 16E. Repurchases Of Equity Securities

Item 16F. Change In Registrant s Certifying Accountant

Item 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Please see Item 10. Additional Information 10.1. Corporate Governance .

Item 16E. REPURCHASES OF EQUITY SECURITIES

From January 1, 2012, to December 31, 2012, no purchases of Shares or Savings Shares were made by or on behalf of Telecom Italia or any affiliated company.

Item 16F. CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANT

Not applicable.

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Item 16G. Corporate Governance Differences In Telecom Italia s Corporate Governance And New York Stock Exchange Corporate Governance Practices

Item 16G. CORPORATE GOVERNANCE

16.1 Differences in Telecom Italia s Corporate Governance and New York Stock Exchange Corporate Governance Practices

We believe the following to be the significant differences between our corporate governance practices and NYSE corporate governance rules applicable to US companies.

Independent Directors. Under NYSE listing rules applicable to US companies, independent directors must comprise a majority of the board of directors.

Article 147-ter of the Italian Consolidated Law on Finance requires boards, with more than seven members, to have at least two directors who meet the criteria set forth by Article 148 for the independence of the members of the Board of Statutory Auditors; in addition the Borsa Italiana Corporate Governance Code requires Boards of Directors to have an adequate number of independent members, and defines the criteria to be applied in determining independence. Telecom Italia s Corporate Governance Principles incorporate by reference the same independence criteria set forth by the Borsa Italiana Code. As of April 10, 2013, 6 out of 15 members of the Telecom Italia Board qualify as independent, as they meet both the requirements set forth by Article 148, and the criteria set forth by the Borsa Italiana Corporate Governance Code.

For further details, see also 10.1 Corporate Governance General Board of Directors Independent Directors .

Non-management Directors Meeting. Pursuant to NYSE listing standards, non-management directors must meet on a regular basis without management present and independent directors must meet separately at least once per year. Borsa Italiana s Corporate Governance Code requires independent directors to meet at least once a year without management present.

Telecom Italia s Corporate Governance Principles set forth the position of Lead Independent Director. The position is intended to provide a point of reference and coordination for the needs and inputs of the independent directors and is entrusted with the power to call special meetings of independent members (Independent Directors Executive Sessions) to discuss, separately from the management, issues related to the working of the Board and the management of the business. In 2012 a total of eight such sessions were held. The Lead Independent Director may use the Company s support functions in performing his tasks. As of April 10, 2013 the position is held by Luigi Zingales. For further details, see also 10.1 Corporate Governance General Board of Directors Executive Directors and Activities of the Board .

Board of Directors Internal Committees. According to NYSE listing standards, US companies listed on the NYSE are required to have a Nominating/Corporate Governance Committee, a Compensation Committee and an Audit Committee. Also according to Borsa Italiana s Corporate Governance Code, the Board of Directors shall establish among its members a Nominating Committee (made up, for the majority, of independent directors) a Remuneration Committee (made up of independent directors or of non executive directors, the majority of which to be independent) and a Control and Risk Committee (made up of independent directors of non executive directors, the majority of which being

independent).

Nominating/Corporate Governance Committee. Under NYSE standards, the nominating/corporate governance committee is composed entirely of independent directors. In addition to identifying individuals qualified to become board members, this committee must develop and recommend to the board a set of corporate governance principles. Pursuant to NYSE standards, this committee should also adopt a written charter.

Article 9 of Telecom Italia s bylaws provides for the members of the Board of Directors to be elected using the slate system, which permits shareholders, who, alone or together, hold shares representing at least 0.5% of the share capital (or the different stake annually required to this end by Consob), to put forward slates of nominees for the appointment as directors: the system is intended to ensure the presence on the Board of persons designated by minority shareholders. Thus, the Company s view is that using the slate system meets the needs otherwise served by the creation of a Nominating Committee.

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Item 16G. Corporate Governance **Differences In Telecom Italia s Corporate Governance And New York Stock Exchange Corporate Governance Practices**

On the other hand, Telecom Italia has a Control and Risk Committee (made up of non-executive directors only, a majority of whom must be independent, one of them chosen from a minority slate) which, among other activities, actively participates and assists in developing and implementing the corporate governance procedures adopted by Telecom Italia. In addition, the Company s Corporate Governance Principles entrust the Nomination and Remuneration Committee with a nomination responsibility, when it is necessary to substitute an independent director.

For further details, see also 10.1 Corporate Governance General Board of Directors Internal Committees .

Remuneration Committee. Under NYSE standards, the Remuneration Committee is composed entirely of independent directors. In addition to the review and approval of corporate goals relevant to CEO compensation and evaluation of the CEO performance in light of those given, this committee must determine and approve the CEO s compensation and make recommendations to the Board of Directors with respect to non-CEO compensation, incentive-compensation plans and equity-based plans.

Telecom Italia has a Nomination and Remuneration Committee, made up of a majority of independent directors (one of them chosen from a minority slate). Pursuant to the Company s Corporate Governance Principles, the Remuneration Committee shall, among other things:

- oversee the succession plan for Executive Directors, and monitor the updating of the company management replacement lists, prepared by the Executive directors;
- establish the procedure and period for the annual evaluation of the Board of Directors;
- propose the criteria for allocating the total annual compensation established by the Shareholders Meeting for the whole Board of Directors;
- perform other duties assigned to it by the Board of Directors;
- express opinions to the Board of Directors regarding its size and composition and express recommendations with regard to the professional skills necessary within the Board;
- submit the Board of Directors candidates for directors offices in case of cooptation, should the replacement of independent directors be necessary;
- periodically evaluate the adequacy, overall consistency and actual application of the policy for the remuneration of directors and key management personnel, on the basis of the information provided by the managing directors; it shall formulate proposals to the Board of Directors in that regard;

· submit proposals or issues opinions to the Board of Directors for the remuneration of executive directors and other directors who cover particular offices as well as for the identification of performance objectives related to the variable component of that remuneration; it shall monitor the implementation of decisions adopted by the Board of Directors and verify, in particular, the actual achievement of performance objectives.

According to the procedure for transactions with the Company s related parties, adopted by board resolution of 4 November 2010 and subsequently amended (available on the www.telecomitalia.com website, Governance section Governance System channel), resolutions regarding the remuneration of directors and key managers with strategic responsibilities made in accordance with the remuneration policy submitted for examination by the Shareholders Meeting, are not considered to be relevant transactions with related parties and are not therefore subject to the Regulations adopted by Consob by means of resolution no. 17221/2010 and subsequent amendments. The tasks assigned to the board committee by the Telecom Italia procedure are in this case performed by the Committee.

For further details, see also 10.1 Corporate Governance General Board of Directors Internal Committees .

Audit Committee. US companies listed on the NYSE are required to establish an Audit Committee that satisfies the requirements of Rule 10A-3 under the 1934 Act.

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Item 16G. Corporate Governance Differences In Telecom Italia s Corporate Governance And

Item 16H. Mine Safety Disclosure New York Stock Exchange Corporate Governance Practices

The Board of Auditors, as permitted by Rule 10A-3, is performing the corresponding functions for Telecom Italia, which therefore is exempted from the requirement to have a separate audit committee.

A Rule 303A written affirmation to this end was submitted to the NYSE on May 22, 2012. For further details, see also 10.1 Corporate Governance General Board of Directors and 10.1 Corporate Governance General Board of Auditors .

Adoption and Disclosure of Corporate Governance Guidelines. US companies listed on the NYSE are required to adopt and disclose corporate governance guidelines.

Such disclosures are included in this Form 20-F and English translations of the Telecom Italia Group s corporate governance policies can be found on Telecom Italia s website: www.telecomitalia.com under Governance .

Code of business conduct and ethics. NYSE listing standards require US companies to adopt a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. The code should provide for the reporting of violations of its provisions or of laws and regulations.

Telecom Italia has adopted such a Code. See also below under 16.1.2 General Code of Ethics and Conduct .

Annual Certification by The Chief Executive Officer. A chief executive officer of a US company listed on the NYSE must annually certify that he or she is not aware of any violation by the company of NYSE corporate governance standards.

In accordance with NYSE listing rules applicable to foreign private issuers, Telecom Italia submitted its foreign private issuer annual written affirmation on May 22, 2012.

Item 16H. MINE SAFETY DISCLOSURE

Not applicable.

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Item 17. Financial Statements

PART III

Item 17. FINANCIAL STATEMENTS

Not applicable.

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Item 18. Financial Statements

Item 19. Financial Statements and Exhibits

Item 18. FINANCIAL STATEMENTS

Reference is made to Item 19 for a list of all financial statements filed as part of this Annual Report.

Item 19. FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial Statements

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(b) Exhibits

1.1 Bylaws of the Company.

2.1 Deposit Agreements.

(a) Deposit Agreement dated as of July 17, 2003, as amended, among the Company, JPMorgan Chase Bank, as Depositary and the holders from time to time of American Depositary Receipts representing Ordinary Shares of the Company.(1)

(b) Deposit Agreement dated as of July 17, 2003, as amended, among the Company, JPMorgan Chase Bank, as Depositary and holders from time to time of American depositary Receipts representing Savings shares of the Company.(2)

2.2 Trust deed dated January 23, 2004, between Telecom Italia (as Issuer and Guarantor), Telecom Italia Finance (as Issuer) and J.P. Morgan Corporate Trustee Services Limited relating to a 10 billion euros Medium Term Note Program. We hereby agree to furnish to the Commission, upon its request, a copy of any instrument defining the rights of holders of our long-term debt or that of our subsidiaries for which consolidated or unconsolidated financial statements are required to be filed.(3)

4.1 Public Telecommunications Authorization.(4)

(a) Decision No. 820/00/CONS of 22.11.2000. General Authorization, former individual license for installation and supply of public telecommunications network and for the provision to the public of a voice telephony service (*modifications to the concessions and annexed conventions, ex SIP, Iritel and Italcable*).

4.2 Stock Option Plans

(a) Top 2008 Plan Stock Option Plan reserved to the Chairman and the Chief Executive Officer of Telecom Italia S.p.A.(5)

(b) Long Term Incentive Plan 2010-2015.(6)

(c) Long Term Incentive Plan 2011.(7)

(d) Long Term Incentive Plan 2012.

7.1 Statement explaining computation of ratio of Earnings to fixed charges under IFRS.

8.1 List of Subsidiaries.(8)

12(a) Certification by the Executive Chairman and Chief Executive Officer of Telecom Italia S.p.A.

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Item 19. Financial Statements and Exhibits

12(b) Certification by the Domestic Managing Director and Chief Operating Officer of Telecom Italia S.p.A.

12(c) Certification by the Head of Administration, Finance and Control of Telecom Italia S.p.A.

13.1 Section 906 Certification submitted for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code.

(1) Incorporated by reference to exhibit (a) filed with Olivetti s Registration Statement on Form F-6 filed with the SEC on July 18, 2003 (File No. 333-107144).

(2) Incorporated by reference to exhibit (a) filed with Olivetti s Registration Statement on Form F-6 filed with the SEC on July 18, 2003 (File No. 333-107142).

(3) Incorporated by reference to the Exhibits filed with the Company s Annual Report on Form 20-F on June 10, 2004 (File No. 001-13882).

(4) Incorporated by reference to the Exhibits filed with the Company s Annual Report on Form 20-F/A on June 29, 2001 (File No. 001-13882).

(5) Incorporated by reference to the Exhibits filed with the Company s Annual Report on Form 20-F on May 8, 2008 (File No. 001-13882).

(6) Incorporated by reference to the Exhibits filed with the Company s Annual Report on Form 20-F on April 11, 2011 (File No. 001-13882).

(7) Incorporated by reference to the Exhibits filed with the Company s Annual Report on Form 20-F on May 14, 2012 (File No. 001-13882).

(8) Please see Note List of Companies of the Telecom Italia Group of the Notes to the Consolidated Financial Statements included elsewhere herein.

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Item 19. Financial Statements and Exhibits

SIGNATURE

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all the requirements for filing on Form 20-F and has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

TELECOM ITALIA S.p.A

By: /s/ Franco Bernabè
Name: Franco Bernabè
Title: Executive Chairman and Chief Executive Officer

Dated April 16, 2013

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Telecom Italia SpA

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of income, comprehensive income, changes in equity and cash flows present fairly, in all material respects, the financial position of Telecom Italia SpA and its subsidiaries at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Annual Report on Internal Control Over Financial Reporting appearing in Item 15.2 of the 2012 Annual Report to Shareholders. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers S.p.A.

Rome, Italy

April 16, 2013

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2012 AND 2011 ASSETS

	Note	As of December 31, 2012	As of December 31, 2011
		(millions of euros)	
NON-CURRENT ASSETS			
Intangible assets			
Goodwill	4	32,410	36,902
Other intangible assets	5	7,927	8,637
		40,337	**45,539**
Tangible assets	6		
Property, plant and equipment owned		14,465	14,899
Assets held under finance leases		1,014	1,094
		15,479	**15,993**
Other non-current assets			
Investments in associates and joint ventures accounted for using the equity method	7	65	47
Other investments	8	39	38
Non-current financial assets	9	2,496	2,949
Miscellaneous receivables and other non-current assets	10	1,496	1,128
Deferred tax assets	11	1,432	1,637
		5,528	**5,799**
TOTAL NON-CURRENT ASSETS (A)		**61,344**	**67,331**
CURRENT ASSETS			
Inventories	12	436	447
Trade and miscellaneous receivables and other current assets	13	7,006	7,770
Current income tax receivables	11	77	155
Current financial assets	9		
Securities other than investments, financial receivables and other current financial assets		1,256	1,469
Cash and cash equivalents		7,436	6,714
		8,692	**8,183**

Current assets sub-total	**16,211**	**16,555**
Discontinued operations /Non-current assets held for sale		
of a financial nature		
of a non-financial nature		
TOTAL CURRENT ASSETS (B)	**16,211**	**16,555**
TOTAL ASSETS (A+B)	**77,555**	**83,886**

The accompanying notes are an integral part of these consolidated financial statements

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Consolidated Financial Statements **Consolidated Statements Of Financial Position**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2012 AND 2011 EQUITY AND LIABILITIES

	Note	As of December 31, 2012	As of December 31, 2011
		(millions of euros)	
EQUITY	14		
Share capital issued		10,693	10,693
Less: treasury shares		(89)	(89)
Share capital		10,604	10,604
Paid-in capital		1,704	1,704
Other reserves and retained earnings (accumulated losses), including profit (loss) for the year		7,070	10,482
Equity attributable to owners of the Parent		**19,378**	**22,790**
Non-controlling interests		**3,634**	**3,904**
TOTAL EQUITY (A)		**23,012**	**26,694**
NON-CURRENT LIABILITIES			
Non-current financial liabilities	15	34,091	35,860
Employee benefits	19	872	850
Deferred tax liabilities	11	848	1,084
Provisions	20	863	831
Miscellaneous payables and other non-current liabilities	21	1,053	1,156
TOTAL NON-CURRENT LIABILITIES (B)		**37,727**	**39,781**
CURRENT LIABILITIES			
Current financial liabilities	15	6,150	6,091
Trade and miscellaneous payables and other current liabilities	22	10,542	10,984
Current income tax payables	11	124	336
Current liabilities sub-total		**16,816**	**17,411**
Liabilities directly associated with Discontinued operations/Non-current assets held for sale of a financial nature			

of a non-financial nature

TOTAL CURRENT LIABILITIES (C)	**16,816**	**17,411**
TOTAL LIABILITIES (D=B+C)	**54,543**	**57,192**
TOTAL EQUITY AND LIABILITIES (A+D)	**77,555**	**83,886**

The accompanying notes are an integral part of these consolidated financial statements

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SEPARATE CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 (Restated) AND 2010 (Restated)

	Note	Year ended December 31, 2012	2011 (Restated)	2010 (Restated)
			(millions of euros)	
Revenues	24	29,503	29,957	27,571
Other income	25	298	299	255
Total operating revenues and other income		**29,801**	**30,256**	**27,826**
Acquisition of goods and services	26	(12,948)	(12,859)	(11,383)
Employee benefits expenses	27	(3,919)	(3,992)	(3,981)
Other operating expenses	28	(1,882)	(1,859)	(1,422)
Change in inventories		12	56	(135)
Internally generated assets	29	581	569	547
Depreciation and amortization	30	(5,340)	(5,496)	(5,542)
Gains (losses) on disposals of non-current assets	31	53	3	11
Impairment reversals (losses) on non-current assets	32	(4,432)	(7,358)	(63)
Operating profit (loss)		**1,926**	**(680)**	**5,858**
Share of profits (losses) of associates and joint ventures accounted for using the equity method	7	(6)	(39)	99
Other income (expenses) from investments	33	2	16	289
Finance income	34	2,082	2,464	3,081
Finance expenses	34	(4,048)	(4,504)	(5,199)
Profit (loss) before tax from continuing operations		**(44)**	**(2,743)**	**4,128**
Income tax expense		(1,235)	(1,610)	(549)
Profit (loss) from continuing operations		**(1,279)**	**(4,353)**	**3,579**
Profit (loss) from Discontinued operations/Non-current assets held for sale		2	(13)	(7)
Profit (loss) for the year	35	**(1,277)**	**(4,366)**	**3,572**
Attributable to:				
Owners of the Parent		*(1,627)*	*(4,811)*	*3,118*
Non-controlling interests		*350*	*445*	*454*

Year ended December 31,

		2012	2011 (Restated)	2010 (Restated)
			(Euros)	
Basic and Diluted Earnings Per Share (EPS)(*)	36			
Ordinary Share		(0.08)	(0.25)	0.16
Savings Share		(0.08)	(0.25)	0.17
Of which:				
From continuing operations				
Ordinary Share		*(0.08)*	*(0.25)*	*0.16*
Savings Share		*(0.08)*	*(0.25)*	*0.17*
From Discontinued operations/Non-current assets held for sale				
Ordinary Share				
Savings Share				

(*) Basic EPS is equal to Diluted EPS.

The accompanying notes are an integral part of these consolidated financial statements

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 (Restated) AND 2010 (Restated) (see Note 14)

		Year ended December 31,		
		2012	2011 (Restated)	2010 (Restated)
		(millions of euros)		
Profit (loss) for the year	**(A)**	**(1,277)**	**(4,366)**	**3,572**
Other components of the Statements of Comprehensive Income:				
Available-for-sale financial assets:				
Profit (loss) from fair value adjustments		57	5	(7)
Loss (profit) transferred to the Separate Consolidated Income Statement		1	2	5
Net fiscal impact		(11)	(4)	(1)
	(B)	**47**	**3**	**(3)**
Hedging instruments:				
Profit (loss) from fair value adjustments		(702)	523	767
Loss (profit) transferred to the Separate Consolidated Income Statement		272	(230)	(480)
Net fiscal impact		121	(83)	(77)
	(C)	**(309)**	**210**	**210**
Exchange differences on translating foreign operations:				
Profit (loss) on translating foreign operations		(1,068)	(612)	659
Loss (profit) on translating foreign operations transferred to the Separate Consolidated Income Statement			75	18
Net fiscal impact				
	(D)	**(1,068)**	**(537)**	**677**
Remeasurements of employee defined benefit plans (IAS 19):				
Actuarial gains (losses)		(56)	117	4
Net fiscal impact		14	(33)	(1)
	(E)	**(42)**	**84**	**3**

Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method:				
Profit (loss)				109
Loss (profit) transferred to the Separate Consolidated Income Statement				
Net fiscal impact				
	(F)			**109**
Total	**(G=B+C+D+E+F)**	**(1,372)**	**(240)**	**996**
Total comprehensive income (loss) for the year	**(A+G)**	**(2,649)**	**(4,606)**	**4,568**
Attributable to:				
Owners of the Parent		*(2,516)*	*(4,826)*	*3,855*
Non-controlling interests		*(133)*	*220*	*713*

The accompanying notes are an integral part of these consolidated financial statements

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED

DECEMBER 31, 2012, 2011 AND 2010

- **CHANGES IN EQUITY IN 2010 (see Note 14)**

	Share capital	Paid-in capital	Reserve for available-for-sale financial assets	Reserve for cash flow hedges	Reserve for exchange differences on translating foreign operations	Reserve for measurements of employee defined benefit plans (IAS 19)	Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method	Other reserves and retained earnings (accumulated losses), including profit (loss) for the year (*)	Equity attributable to owners of the Parent	Non-controlling interests	Total Equity
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	+h)	(l)	(i+l)
	(millions of euros)										
Balance at December 31, 2009	**10,585**	**1,689**	**(4)**	**(494)**	**983**	**109**	**(110)**	**13,194**	**25,952**	**1,168**	**27,120**
Changes in equity in the year ended December 31, 2010:											
Dividends approved								(1,029)	(1,029)	(135)	(1,164)
Total comprehensive income (loss) for the year			(3)	210	418	3	109	3,118	3,855	713	4,568
Grant of equity instruments	15	8						9	32		32

Effect of capital transactions by Telecom Italia Media								3	3	44	47
Effect arising from the consolidation of Sofora group (Argentina) (**)										1,948	1,948
Other changes								6	6	(2)	4
Balance at December 31, 2010	**10,600**	**1,697**	**(7)**	**(284)**	**1,401**	**112**	**(1)**	**15,301**	**28,819**	**3,736**	**32,555**

(*) The Reserve is presented as a result of the early adoption of the revised IAS 19. The recognition of this Reserve led to the reduction, for the same amount, of the opening balance of Other reserves and retained earnings (accumulated losses), including profit (loss) for the year .

(**) Analyzed in Note 3.

The accompanying notes are an integral part of these consolidated financial statements

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Consolidated Financial Statements **Consolidated Statements Of Changes In Equity**

· **CHANGES IN EQUITY IN 2011 (see Note 14)**

	Share capital	Paid-in capital	Reserve for available-for-sale financial assets	Reserve for cash flow hedges	Reserve for exchange differences on translating foreign operations	Reserve for measurements of defined benefit plans (IAS 19) (**)	Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method (**)	Other reserves and retained earnings (accumulated losses), including profit (loss) for the year (*)	Equity attributable to owners of the Parent (i=a+b+c+d+e+f+g +h)	Non-controlling interests	Total Equity (i+l)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)		(l)	
	(millions of euros)										
Balance at December 31, 2010	**10,600**	**1,697**	**(7)**	**(284)**	**1,401**	**112**	**(1)**	**15,301**	**28,819**	**3,736**	**32,555**
Changes in equity in the year ended December 31, 2011											
Dividends approved								(1,184)	(1,184)	(118)	(1,302)
Total comprehensive income (loss) for the year			3	210	(312)	84		(4,811)	(4,826)	220	(4,606)
Grant of equity instruments	4	7						(4)	7		7
Effect of increase in economic stake in Argentina Business Unit								(57)	(57)	(153)	(210)
								19	19	221	240

Effect of capital operations of Brazil Business Unit companies											
Other changes								12	12	(2)	10
Balance at December 31, 2011	**10,604**	**1,704**	**(4)**	**(74)**	**1,089**	**196**	**(1)**	**9,276**	**22,790**	**3,904**	**26,694**

(*) The Reserve is presented as a result of the early adoption of the revised IAS 19. The recognition of this Reserve led to the reduction, for the same amount, of the opening balance of Other reserves and retained earnings (accumulated losses), including profit (loss) for the year .

The accompanying notes are an integral part of these consolidated financial statements

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Consolidated Financial Statements **Consolidated Statements Of Changes In Equity**

· **CHANGES IN EQUITY IN 2012 (see Note 14)**

	Share capital	Paid-in capital	Reserve for available-for-sale financial assets	Reserve for cash flow hedges	Reserve for exchange differences on translating foreign operations	Reserve for measurement of defined benefit plans (IAS 19)	Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method	Other reserves and retained earnings (accumulated losses), including profit (loss) for the year (*)	Equity attributable to owners of the Parent	Non-controlling interests	Total Equity
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i=a+b+c+d+e+f+g +h)	(l)	(i+l)
	(millions of euros)										
Balance at December 31, 2011	**10,604**	**1,704**	**(4)**	**(74)**	**1,089**	**196**	**(1)**	**9,276**	**22,790**	**3,904**	**26,694**
Changes in equity in the year ended December 31, 2012											
Dividends approved								(895)	(895)	(143)	(1,038)
Total comprehensive income (loss) for the year			47	(309)	(585)	(42)		(1,627)	(2,516)	(133)	(2,649)
Grant of equity instruments								2	2		2
Other changes								(3)	(3)	6	3
Balance at December 31, 2012	**10,604**	**1,704**	**43**	**(383)**	**504**	**154**	**(1)**	**6,753**	**19,378**	**3,634**	**23,012**

(*) The Reserve is presented as a result of the early adoption of the revised IAS 19. The recognition of this Reserve led to the reduction, for the same amount, of the opening balance of Other reserves and retained earnings (accumulated losses), including profit (loss) for the year .

The accompanying notes are an integral part of these consolidated financial statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 (Restated) AND 2010 (Restated)

	Note	Year ended December 31, 2012	2011 (Restated)	2010 (Restated)
			(millions of euros)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Profit (loss) from continuing operations		(1,279)	(4,353)	3,579
Adjustments for:				
Depreciation and amortization		5,340	5,496	5,542
Impairment losses (reversals) on non-current assets (including investments)		4,434	7,365	(116)
Net change in deferred tax assets and liabilities		79	156	(750)
Losses (gains) realized on disposals of non-current assets (including investments)		(54)	(18)	(41)
Share of losses (profits) of associates and joint ventures accounted for using the equity method		6	39	(99)
Change in provisions for employees benefits		(221)	(175)	33
Change in inventories		12	(36)	96
Change in trade receivables and net amounts due from customers on construction contracts		851	3	13
Change in trade payables		(139)	(164)	(278)
Net change in current income tax receivables/payables		(473)	90	(170)
Net change in miscellaneous receivables/payables and other assets/liabilities		(35)	109	(936)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES (A)		**8,521**	**8,512**	**6,873**
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of intangible assets on an accrual basis	5	*(1,995)*	*(3,066)*	*(1,781)*
Purchase of tangible assets on an accrual basis	6	*(3,201)*	*(3,029)*	*(2,802)*
Total purchase of intangible and tangible assets on an accrual basis		(5,196)	(6,095)	(4,583)
Change in amounts due to fixed asset suppliers		*(113)*	*557*	*103*
Total purchase of intangible and tangible assets on a cash basis		(5,309)	(5,538)	(4,480)
Acquisition of control of subsidiaries or other businesses, net of cash acquired		(7)	(668)	(4)
Net cash and cash equivalents arising from the acquisition of control of the Sofora group-Argentina	3			392
Acquisitions/disposals of other investments	8	(3)	(1)	35
Change in financial receivables and other financial assets		519	(580)	502

Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of	40	51	180
Proceeds from sale/repayments of intangible, tangible and other non-current assets	77	435	56
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES (B)	**(4,683)**	**(6,301)**	**(3,319)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Change in current financial liabilities and other	(796)	1,351	957
Proceeds from non-current financial liabilities (including current portion)	4,624	4,523	2,007
Repayments of non-current financial liabilities (including current portion)	(5,659)	(5,290)	(5,842)
Share capital proceeds/reimbursements (including subsidiaries)	(2)	240	67
Dividends paid	(1,031)	(1,326)	(1,093)
Changes in ownership interests in consolidated subsidiaries		(211)	
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES (C)	**(2,864)**	**(713)**	**(3,904)**
CASH FLOWS FROM (USED IN) DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE (D)			
AGGREGATE CASH FLOWS (E=A+B+C+D)	**974**	**1,498**	**(350)**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR (F)	**6,670**	**5,282**	**5,484**
Net foreign exchange differences on net cash and cash equivalents (G)	**(247)**	**(110)**	**148**
NET CASH AND CASH EQUIVALENTS AT END OF THE YEAR (H=E+F+G)	**7,397**	**6,670**	**5,282**

The accompanying notes are an integral part of these consolidated financial statements

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Consolidated Financial Statements **Consolidated Statements Of Cash Flows**

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 (Restated) AND 2010 (Restated)

	Year ended December 31,		
	2012	2011 (Restated)	2010 (Restated)
	(millions of euros)		
ADDITIONAL CASH FLOW INFORMATION:			
Income taxes (paid) received	(1,522)	(1,381)	(1,392)
Interest expense paid	(3,518)	(3,044)	(3,079)
Interest income received	1,687	1,332	1,176
Dividends received	2	2	3
ANALYSIS OF NET CASH AND CASH EQUIVALENTS:			
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR:			
Cash and cash equivalents from continuing operations	6,714	5,526	5,504
Bank overdrafts repayable on demand from continuing operations	(44)	(244)	(101)
Cash and cash equivalents from Discontinued operations/Non-current assets held for sale			81
Bank overdrafts repayable on demand from Discontinued operations/Non-current assets held for sale			
	6,670	**5,282**	**5,484**
NET CASH AND CASH EQUIVALENTS AT END OF THE YEAR:			
Cash and cash equivalents from continuing operations	7,436	6,714	5,526
Bank overdrafts repayable on demand from continuing operations	(39)	(44)	(244)
Cash and cash equivalents from Discontinued operations/Non-current assets held for sale			
Bank overdrafts repayable on demand from Discontinued operations/Non-current assets held for sale			
	7,397	**6,670**	**5,282**

The accompanying notes are an integral part of these consolidated financial statements

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Consolidated Financial Statements **Notes To Consolidated Financial Statements**

NOTE 1 FORM, CONTENT AND OTHER GENERAL INFORMATION

Form and content

Telecom Italia (the **Parent**) and its subsidiaries form the **Telecom Italia Group** or the **Group** . Telecom Italia is a joint-stock company (S.p.A.) organized under the laws of the Republic of Italy.

The registered offices of the Parent are located in Milan at Piazza degli Affari 2, Italy.

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

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

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

The Telecom Italia Group consolidated financial statements for the year ended December 31, 2012 have been prepared on a going concern basis (for further details see Note Accounting policies) and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (designated as **IFRS**).

In 2012, the Group applied the accounting policies on a basis consistent with those of the previous years, except for:

- the early adoption, starting from the first half of 2012, of the revised version of IAS 19 (*Employee Benefits*) whose effects are described in Note Accounting Polices . The early adoption of such amendments resulted in the restatement of the 2011 and 2010 separate consolidated income statements and consolidated statements of comprehensive income;

- the new standards and interpretations adopted by the Group since January 1, 2012, that did not have any effect on the consolidated financial statements at December 31, 2012.

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets held for trading and derivative financial instruments which have been measured at fair value. The carrying amounts of hedged assets and liabilities have been adjusted to reflect the changes in fair value of the hedged risks (fair value hedge).

In accordance with IAS 1 (*Presentation of Financial Statements*) comparative information included in the consolidated financial statements is, unless otherwise indicated, that of the preceding two years.

The Telecom Italia Group consolidated financial statements are expressed in euro (rounded to the nearest million, unless otherwise indicated).

Publication of the Telecom Italia Group consolidated financial statements for the year ended December 31, 2012 was approved by resolution of the Board of Directors meeting held on March 7, 2013.

Financial statement formats

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

- the **consolidated statement of financial position** has been prepared by classifying assets and liabilities according to current and non-current criterion;

- the **separate consolidated income statement** has been prepared by classifying operating expenses by nature of expense as this form of presentation is considered more appropriate and representative of the specific business of the Group, conforms to internal reporting and is in line with the industrial sector of reference;

- the **consolidated statement of comprehensive income** includes the profit or loss for the year as shown in the separate consolidated income statement and all other non-owner changes in equity;

- the **consolidated statement of cash flows** has been prepared by presenting cash flows from operating activities according to the indirect method , as permitted by IAS 7 (*Statement of Cash Flows*).

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Consolidated Financial Statements Notes To Consolidated Financial Statements

Segment Reporting

An operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- whose operating results are regularly reviewed by the entity s chief operating decision maker to make decisions about resources (for the Telecom Italia Group the Board of Directors of the Parent) to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

In particular, the operating segments of the Telecom Italia Group are organized according to the relative geographical location of the telecommunications business (Domestic, Brazil and Argentina) and according to the specific businesses for the other segments.

The term operating segment is considered synonymous with Business Unit . The operating segments of the Telecom Italia Group are as follows:

- **Domestic**: includes operations in Italy for voice and data services on fixed and mobile networks for final customers (retail) and other operators (wholesale), the operations of the Telecom Italia Sparkle group (International wholesale) as well as the related support activities;
- **Brazil**: includes mobile (TIM Celular) and fixed (TIM Celular and Intelig) telecommunications operations in Brazil;
- **Argentina**: includes fixed (Telecom Argentina) and mobile (Telecom Personal in Argentina and Núcleo in Paraguay) telecommunications operations;
- **Media**: includes television network operations and management;
- **Olivetti**: includes manufacturing operations for products and services for Information Technology. It carries out Solution Provider activities to automate processes and business activities for small and medium-size enterprises, large corporations and vertical markets;

- **Other Operations**: includes finance companies and other minor companies not strictly related to the core business of the Telecom Italia Group.

Scope of consolidation

The changes in the scope of consolidation at December 31, 2012 compared to December 31, 2011 are listed below. Such changes did not materially impact the consolidated financial statements as of, and for the year ended December 31, 2012.

- **Entry of companies in the scope of consolidation:**

Company		**Business Unit**	**Month**
LA7 S.r.l.	new company(*)	Media	May 2012

(*) Such new company is the result of the spin-off of the television asset by Telecom Italia Media S.p.A.

- **Exit of companies from the scope of consolidation:**

Company		**Business Unit**	**Month**
Matrix S.p.A.	sold	Other operations	October 2012
Olivetti Holding B.V.	liquidated	Other operations	October 2012
Latin American Nautilus Mexico S.A.	liquidated	Domestic	May 2012
Teco Soft Argentina S.A.	liquidated	Other operations	March 2012

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· **Merger of companies:**

Company		Business Unit	Month
4G Holding S.p.A.	merged in 4G Retail S.r.l.	Domestic	November 2012
Mediterranean Nautilus B.V.	merged in Lan Med Nautilus Ltd	Domestic	November 2012
Saiat Società Attività Intermedie Ausiliarie TLC S.p.A.	merged in Telecom Italia S.p.A.	Other operations	November 2012
Tim Fiber SP Ltda	merged in Tim Celular S.A.	Brazil	August 2012
Tim Fiber RJ S.A.			
Telecom Italia Audit and Compliance Services Scarl	merged in Telecom Italia S.p.A.	Domestic	January 2012

A breakdown by number of the subsidiaries, associates and joint ventures of the Telecom Italia Group at December 31, 2012 and December 31, 2011 is as follows:

	December 31, 2012		
	Italy	Abroad	Total
Companies			
subsidiaries consolidated line-by-line	42	61	103
joint ventures accounted for using the equity method	1		1
associates accounted for using the equity method	15		15
Total companies	**58**	**61**	**119**

	December 31, 2011		
	Italy	Abroad	Total
Companies			
subsidiaries consolidated line-by-line	45	67	112
joint ventures accounted for using the equity method	1		1
associates accounted for using the equity method	15		15
Total companies	**61**	**67**	**128**

Further details are provided in Note *List of companies of the Telecom Italia Group* .

NOTE 2 ACCOUNTING POLICIES

Going concern

The consolidated financial statements for the year ended December 31, 2012 have been prepared on a going concern basis as there is the reasonable expectation that Telecom Italia will continue its operational activities in the foreseeable future (and in any event with a time horizon of at least twelve months).

In particular, consideration has been given to the following factors which management believes, at this time, are not such as to generate doubts as to the Group s ability to continue as a going concern:

- the main risks and uncertainties (that are for the most part of an external nature) to which the Group and the various activities of the Telecom Italia Group are exposed:
  - changes in the general macroeconomic condition in the Italian, European and South American markets;
  - variations in business conditions;
  - changes to laws and regulations (price and rate variations);
  - outcomes of legal disputes and proceedings with regulatory authorities, competitors and other parties;
  - financial risks (interest rate and/or exchange rate trends);

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Consolidated Financial Statements Notes To Consolidated Financial Statements

- the mix between risk capital and debt capital considered optimal as well as the policy for the remuneration of risk capital, described in the paragraph Share capital information under the Note Equity ;

- the policy for financial risk management (market risk, credit risk and liquidity risk) described in the Note Financial risk management .

Principles of consolidation

The consolidated financial statements include the financial statements of all subsidiaries from when control over such subsidiaries commences until the date that control ceases.

The statement of financial position date of all the subsidiaries financial statements coincides with that of the Parent.

Control exists when the Parent, directly or indirectly, has the majority of voting rights or has the power to determine, also through contractual agreements, the financial and operating policies of an enterprise so as to obtain benefits from its activities.

In the preparation of the consolidated financial statements, assets, liabilities, revenues and expenses of the consolidated companies are consolidated on a line-by-line basis and non-controlling interests in equity and in the profit (loss) for the year are disclosed separately under appropriate captions, respectively, in the consolidated statement of financial position, in the separate consolidated income statement and in the consolidated statement of comprehensive income.

Under IAS 27, the total comprehensive loss (including the profit or loss for the year) is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intragroup balances and transactions and any gains and losses arising from intragroup transactions are eliminated in consolidation.

The carrying amount of the investment in each subsidiary is eliminated against the corresponding share of equity in each subsidiary, after adjustment, if any, to fair value at the acquisition date of control. At that date, goodwill is recorded as an intangible asset, as described below, whereas any gain from a bargain purchase or negative goodwill is recognized in the separate consolidated income statement.

Assets and liabilities of foreign consolidated subsidiaries expressed in currencies other than euro are translated using the exchange rates in effect at the statement of financial position date (the current method); income and expenses are translated at the average exchange rates for the year. Exchange differences resulting from the application of this method are classified as equity until the entire disposal of the investment or upon loss of control of the foreign subsidiary. Upon partial disposal, without losing control, the proportionate share of the cumulative amount of exchange differences related to the disposed interest is recognized in non-controlling interests.

The cash flows of foreign consolidated subsidiaries expressed in currencies other than Euro included in the consolidated statement of cash flows are translated into Euro at the average exchange rates for the year.

Goodwill and fair value adjustments arising from the allocation of the purchase price of a foreign entity are recorded in the relevant foreign currency and are translated using the year-end exchange rate.

In the consolidated financial statements, investments in associates and joint ventures are accounted for using the equity method, as provided, respectively, by IAS 28 (*Investments in Associates*) and IAS 31 (*Interests in Joint Ventures*). Associates are enterprises in which the Group holds at least 20% of the voting rights or exercises a significant influence, but no control or joint control over the financial and operating policies.

In particular, under the equity method the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor s share of net assets of the investee. The profit or loss of the investor includes the investor s share of the profit or loss of the investee.

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The consolidated financial statements include the Group s share of profits (losses) of associates and joint ventures accounted for using the equity method from the date that significant influence or joint control commences until the date such circumstances cease. When the Group s share of losses of an associate or a joint venture, if any, exceeds the carrying amount of the investment on the Group s statement of financial position, the carrying amount of the investment is reduced to zero and the share of further losses is not recognized except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Gains and losses arising from transactions with associates or joint ventures are eliminated to the extent of the Group s interest in those entities.

Under IAS 27, changes in a parent s ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the Parent.

Intangible assets

Goodwill

Under IFRS 3 (Business Combinations), goodwill is recognized as of the acquisition date of control and measured as the excess of (a) over (b) below:

a) the aggregate of:

- the consideration transferred (measured in accordance with IFRS 3; it is generally recognized on the basis of the acquisition date fair value);
- the amount of any non-controlling interest in the acquiree measured at the non-controlling interest s proportionate share of the acquiree s identifiable net assets;
- in a business combination achieved in stages, the acquisition date fair value of the acquirer s previously held equity interest in the acquiree;

b) the acquisition date fair value of the identifiable assets acquired net of the identifiable liabilities assumed measured at the acquisition date of control.

IFRS 3 requires, *inter alia*, the following:

- incidental costs incurred in connection with a business combination are charged to the separate consolidated income statement;

- in a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its fair value at the acquisition date of control and recognize the resulting gain or loss, if any, in the separate consolidated income statement.

Goodwill is classified in the statement of financial position as an intangible asset with an indefinite useful life.

Goodwill initially recorded is subsequently reduced only for impairment losses. Further details are provided in the accounting policy Impairment of tangible and intangible assets Goodwill, reported below. In case of loss of control of a subsidiary, the relative amount of goodwill is taken into account in calculating the gain or loss on disposal.

In the context of IFRS first-time adoption, the Group elected not to apply IFRS 3 (Business Combinations) retrospectively to those business combinations which had arisen before January 1, 2004. As a consequence, goodwill on acquisitions before the date of transition to IFRS was brought forward at the previous Italian GAAP amounts, and was tested for impairment at that date.

Other intangible assets with an indefinite useful life

Intangible assets with an indefinite useful life are not amortized systematically. Instead, they undergo impairment testing at least annually.

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Development costs

Costs incurred internally for the development of new products and services represent either intangible assets (mainly costs for software development) or tangible assets produced internally. Such costs are capitalized only when all the following conditions are satisfied: i) the cost attributable to the development phase of the asset can be measured reliably, ii) there is the intention, the availability of financial resources and the technical ability to complete the asset and make it available for use or sale and iii) it can be demonstrated that the asset will be able to generate future economic benefits.

Capitalized development costs comprise only expenditures that can be attributed directly to the development process and are amortized systematically over the estimated product or service life so that the amortization method reflects the pattern in which the asset s future economic benefits are expected to be consumed by the entity.

Other intangible assets with a finite useful life

Other purchased or internally-generated assets with a finite useful life are recognized as assets, in accordance with IAS 38 (*Intangible Assets*), where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be measured reliably.

Such assets are recorded at purchase or production cost and amortized on a straight-line basis over their estimated useful lives; the amortization rates are reviewed annually and revised if the current estimated useful life is different from that estimated previously. The effect of such changes is recognized in the separate consolidated income statement prospectively.

For a small portion of mobile and broadband offerings, the Group capitalizes directly attributable subscriber acquisition costs (represented by commissions for the sales network and subsidies for the purchase of handsets) when the following conditions are met:

- the capitalized costs can be measured reliably;
- there is a contract binding the customer for a specific period of time;
- it is probable that the amount of the capitalized costs will be recovered through the revenues generated by the services contractually provided, or, where the customer withdraws from the contract in advance, through the collection of the penalty.

Capitalized subscriber acquisition costs are amortized on a straight-line basis over the foreseen minimum period of the underlying contract (between 12 and 30 months).

In all other cases, subscriber acquisition costs are expensed when incurred.

Tangible assets

Property plant and equipment owned

Property, plant and equipment owned is stated at acquisition or production cost. Subsequent expenditures are capitalized only if they increase the future economic benefits embodied in the related item of property, plant and equipment. All other expenditures are expensed as incurred.

Cost also includes the expected costs of dismantling the asset and restoring the site if a legal or constructive obligation exists. The corresponding liability is recognized when the obligation arises in the statement of financial position under provisions at its present value. These capitalized costs are depreciated and charged to the separate consolidated income statement over the useful life of the related tangible assets.

The recalculation of estimates for dismantling costs, discount rates and the dates in which such costs are expected to be incurred is reviewed annually, at each financial year-end. Changes in the above liability must be recognized as an increase or decrease of the cost of the relative asset; the amount deducted from the cost of the asset must not exceed its carrying amount. The excess if any, should be recorded immediately in the separate consolidated income statement, conventionally under the line item Depreciation .

Depreciation of property, plant and equipment owned is calculated on a straight-line basis over the estimated useful life of the assets.

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The depreciation rates are reviewed annually and revised if the current estimated useful life is different from that estimated previously. The effect of such changes is recognized in the separate consolidated income statement prospectively.

Land, including land pertaining to buildings, is not depreciated.

Assets held under finance leases

Assets held under finance leases, in which substantially all the risks and rewards of ownership are transferred to the Group, are initially recognized as assets of the Group at fair value or, if lower, at the present value of the minimum lease payments, including bargain purchase options. The corresponding liability due to the lessor is included in the statement of financial position under financial liabilities.

Lease payments are apportioned between interest (recognized in the separate consolidated income statement) and principal (recognized as a deduction from liabilities). This split is determined so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Furthermore, gains realized on sale and leaseback transactions that are recorded under finance lease contracts are deferred over the lease term.

The depreciation policy for depreciable assets held under finance leases is consistent with that for depreciable assets that are owned. If there is no reasonable certainty over the acquisition of the ownership of the asset at the end of the lease period, assets held under finance leases are depreciated over the shorter of the lease term and their useful lives.

Leases where the lessor retains substantially all the risks and rewards of ownership of the assets are accounted for as operating leases. Operating lease rentals are charged to the separate consolidated income statement on a straight-line basis over the lease term.

Capitalized borrowing costs

Under IAS 23 (*Borrowing Costs*), the Group capitalizes borrowing costs only if they are directly attributable to the acquisition, construction or production of a qualifying asset, that is an asset that takes a substantial period of time (conventionally more than 12 months) to get ready for its intended use or sale.

Capitalized borrowing costs are recorded in the separate consolidated income statement and deducted from the finance expense line item to which they relate.

Impairment of intangible and tangible assets

Goodwill

Goodwill is tested for impairment at least annually or more frequently whenever events or changes in circumstances indicate that goodwill may be impaired, as set forth in IAS 36 (*Impairment of Assets*); however, when the conditions that gave rise to an impairment loss no longer exist, the original amount of goodwill is not reinstated.

The test is generally conducted at the end of every year so the date of testing is the year-end closing date of the financial statements. Goodwill acquired and allocated during the year is tested for impairment at the end of the year in which the acquisition and allocation took place.

To test for impairment, goodwill is allocated, at the date of acquisition, to each cash-generating unit or group of cash-generating units which is expected to benefit from the acquisition.

If the carrying amount of the cash-generating unit (or group of cash-generating units) exceeds the recoverable amount, an impairment loss is recognized in the separate consolidated income statement. The impairment loss is first recognized as a deduction of the carrying amount of goodwill allocated to the cash-generating unit (or group

of cash-generating units) and then only applied to the other assets of the cash-generating unit in proportion to their carrying amount, up to the recoverable amount of the assets with a finite useful life. The recoverable amount of a cash-generating unit (or group of cash-generating units) to which goodwill is allocated is the higher of fair value less costs to sell and its value in use.

In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The future cash flows are those arising from an explicit time horizon between three and five years as well as those extrapolated to estimate the terminal value. The long-term growth rate used to estimate the terminal value of the cash-generating unit (or group of cash-generating units) is assumed not to be higher than the average long-term growth rate of the segment, country or market in which the cash-generating unit (or group of cash-generating units) operates.

The value in use of cash-generating units which operate in a foreign currency is estimated in the local currency by discounting cash flows to present value on the basis of an appropriate rate for that currency. The present value obtained is translated to Euro at the spot rate on the date of the impairment test (in the case of the Telecom Italia Group, the date of the financial statements).

Future cash flows are estimated by referring to the current operating conditions of the cash generating unit (or group of cash-generating units) and, therefore, do not include either benefits originating from future restructuring for which the entity is not yet committed, or future investments for the improvement or optimization of the cash-generating unit.

For the purpose of calculating impairment, the carrying amount of the cash-generating unit is established based on the same criteria used to determine the recoverable amount of the cash generating unit, excluding surplus assets (that is, financial assets, deferred tax assets and net non-current assets held for sale) and includes the goodwill attributable to non-controlling interests.

After conducting the goodwill impairment test for the cash-generating unit (or groups of cash-generating units), a second level of impairment testing is carried out which includes the corporate assets which do not generate positive cash flows and which cannot be allocated by a reasonable and consistent criterion to the single units. At this second level, the total recoverable amount of all cash-generating units (or groups of cash-generating units) is compared to the carrying amount of all cash-generating units (or groups of cash-generating units), including also those cash-generating units to which no goodwill was allocated, and the corporate assets.

Intangible and tangible assets with a finite useful life

At every closing date, the Group assesses whether there are any indications of impairment of intangible and tangible assets with a finite useful life. Both internal and external sources of information are used for this purpose. Internal sources include obsolescence or physical damage, and significant changes in the use of the asset and the economic performance of the asset compared to estimated performance. External sources include the market value of the asset, changes in technology, markets or laws, increases in market interest rates and the cost of capital used to evaluate investments, and an excess of the carrying amount of the net assets of the Group over market capitalization.

When indicators of impairment exist, the carrying amount of the assets is reduced to the recoverable amount. The recoverable amount of an asset is the higher of fair value less costs to sell and its value in use. In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market

assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment losses are recognized in the separate consolidated income statement.

When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, up to the carrying amount that would have been recorded had no impairment loss been recognized. The reversal of an impairment loss is recognized as income in the separate consolidated income statement.

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Financial instruments

Other investments

Other investments (other than those in subsidiaries, associates and joint ventures) are classified as non-current or current assets if they will be kept in the Group s portfolio for a period of more or not more than 12 months, respectively.

Upon acquisition, investments are classified in the following categories:

- available-for-sale financial assets , as non-current or current assets;

- financial assets at fair value through profit or loss , as current assets held for trading.

Other investments classified as available-for-sale financial assets are measured at fair value; changes in the fair value of these investments are recognized in a specific equity reserve under the other components of the statement of comprehensive income (*Reserve for available-for-sale financial assets*) until the financial asset is disposed of or impaired, at which time the equity reserve is reversed to the separate consolidated income statement.

Other unlisted investments classified as available-for-sale financial assets whose fair value cannot be measured reliably are measured at cost adjusted by any impairment losses which are recognized in the separate consolidated income statement, as required by IAS 39.

Impairment losses recognized on other investments classified as available-for-sale financial assets are not reversed.

Changes in the value of other investments classified as financial assets at fair value through profit or loss are recognized directly in the separate consolidated income statement.

Securities other than investments

Securities other than investments classified as non-current assets are those held to maturity. The assets are recorded on the trade date and, on initial recognition, are stated at acquisition cost, including transaction costs, and subsequently measured at amortized cost.

Amortized cost represents the initial cost of the financial instrument net of principal repayments received, adjusted (up or down) by the amortization of any differences between the initial amount and the maturity amount using the effective interest method, less any writedown for impairment or uncollectibility, if any.

Securities other than investments classified as current assets are those that, by decision of the directors, are intended to be kept in the Group s portfolio for a period of not more than 12 months, and are included in the following categories:

- held to maturity (originally more than 3 months but less than 12 months, or, with an original maturity of more than 12 months but the remaining maturity at the date of purchase is more than 3 months but less than 12 months) and measured at amortized cost;

- held for trading and measured at fair value through profit or loss;

- available-for-sale and measured at fair value with a contra-entry to an equity reserve.

Changes in the value of securities other than investments classified as available-for-sale are recognized in an equity reserve (Reserve for available-for-sale financial assets) until the financial asset is disposed of or impaired, at which time the equity reserve is reversed to the separate consolidated income statement.

When the conditions that gave rise to impairment losses on securities other than investments held to maturity or classified as available-for-sale financial assets no longer exist, the impairment losses are reversed.

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Receivables and loans

Receivables and loans classified as either non-current or current assets are initially recognized at fair value and subsequently measured at amortized cost.

Cash and cash equivalents

Cash and cash equivalents are recorded, according to their nature, at nominal value or amortized cost.

Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash, subject to an insignificant risk of change in value and their original maturity or the remaining maturity at the date of purchase does not exceed 3 months.

Impairment of financial assets

At every closing date, assessments are made as to whether there is any objective evidence that a financial asset or a group of financial assets may be impaired. If any such evidence exists, an impairment loss is recognized in the separate consolidated income statement for financial assets measured at cost or amortized cost; for available-for-sale financial assets reference should be made to the accounting policy reported previously.

Financial liabilities

Financial liabilities comprise financial debt, including advances received on the assignment of accounts receivable and other financial liabilities such as derivatives and finance lease obligations.

In accordance with IAS 39, they also include trade and other payables.

Financial liabilities other than derivatives are initially recognized at fair value and subsequently measured at amortized cost. Amortized cost represents the initial amount net of principal repayments made, adjusted (up or down) by the amortization of any differences between the initial amount and the maturity amount using the effective interest method.

Financial liabilities hedged by derivative instruments designed to manage exposure to changes in fair value of the liabilities (fair value hedge derivatives) are measured at fair value in accordance with the hedge accounting principles of IAS 39. Gains and losses arising from re-measurement at fair value, to the extent of the hedged component, are recognized in the separate consolidated income statement and are offset by the effective portion of the gain or loss arising from re-measurement at fair value of the hedging instrument.

Financial liabilities hedged by derivative instruments designed to manage exposure to variability in cash flows (cash flow hedge derivatives) are measured at amortized cost in accordance with the hedge accounting principles of IAS 39.

Derivatives

Derivatives are used by the Telecom Italia Group to manage its exposure to exchange rate and interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to within pre-established operational limits.

In accordance with IAS 39, derivative financial instruments qualify for hedge accounting only when:

a) at the inception of the hedge, the hedging relationship is formally designated and documented;

b) the hedge is expected to be highly effective;

c) its effectiveness can be reliably measured;

d) the hedge is highly effective throughout the financial reporting periods for which it is designated.

All derivative financial instruments are measured at fair value in accordance with IAS 39.

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When derivative financial instruments qualify for hedge accounting, the following accounting treatment applies:

- *Fair value hedge* Where a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of an asset or liability due to a particular risk, the gain or loss from re-measuring the hedging instrument at fair value is recognized in the separate consolidated income statement. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in the separate consolidated income statement.

- *Cash flow hedge* Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows of an asset or liability or a highly probable forecasted transaction, the effective portion of any gain or loss on the derivative financial instrument is recognized directly in a specific equity reserve (*Reserve for cash flow hedges*). The cumulative gain or loss is removed from equity and recognized in the separate consolidated income statement at the same time the hedged transaction affects the separate consolidated income statement. The gain or loss associated with the ineffective portion of a hedge is recognized in the separate consolidated income statement immediately. If the hedged transaction is no longer probable, the cumulative gains or losses included in the equity reserve are immediately recognized in the separate consolidated income statement.

If hedge accounting is not appropriate, gains or losses arising from the measurement of the fair value of derivative financial instruments are directly recognized in the separate consolidated income statement.

Sales of receivables

The Telecom Italia Group carries out sales of receivables under factoring arrangements in accordance with Law 52/1991. These sales, in the majority of cases, are characterized by the transfer of substantially all the risks and rewards of ownership of the receivables to third parties, meeting IFRS requirements for derecognition. Specific servicing contracts, through which the buyer institutions conferred a mandate to Telecom Italia S.p.A. for the collection and management of the receivables, leave the current Company/customer relationship unaffected.

Amounts due from customers on construction contracts

Amounts due from customers under construction contracts, regardless of the duration of the contracts, are recognized in accordance with the percentage of completion method and classified under current assets.

Losses on such contracts, if any, are recorded in full in the separate consolidated income statement when they become known.

Inventories

Inventories are measured at the lower of purchase and production cost and estimated realizable value; cost is determined on a weighted average basis. Provision is made for obsolete and slow-moving inventories based on their expected future use and estimated realizable value.

Non-current assets held for sale/Discontinued operations

Non-current assets (or disposal groups) whose carrying amount will mainly be recovered through sale, rather than through ongoing use, are classified as held for sale and shown separately in the statement of financial position from other assets and liabilities. The corresponding amounts for the previous period are not reclassified.

An operating asset sold (Discontinued Operations) is a component of an entity that has been divested or classified as held for sale and:

- represents a major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

The results arising from Discontinued Operations whether disposed of or classified as held for sale are shown separately in the separate consolidated income statement, net of tax effects. The corresponding values for the previous periods, where present, are reclassified and reported separately in the separate consolidated income statement, net of tax effects, for comparative purposes.

Non-current assets (or disposal groups) classified as held for sale are first recognized in compliance with the appropriate IFRS applicable to the specific assets and liabilities and subsequently measured at the lower of the carrying amount and the fair value, less costs to sell. Any subsequent impairment losses are recognized as a direct adjustment to the non-current assets (or disposal groups) classified as held for sale and expensed in the separate consolidated income statement.

An entity shall recognize a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized.

Employee benefits

Provision for employee severance indemnity

Employee severance indemnity, mandatory for Italian companies pursuant to art. 2120 of the Italian Civil Code, is deferred compensation and is based on the employees years of service and the compensation earned by the employee during the service period.

Under IAS 19 (*Employee Benefits*), the employee severance indemnity as calculated is considered a Defined benefit plan and the related liability recognized in the statement of financial position (*Provision for employee severance indemnities*) is determined by actuarial calculations.

Following the early adoption of the revised version of IAS 19 (*Employee Benefits*), starting from the first half of 2012, the remeasurements of the net defined benefit liability are recognized in other components of other comprehensive income. Service cost of Italian companies that employ less than 50 employees, as well as interest expenses related to the time value component of the actuarial calculations (the latter classified as Finance expenses), are recognized in the separate consolidated income statement.

Starting from January 1, 2007, Italian Law introduced for employees the choice to direct their accruing indemnity either to supplementary pension funds or leave the indemnity as an obligation of the company. Companies that employ at least 50 employees should transfer the employee severance indemnity to the Treasury fund managed by INPS, the Italian Social Security Institute.

Consequently, the Group s obligation to INPS and the contributions to supplementary pension funds take the form, under IAS 19, of a Defined contribution plan whereas the amounts recorded in the provision for employee severance indemnities retain the nature of a Defined benefit plan .

Equity compensation plans

The companies of the Group provide additional benefits to certain managers of the Group through equity compensation plans (stock options and long-term incentive plans). The above plans are recognized in accordance with

IFRS 2 (*Share-Based Payment*).

In accordance with IFRS 2, such plans represent a component of the beneficiaries compensation. Therefore, for the plans that provide for compensation in equity instruments, the cost is represented by the fair value of such instruments at the grant date, and is recognized in the separate consolidated income statement in Employee benefits expenses over the period between the grant date and vesting date with a contra-entry to an equity reserve denominated Other equity instruments . Changes in the fair value subsequent to the grant date do not affect the initial measurement. At the end of each year, adjustments are made to the estimate of the number of rights that will vest up to expiry. The impact of the change in estimate is deducted from Other equity instruments with a contra-entry to Employee benefits expenses .

For the portion of the plans that provide for the payment of compensation in cash, the amount is recognized in liabilities as a contra-entry to Employee benefits expenses ; at the end of each year such liability is measured at fair value.

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Provisions

The Group records provisions for risks and charges when it has a present obligation, legal or constructive, to a third party, as a result of a past event, when it is probable that an outflow of Group resources will be required to satisfy the obligation and when the amount of the obligation can be estimated reliably.

If the effect of the time value is material, and the payment date of the obligations can be reasonably estimated, provisions to be accrued are the present value of the expected cash flows, taking into account the risks associated with the obligation. The increase in the provision due to the passage of time is recognized as Finance expenses .

Treasury shares

Treasury shares are recognized as a deduction from equity. In particular, the nominal amount of treasury shares is reported as a deduction from the share capital issued while the excess cost of acquisition over the nominal amount is presented as a deduction from Other reserves and retained earnings (accumulated losses), including profit (loss) for the year .

Foreign currency transactions

Transactions in foreign currencies are recorded at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate prevailing at the statement of financial position date. Exchange differences arising from the settlement of monetary items or from their conversion at rates different from those at which they were initially recorded during the year or at the end of the prior year, are recognized in the separate consolidated income statement.

Revenues

Revenues include only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenues.

Revenues are recognized to the extent that it is probable that economic benefits will flow to the Group and their amount can be measured reliably. Revenues are stated net of discounts, allowances, and returns.

· *Revenues from services rendered*

Revenues from services rendered are recognized in the separate consolidated income statement according to the stage of completion of the service and only when the outcome of the service rendered can be estimated reliably. Traffic revenues from interconnection and roaming are reported gross of the amounts due to other TLC operators. Revenues for delivering information or other content are recognized on the basis of the amount invoiced to the customer, when the service is rendered directly by the Group. In the event that the Group is acting as agent (for example non-geographic numbers) only the commission received from the content provider is recognized as revenue.

Revenues from the activation of telephone services (as well as the related costs) are deferred over the expected duration of the relationship with the customer (generally 8 years for retail customers and 3 years for wholesale customers). In particular, costs from the activation of telephone services are deferred taking also into account the reasonable expectations of cash flows arising from these services.

Revenues from prepaid traffic are recorded on the basis of the minutes used at the contract price per minute. Deferred revenues for unused minutes are recorded in Trade and miscellaneous payables and other current liabilities in the statement of financial position.

· *Revenues from sales and bundled offerings*

Revenues from sales (telephone and other equipment) are recognized when the significant risks and rewards of ownership are transferred to the buyer.

For offerings which include the sale of mobile handsets and service contracts, the Telecom Italia Group recognizes revenues related to the sale of the handset when it is delivered to the final customer whereas traffic revenues are recorded on the basis of the minutes used; the related subscriber acquisition costs, including handset subsidies and sales commissions, are expensed as incurred. The revenues allocated to the handset sale are limited to the contract amount that is not contingent upon the rendering of telecommunication services, i.e. the residual of the amount paid by the customer exceeding the services value.

A small portion of the offerings in the mobile and broadband businesses are contracts with a minimum contractual period between 12 and 30 months which include an enforced termination penalty. For these contracts, the subscriber acquisition costs are capitalized under Intangible assets with a finite useful life if the conditions for capitalization as described in the related accounting policy are met.

· *Revenues on construction contracts*

Revenues on construction contracts are recognized based on the stage of completion (percentage of completion method).

Research costs and advertising expenses

Research costs and advertising expenses are charged directly to the separate consolidated income statement in the year in which they are incurred.

Finance income and expenses

Finance income and expenses are recognized on an accrual basis and include interest accrued on the related financial assets and liabilities using the effective interest rate method, the changes in fair value of derivatives and other financial instruments measured at fair value through profit or loss, gains and losses on foreign exchange and financial instruments (including derivatives).

Dividends

Dividends received from companies other than subsidiaries, associates and joint ventures are recognized in the separate consolidated income statement in the year in which they become receivable following the resolution by the shareholders meeting for the distribution of dividends of the investee companies.

Dividends payable to third parties are reported as a change in equity in the year in which they are approved by the shareholders meeting.

Taxes

Income taxes include all taxes calculated on the basis of the taxable income of the companies of the Group.

Income taxes are recognized in the separate consolidated income statement, except to the extent that they relate to items directly charged or credited to equity, in which case the related tax is recognized in the relevant equity reserves.

In the Statement of comprehensive income the amount of income taxes relating to each item included as Other components of the Statement of comprehensive income is indicated.

The income tax expense that could arise on the remittance of a subsidiary s retained earnings is only recognized where there is the actual intention to remit such earnings.

Deferred tax liabilities / assets are recognized using the Balance sheet liability method . They are calculated on all temporary differences that arise between the tax base of an asset or liability and the carrying amounts in the consolidated financial statements, except for non tax-deductible goodwill and for those differences related to investments in subsidiaries which will not reverse in the foreseeable future. Deferred tax assets relating to unused tax loss carryforwards are recognized to the extent that it is probable that future taxable income will be available against which they can be utilized. Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same tax authority and there is a legally enforceable right of offset. Deferred tax assets and

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liabilities are determined based on enacted tax rates in the respective jurisdictions in which the Group operates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Taxes, other than income taxes, are included in Other operating expenses .

Earnings per share

Basic earnings per ordinary share is calculated by dividing the Group s profit attributable to ordinary shares by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares. Similarly, basic earnings per savings share is calculated by dividing the Group s profit attributable to savings shares by the weighted average number of savings shares outstanding during the year. For diluted earnings per ordinary share, the weighted average number of shares outstanding is adjusted by all dilutive potential shares (for example, the exercise of rights on shares with dilutive effects). The Group profit is also adjusted to reflect the impact of these transactions net of the related tax effects.

Use of estimates

The preparation of consolidated financial statements and related disclosure in conformity with IFRS requires management to make estimates and assumptions based also on subjective judgments, past experience and hypotheses considered reasonable and realistic in relation to the information known at the time of the estimate. Such estimates have an effect on the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the amount of revenues and costs during the year. Actual results could differ, even significantly, from those estimates owing to possible changes in the factors considered in the determination of such estimates. Estimates are reviewed periodically.

The most important accounting estimates which require a high degree of subjective assumptions and judgments are addressed below:

Financial statement line item/area	Accounting estimates
Goodwill	The impairment test on goodwill is carried out by comparing the carrying amount of cash-generating units and their recoverable amount. The recoverable amount of a cash-generating unit is the higher of fair value, less costs to sell, and its value in use. This complex valuation process entails the use of methods such as the discounted cash flow method which uses assumptions to estimate cash flows. The recoverable amount depends significantly on the discount rate used in the discounted cash flow model as well as the expected future cash flows and the growth rate used for the extrapolation. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are detailed in the Note Goodwill .
Business combinations	The recognition of business combinations requires that assets and liabilities of the acquiree be recorded at their fair value at the acquisition date of control, as well as the

	possible recognition of goodwill, through the use of a complex process in determining such values.
Bad debt provision	The recoverability of receivables is measured by considering the uncollectibility of receivables, their age and losses on receivables recognized in the past by type of similar receivables.
Depreciation and amortization expense	Changes in the economic conditions of the markets, technology and competitive forces could significantly affect the estimated useful lives of tangible and intangible non-current assets and may lead to a difference in the timing and amount of depreciation and amortization expense.

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Financial statement line item/area	Accounting estimates
Accruals, contingent liabilities and employee benefits	As regards the provisions for restoration costs the estimate of future costs to dismantle tangible assets and restore the site is a complex process that requires an assessment of the liability arising from such obligations which seldom are entirely defined by law, administrative regulations or contract clauses and which normally are to be complied with after an interval of several years. The accruals related to legal, arbitration and fiscal disputes are the result of a complex estimation process based upon the probability of an unfavorable outcome. Employee benefits, especially the provision for employee severance indemnities, are calculated using actuarial assumptions; changes in such assumptions could have a material impact on such liabilities.
Revenues	Revenue recognition is influenced by: · the expected duration of the relationship with the customer for revenues from telephone service activations (as well as the related costs); · the estimate of the amount of discounts, allowances and returns to be recorded as a direct deduction from revenues.
Income taxes	Income taxes (current and deferred) are calculated in each country in which the Group operates according to a prudent interpretation of the tax laws in effect. This process sometimes involves complex estimates to determine taxable income and deductible and taxable temporary differences between the carrying amounts and the taxable amounts. In particular, deferred tax assets are recognized to the extent that future taxable income will be available against which they can be utilized. The measurement of the recoverability of deferred tax assets, recognized based on both unused tax loss carryforwards to future years and deductible differences, takes into account the estimate of future taxable income and is based on conservative tax planning.
Derivative instruments and equity instruments	The fair value of derivative instruments and equity instruments is determined on the basis of either prices in regulated markets or quoted prices provided by financial counterparts, or using valuation models which also take into account subjective measurements such as, for example, cash flow estimates, expected volatility of prices, etc.

As required by IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*) prf. 10, in the absence of a Standard or an Interpretation that specifically applies to a particular transaction, management carefully considers subjective valuation techniques and uses its judgment as to the accounting methods to adopt with a view to providing

financial statements which faithfully represent the financial position, the results of operations and the cash flows of the Group, which reflect the economic substance of the transactions, are neutral, prepared on a prudent basis and complete in all material respects.

New Standards and Interpretations issued by IASB and in force from January 1, 2012

As required by IAS 8, the application of amendments to IAS 12 (*Income Taxes*) and to IFRS 7 (*Disclosures-Transfers of Financial Assets*), in force from January 1, 2012, did not have an impact on the consolidated financial statements at December 31, 2012.

New Standards and Interpretations issued by IASB, not yet in force and early adopted

IAS 19 (2011) (*Employee benefits*)

In June 2011, IASB issued the revised version of IAS 19 (*Employee Benefits*) which is applicable retrospectively, starting from January 1, 2013, in accordance with IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*). As permitted, Telecom Italia decided to early adopt the amendments to IAS 19 starting from the Half-year Financial Report at June 30, 2012 in order to reduce the volatility of the values recognized in the separate consolidated income statement. In particular, under the amended IAS 19 (2011), with reference to the

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employee defined benefit plans (e.g. employee severance indemnity), remeasurements of the net defined benefit liability are recognized in other components of other comprehensive income. Therefore, other options previously provided were deleted (including the one adopted by the Telecom Italia Group whereby these components had been recorded in Employee benefits expenses in the separate consolidated income statement). Service costs as well as interest expenses related to the time value component of the actuarial calculations (the latter reclassified to Finance expenses), are still recognized in the separate consolidated income statement. The early adoption of such amendments resulted in the restatement of the 2011 and 2010 separate consolidated income statements and consolidated statements of comprehensive income, and did not have any impact on the Equity, other than the reclassification between some reserves (please see Note Equity).

Separate consolidated income statements

	2011	2010
	(millions of euros)	
Employee benefits expenses reversal of actuarial gains	(117)	(4)
Employee benefits expenses interest component reclassification	42	44
Finance expenses interest component reclassification	(42)	(44)
Income tax expense	33	1
Impact on profit (loss) for the year	**(84)**	**(3)**

The adoption of such amendments did not have any effect on basic and diluted earnings per share in 2010, while in 2011 had a negative effect of 0.01 euro.

Consolidated statements of comprehensive income

	2011	2010
	(millions of euros)	
Impact on profit (loss) for the year	(84)	(3)
Remeasurements of employee defined benefit plans (IAS19)		
Actuarial gains	117	4
Net fiscal impact	(33)	(1)
	84	3

Impact on comprehensive profit (loss) for the year

Consolidated statements of cash flows

The early adoption of the amendments to IAS 19 (2011) did not have an impact on the Aggregate cash flows of the 2011 and 2010 consolidated statements of cash flows and, in particular, the Cash flows from (used in) operating

activities .

Consolidated statements of financial position

The early adoption of the amendments to IAS 19 (2011) did not have any impact on the Consolidated statement of financial position.

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New Standards and Interpretations issued by IASB not yet in force

At the date of preparation of the accompanying consolidated financial statements, the following IFRS, Amendments and IFRIC interpretations had been published, but their application was not yet mandatory:

IASB/IFRIC documents	Mandatory application: annual periods beginning on or after
Amendments to IAS 1 (*Presentation of Financial Statements*)	January 1, 2013
Amendments to IFRS 7 (*Disclosures Offsetting Financial Assets and Financial Liabilities*)	January 1, 2013
IFRS 13 (*Fair value measurement*)	January 1, 2013
IAS 27 (*Separate Financial Statements*)	January 1, 2013
IAS 28 (*Investments in associates and joint ventures*)	January 1, 2013
IFRS 10 (*Consolidated financial statements*)	January 1, 2013
IFRS 11 (*Joint Arrangements*)	January 1, 2013
IFRS 12 (*Disclosure of interests in other entities*)	January 1, 2013
Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)	January 1, 2013
Improvements to IFRS 2009-2011	January 1, 2013
Amendments to IAS 32 (*Financial instruments: Presentation Offsetting Financial Assets and Financial Liabilities*)	January 1, 2014
IFRS 9 (*Financial Instruments*)	January 1, 2015

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

NOTE 3 BUSINESS COMBINATIONS

YEAR 2012

In 2012, there were no business combinations transactions as defined in IFRS 3.

YEAR 2011

Acquisition of the 4G Holding group (4GH)

On July 27, 2011, Telecom Italia, after having received authorization from the Antitrust Authority, finalized the acquisition of a 71% interest in the company 4G Holding S.p.A., which in turn holds a 100% interest in 4G Retail S.r.l.. The acquisition involved an outlay of about 8.6 million euros (including incidental expenses). The transaction was carried out through TLC Commercial Services S.r.l., a wholly-owned subsidiary of the Parent.

4G Holding S.p.A. and 4G Retail S.r.l.. were merged in 2012.

In view of the reciprocal commitments already undertaken by the Telecom Italia Group and the current sole minority shareholder, Gir S.r.l., as regards the future transfer of the shares held by the latter, the accounting effects of the business combination have been calculated based on an economic interest of 100% and, as set forth in IFRS 3, can be summarized as follows:

- the measurement of the interest acquired is equal to 16 million euros and is inclusive of the measurement of the future acquisition of the interest held by the minority shareholder;

- all the assets acquired and the liabilities assumed of the acquired group have been measured for their recognition at fair value.

Following the measurement of the Assets acquired and Liabilities assumed by 4G group for their recognition at fair value, the amounts originally determined were confirmed and are shown below:

		Final fair value amount (millions of euros)
Measurement of consideration	(a)	16
Value of assets acquired	(b)	67
Value of liabilities assumed	(c)	(67)
Goodwill	**(a b-c)**	**16**

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In addition, the amounts of the most important assets and liabilities of the 4G group as of the acquisition date are summarized as follows:

4G group acquisition-date amounts

		Final fair value amount	Carrying amount
		(millions of euros)	
Goodwill deriving from business combinations		16	
Other non-current assets		22	29
Current assets		45	45
Total assets	**(a)**	**83**	**74**
Total non-current liabilities		12	5
Total current liabilities		55	55
Total liabilities	**(b)**	**67**	**60**
Net assets	**(a-b)**	**16**	**14**

Acquisition of Tim Fiber SP and Tim Fiber RJ

On October 31, 2011, the acquisition, through the subsidiary Tim Celular S.A., of telecommunications infrastructure operators in the states of São Paulo and Rio de Janeiro from Companhia Brasiliana de Energia was finalized and the companies were renamed Tim Fiber SP and Tim Fiber RJ. The acquisition involved an outlay of approximately 656 million euros (including incidental expenses).

As a result of the above transaction, a 100% interest has been acquired in the company Tim Fiber SP and a 98.3% interest, subsequently increased to 100%, in the company Tim Fiber RJ.

The accounting effects of the business combination have been calculated based on 100% ownership, as required by IFRS 3, and can be summarized as follows on a provisional basis:

- the measurement of the consideration for both companies is equal to 657 million euros and is inclusive of the non-controlling interest acquired after October 31, 2011;

- all the assets acquired and the liabilities assumed of the acquired group have been measured for their recognition at fair value.

During the course of 2012 and in any case within 12 months of acquisition the provisional amounts of the assets and liabilities recorded at the acquisition date have been adjusted with retroactive effect to take into account their

acquisition-date fair value with the consequent recalculation of goodwill. In addition to the amounts of the assets acquired and liabilities assumed, overall final goodwill of 499 million euros was recognized, calculated as illustrated in the following table:

		Tim Fiber SP + Tim Fiber RJ Final fair value amount	**Tim Fiber SP + Tim Fiber RJ Provisional fair value amount**	**Change**
			(millions of euros)	
Measurement of consideration	(a)	657	657	
Net assets acquired	(b)	158	101	57
Goodwill	**(a-b)**	**499**	**556**	**(57)**

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The most important acquisition-date amounts of the assets and liabilities of the companies Tim Fiber SP and Tim Fiber RJ are summarized as follows:

Tim Fiber SP and Tim Fiber RJ acquisition-date amounts

		Tim Fiber SP + Tim Fiber RJ			
		Final fair value amount (a)	Provisional Fair value amount (b)	Carrying amounts	Change (a-b)
		(millions of euros)			
Goodwill arising from the business combinations		499	556		(57)
Other non-current assets		218	131	131	87
Current assets		39	39	39	
Total assets	**(a)**	**756**	**726**	**170**	**30**
Total non-current liabilities		72	42	42	30
Total current liabilities		27	27	27	
Total liabilities	**(b)**	**99**	**69**	**69**	**30**
Net assets	**(a-b)**	**657**	**657**	**101**	

The final allocation of the consideration paid led to a higher loss for the year of 1 million euros in the 2011 separate consolidated income statement. In addition, the changes shown in the table above were mainly due to the effect of changes in exchange rates.

YEAR 2010

Acquisition of control of Sofora Telecomunicaciones S.A.

On October 13, 2010, once the necessary government authorizations were obtained, an agreement was formalized for the transfer of an 8% interest in Sofora Telecomunicaciones S.A. (**Sofora**) the holding company which controls Telecom Argentina from the Werthein group to Telecom Italia International, as established in the agreements signed between the Telecom Italia Group and the Werthein group on August 5, 2010.

The accounting effects of the business combination, as set forth in IFRS 3, can be summarized as follows:

- the measurement of the interest acquired is equal to 130 million euros and corresponds to the fair value of the options relinquished by the Telecom Italia Group. Such measurement also includes the control premium;

- the interest held in the Sofora group before acquisition of control, previously accounted for using the equity method, was remeasured at fair value at the acquisition date of control and the value came to about 394 million euros. This remeasurement produced a positive impact on the 2010 separate consolidated income statement of 266 million euros, net of the reversal in the separate consolidated income statement of the reserve for negative exchange differences;

- all the assets acquired and liabilities assumed were measured for their recognition at fair value. During the course of 2011 the provisional amounts of the assets and liabilities recorded at the acquisition date were adjusted with retroactive effect to take into account their acquisition-date fair value with the consequent recalculation of goodwill. Besides the amounts allocated to the assets acquired and the liabilities assumed, goodwill was recognized for 177 million euros, calculated as illustrated in the following table:

	Final fair value amount as determined in 2011	**Provisional amount (2010 Financial Statements) (millions of euros)**	**Change**
Measurement of interest acquired	130	130	
Fair value of interest held in the Sofora group before acquisition of control	394	394	
Amounts of net assets allocated to the non-controlling interests	1,948	2,003	(55)
Total (a)	**2,472**	**2,527**	**(55)**
Net assets acquired (b)	**2,295**	**2,361**	**(66)**
Goodwill (a-b)	**177**	**166**	**11**

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The amounts of the most important assets and liabilities of the Sofora group (Argentina) as of the acquisition date are summarized as follows:

Sofora group acquisition date amounts

	Final fair value amount as determined in 2011	Provisional amount (2010 Financial Statements)	Carrying amounts
		(millions of euros)	
Goodwill	177	166	
Other non-current assets	3,546	3,648	1,483
of which Other intangible assets	*1,840*	*1,807*	*214*
of which Tangible assets	*1,688*	*1,823*	*1,251*
Current assets	887	887	873
of which Cash and cash equivalents	*392*	*392*	*392*
Total assets (A)	**4,610**	**4,701**	**2,356**
Total non-current liabilities	1,101	1,137	377
of which Deferred tax liabilities	*771*	*807*	*44*
of which Provisions	*100*	*100*	*100*
of which Non-current financial liabilities	*183*	*183*	*183*
Total current liabilities	1,037	1,037	1,035
of which Current financial liabilities	*216*	*216*	*216*
Total liabilities (B)	**2,138**	**2,174**	**1,412**
Net assets (A-B)	**2,472**	**2,527**	**944**
Share of Non-controlling interests	1,948	2,003	814
Share of the Telecom Italia Group	**524**	**524**	**130**

Non-controlling interests have been measured in proportion to the share of the non-controlling interests in the net identifiable assets of the acquired company.

Final allocation of the consideration paid led to lower depreciation and amortization charges of 5 million euros and higher income taxes of 2 million euros in the 2010 separate consolidated income statement.

In 2011, the Telecom Italia Group increased its investment in Sofora Telecomunicaciones S.A. and in Nortel Inversora S.A. (the controlling holding company of the Telecom Argentina group, which, in turn, is controlled by Sofora Telecomunicaciones), for a total outlay of 211 million euros (incidental costs included).

In particular:

- on January 24, 2011, the Telecom Italia Group, through its subsidiary Telecom Italia International N.V., purchased 2,351,752 Nortel American Depositary Shares (ADS), representing *Preferred B* shares, from Fintech Investment Ltd for 65.8 million U.S. dollars (approximately 48 million euros). The ADSs in question represent 117,587.6 *Preferred B* shares (without voting rights). This share package was later transferred to the Argentina subsidiary Tierra Argentea S.A., a wholly-owned subsidiary of the Telecom Italia Group;

- on March 9, 2011, Telecom Italia, through its subsidiary Telecom Italia International N.V., purchased, for a total amount of approximately 104 million euros, a 10% stake in Sofora Telecomunicaciones S.A. from the local partner Werthein and by so doing increased its investment holding in Sofora from 58% to 68% of the company s share capital;

- on October 27, 2011, Tierra Argentea S.A., purchased 14.48 million Telecom Argentina Class B shares at the price of 20.50 Argentine pesos per share. In the following months of November and December, the company purchased another 1.1 million shares of the same class. The equivalent amount of the transactions was equal in total to 319 million Argentine pesos (about 56 million euros).

The transactions did not alter or modify either the governance rights of the Telecom Argentina group established by agreement between the shareholders signed by the Telecom Italia Group and Werthein, which is still in force, or the commitments undertaken by the Telecom Italia Group with the Argentine antitrust authorities.

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Following these acquisitions, the economic interest of the Telecom Italia Group in Telecom Argentina went from 16.2% at December 31, 2010 to 22.7% at December 31, 2011.

NOTE 4 GOODWILL

Goodwill shows the following breakdown and changes during 2011 and 2012:

	As of December 31, 2010	Increase	Decrease	Impairments	Exchange differences	As of December 31, 2011
				(millions of euros)		
Domestic	41,947	16	(10)	(7,307)		34,646
Core Domestic	*41,532*	*16*	*(10)*	*(7,307)*		*34,231*
International Wholesale	*415*					*415*
Brazil	1,609	499			(154)	1,954
Argentina	184				(8)	176
Media	183			(57)		126
Other operations						
Total	**43,923**	**515**	**(10)**	**(7,364)**	**(162)**	**36,902**

	As of December 31, 2011	Increase	Decrease	Impairments	Exchange differences	As of December 31, 2012
				(millions of euros)		
Domestic	34,646			(4,016)		30,630
Core Domestic	*34,231*			*(4,016)*		*30,215*
International Wholesale	*415*					*415*
Brazil	1,954				(195)	1,759
Argentina	176			(168)	(8)	
Media	126			(105)		21
Other operations						
Total	**36,902**			**(4,289)**	**(203)**	**32,410**

The decrease of 4,492 million euros in 2012 includes:

- the goodwill impairment loss in 2012 of 4,016 million euros for the Domestic Business Unit, due to the result of the impairment test conducted at December 31, 2012;

- the goodwill impairment loss of 168 million euros (corresponding to 979 million Argentine pesos, translated into euros using the average exchange rate for the year) for the Argentina Business Unit, due to the result of the impairment test at December 31, 2012;

- the goodwill impairment loss of 105 million euros for the Media Business Unit, due to the result of the impairment test at December 31, 2012;

- negative exchange differences, totaling 203 million euros, relating to the goodwill of the Brazil and Argentina Business Units.

As already mentioned above in the Note Business combinations within 12 months from the acquisition that took place on October 31, 2011 the process of allocation of the acquisition price for the companies Tim Fiber SP and Tim Fiber RJ was completed, with the consequent definitive determination of the related goodwill at December 31, 2011.

The completion of the process of allocation of the acquisition price for the 4G group, on the other hand, confirmed the amount of goodwill already determined during 2011.

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The gross carrying amounts of goodwill and the relative accumulated impairment losses from January 1, 2004 (date of allocation to the cash-generating units CGU) to December 31, 2012 and 2011 can be summarized as follows:

	As of December 31, 2012			As of December 31, 2011		
	Gross carrying amount	Accumulated impairment losses	Net carrying amount	Gross carrying amount	Accumulated impairment losses	Net carrying amount
	(millions of euros)					
Domestic	42,245	(11,615)	30,630	42,245	(7,599)	34,646
Core Domestic	*41,830*	*(11,615)*	*30,215*	*41,830*	*(7,599)*	*34,231*
International Wholesale	*415*		*415*	*415*		*415*
Brazil	1,766	(7)	1,759	1,961	(7)	1,954
Argentina	151	(151)		176		176
Media	229	(208)	21	229	(103)	126
Olivetti	6	(6)		6	(6)	
Other operations						
Total	**44,397**	**(11,987)**	**32,410**	**44,617**	**(7,715)**	**36,902**

The goodwill for the Brazil and Argentina Business Units are shown in euros, converted at the exchange rate at the closing date of the financial statements. The gross carrying amount of the goodwill for the Brazil Business Unit corresponds to 4,742 million Brazilian reais, while the gross carrying amount of the goodwill for the Argentina Business Unit corresponds to 979 million Argentine pesos, which was written down in full in 2012.

Goodwill, under IAS 36, is not amortized but is tested for impairment annually or more frequently if specific events or circumstances indicate that it may be impaired.

The impairment test is carried out on two levels. At a first level, an estimate is made of the recoverable amount of the individual cash-generating units (or groups of units) to which goodwill is allocated and at a second level the group is considered as a whole.

The cash-generating units (or groups of units) to which goodwill has been allocated are the following:

Segment	Cash-generating units (or groups of units)
Domestic	Core Domestic
	International Wholesale
Brazil	Tim Brasil group
Argentina	Sofora group
Media	Telecom Italia Media group

The value used to determine the recoverable amount of the cash-generating units (or groups of units) to which goodwill has been allocated is the value in use for the CGUs of the Domestic and Brazil segments. The Argentina CGU has been valued on the basis of market capitalization (fair value), whereas, for the Telecom Italia Media CGU, the recoverable amount has been determined for each of its constituent CGUs (MTV group, TIMB network operator and La7) on the basis of the impairment test applied by the subsidiary, in order to better reflect the greater granularity used by the CGU in its own impairment test.

For the Core Domestic CGU, the estimate of the recoverable amount at December 31, 2012 is less than the carrying amount. As a result an impairment loss of 4,016 million euros has been recognized.

For the Argentina CGU, the estimate of the recoverable amount at December 31, 2012 is less than the respective carrying amount. As a result, an impairment loss has been recognized for the entire amount of the goodwill allocated to the CGU (168 million euros).

For the Telecom Italia Media CGU, impairment losses identified through the company s impairment test have been incorporated in full (105 million euros).

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With regard to Core Domestic, International Wholesale and Brazil the basic assumptions to which the estimate of the value in use is more sensitive are reported in the following table:

Core Domestic	International Wholesale	Brazil
EBITDA margin (EBITDA/revenues) during the period of the plan	EBITDA margin (EBITDA/revenues) during the period of the plan	EBITDA margin (EBITDA/revenues) during the period of the plan
Growth of EBITDA during the period of the plan	Growth of EBITDA during the period of the plan	Growth of EBITDA during the period of the plan
Capital expenditures rate	Capital expenditures rate	Capital expenditures rate
(capex/revenues)	(capex/revenues)	(capex/revenues)
		BRL/euro exchange rate
Cost of capital	Cost of capital	Cost of capital
Long-term growth rate	Long-term growth rate	Long-term growth rate

In accordance with the new procedure approved by the Board of Directors of Telecom Italia S.p.A. on February 18, 2013, the estimate of the value in use for the Core Domestic CGU is based on the analytical forecasts of cash flows extended for a time period of five years (2013-2017). This extension of the analytical forecast period for the cash flows, compared to the three years used in the impairment test for the previous year, was required to reflect the contribution of the NGN and LTE ultrabroadband capital expenditure in the recoverable value of the CGU. The use of analytical forecast periods of more than three years for the impairment tests is common practice among the major European telecommunications operators.

For the estimate of the value in use of the Core Domestic CGU the Company also verified that the analytical estimates of EBITDA flows used over the plan period were within the range of the analyst forecasts produced after the announcement of the business plan.

The estimate of the value in use for International Wholesale and Brazil CGUs was based on the figures in the 2013-2015 business plan, with cash flows for the Brazil CGU expressed in local currency (reais).

The nominal growth rates used to estimate the terminal value are the following (the growth rates for Brazil refer to flows in Brazilian reais):

Core Domestic	International Wholesale	Brazil
0.0%	**0.0%**	**3.93%**

In particular, the growth rates for the CGUs of the Domestic segment are in line with the range of growth rates applied by the analysts who follow Telecom Italia (as can be seen in the reports published after the presentation of the business plan).

Since the growth rate in the terminal value is in relation to the level of capital expenditures (capex) necessary to sustain such growth, for purposes of the estimate of the earnings flow to be capitalized a level of capital expenditure (capex/revenues) of the Core Domestic CGU in line with the median of the analysts terminal year forecasts (equal to 16.17%) was used.

The cost of capital was estimated by considering the following:

- the criterion applied was the criterion for the estimate of CAPM Capital Asset Pricing Model (the criterion used by the Group to estimate the value in use and referred to in Annex A of IAS 36);

- in the case of International Wholesale, a full equity financial structure was considered since it is representative of the normal financial structure of the business; for the remaining CGUs, a Group target financial structure was assumed in line with the average of the European telephone incumbents, including Telecom Italia itself;

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- the Beta coefficient for the Core Domestic CGU and the International Wholesale CGU was arrived at by using the Beta coefficients of the European telephone incumbents, including Telecom Italia itself, adjusted to take into account the financial structure (Core Domestic CGU beta coefficient = 1.32; International Wholesale CGU = 0.73 (unlevered beta));

- the Beta coefficient for the Brazil CGU was calculated on the basis of the list price of the corresponding ADR compared to the relative stock market index (beta coefficient = 0.97); for the Core Domestic CGU a base estimate of weighted average cost of capital (WACC) was used, with verification that the rate of capitalization (wacc g) was in line with the analyst consensus after the presentation of the business plan.

With regard to the Brazil CGU, the increase in the nominal growth rate (3.93% in local currency) compared to the previous annual impairment test (3.13%) reflects the increase in the average inflation differential between the local currency (Real) and the euro over the time horizon covered by the business plan, whereas the capital expenditure rate used to estimate the terminal value was increased to 16.01% from 13.32% for the previous annual impairment test.

On the basis of these elements, the post-tax and pre-tax weighted average cost of capital and the relative capitalization rates (WACC g) have been estimated for each cash-generating unit (the values of Brazil refer to flows in reais) as follows:

	Core Domestic	International Wholesale	Brazil
	%	%	%
WACC post-tax	8.63	9.48	12.30
WACC post-tax g	8.63	9.48	8.37
WACC pre-tax	12.50	13.65	16.36
WACC pre-tax g	12.50	13.65	12.43

The differences between the values in use and the carrying amounts before impairment test at December 31, 2012 for the three CGUs considered amount to:

	Core Domestic	International Wholesale	Brazil
		(millions of euros)	
Difference between values in use and carrying amounts	(4,016)	140	2,323

For purposes of the sensitivity analysis, four principal variables were considered for the two CGUs whose value in use is in excess of the carrying amount: the pre-tax discount rate, the growth rate in the terminal value (g), the compound annual growth rate (CAGR) of EBITDA in the years 2013-2015 (CAGR 2013-2015) and capital expenditures in proportion to revenues (capex/revenues). The following tables report the values of the key variables used in estimating the value in use and the changes in each of such variables needed to render the recoverable amount of the respective CGUs equal to their carrying amount.

Value of key variables used in estimating the value in use

	International Wholesale %	Brazil %
Pre-tax discount rate	13.65	16.36
Long-term growth rate (g)		3.93
Compound Annual Growth Rate (CAGR) of EBITDA 2013-2015	(1.03)	11.63
Capital expenditures rate (Capex/Revenues)	from 5.16 to 8.36	from 16.01 to 18.49

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

	International Wholesale %	Brazil %
Pre-tax discount rate	2.31	4.25
Long-term growth rate (g)	(2.84)	(5.73)
Compound Annual Growth Rate (CAGR) of EBITDA 2013-2015	(3.99)	(5.60)
Capital expenditures rate (Capex/Revenues)	1.34	3.75

A second level impairment test was then conducted to test for impairment at the level of the entire Group, in order to include the Central Functions and the financial cash-generating units of the Group without any goodwill allocation (Olivetti). The total recoverable amount of all the cash-generating units of the Group was compared to the carrying amount of the total operating capital referring to the same units/segments post-impairment losses at the first level. No impairment losses resulted at this further level of testing.

NOTE 5 OTHER INTANGIBLE ASSETS

Other intangible assets decreased 710 million euros compared to December 31, 2011. Details on the composition and movements are as follows:

	As of December 31, 2010	Addition	Amortization	Impairment losses/ Reversals	Disposals	Exchange Differences	Capitalized borrowing costs	Other changes	As of December 31, 2011
				(millions of euros)					
Industrial patents and intellectual property rights	2,629	1,252	(1,425)		(1)	(69)		189	2,575
Concessions, licenses, trademarks and similar rights	3,700	60	(325)	9	(6)	(107)		5	3,336
of which Licenses with an indefinite useful life	*462*					*(21)*			*441*
Other intangible assets with a finite useful life	1,212	331	(413)			(51)		55	1,134
Work in progress and advance payments	395	1,423			(3)	(2)	12	(233)	1,592

Total	**7,936**	**3,066**	**(2,163)**	**9**	**(10)**	**(229)**	**12**	**16**	**8,637**

	As of December 31, 2011	Addition	Amortization	Impairment losses/ Reversals	Disposals	Exchange Differences	Capitalized borrowing costs	Other changes	As of December 31, 2012
				(millions of euros)					
Industrial patents and intellectual property rights	2,575	1,051	(1,382)	(40)	(1)	(96)		228	2,335
Concessions, licenses, trademarks and similar rights	3,336	192	(336)			(190)		168	3,170
of which Licenses with an indefinite useful life	*441*					*(63)*			*378*
Other intangible assets with a finite useful life	1,134	350	(494)	(85)		(108)		(2)	795
Work in progress and advance payments	1,592	402		(2)	(4)	(1)	52	(412)	1,627
Total	**8,637**	**1,995**	**(2,212)**	**(127)**	**(5)**	**(395)**	**52**	**(18)**	**7,927**

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In 2011, Telecom Italia S.p.A. was awarded the rights of use of the 800, 1800 and 2600 MHz frequencies to be allocated to mobile broadband services for a total of 1,223 million euros. The decrease in additions of 1,071 million euros compared to the previous year, is mainly due to the above event.

Additions in 2012 also include 295 million euros of internally generated assets (288 million euros in 2011). Further details are provided in the Note Internally generated assets .

The other changes in 2012 include, among others, the effects of the change in consolidation scope, 19 million euros of which is attributable to the sale of Matrix (previously included in Other operations) on October 31, 2012.

Industrial patents and intellectual property rights at December 31, 2012 consist mainly of applications software purchased outright and user license rights acquired, amortized over a period between 3 and 5 years. They mainly refer to Telecom Italia S.p.A. (1,390 million euros) and to the Brazil Business Unit (903 million euros). The write-down made in 2012 mainly relates to the Media Business Unit which takes account of the outcome of the impairment test as well as the expected sale of La7 S.r.l..

Concessions, licenses, trademarks and similar rights at December 31, 2012 mainly refer to:

- unamortized cost of telephone licenses and similar rights (1,435 million euros for Telecom Italia S.p.A., 671 million euros for the Brazil Business Unit and 16 million euros for the Argentina Business Unit); in 2011 Telecom Italia S.p.A. started the amortization of the first tranche of frequency rights acquired in 2011 (LTE 1800 MHz band);

- Indefeasible Rights of Use - IRU (237 million euros) mainly relate to companies of the Telecom Italia Sparkle group (International Wholesale);

- TV frequencies of the Media Business Unit (109 million euros). The rights of use for the frequencies used for digital terrestrial transmission are amortized over 20 years;

- unamortized cost of the trademarks of the Argentina Business Unit (268 million euros), amortized over 20 years.

The net carrying amount of telephone licenses and similar rights totalling 2,500 million euros refers to the following:

Type of license	Net carrying amount at December 31, 2012	Amortization period (years)	Amortization charges for 2012 (millions of euros)

	(millions of euros)		
Telecom Italia S.p.A.:			
UMTS	1,209	18	134
UMTS 2100 MHz	66	12	7
Wireless Local Loop	4	15	1
WiMax	10	15	1
LTE 1800 MHz	146	18	9
Tim Brasil group:			
GSM and 3G (UMTS)	529	9-13	107
4G (LTE)	138	15	2
TDMA	4	14	20
Sofora group Telecom Argentina:			
PCS of Nucleo S.A.	16	12	2
PCS of Telecom Personal S.A.	378	indefinite useful life	

Other intangible assets with a finite useful life at December 31, 2012 basically include:

- 457 million euros of customer relationships relating to the Argentina Business Unit, measured upon acquisition of control. In 2012 their useful lives were remeasured and shortened on the basis of an

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analysis conducted by an external specialized company, resulting in additional amortization of 66 million euros. The original amortization period, which was between 5 and 12 years depending on the type of clients and service provided, is now between 4 and 8 years. These assets were also tested for impairment and subsequently written down by 85 million euros. The remeasured useful lives, as well as the impairment losses, were mainly attributable to changes in the Argentinian market and the macroeconomic environment in that country. Additional amortization for 2013 and 2014 is expected of approximately 43 million euros (on the basis of the average pesos/euro exchange rate in 2012);

- 272 million euros of capitalized subscriber acquisition costs SAC referring to a number of sales campaigns of Telecom Italia S.p.A. (182 million euros) and the Argentina Business Unit (90 million euros). The subscriber acquisition costs are amortized over the underlying minimum contract period (between 12 or 30 months).

Work in progress and advance payments include the 800 and 2600 MHz mobile frequency rights, to be allocated to broadband mobile services, acquired by Telecom Italia S.p.A. in 2011, and capitalized borrowing costs of 64 million euros at December 31, 2012 (12 million euros at December 31, 2011), since they are directly attributable to the acquisition and because the time period necessary to ready the asset for use is more than 12 months. The interest rate used for the capitalization of the borrowing costs is between 4.6% and 5.2%. Such costs are deducted directly from Miscellaneous finance expenses .

Amortization and impairment losses are recorded in the income statement as components of the operating result.

Gross carrying amount, accumulated impairment losses and accumulated amortization at December 31, 2012 and 2011 can be summarized as follows:

	As of December 31, 2012			
	Gross carrying amount	Accumulated impairment losses	Accumulated amortization	Net carrying amount
	(millions of euros)			
Industrial patents and intellectual property rights	12,544	(46)	(10,163)	2,335
Concessions, licenses, trademarks and similar rights	5,750	(245)	(2,713)	2,792
Other intangible assets with a finite useful life	1,703	(77)	(831)	795
Work in progress and advance payments	1,631	(4)		1,627
Total intangible assets with a finite useful life	**21,628**	**(372)**	**(13,707)**	**7,549**
Intangible assets with an indefinite useful life	**378**			**378**
Total Other intangible assets	**22,006**	**(372)**	**(13,707)**	**7,927**

As of December 31, 2011

	Gross carrying amount	Accumulated impairment losses	Accumulated amortization	Net carrying amount
		(millions of euros)		
Industrial patents and intellectual property rights	13,405	(7)	(10,823)	2,575
Concessions, licenses, trademarks and similar rights	5,623	(250)	(2,478)	2,895
Other intangible assets with a finite useful life	1,779		(645)	1,134
Work in progress and advance payments	1,602	(10)		1,592
Total intangible assets with a finite useful life	**22,409**	**(267)**	**(13,946)**	**8,196**
Intangible assets with an indefinite useful life	**441**			**441**
Total Other intangible assets	**22,850**	**(267)**	**(13,946)**	**8,637**

Impairment losses on Concessions, licenses, trademarks and similar rights basically refer to the Indefeasible Rights of Use (IRU) for the transmission capacity and cables for international connections acquired by the Lan Med group (the former Latin American Nautilus group).

Such impairments, principally relating to the years prior to 2004, were reversed in part in 2011 following improved prospects, particularly in the South American market. The increase in accumulated impairment is mainly

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attributable to the above-mentioned impairment losses recognized by the Argentina Business Unit and the Media Business Unit, which were partly offset by exchange differences relating to impairment losses recognized in previous years by the Lan/Med group. Lastly, works in progress were written off by the Parent for 9 million euros for abandoned and previously written down software projects.

NOTE 6 TANGIBLE ASSETS (OWNED AND UNDER FINANCE LEASES)

Property, plant and equipment owned

Property, plant and equipment owned decreased 434 million euros compared to December 31, 2011. Details on the composition and movements are as follows:

	As of December 31, 2010	Addition	Depreciation	Impairment losses/ Reversals	Disposals	Exchange Differences	Other changes	As of December 31, 2011
				(millions of euros)				
Land	243	4			(7)	(5)		235
Buildings (civil and industrial)	844	9	(73)		(2)	(19)	36	795
Plant and equipment	12,019	2,097	(2,796)	1	(25)	(213)	1,025	12,108
Manufacturing and distribution equipment	28	5	(15)				14	32
Other	787	236	(333)		(8)	(30)	72	724
Construction in progress and advance payments	1,317	634		(4)	(3)	(40)	(899)	1,005
Total	**15,238**	**2,985**	**(3,217)**	**(3)**	**(45)**	**(307)**	**248**	**14,899**

	As of December 31, 2011	Addition	Depreciation	Impairment losses/ Reversals	Disposals	Exchange Differences	Other changes	As of December 31, 2012
				(millions of euros)				
Land	235					(17)	14	232
Buildings (civil and industrial)	795	12	(73)	(1)		(50)	15	698
Plant and equipment	12,108	2,215	(2,614)	(12)	(20)	(395)	555	11,837
Manufacturing and distribution equipment	32	12	(14)				9	39
Other	724	194	(306)	(2)	(7)	(50)	124	677
	1,005	726		(1)	(1)	(64)	(683)	982

Construction in progress and advance payments								
Total	**14,899**	**3,159**	**(3,007)**	**(16)**	**(28)**	**(576)**	**34**	**14,465**

Land comprises both built-up land and available land and is not subject to depreciation. The balance at December 31, 2012 mainly refers to Telecom Italia S.p.A. (117 million euros) and the Argentina Business Unit (93 million euros).

Buildings (civil and industrial) almost exclusively includes buildings for industrial use hosting telephone exchanges or for office use and light constructions. The balance at the end of 2012 is largely in reference to Telecom Italia S.p.A. (363 million euros) and the companies belonging to the Argentina Business Unit (282 million euros).

Plant and equipment includes the aggregate of all those structures used for the functioning of voice and data telephone traffic. The balance at December 31, 2012 is principally attributable to Telecom Italia S.p.A. (8,204 million euros), the companies in the Brazil Business Unit (2,362 million euros) and the companies in the Argentina Business Unit (876 million euros).

Manufacturing and distribution equipment consists of instruments and equipment used for the running and maintenance of plant and equipment; the amount is in line with the end of the prior year and is primarily carried by Telecom Italia S.p.A.

Other is mostly made up of hardware for the functioning of the Data Center and for work stations, furniture and fixtures and, to a minimal extent, transport vehicles and office machines.

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Construction in progress and advance payments refers to the internal and external costs incurred for the acquisition and internal production of tangible assets, which are not yet in use.

Additions in 2012 increased by 174 million euros compared to the prior year, and include 286 million euros of internally generated assets (281 million euros in 2011). Further details are provided in the Note Internally generated assets .

Depreciation, impairment losses and reversals have been recorded in the income statement as components of the operating result.

Depreciation for the years 2012 and 2011 is calculated on a straight-line basis over the estimated useful lives of the assets according to the following minimum and maximum rates:

Buildings (civil and industrial)	3.33%
Plant and equipment	3%-50%
Manufacturing and distribution equipment	20%
Other	11%-33%

The impairment losses recognized during the year primarily relate to the Media Business Unit as the outcome of the impairment test and the expected sale of La7 S.r.l. as well as the Olivetti Business Unit.

Gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2012 and 2011 can be summarized as follows:

	As of December 31, 2012			
	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
	(millions of euros)			
Land	232			232
Buildings (civil and industrial)	1,768	(6)	(1,064)	698
Plant and equipment	65,174	(67)	(53,270)	11,837
Manufacturing and distribution equipment	268	(2)	(227)	39
Other	4,211	(6)	(3,528)	677
Construction in progress and advance payments	983	(1)		982
Total	**72,636**	**(82)**	**(58,089)**	**14,465**

As of December 31, 2011

	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
		(millions of euros)		
Land	235			235
Buildings (civil and industrial)	2,099	(5)	(1,299)	795
Plant and equipment	63,913	(56)	(51,749)	12,108
Manufacturing and distribution equipment	248	(1)	(215)	32
Other	4,183	(4)	(3,455)	724
Construction in progress and advance payments	1,006	(1)		1,005
Total	**71,684**	**(67)**	**(56,718)**	**14,899**

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Assets held under finance leases

Assets held under finance leases decreased 80 million euros compared to December 31, 2011. Details on the composition and movements are as follows:

	As of December 31, 2010	Addition	Depreciation	Other changes	As of December 31, 2011
			(millions of euros)		
Buildings (civil and industrial)	1,124	23	(110)	5	1,042
Other	11	11	(6)		16
Construction in progress and advance payments	42	10		(16)	36
Total	**1,177**	**44**	**(116)**	**(11)**	**1,094**

	As of December 31, 2011	Addition	Depreciation	Other changes	As of December 31, 2012
			(millions of euros)		
Buildings (civil and industrial)	1,042	24	(113)	19	972
Other	16	10	(8)	(1)	17
Construction in progress and advance payments	36	8		(19)	25
Total	**1,094**	**42**	**(121)**	**(1)**	**1,014**

Buildings (civil and industrial) includes those under long rent contracts and related building adaptations. They refer almost entirely to Telecom Italia S.p.A.

Other basically comprises the capitalization of finance leases of Data Center hardware.

Depreciation and impairment losses are recorded in the income statement as components of the operating result.

Gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2012 and 2011 can be summarized as follows:

As of December 31, 2012

	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
		(millions of euros)		
Buildings (civil and industrial)	2,078	(27)	(1,079)	972
Other	98		(81)	17
Construction in progress and advance payments	25			25
Total	**2,201**	**(27)**	**(1,160)**	**1,014**

	As of December 31, 2011			
	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
		(millions of euros)		
Buildings (civil and industrial)	2,042	(27)	(973)	1,042
Other	90		(74)	16
Construction in progress and advance payments	36			36
Total	**2,168**	**(27)**	**(1,047)**	**1,094**

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At December 31, 2012 and 2011, lease payments due in future years and their present value are as follows:

	As of December 31,			
	2012		2011	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
	(millions of euros)			
Within 1 year	229	204	238	222
From 2 to 5 years	880	599	859	609
Beyond 5 years	857	364	1,049	450
Total	**1,966**	**1,167**	**2,146**	**1,281**

	As of December 31,	
	2012	2011
	(millions of euros)	
Future net minimum lease payments	1,966	2,146
Interest portion	(799)	(865)
Present value of lease payments	**1,167**	**1,281**
Financial lease liabilities	1,378	1,549
Financial receivables for lease contracts	(211)	(268)
Total net finance lease liabilities	**1,167**	**1,281**

At December 31, 2012, the inflation adjustment to lease payments was about 31 million euros (about 28 million euros at December 31, 2011) and refers almost entirely to Telecom Italia S.p.A.

NOTE 7 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD

Investments accounted for using the equity method increased 18 million euros compared to December 31, 2011 and include:

	As of December 31,

	2012	2011
	(millions of euros)	
Investments accounted for using the equity method:		
Associates	65	46
Joint Ventures		1
Total	**65**	**47**

Investments in associates accounted for using the equity method are detailed as follows:

	As of December 31, 2010	Investments	Disposals and reimbursements of capital	Valuation using equity method	Other changes	As of December 31, 2011
			(millions of euros)			
Italtel Group	38			(38)		
Tiglio I S.r.l.	23			(1)		22
Tiglio II	1					1
Others	22				1	23
Total	**84**			**(39)**	**1**	**46**

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	As of December 31, 2011	Investments	Disposals and reimbursements of capital	Valuation using equity method	Other changes	As of December 31, 2012
			(millions of euros)			
Trentino NGN S.r.l..					25	25
Tiglio I S.r.l.	22			(7)		15
Tiglio II	1					1
Others	23	3	(3)	1		24
Total	**46**	**3**	**(3)**	**(6)**	**25**	**65**

With reference to **investments in associates**, on May 18, 2012, following the transfer of a twenty-year right of use of spaces available in its passive infrastructure (ducts and pilings), throughout the territory of the Autonomous Province of Trento, Telecom Italia S.p.A. acquired a 41.1% interest in the company Trentino NGN S.r.l..

In July 2012, following a complaint lodged by some of Telecom Italia S.p.A. s competitors, the European Commission opened an investigation to determine whether the role of the Autonomous Province of Trento, as the majority shareholder in the company Trentino NGN, complies with European rules on state aid.

Aggregate data for 2012 and 2011 relating to the principal associates, prepared in accordance with IFRS, based on the Telecom Italia Group s share, are reported below. The share of profits (losses) for the year refers, for consolidation groups, to the shares of the parent and Non-controlling interests.

	As of December 31,	
	2012	2011
	(millions of euros)	
Total assets	365	418
Total liabilities	327	354
Revenues	112	130
Profits (losses) for the year	(24)	(18)

The item investments in joint ventures at December 31, 2011 referred to the 50% investment in Consorzio Tema Mobility, which was placed in liquidation; as of December 31, 2012 the value was zero.

The company was removed from the Company Register on January 14, 2013.

The list of investments accounted for using the equity method is presented in the Note List of companies of the Telecom Italia Group .

NOTE 8 OTHER INVESTMENTS

Other investments refer to the following:

	As of December 31, 2010	Investments	Disposals and reimbursements of capital	Valuation using equity method	Other changes	As of December 31, 2011
			(millions of euros)			
Assicurazioni Generali	3			(1)		2
Fin.Priv.	14			(4)		10
Sia	11					11
Others	15					15
Total	**43**			**(5)**		**38**

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	As of December 31, 2011	Investments	Disposals and reimbursements of capital	Valuation using equity method	Other changes	As of December 31, 2012
			(millions of euros)			
Assicurazioni Generali	2			1		3
Fin.Priv.	10					10
Sia	11					11
Others	15	1		(1)		15
Total	**38**	**1**				**39**

In accordance with IAS 39, other investments represent Available-for-sale financial assets.

Further details on Financial Instruments are provided in the Note Supplementary disclosure on financial instruments .

NOTE 9 FINANCIAL ASSETS (NON-CURRENT AND CURRENT)

Financial assets (non-current and current) are composed as follows:

		As of December 31, 2012	2011
		(millions of euros)	
Non-current financial assets			
Securities, financial receivables and other non-current financial assets:			
Securities other than investments		22	12
Financial receivables for lease contracts		110	153
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature		2,291	2,701
Receivables from employees		34	41
Non-hedging derivatives		33	27
Other financial receivables		6	15
Total non-current financial assets	**(A)**	**2,496**	**2,949**
Current financial assets			
Securities other than investments			
Held for trading			1
Held to maturity			
Available for sale		754	1,006

		754	**1,007**
Financial receivables and other current financial assets:			
Liquid assets with banks, financial institutions and post offices (with a maturity greater than 3 months)		83	
Receivables from employees		13	9
Financial receivables for lease contracts		101	115
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature		246	244
Non-hedging derivatives		39	24
Other short-term financial receivables		20	70
		502	**462**
Cash and cash equivalents		**7,436**	**6,714**
Total current financial assets	**(B)**	**8,692**	**8,183**
Total non-current and current financial assets	**(A+B)**	**11,188**	**11,132**

Further details on Financial Instruments are provided in the Note Supplementary disclosure on financial instruments .

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Financial receivables for lease contracts refer to:

- Teleleasing lease contracts negotiated directly with customers and of which Telecom Italia is the guarantor;

- portion of rental contracts, with the rendering of accessory services under the full rent formula.

Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature mainly refer to the mark-to-mark component, while Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature mainly consist of accrued income on such derivative contracts. Further details are provided in the Note Derivatives .

Securities other than investments (current assets) refer to listed securities, classified as available-for-sale due beyond three months. They include Italian treasury bonds (BTPs) purchased by Telecom Italia S.p.A. and Telecom Italia Finance S.A., amounting respectively to 358 million euros and 204 million euros, Italian Treasury Credit Certificates (CCTs) for 5 million euros (assigned to Telecom Italia S.p.A., as the holder of trade receivables, as stated by the Italian Ministry of the Economy and Finance Decree of December 3, 2012), and 183 million euros of bonds purchased by Telecom Italia Finance S.A. with different maturities, all with an active market and therefore readily convertible into cash. The BTPs and CCTs, which in accordance with the Consob Communication n. DEM/11070007 of August 5, 2011 represent investments in Sovereign debt securities , were purchased in compliance with the Guidelines on Management and control of financial risks adopted by Telecom Italia Group in August 2012, which replace the previous policies in force since July 2009.

Cash and cash equivalents increased 722 million euros compared to December 31, 2011. The composition is as follows:

	As of December 31,	
	2012	2011
	(millions of euros)	
Liquid assets with banks, financial institutions and post offices	5,761	5,173
Checks, cash and other receivables and deposits for cash flexibility	2	2
Securities other than investments (due within 3 months)	1,673	1,539
Total	**7,436**	**6,714**

The different technical forms used for the investment of liquidity as of December 31, 2012 can be analyzed as follows:

- maturities: all deposits have a maximum maturity date of three months;

- counterpart risks: deposits have been made with leading high-credit-quality banks and financial institutions with a rating of at least BBB- according to Standard & Poor s with regard to Europe and with leading local counterparts with regard to investments in South America;

- country risk: deposits have been made mainly in major European financial markets.

Securities other than investments (due within 3 months) include 150 million euros (220 million euros at December 31, 2011) of Euro Commercial Papers, with at least an A- rating of the issuer by S&P s or equivalent, and 1,517 million euros (1,312 million euros at December 31, 2011) of Brazilian bank certificates of deposit (Certificado de Depósito Bancário), made with leading local banking and financial institutions by the Brazil Business Unit.

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NOTE 10 MISCELLANEOUS RECEIVABLES AND OTHER NON-CURRENT ASSETS

Miscellaneous receivables and other non-current assets increased 368 million euros compared to December 31, 2011. They include:

	As of December 31,			
	2012	*Of which Financial Instruments IAS 39*	2011	*Of which Financial Instruments IAS 39*
	(millions of euros)			
Miscellaneous receivables and other non-current assets:				
Miscellaneous receivables	785	*337*	528	*349*
Medium/long-term prepaid expenses	711		600	
Total	**1,496**	***337***	**1,128**	***349***

Miscellaneous receivables and other non-current assets amount to 1,496 million euros (1,128 million euros at December 31, 2011).

Miscellaneous receivables are mainly related to the Brazil Business Unit (412 million euros), inclusive of court deposits of 309 million euros, and the Domestic Business Unit (359 million euros), inclusive of tax credit on income taxes and related interests of 346 million euros, which are discussed in more detail in the specific Note Income Taxes .

Medium/long-term prepaid expenses total 711 million euros (600 million euros at December 31, 2011) and mainly relate to the deferral of costs in connection with the activation of telephone contracts and substantially attributable to the Domestic Business Unit.

Further details on Financial Instruments are provided in the Note Supplementary disclosure on financial instruments .

NOTE 11 INCOME TAXES

Income tax receivables

Current and non-current income tax receivables at December 31, 2012 amount to 436 million euros (171 million euros at December 31, 2011). They are composed of the following:

- 359 million euros of non-current income tax receivables (16 million euros at December 31, 2011), of which 346 million euros relates to the Domestic Business Unit for taxes and interest resulting from the recognized deductibility of IRAP tax on the cost of labor for IRES tax purposes, relating to years prior to 2012, following the entry into force of Decree Law 16/2012;

- 77 million euros of current income tax receivables (155 million euros at December 31, 2011) and mainly include short-term receivables of the Domestic Business Unit companies (63 million euros) and of the Brazil Business Unit companies (12 million euros).

Deferred tax assets and deferred tax liabilities

The net balance is composed as follows:

	As of December 31,	
	2012	2011
	(millions of euros)	
Deferred tax assets	1,432	1,637
Deferred tax liabilities	(848)	(1,084)
Total	**584**	**553**

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Since the presentation of deferred tax assets and liabilities in the financial statements takes account of offsets to the extent that such offsets are legally enforceable, the composition of the gross amounts is presented below:

	As of December 31,	
	2012	2011
	(millions of euros)	
Deferred tax assets	1,574	1,788
Deferred tax liabilities	(990)	(1,235)
Total	**584**	**553**

Upon presentation of the tax return for the year 2008, the Parent, Telecom Italia, took advantage of the possibility of realigning the differences between the IAS financial statements associated with transactions that fall under the derivation regime and the tax amounts at January 1, 2009, pursuant to Legislative Decree 185 of November 29, 2008; this realignment which involves the reabsorption of the relative net deductible temporary differences in equal amounts over five years from 2009 to 2013 will result in an absorption of net deferred tax assets of approximately 60 million euros per year. At December 31, 2012, the related unused tax credit is 64 million euros (129 million euros at December 31, 2011).

The temporary differences which make up this line item at December 31, 2012 and 2011, as well as the movements during 2012, are the following:

	As of December 31, 2011	Recognized in profit or loss	Recognized in equity	Change in scope of consolidation and other changes	As of December 31, 2012
			(millions of euros)		
Deferred tax assets:					
Tax loss carryforwards	545	(95)		(41)	409
Derivatives	400	(32)	81	(29)	420
Provision for bad debts	282	17		(14)	285
Provisions	231	(13)		(15)	203
Provisions for pension fund integration Law 58/92	19	(6)			13
Capital grants	8	(2)			6
Taxed depreciation and amortization	138	(5)		(1)	132
	129	(65)			64

Unused tax credit (realignment, Leg. Decree 185/08)					
Other deferred tax assets	36	9	(2)	(1)	42
Total	**1,788**	**(192)**	**79**	**(101)**	**1,574**
Deferred tax liabilities					
Derivatives	(357)	2	29	29	(297)
Business combinations for step-up of net assets in excess of tax basis	(733)	83		90	(560)
Deferred gains	(2)				(2)
Accelerated depreciation	(34)	(1)		(2)	(37)
Discounting of provision for employee severance indemnities	(32)		(1)		(33)
Other deferred tax liabilities	(77)	3		13	(61)
Total	**(1,235)**	**87**	**28**	**130**	**(990)**
Total net deferred tax assets (liabilities)	**553**	**(105)**	**107**	**29**	**584**

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The expirations of Deferred tax assets and Deferred tax liabilities at December 31, 2012 are as follows:

		Within 1 year	Beyond 1 year	Total at December 31, 2012
		(millions of euros)		
Deferred tax assets	(A)	545	1,029	1,574
Deferred tax liabilities	(B)	(119)	(871)	(990)
Total net deferred tax assets (liabilities)	**(A+B)**	**426**	**158**	**584**

At December 31, 2012, the Group has unused tax loss carryforwards of 4,073 million euros mainly attributable to the Brazil Business Unit, Telecom Italia Finance, Telecom Italia International and the Lan Med group, with the following expiration dates:

Year of expiration	(millions of euros)
2013	1
2014	1
2015	
2016	18
2017	17
Expiration after 2017	143
Without expiration	3,893
Total unused tax loss carryforwards	**4,073**

Tax loss carryforwards considered in the calculation of deferred tax assets amount to 1,257 million euros at December 31, 2012 (1,691 million euros at December 31, 2011) and mainly refer to the Brazil Business Unit, to the Lan Med group and to the company Telecom Italia International.

Instead, deferred tax assets of 866 million euros (881 million euros at December 31, 2011) have not been recognized on 2,816 million euros of tax loss carryforwards since, at this time, their recoverability is not considered probable.

At December 31, 2012, deferred taxes have not been recognized on tax-suspended reserves and undistributed earnings of subsidiaries. In particular, as of December 31, 2012, we have not recognized deferred tax liabilities on approximately 1 billion euros of undistributed profits of our subsidiaries, because we are in a position to control the timing of the distribution and it is probable that such profits will not be distributed in the foreseeable future. The additional tax liabilities arising from their distribution are not expected to be material.

Current income tax payables

Current income tax payables amount to 183 million euros (399 million euros at December 31, 2011). They are composed of the following:

	At December 31,	
	2012	2011
	(millions of euros)	
Income tax payables:		
Non-current	59	63
Current	124	336
Total	**183**	**399**

Specifically, the non-current portion of 59 million euros refers principally to the Brazil Business Unit (47 million euros) and the Brazilian company TI Latam Participações e Gestão Administrativa Ltda (10 million euros).

The current portion, amounting to 124 million euros, mainly relates to the Brazil Business Unit (45 million euros) and to the Argentina Business Unit (71 million euros).

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Income tax expense

Income taxes amount to 1,235 million euros and decreased by 375 million euros compared to 2011 (1,610 million euros).

Details are as follows:

		2012	2011	2010
		(millions of euros)		
Current taxes for the year		1,495	1,534	1,347
Difference in prior years estimates		(365)	(98)	(89)
Total current taxes		**1,130**	**1,436**	**1,258**
Deferred taxes		105	174	(709)
Total taxes on continuing operations	**(A)**	**1,235**	**1,610**	**549**
Total taxes on Discontinued operations/Non-current assets held for sale	**(B)**			
Total income tax expense for the year	**(A+B)**	**1,235**	**1,610**	**549**

Income taxes for the year 2012 include, inter alia, the non-recurring benefit totaling 319 million euros, linked to the recognition of receivables from years prior to 2012 following the entry into force of Decree Law 16/2012, which enabled a request for a refund of IRES tax for the IRAP tax calculated on the cost of labor. Net of this effect, income tax decreased by 56 million euros compared to 2011, mainly as a result of the reduction in the tax base of the Parent Telecom Italia.

The reconciliation between the theoretical tax expense, using the IRES tax rate in force in Italy (27.5%), and the effective tax rate for the years ended December 31, 2012 and 2011 is the following:

	2012	2011	2010
	(millions of euros)		
Profit (loss) before tax			
From continuing operations	(44)	(2,743)	4,128
From Discontinued operations/Non-current assets held for sale	2	(13)	(7)
Total profit (loss) before tax	**(42)**	**(2,756)**	**4,121**
Income taxes on theoretical income (loss)	**(12)**	**(758)**	**1,133**
Income tax effect on increase (decrease) in variations:			
Tax losses of the year not considered recoverable	31	15	18
Tax losses not considered recoverable in prior years and recoverable in future years	(10)	(40)	(627)

Non-deductible costs	39	29	36
Non-deductible goodwill impairment charge	1,179	2,025	
Non-taxable Sofora revaluation			(73)
Benefit from IRES tax reimbursement for partial deductibility of IRAP tax	(319)		
Other net differences	7	3	(294)
Effective income tax recognized in income statement, excluding IRAP tax	915	1,274	193
IRAP	320	336	356
Total effective income tax recognized in income statements	**1,235**	**1,610**	**549**

The impact of Regional Income Tax (**IRAP**) is not taken into consideration in order to avoid any distorting effect, since such tax only applies to Italian companies and is calculated on a tax base other than pre-tax profit.

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NOTE 12 INVENTORIES

Inventories decreased 11 million euros compared to December 31, 2011 and are composed of the following:

	As of December 31,	
	2012	2011
	(millions of euros)	
Raw materials and supplies	3	3
Work in progress and semifinished products	4	5
Finished goods	429	439
Total	**436**	**447**

Inventories particularly refer to Telecom Italia S.p.A. for 112 million euros (125 million euros at December 31, 2011), the companies in the Brazil Business Unit for 100 million euros (113 million euros at December 31, 2011) and the companies in the Argentina Business Unit for 98 million euros (96 million euros at December 31, 2011). They mainly consist of equipment, handsets and relative fixed and mobile telecommunications accessories.

Another 86 million euros (79 million euros at December 31, 2011) of inventories is carried by the Olivetti Business Unit for office products, specialized printers and gaming terminals.

In 2012, inventories were written down by 13 million euros (12 million euros in 2011) mainly for the adjustment to estimated realizable value of fixed and mobile equipment and handsets for marketing.

No inventories are pledged as collateral.

NOTE 13 TRADE AND MISCELLANEOUS RECEIVABLES AND OTHER CURRENT ASSETS

Trade and miscellaneous receivables and other current assets decreased 764 million euros compared to December 31, 2011 and are composed of the following:

	As of December 31,			
	2012		2011	
		Of which Financial Instruments IAS 39		*Of which Financial Instruments IAS 39*
	(millions of euros)			
Amounts due on construction contracts	**63**		**49**	
Trade receivables:				

Receivables from customers	4,254	*4,254*	4,576	*4,576*
Receivables from other telecommunications operators	1,184	*1,184*	1,725	*1,725*
	5,438	***5,438***	**6,301**	***6,301***
Miscellaneous receivables and other current assets:				
Other receivables	1,016	*249*	977	*331*
Trade and miscellaneous prepaid expenses	489		443	
	1,505	***249***	**1,420**	***331***
Total	**7,006**	***5,687***	**7,770**	***6,632***

Further details on Financial Instruments are provided in the Note Supplementary disclosure on financial instruments .

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The aging of financial instruments included in Trade and miscellaneous receivables and other current assets at December 31, 2012 and December 31, 2011 is as follows:

	As of December 31, 2012	Total Current	Overdue: Total overdue	0-90 days	91-180 days	181-365 days	More than 365 days
			(millions of euros)				
Trade and miscellaneous receivables and other current assets	**5,687**	**4,116**	**1,571**	**703**	**219**	**239**	**410**

	As of December 31, 2011	Total Current	Overdue: Total overdue	0-90 days	91-180 days	181-365 days	More than 365 days
			(millions of euros)				
Trade and miscellaneous receivables and other current assets	**6,632**	**4,663**	**1,969**	**852**	**207**	**226**	**684**

Overdue receivables at December 31, 2012 account for a lower percentage of total receivables compared to the end of the prior year. Overdue receivables less than 90 days or more than one year in particular are lower. The increase in overdue amounts from 181 to 365 days is essentially attributable to Telecom Italia S.p.A.

Trade receivables amount to 5,438 million euros (6,301 million euros at December 31, 2011) and are net of the provision for bad debts of 910 million euros (845 million euros at December 31, 2011). The reduction in net trade receivables, of 863 million euros, mainly reflects revenue performance and the settlement of disputes with a number of other operators which led to the closing of certain receivable and payable positions.

Trade receivables specifically refer to Telecom Italia S.p.A. (3,169 million euros), the Brazil Business Unit (1,367 million euros) and the Argentina Business Unit (372 million euros).

Trade receivables include 96 million euros (88 million euros at December 31, 2011) of medium/long-term trade receivables from customers, principally in respect of Indefeasible Rights of Use IRU.

Movements in the provision for bad debts are as follows:

	2012	2011
	(millions of euros)	
At January 1	**845**	**876**

Provision charges to the income statement	413	375
Utilization and decreases	(308)	(393)
Exchange differences and other changes	(40)	(13)
At December 31	**910**	**845**

The provision for bad debts consists of write-downs of specific receivables of 408 million euros (358 million euros at December 31, 2011) and write-downs of 501 million euros on the basis of average uncollectibility (487 million euros at December 31, 2011).

Provision charges for bad debts are recorded for specific credit positions that present an element of individual risk. On credit positions that do not present such characteristics, provision charges are recorded by customer segment according to the average uncollectibility estimated on the basis of statistics.

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Other receivables amount to 1,016 million euros (977 million euros at December 31, 2011) and are net of a provision for bad debts of 113 million euros (132 million euros at December 31, 2011). Details are as follows:

	As of December 31,	
	2012	2011
	(millions of euros)	
Advances to suppliers	31	36
Receivables from employees	26	25
Tax receivables	525	425
Sundry receivables	434	491
Total	**1,016**	**977**

Tax receivables include, inter alia, 448 million euros relating to the Brazil Business Unit largely related to local indirect taxes and 63 million euros to the Domestic Business Unit for credits resulting from tax returns, other taxes and also the VAT receivable on the purchase of cars and related accessories for which refunds were requested under Legislative Decree 258/2006, converted with amendments by Law 278/2006.

Sundry receivables mainly include:

- receivables from factoring companies of 129 million euros, of which 81 million euros is from Mediofactoring (a company in the Intesa Sanpaolo group) and 48 million euros from other factoring companies;
- receivable for the Italian Universal Service (47 million euros). This is a regulated contribution related to the costs arising from Telecom Italia s obligation to provide basic telephone services at a sustainable price or to offer special rates solely to subsidized users;
- receivables from the Italian State and the European Union (32 million euros) for grants regarding research and training projects of Telecom Italia S.p.A.;
- miscellaneous receivables from OLOs (62 million euros).

Trade and miscellaneous prepaid expenses mainly pertain to building leases, rentals and maintenance payments as well as the deferral of costs referring to the activation of new contracts. Trade prepaid expenses include, in particular, 374 million euros of the Parent, Telecom Italia, (mainly the deferral of costs connected with the activation of new contracts for 257 million euros, building leases for 67 million euros, rent and maintenance payments for 23 million euros and insurance premiums for 9 million euros).

NOTE 14 EQUITY

Equity includes:

	As of December 31,	
	2012	**2011**
	(millions of euros)	
Equity attributable to owners of the Parent	19,378	22,790
Non-controlling interests	3,634	3,904
Total	**23,012**	**26,694**

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

	As of December 31,	
	2012	2011
	(millions of euros)	
Share capital	10,604	10,604
Paid-in capital	1,704	1,704
Other reserves and retained earnings (accumulated losses), including profit (loss) for the year(*)	7,070	10,482
Total	**19,378**	**22,790**

(*) of which:

Reserve for available-for-sale financial assets	*43*	*(4)*
Reserve for cash flow hedges	*(383)*	*(74)*
Reserve for exchange differences on translating foreign operations	504	*1,089*
Remeasurements of employee defined benefit plans (IAS 19)	*154*	*196*
Share of other comprehensive income (loss) of associates	*(1)*	*(1)*
Other reserves and retained earnings (accumulated losses), including profit (loss) for the year	*6,753*	*9,276*

Movements in **share capital** during 2012, 2011 and 2010 are presented in the following tables:

Reconciliation between the number of outstanding shares at December 31, 2009 and December 31, 2010

	Shares as of December 31, 2009	Shares issued for plans destined for employees	Shares as of December 31, 2010	Percentage of Share Capital
	(number of shares of par value of 0.55 each)			
Ordinary Shares issued (a)	13,380,906,939	27,056,139	13,407,963,078	68.99%
Less: Treasury Shares (b)	(162,216,387)		(162,216,387)	
Ordinary Shares Outstanding (c)	13,218,690,552	27,056,139	13,245,746,691	
Savings Shares Issued and Outstanding (d)	6,026,120,661		6,026,120,661	31.01%
	19,407,027,600	**27,056,139**	**19,434,083,739**	**100.00%**

Total Telecom Italia S.p.A shares issued (a+d)			
Total Telecom Italia S.p.A. shares outstanding (c+d)	**19,244,811,213**	**27,056,139**	**19,271,867,352**

Reconciliation between the number of outstanding shares at December 31, 2010 and December 31, 2011

	Shares as of December 31, 2010	Shares issued for plans destined for employees	Shares as of December 31, 2011	Percentage of Share Capital
	(number of shares of par value of 0.55 each)			
Ordinary Shares issued (a)	13,407,963,078	8,876,296	13,416,839,374	69.01%
Less: Treasury Shares (b)	(162,216,387)		(162,216,387)	
Ordinary Shares Outstanding (c)	13,245,746,691	8,876,296	13,254,622,987	
Savings Shares Issued and Outstanding (d)	6,026,120,661		6,026,120,661	30.99%
Total Telecom Italia S.p.A. shares issued (a+d)	**19,434,083,739**	**8,876,296**	**19,442,960,035**	**100.00%**
Total Telecom Italia S.p.A. shares outstanding (c+d)	**19,271,867,352**	**8,876,296**	**19,280,743,648**	

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Reconciliation between the number of outstanding shares at December 31, 2011 and December 31, 2012

	Shares as of December 31, 2011	Shares issued for plans destined for employees	Shares as of December 31, 2012	Percentage of Share Capital
	(number of shares of par value of 0.55 each)			
Ordinary Shares issued (a)	13,416,839,374		13,416,839,374	69.01%
Less: Treasury Shares (b)	(162,216,387)		(162,216,387)	
Ordinary Shares Outstanding (c)	13,254,622,987		13,254,622,987	
Savings Shares Issued and Outstanding (d)	6,026,120,661		6,026,120,661	30.99%
Total Telecom Italia S.p.A. shares issued (a+d)	**19,442,960,035**		**19,442,960,035**	**100.00%**
Total Telecom Italia S.p.A. shares outstanding (c+d)	**19,280,743,648**		**19,280,743,648**	

Reconciliation between the value of the outstanding shares as of December 31, 2009 and December 31, 2010

	Share capital as of December 31, 2009	Change in share capital as a result of plans destined for employees	Share capital as of December 31, 2010
	(millions of euros)		
Ordinary Shares issued (a)	7,360	15	7,375
Less: Treasury Shares (b)	(89)		(89)
Ordinary Shares Outstanding (c)	7,271	15	7,286
Savings Shares Issued and Outstanding (d)	3,314		3,314
Total Telecom Italia S.p.A. share capital issued (a+d)	**10,674**	**15**	**10,689**

Total Telecom Italia S.p.A. share capital outstanding (c+d)	**10,585**	**15**	**10,600**

Reconciliation between the value of the outstanding shares as of December 31, 2010 and December 31, 2011

	Share capital as of December 31, 2010	Change in share capital as a result of plans destined for employees (millions of euros)	Share capital as of December 31, 2011
Ordinary Shares issued (a)	7,375	4	7,379
Less: Treasury Shares (b)	(89)		(89)
Ordinary Shares Outstanding (c)	7,286	4	7,290
Savings Shares Issued and Outstanding (d)	3,314		3,314
Total Telecom Italia S.p.A. share capital issued (a+d)	**10,689**	**4**	**10,693**
Total Telecom Italia S.p.A. share capital outstanding (c+d)	**10,600**	**4**	**10,604**

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Reconciliation between the value of the outstanding shares as of December 31, 2011 and December 31, 2012

	Share capital as of December 31, 2011	Change in share capital as a result of plans destined for employees (millions of euros)	Share capital as of December 31, 2012
Ordinary Shares issued (a)	7,379		7,379
Less: Treasury Shares (b)	(89)		(89)
Ordinary Shares Outstanding (c)	7,290		7,290
Savings Shares Issued and Outstanding (d)	3,314		3,314
Total Telecom Italia S.p.A. share capital issued (a+d)	**10,693**		**10,693**
Total Telecom Italia S.p.A. share capital outstanding (c+d)	**10,604**		**10,604**

The total amount of ordinary treasury shares at December 31, 2012 is 508 million euros and recorded as follows: the part relating to par value (89 million euros) is recognized as a deduction from share capital issued and the remaining part as a deduction from Other reserves and retained earnings (accumulated losses), including profit (loss) for the year.

In October 2012, the period of the authorization for the buyback of Telecom Italia S.p.A. stock expired, as per the resolution of the ordinary shareholders meeting of April 12, 2011.

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SHARE CAPITAL INFORMATION

The Telecom Italia S.p.A. ordinary and savings shares are also listed on the NYSE in the form of American Depositary Shares, each ADS corresponding to 10 shares of ordinary or savings shares, respectively, represented by American Depositary Receipts (ADRs) issued by JPMorgan Chase Bank.

In the shareholder resolutions passed to increase share capital against cash payments, the pre-emptive right can be excluded to the extent of a maximum of ten percent of the pre-existing share capital, on condition that the issue price corresponds to the market price of the shares and that this is confirmed in a specific report issued by the firm charged with the audit.

The Group sources itself with the capital necessary to fund its requirements for business development and operations; the sources of funds are found in a balanced mix of risk capital, permanently invested by the shareholders, and debt capital, to guarantee a balanced financial structure and minimize the total cost of capital, with a resulting advantage to all the stakeholders.

Debt capital is structured according to different maturities and currencies to ensure an adequate diversification of the sources of financing and an efficient access to external sources of financing (taking advantage of the best opportunities offered in the euro, U.S. dollar and Pound sterling financial markets to minimize costs), taking care to reduce the refinancing risk.

The remuneration of risk capital is proposed by the board of directors to the shareholders meeting, which meets to approve the annual financial statements, based upon market trends and business performance, once all the other obligations are met, including debt servicing. Therefore, in order to guarantee an adequate remuneration of capital, safeguard company continuity and business development, the Group constantly monitors the change in debt levels in relation to equity, the level of net debt and the operating margin of industrial operations.

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Consolidated Financial Statements Notes To Consolidated Financial Statements

RIGHTS OF SAVINGS SHARES

The rights of the Telecom Italia S.p.A. savings shares are indicated below:

- the profit shown in the duly approved financial statements, less the amount appropriated to the legal reserve, must be distributed to the holders of savings shares in an amount up to 5% of the par value of the share;

- after assigning preferred dividends to the savings shares, the distribution of which is approved by the shareholders meeting, the remaining profit shall be assigned to all the shares so that the savings shares have the right to dividends that are higher, than the dividends to which the ordinary shares are entitled, by 2% of the par value of the share;

- if in any one year dividends of below 5% of the par value of the share are paid to the savings shares, the difference is carried over and added to the preferred dividends for the next two successive years;

- in the case of the distribution of reserves, the savings shares have the same rights as ordinary shares. Moreover, the shareholders meeting called to approve the separate financial statements for the year can, when there is no profit or insufficient profit reported in those financial statements to satisfy the rights of the savings shares, resolve to satisfy the dividend right and/or the additional right by distributing available reserves;

- the reduction of share capital as a result of losses does not entail a reduction of the par value of savings shares except for the amount of the loss which exceeds the overall par value of the other shares;

- upon the wind-up of Telecom Italia S.p.A., the savings shares have a pre-emptive right in the reimbursement of capital for the entire par value;

- in the event of the cessation of trading in the Company s ordinary or savings shares, the holder of savings shares may ask Telecom Italia S.p.A. to convert its shares into ordinary shares, according to the manner resolved by the special session of the shareholders meeting called for that purpose within two months of being excluded from trading.

Paid-in capital, amounting to 1,704 million euros, is unchanged compared to December 31, 2011.

Other reserves and retained earnings (accumulated losses), including profit (loss) for the year comprise:

- The **Reserve for available-for-sale financial assets**, which has a positive balance of 43 million euros at December 31, 2012, an increase of 47 million euros compared to December 31, 2011. The increase relates to unrealized gains on the investments in Assicurazioni Generali and Fin.Priv. (1 million euros) of the Parent, Telecom Italia, as well as the unrealized gains on the securities portfolio of Telecom Italia Finance (14 million euros) and the positive fair value adjustment of other available-for-sale financial assets held by the Parent, Telecom Italia (32 million euros). This reserve is expressed net of deferred tax liabilities of 18 million euros (at December 31, 2011, it was expressed net of deferred tax liabilities of 7 million euros).

- The **Reserve for cash flow hedges**, which has a negative balance of 383 million euros at December 31, 2012, a decrease of 309 million euros compared to December 31, 2011. This reserve is expressed net of deferred tax assets of 143 million euros (at December 31, 2011, it was expressed net of deferred tax assets of 22 million euros). In particular, this reserve includes the effective portion of gains or losses on the fair value adjustments of derivatives designated as cash flow hedges of the exposure to volatility in the cash flows of assets or liabilities recognized in the financial statements.

- The **Reserve for exchange differences on translating foreign operations** shows a positive balance of 504 million euros at December 31, 2012, decreasing 585 million euros compared to December 31, 2011. This mainly refers to exchange differences in euros on the translation of the financial statements of the companies in the Brazil Business Unit and in the Argentina Business Unit.

- The **Reserve for remeasurement of employee defined benefit plans**, was established following the early adoption of the new IAS 19 (Employee Benefits) (**IAS 19 (2011)**) through reclassification from the line item Other reserves and retained earnings (accumulated losses), including profit (loss)

for the year . At December 31, 2012 it has a positive balance of 154 million euros and decreases 42 million euros compared to December 31, 2011. This reserve is expressed net of deferred tax liabilities of 60 million euros (at December 31, 2011, it was expressed net of deferred tax liabilities of 74 million euros). In particular, this reserve includes the recognition of changes in actuarial gains and losses.

- **Share of other comprehensive income (loss) of associates** shows a negative balance of 1 million euros at December 31, 2012, unchanged compared to December 31, 2011.

- **Other reserves and retained earnings (accumulated losses), including profit (loss) for the year** amount to 6,753 million euros, decreasing 2,523 million euros compared to December 31, 2011. The change is mainly due to the sum of the following:

  dividends of 895 million euros (1,184 million euros in 2011);

  loss for the year attributable to owners of the Parent of 1,627 million euros (loss for the year of 4,811 million euros in 2011).

Equity attributable to **Non-controlling interests** amounts to 3,634 million euros, a decrease of 270 million euros compared to December 31, 2011 and is principally represented by the sum of:

- dividends of 143 million euros;

- profit for the year attributable to Non-controlling interests of 350 million euros (445 million euros in 2011);

- negative change in the Reserve for exchange differences on translating foreign operations of 483 million euros.

This line item consists principally of the equity attributable to the Non-controlling interests referring mainly to the companies in the Brazil Business Unit and the Argentina Business Unit.

FUTURE POTENTIAL CHANGES IN SHARE CAPITAL

Details of Future potential changes in share capital are presented in the Note Earnings per share .

AUTHORIZATIONS FOR THE ISSUE OF CONVERTIBLE BONDS AND THE BUYBACK OF TREASURY SHARES

During 2012, the Board of Directors of Telecom Italia S.p.A. did not exercise the right to issue bonds convertible into ordinary shares, nor were there changes in the number of treasury shares held by the Telecom Italia Group, nor, lastly, were any authorizations approved for the buyback of additional treasury shares.

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Consolidated Financial Statements Notes To Consolidated Financial Statements

NOTE 15 FINANCIAL LIABILITIES (NON CURRENT AND CURRENT)

Non-current and current financial liabilities (gross financial debt) are composed as follows:

		As of December 31, 2012	2011
		(millions of euros)	
Financial payables (medium/long-term):			
Bonds		23,956	24,478
Amounts due to banks		5,944	6,687
Other financial payables		460	837
		30,360	**32,002**
Finance lease liabilities (medium/long-term)		**1,159**	**1,304**
Other financial liabilities (medium/long-term):			
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature		2,558	2,513
Non-hedging derivatives		13	40
Other liabilities		1	1
		2,572	**2,554**
Total non-current financial liabilities	**(A)**	**34,091**	**35,860**
Financial payables (short-term):			
Bonds		3,593	3,895
Amounts due to banks		1,287	1,192
Other financial payables		684	527
		5,564	**5,614**
Finance lease liabilities (short-term)		**219**	**245**
Other financial liabilities (short-term):			
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature		350	196
Non-hedging derivatives		17	36
Other liabilities			
		367	**232**
Total current financial liabilities	**(B)**	**6,150**	**6,091**
Financial liabilities directly associated with Discontinued operations/Non-current assets held for	**(C)**		

sale			
Total financial liabilities (Gross financial debt)	**(A+B+C)**	**40,241**	**41,951**

Further details on Financial Instruments are provided in the Note Supplementary disclosure on financial instruments .

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

	As of December 31, 2012 (millions of foreign currency)	(millions of euros)	As of December 31, 2011 (millions of foreign currency)	(millions of euros)
USD	12,499	9,474	12,386	9,572
GBP	2,535	3,106	2,532	3,032
BRL	2,945	1,092	2,624	1,081
JPY	19,865	175	20,809	208
ARS	331	51	740	133
PYG	123,347	22	140,043	24
EURO		26,321		27,901
		40,241		**41,951**

The analysis of gross financial debt by effective interest rate bracket excluding the effect of hedging instruments, if any, is the following:

	As of December 31,	
	2012	2011
	(millions of euros)	
Up to 2.5%	5,917	6,517
From 2.5% to 5%	6,222	4,973
From 5% to 7.5%	18,246	20,310
From 7.5% to 10%	4,977	4,921
Over 10%	505	839
Accruals/deferrals, MTM and derivatives	4,374	4,391
	40,241	**41,951**

Instead, as a result of the use of derivative hedging instruments, gross financial debt by nominal interest rate bracket is the following:

	As of December 31,	
	2012	2011
	(millions of euros)	

Up to 2.5%	8,633	10,259
From 2.5% to 5%	8,121	5,722
From 5% to 7.5%	15,180	18,502
From 7.5% to 10%	3,229	2,018
Over 10%	704	1,059
Accruals/deferrals, MTM and derivatives	4,374	4,391
	40,241	**41,951**

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The maturities of financial liabilities according to the expected nominal repayment amount, as defined by contract, are the following:

Detail of the maturities of Financial liabilities nominal repayment amount:

	Maturing by December 31, of the year						
	2013	2014	2015	2016	2017	After 2017	Total
	(millions of euros)						
Bonds	2,894	2,546	2,544	2,250	2,919	13,170	26,323
Loans and other financial liabilities	1,416	2,753	1,118	624	818	1,569	8,298
Finance lease liabilities	205	108	144	151	162	594	1,364
Total	**4,515**	**5,407**	**3,806**	**3,025**	**3,899**	**15,333**	**35,985**
Current financial liabilities	638						638
Total	**5,153**	**5,407**	**3,806**	**3,025**	**3,899**	**15,333**	**36,623**

The main components of financial liabilities are commented below.

Bonds are composed as follows:

	As of December 31,	
	2012	2011
	(millions of euros)	
Non-current portion	23,956	24,478
Current portion	3,593	3,895
Total carrying amounts	**27,549**	**28,373**
Fair value adjustment and measurement at amortized cost	(1,226)	(1,398)
Total nominal repayment amount	**26,323**	**26,975**

The nominal repayment amount totals 26,323 million euros, decreasing 652 million euros compared to December 31, 2011 (26,975 million euros) as a result of the new issues/ repayments in 2012.

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The following table lists the bonds issued by companies of the Telecom Italia Group, by issuing company, expressed at the nominal repayment amount, net of bond repurchases, and also at market value:

Currency	Amount (millions)	Nominal repayment amount (millions of euros)	Coupon	Issue date	Maturity date	Issue price (%)	Market price as of December 31, 2012 (%)	Market value as of December 31, 2012 (millions of euros)
Bonds issued by Telecom Italia S.p.A.								
Euro	432	432.1	6.750%	03/19/2009	03/21/2013	99,574	101,208	437
Euro	268	267.7	3 month Euribor+0.63%	07/19/2007	07/19/2013	100	100,005	268
Euro	284	284.1	7.875%	01/22/2009	01/22/2014	99,728	106,868	304
Euro	557	556.8	4.750%	05/19/2006	05/19/2014	99,156	104,669	583
Euro	750	750	4.625%	06/15/2012	06/15/2015	99,685	106,871	802
Euro	120	120	3 Month Euribor+0.66%	11/23/2004	11/23/2015	100	96,105	115
GBP	500	612.7	5.625%	06/29/2005	12/29/2015	99,878	106,279	651
Euro	1,000	1,000	5.125%	01/25/2011	01/25/2016	99,686	108,729	1,087
Euro	850	850	8.250%	03/19/2009	03/21/2016	99,740	118,361	1,006
Euro	400	400	3 Month Euribor+0.79%	06/07/2007	06/07/2016	100	94,740	379
Euro	1,000	1,000	7.000%	10/20/2011	01/20/2017	(*)100,185	116,282	1,163
Euro	1,000	1,000	4.500%	09/20/2012	09/20/2017	99,693	106,986	1,070
GBP	750	919.0	7.375%	05/26/2009	12/15/2017	99,608	113,680	1,045
Euro	750	750	4.750%	05/25/2011	05/25/2018	99,889	107,818	809
Euro	750	750	6.125%	06/15/2012	12/14/2018	99,737	114,534	859
Euro	1,250	1,250	5.375%	01/29/2004	01/29/2019	99,070	110,064	1,376
GBP	850	1,041.5	6.375%	06/24/2004	06/24/2019	98,850	108,255	1,128
Euro	1,000	1,000	4.000%	12/21/2012	01/21/2020	99,184	101,574	1,016
Euro	(**)230	229.7	6 Month Euribor (base 365)	01/01/2002	01/01/2022	100	100	230
Euro	1,250	1,250	5.250%	02/10/2010	02/10/2022	99,295	107,304	1,341
GBP	400	490.1	5.875%	05/19/2006	05/19/2023	99,622	103,257	506
Euro	670	670	5.250%	03/17/2005	03/17/2055	99,667	83,548	560
Sub-Total		**15,624**						**16,735**
Bonds issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A.								
Euro	678	677.9	6.875%	01/24/2003	01/24/2013	99,332	100,333	680
JPY	20,000	176.0	3.550%	04/22/2002	05/14/2032	99,250	101,101	178
Euro	1,015	1,015	7.750%	01/24/2003	01/24/2033	(*)109,646	116,024	1,178
Sub-Total		**1,869**						**2,036**

Bonds issued by Telecom Italia Capital S.A. and guaranteed by Telecom Italia S.p.A.								
USD	2,000	1,515.8	5.250%	10/29/2003	11/15/2013	99,742	102,874	1,559
USD	1,000	757.9	6.175%	06/18/2009	06/18/2014	100	105,703	801
USD	1,250	947.4	4.950%	10/06/2004	09/30/2014	99,651	104,842	993
USD	1,400	1,061.1	5.250%	09/28/2005	10/01/2015	99,370	106,657	1,132
USD	1,000	757.9	6.999%	06/04/2008	06/04/2018	100	114,929	871
USD	1,000	757.9	7.175%	06/18/2009	06/18/2019	100	116,471	883
USD	1,000	757.9	6.375%	10/29/2003	11/15/2033	99,558	100,665	763
USD	1,000	757.9	6.000%	10/06/2004	09/30/2034	99,081	98,164	744
USD	1,000	757.9	7.200%	07/18/2006	07/18/2036	99,440	104,663	793
USD	1,000	757.9	7.721%	06/04/2008	06/04/2038	100	108,822	825
Sub-Total		**8,830**						**9,364**
Total		**26,323**						**28,135**

(*) Weighted average issue price for bonds issued with more than one tranche.

(**)Reserved for subscription by employees.
The regulations and/or Offering Circulars relating to the bonds described above are available on the corporate website www. telecomitalia.com.

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The following table lists the changes in bonds during 2012:

New issues	Currency	Amount (millions of original currency)	Issue date
Telecom Italia S.p.A. 700 million euros 4.625% maturing 06/15/2015	Euro	750	06/15/2012
Telecom Italia S.p.A. 750 million euros 6.125% maturing 12/14/2018	Euro	750	06/15/2012
Telecom Italia S.p.A. 1,000 million euros 4.500% maturing 09/20/2017	Euro	1,000	09/20/2012
Telecom Italia S.p.A. 1,000 million euros 4.000% maturing 01/21/2020	Euro	1,000	12/21/2012

Repayments	Currency	Amount (millions of original currency)	Repayment date
Telecom Italia S.p.A. 6.250% 1,222.5 million euros (1)	Euro	1,222.5	02/01/2012
Telecom Italia Finance S.A. 107.7 million euros, 3 month Euribor+1.30%	Euro	107.7	03/14/2012
Telecom Italia Finance S.A. 7.250% 790 million euros (2)	Euro	790	04/24/2012
Telecom Italia S.p.A. 1,000 million euros, 3 month Euribor+0.53%	Euro	1,000	12/06/2012

(1) Net of buybacks by the Company for 27.5 million euros during 2011.

(2) Net of buybacks by the Company for 210 million euros during 2011 and 2012.

Buybacks	Currency	Amount (millions of original currency)	Buyback period
Telecom Italia Finance S.A., 790 million euros 7.250%, maturing April 2012 (1)	Euro	11.6	January 2012
Telecom Italia Finance S.A. 678 million euros 6.875%, maturing January 2013 (1)	Euro	80.8	January May 2012
	Euro	212.9	July 2012

Telecom Italia S.p.A. 432 million euros 6.750%, maturing March 2013 (2)			
Telecom Italia S.p.A. 268 million euros 3 month Euribor+0.63%, maturing July 2013	Euro	232.3	July 2012
Telecom Italia S.p.A. 284 million euros 7.875%, maturing January 2014	Euro	215.9	July 2012
Telecom Italia S.p.A. 557 million euros 4.750%, maturing May 2014	Euro	116.2	July 2012

(1) Buybacks of the above bonds during 2011 amounted to 290 million euros (199 million euros on the bonds maturing April 2012 and 91 million euros on the bonds maturing January 2013). As a result, the total amount bought back is 382 million euros.

(2) A buyback of the above bond had already been made at December 2011 for 5 million euros. As a result the total amount bought back is 218 million euros.

The main components of financial liabilities are described below.

Medium/long-term **amounts due to banks** total 5,944 million euros (6,687 million euros at December 31, 2011), decreasing 743 million euros, as a result of a 500 million euros repayment on the drawdown from the revolving credit facility expiring August 2014 and 250 million euros on the revolving credit facility expiring February 2013. Short-term amounts due to banks total 1,287 million euros, increasing 95 million euros (1,192 million euros at December 31, 2011). Short-term amounts due to banks include 971 million euros for the current portion of medium/long-term amount due to banks.

Medium/long-term **other financial payables** amount to 460 million euros (837 million euros at December 31, 2011). They include 273 million euros payable due from Telecom Italia S.p.A. to the Ministry of Economic Development for the purchase of the rights of use for the 800, 1800 and 2600 MHz frequencies due in October 2016, and 177 million euros for Telecom Italia Finance S.A. s loan of 20,000 million Japanese yen due in 2029. Short-term other financial payables amount to 684 million euros (527 million euros at December 31, 2011)

increasing 157 million euros, and include 359 million euros of the current portion of medium/long-term other financial payables, of which 95 million euros refer to the amount owed by Telecom Italia S.p.A. on the purchase of the rights of use for the 800, 1800 and 2600 MHz frequencies, and 256 million euros relating to debt certificates regulated by German law denominated Schuldschein issued by Telecom Italia Finance S.A..

Medium/long-term **finance lease liabilities** total 1,159 million euros (1,304 million euros at December 31, 2011) and mainly refer to building sale and leaseback transactions recorded in accordance with IAS 17. Short-term finance lease liabilities amount to 219 million euros (245 million euros at December 31, 2011).

Hedging derivatives relating to items classified as non-current liabilities of a financial nature amount to 2,558 million euros (2,513 million euros at December 31, 2011). Hedging derivatives relating to items classified as current liabilities of a financial nature total 350 million euros (196 million euros at December 31, 2011). Further details are provided in the Note Derivatives .

Non-hedging derivatives relating to items classified as non-current liabilities of a financial nature amount to 13 million euros (40 million euros at December 31, 2011). Non-hedging derivatives relating to items classified as current liabilities of a financial nature amount to 17 million euros (36 million euros at December 31, 2011). These refer to the measurement of derivatives which, although put into place for hedging purposes, do not possess the formal requisites to be considered as such under IFRS. Further details are provided in the Note Derivatives .

Covenants , Negative pledges and other contract clauses in effect at December 31, 2012

The bonds issued by the Telecom Italia Group do not contain financial covenants (e.g. ratios such as Debt/EBITDA, EBITDA/Interest etc.) or clauses that would force the early redemption of the bonds in relation to events other than the insolvency of the Telecom Italia Group. Furthermore, the repayment of the bonds and the payment of interest are not covered by specific guarantees nor are there commitments provided relative to the assumption of future guarantees, except for the full and unconditional guarantees provided by Telecom Italia S.p.A. for the bonds issued by Telecom Italia Finance S.A. and Telecom Italia Capital S.A.

None of the bonds issued by the Telecom Italia Group carry any other interest rate structures or structural complexities.

Since these bonds have been placed principally with institutional investors in major world capital markets (Euromarket and the U.S.A.), the terms which regulate the bonds are in line with market practice for similar transactions effected on these same markets; consequently, for example, there are commitments not to use the company s assets as collateral for loans (negative pledges).

With reference to loans received by Telecom Italia S.p.A. from the European Investment Bank (EIB), an amount of 1,152 million euros (out of a total of 2,957 million euros at December 31, 2012) is not secured by bank guarantees but there are covenants which cover the following:

- in the event the company becomes the target of a merger, demerger or contribution of a business segment outside the Group, or sells, disposes or transfers assets or business segments (except in certain cases, expressly provided

for), it shall immediately inform the EIB which shall have the right to ask for guarantees to be provided or changes to be made to the loan contract;

- Inclusion clause provided for in the 100 million euros loan of August 5, 2011: where there are more restrictive clauses (e.g. cross default clauses, financial covenants, commitments restricting the sale of goods) conceded by the Company in new loan contracts, the EIB shall have the right to ask for guarantees to be set up or changes to be made to the loan contract in order to obtain the equivalent clause in favor of the EIB. The provision in question does not apply to subsidized loans until the remaining total amount of principal is above 500 million euros;

- for all loans not secured by collateral, if the Company s credit rating of unsubordinated and unsecured medium/long-term debt is lower than BBB for Standard &Poor s, Baa2 for Moody s and BBB for Fitch Ratings, the company shall immediately inform the EIB which shall have the right to ask for suitable guarantees to be provided, indicating a date for setting up these guarantees. After that date and if Telecom Italia S.p.A. fails to provide the guarantees, the EIB shall have the right to demand immediate repayment of the amount disbursed. The current ratings (BBB and Baa2) did not require new guarantees or repayments of loans.

The syndicated bank lines of Telecom Italia S.p.A. do not contain financial covenants (e.g. ratios such as Debt/EBITDA, EBITDA/Interest, etc.) which would oblige the Company to automatically repay the outstanding loan if the covenants are not met. Mechanisms are provided for adjusting the cost of funding in relation to Telecom Italia s credit rating, with a spread added to the Euribor of between a minimum of 0.0875% and a maximum of 0.2625% for the line expiring in 2014 and a minimum of 0.90% and a maximum of 2.50% for the line expiring in 2013.

The two syndicated bank lines contain the usual other types of covenants, including the commitment not to use the Company s assets as collateral for loans (negative pledges), the commitment not to change the business purpose or sell the assets of the Company unless specific conditions exist (e.g. the sale takes place at fair market value). Covenants with basically the same content are also found in the export credit loan agreement.

In a series of agreements in which Telecom Italia is a party, communication must be provided in case of a change in control.

Such obligation, required by national legislation in matters governing qualifying rights, is firstly contained in the general authorization rights granted to Telecom Italia for the operation and the provision of the electronic communication network and for the offer of electronic communication services, besides the concession/general authorization rights granted to the subsidiary TI Media for the network operator and content supplier activities. A similar obligation is governed on the basis of the local legislation and content in the concession/license rights of the telecommunications services in favor of the foreign subsidiaries of the Group.

Telecom Italia is also a party to agreements in which the phenomenon of a change in control involves a change in or the termination of the relationship. Some, however, not regarding financing relationships, are subject to restrictions on confidentiality, such that the disclosure of the presence of the clause would cause severe detriment to the Company, which consequently takes advantage of the right not to proceed to make any disclosure on the issue, pursuant to art. 123-bis of the TUF, paragraph 1, letter h), second part. In other cases, the significance of the agreement is excluded.

There remain the following types of agreements, all regarding financing relationships:

- *Multi-currency revolving credit facility* (8,000,000,000 euros). The agreement was signed between Telecom Italia and a syndicate of banks on August 1, 2005 and subsequently modified. In the event of a change in control, Telecom Italia shall inform the agent within five business days and the agent, on behalf of the lending banks, shall negotiate, in good faith, how to continue the relationship. None of the parties shall be obliged to continue such negotiations beyond the term of 30 days, at the end of which, in the absence of an agreement, the credit facility shall cease to be effective and Telecom Italia shall be held to repay any sum disbursed (currently equal to 1,500,000,000 euros) to the same. Conventionally, no change of control is held to exist in the event control, pursuant to art. 2359 of the Italian Civil Code, is acquired (i) by shareholders who at the date of signing the agreement held, directly or indirectly, more than 13% of the voting rights in the shareholders meeting, or (ii) by the investors (Telefónica S.A., Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A. and Mediobanca S.p.A.) which had signed a shareholders agreement on April 28, 2007 regarding the Telecom Italia shares, or (iii) by a combination of parties belonging to the two categories;

- *Revolving credit facility* (1,250,000,000 euros). The agreement was signed between Telecom Italia and a syndicate of banks on February 12, 2010 and contemplates a discipline similar to that contained in the August 1, 2005 credit facility agreement, even though it was updated to take into account the October 28, 2009 modifications to the April 28, 2007 shareholders agreement. Therefore, no change of control is held to exist in the event control, pursuant to art. 2359 of the Italian Civil Code, is acquired, directly or indirectly (through subsidiaries) by the investors Telefónica S.A., Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A. and Mediobanca S.p.A., with the provisions described above remaining unchanged. The line is not currently used;

- *Revolving credit facility* (200,000,000 euros). The agreement was signed between Telecom Italia and Unicredit S.p.A. on December 20, 2010 and contemplates a discipline basically identical to that of the February 12, 2010 credit facility. The line is not currently used;

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- *Bonds*. The regulations covering the bonds issued under the EMTN Programme by both Olivetti and Telecom Italia and bonds denominated in U.S. dollars typically provide that, in the event of mergers or transfer of all or substantially all of the assets of the issuing company or of the guarantor, the incorporating or transferee company shall assume all of the obligations of the merged or transferor company. Non-fulfillment of the obligation, for which a solution is not found, is an event of default;

- *Contracts with the European Investment Bank (EIB).* The total nominal amount is 2.95 billion euros.

The contracts signed by Telecom Italia with the EIB, for an amount of 2.65 billion euros, carry the obligation of promptly informing the bank about changes regarding the bylaws or the allocation of share capital among the shareholders which can bring about a change in control. Failure to communicate this information to the bank shall result in the termination of the contract. The contract shall also be terminated when a shareholder, which, at the date of signing the contract does not hold at least 2% of the share capital, comes to hold more than 50% of the voting rights in the ordinary shareholders meeting or, in any case, a number of shares such that it represents more than 50% of the share capital. Whenever, in the bank s reasonable opinion, this fact could cause a detriment to the bank or could compromise the execution of the loan project, the bank has the right to ask Telecom Italia to provide guarantees or modify the contract or find an alternative solution. Should Telecom Italia not comply with the requests of EIB, the bank has the right to terminate the contract.

The contracts signed by Telecom Italia with the EIB in 2011, for an amount of 300 million euros, carry the obligation of promptly informing the bank about changes involving its bylaws or shareholder structure Failure to communicate this information to the bank shall result in the termination of the contract. With regard to the four contracts in question, a change of control is generated if a subject or group of subjects acting in concert acquires control of Telecom Italia, or of the entity that, directly or indirectly, controls Telecom Italia. No change of control is held to exist in the event control is acquired, directly or indirectly (i) by any shareholder of Telecom Italia that at the date of the contract holds, directly or indirectly, at least 13% of the voting rights in the shareholders meeting, or (ii) by the investors Telefónica S.A., Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A. or Mediobanca S.p.A. or their subsidiaries. Under the assumption that there is a change in control, the bank has the right to ask for the early repayment of the loan.

The three contracts covered by guarantees, signed on September 26, 2011, for a total amount of 200 million euros, contain an inclusion clause according to which in the event Telecom Italia commits to uphold in other loan contracts financial covenants which are not present or are more stringent than those granted to the EIB, then the EIB will have the right to request the providing of guarantees or the modification of the loan contract in order to envisage an equivalent provision in favor of the EIB. The providing of guarantees or the modification of the loan contract in order to envisage an equivalent provision in favor of the EIB. The provision in question does not apply to subsidized loans until the remaining total amount of principal is above 500 million euros.

- *Export Credit Agreement* (residual nominal amount of 12.5 million euros). The contract was signed in 2004 by Telecom Italia and Société Générale and provides for the repayment of the loan in 2013. It is provided that, in the event of a change in control and subsequent failure to reach an agreement with the lender bank, Telecom Italia shall reimburse the outstanding loan on the first date on which payment of interest shall be due.

- *Senior Secured Syndicated Facility* (residual nominal amount of 312,464,000 of Argentine pesos, equal to about 48 million euros). The contract was signed in October 2011 between BBVA Banco Francés and Tierra Argentea S.A (a wholly-owned subsidiary of the Telecom Italia Group) and provides for the repayment of the loan in 2016. The loan is (a) guaranteed by two pledges on (i) 15,533,834 Telecom Argentina shares and (ii) 2,351,752 American Depositary Shares (ADS) representing 117,588 Nortel Inversora S.A. Class B preferred shares and (b) backed by a first demand guarantee for approximately USD 22.8 million (equal to about 17.3 million euros). The covenants established by contract, in the form of negative covenants or financial covenants, are consistent with those of syndicated loans and with local practice; there is also a change of control clause which requires the full early repayment of the loan should the Telecom Italia Group hold less than a 100% interest in Tierra Argentea S.A. or loose control of the other Argentine subsidiaries.

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Finally, in the documentation of the loans granted to certain companies of the Tim Brasil group, the companies must generally respect certain financial ratios (e.g. capitalization ratios, ratios for servicing debt and debt ratios) as well as the usual other covenants, under pain of a request for the early repayment of the loan.

Finally, as of December 31, 2012, no covenant, negative pledge clause or other clause relating to the above-described debt position, has in any way been breached or violated.

Revolving Credit Facility

The following table shows the composition and the drawdown of the committed credit lines available at December 31, 2012:

	As of December 31,			
	2012		2011	
	Committed	Drawndown	Committed	Drawndown
	(billion of euros)			
Revolving Credit Facility expiring February 2013	1.25		1.25	0.25
Revolving Credit Facility expiring August 2014	8.00	1.50	8.00	2.00
Revolving Credit Facility expiring December 2013	0.20		0.20	0.20
Total	**9.45**	**1.50**	**9.45**	**2.45**

On May 24, 2012, Telecom Italia signed a new contract to extend half of the Revolving Credit Facility (RCF) of 8 billion euros expiring August 2014. The extension was obtained through a Forward Start Facility of 4 billion euros which will come into force in August 2014 (or at a prior date in the event Telecom Italia decides to early cancel the commitments under the current RCF 2014) and will expire in May 2017.

On September 21 and 28, 2012 the 200 million euros and the 250 million euros drawdowns on the Revolving Credit Facilities, expiring December 2013 and February 2013 respectively, were repaid.

On October 8, 2012 the 500 million euro drawdown on the Revolving Credit Facility expiring August 2014 was repaid. As a result the facility totaling 8 billion euros is currently drawn down by 1.5 billion euros.

Telecom Italia also has a bilateral stand-by credit line expiring August 3, 2016 for 100 million euros from Banca Regionale Europea, drawn down for the full amount.

Telecom Italia s ratings

During the course of 2012, the three rating agencies Standard & Poor s, Moody s and Fitch Ratings changed their outlook on Telecom Italia:

	Rating	Outlook
STANDARD & POOR S	BBB	Negative
MOODY S	Baa2	Negative
FITCH RATINGS	BBB	Negative

After December 31, 2012, the rating agencies issued the following ratings:

- on February 11, 2013, the rating agency Fitch Ratings confirmed Telecom Italia S.p.A. BBB rating with a negative outlook;

- on February 11, 2013, the rating agency Moody s modified Telecom Italia S.p.A. rating from Baa2 to Baa3 with a negative outlook;

- on February 14, 2013, the rating agency Standard & Poor s placed Telecom Italia S.p.A. BBB rating on negative credit watch.

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NOTE 16 FINANCIAL RISK MANAGEMENT

Financial risk management objectives and policies of the Telecom Italia Group

The Telecom Italia Group is exposed to the following financial risks in the ordinary course of its business operations:

- market risk: stemming from changes in interest rates and exchange rates in connection with financial assets that have been originated and financial liabilities that have been assumed;
- credit risk: representing the risk of non-fulfillment of the obligations undertaken by the counterpart with regard to the liquidity investments of the Group;
- liquidity risk: connected with the need to meet short-term financial commitments.

These financial risks are managed by:

- the definition, at a central level, of guidelines for directing operations;
- the activity of an internal committee which monitors the level of exposure to market risks consistently with prefixed general objectives;
- the identification of the most suitable financial instruments, including derivatives, to reach prefixed objectives;
- the monitoring of the results achieved;
- the exclusion of the use of financial instruments for speculative purposes.

The policies for the management and the sensitivity analyses of the above financial risks by the Telecom Italia Group are described below.

Identification of risks and analyses

The Telecom Italia Group is exposed to market risks as a result of changes in interest rates and exchange rates in the markets in which it operates or has bond issues, principally Europe, the United States, Great Britain and Latin America.

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

portfolio, which is also achieved by using carefully selected derivative financial instruments.

The Group defines an optimum composition for the fixed-rate and variable-rate debt structure and uses derivative financial instruments to achieve that prefixed composition. In consideration of the Group s operating activities, the optimum combination of medium/long-term non-current financial liabilities has been established, on the basis of the nominal amount, in the range 65% 75% for the fixed-rate component and consequently 25% 35% for the variable-rate component.

In managing market risk, the Group adopted Guidelines on Financial risk management and control and mainly uses the following financial derivatives:

- Interest Rate Swaps (IRS): used to modify the profile of the original exposure to interest rate risks on loans and bonds, whether fixed or variable;

- Cross Currency and Interest Rate Swaps (CCIRS) and Currency Forwards: used to convert loans and bonds issued in currencies other than euro principally in U.S. dollars and British pounds to the functional currencies of the operating companies.

Derivative financial instruments are designated as fair value hedges for the management of exchange rate risk on instruments denominated in currencies other than euro and for the management of the interest rate risk on fixed-rate loans. Derivative financial instruments are designated as cash flow hedges when the objective is to fix in advance the exchange rate of future transactions and the interest rate.

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All derivative financial instruments are entered into with banking and financial counterparts with at least a BBB- rating from Standard & Poors or equivalent rating. The exposure to the various market risks can be measured by the sensitivity analysis, as set forth in IFRS 7. This analysis illustrates the effects produced by a given and assumed change in the levels of the relevant variables in the various reference markets (exchange rates, interest rates and prices) on finance income and expenses and, at times, directly on equity. The sensitivity analysis was performed based on the suppositions and assumptions indicated below:

- sensitivity analyses were performed by applying reasonably likely changes in the relevant risk variables to the amounts in the financial statements at December 31, 2012;

- the changes in value of fixed-rate financial instruments, other than derivatives, produced by changes in the reference interest rates, generate an impact on profit only when, in accordance with IAS 39, they are accounted for at their fair value. All fixed-rate instruments, which are accounted for at amortized cost, are not subject to interest rate risk as defined by IFRS 7;

- in the case of fair value hedge relationships, fair value changes of the underlying hedged item and of the derivative instrument, due to changes in the reference interest rates, offset each other almost entirely in the income statement for the year. As a result, these financial instruments are not exposed to interest rate risk;

- the changes in value of designated financial instruments in a cash flow hedge relationship, produced by changes in interest rates, generate an impact on the debt level and on equity; accordingly they are included in this analysis;

- the changes in value, produced by changes in the reference interest rates, of variable-rate financial instruments, other than derivatives, which are not part of a cash flow hedge relationship, generate an impact on the finance income and expenses for the year; accordingly they are included in this analysis.

Exchange rate risk Sensitivity analysis

At December 31, 2012 (and also at December 31, 2011), the exchange risk of the Group s loans denominated in currencies other than the functional currency of the consolidated financial statements was hedged in full. For this reason, a sensitivity analysis has not been performed on the exchange risk.

Interest rate risk Sensitivity analysis

The change in interest rates on the variable component of payables and liquidity may lead to higher or lower finance income and expenses, while the changes in the level of the expected interest rate affect the fair value measurement of the Group s derivatives. In particular:

- with regard to derivatives that convert the liabilities contracted by the Group to fixed rates (cash flow hedging), in keeping with international accounting standards that regulate hedge accounting, the fair value (mark-to-market) measurement of such instruments is set aside in a specific undistributable Equity reserve. The combined change of the numerous market variables to which the mark-to-market calculation is subject between the transaction inception date and the measurement date renders any assumption about the trend of the variables of little significance. As the contract expiration date approaches, the accounting effects described will gradually be absorbed until they cease to exist;

- if at December 31, 2012 the interest rates in the various markets in which the Telecom Italia Group operates had been 100 basis points higher/lower compared to the actual rates, then higher/lower finance expenses, before the net fiscal impact, would have been recognized in the income statement of 18 million euros (42 million euros at December 31, 2011).

Allocation of the financial structure between fixed rate and variable rate

As for the allocation of the financial structure between the fixed-rate component and the variable-rate component, for both financial assets and liabilities, reference should be made to the following tables. They show the nominal repayment/investment amount (since that amount expresses the effective interest rate exposure of the Group) and, as far as financial assets are concerned, the intrinsic nature (financial characteristics and duration) of the transactions under consideration rather than just the stated contractual terms alone. Bearing that

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in mind, a transaction whose characteristics (short or very short time frame and frequent renewal) are such that the interest rate is periodically reset on the basis of market parameters, even though the contract does not call for re-fixing the interest rate (such as in the case of bank deposits, Euro Commercial Papers and receivables on sales of securities), has been considered in the category of variable rate.

Total Financial liabilities (at the nominal repayment amount)

	As of December 31, 2012			As of December 31, 2011		
	Fixed rate	Variable rate	Total	Fixed rate	Variable rate	Total
	(millions of euros)					
Bonds	20,823	5,500	26,323	20,156	6,819	26,975
Loans and other financial liabilities	5,744	3,918	9,662	5,789	4,421	10,210
Total non-current financial liabilities (including the current portion of medium/long-term financial liabilities)	**26,567**	**9,418**	**35,985**	**25,945**	**11,240**	**37,185**
Total current financial liabilities(*)	**71**	**567**	**638**	**57**	**813**	**870**
Total	**26,638**	**9,985**	**36,623**	**26,002**	**12,053**	**38,055**

(*) At December 31, 2012, variable-rate current liabilities include 252 million euros of payables to other lenders for installments paid in advance which are conventionally classified in this line item even though they are not correlated to a definite rate parameter (276 million euros at December 31, 2011).

Total Financial assets (at the nominal investment amount)

	As of December 31, 2012			As of December 31, 2011		
	Fixed rate	Variable rate	Total	Fixed rate	Variable rate	Total
	(millions of euros)					
Cash and cash equivalents		5,840	5,840	0	5,167	5,167
Euro Commercial Papers		150	150	0	219	219
Securities	380	1,902	2,282	125	2,233	2,358
Other receivables	611	298	909	777	215	992
Total	**991**	**8,190**	**9,181**	**902**	**7,834**	**8,736**

With regard to variable-rate financial instruments, the contracts provide for revisions of the relative parameters to take place within the subsequent 12 months.

Effective interest rate

As to the effective interest rate, for the categories where that parameter can be determined, such parameter refers to the original transaction net of the effect of any derivative hedging instruments.

The disclosure, since it is provided by class of financial asset and liability, was determined, for purposes of calculating the weighted average, using the carrying amount adjusted by accruals, prepayments, deferrals and changes in fair value: this is therefore the amortized cost, net of accruals and any changes in fair value as a consequence of hedge accounting.

Total Financial liabilities

	As of December 31, 2012		As of December 31, 2011	
	Adjusted carrying amount (millions of euros)	Effective interest rate (%)	Adjusted carrying amount (millions of euros)	Effective interest rate (%)
Bonds	26,175	5.90	26,874	6.00
Loans and other financial liabilities	9,692	3.68	10,686	4.12
Total	**35,867**	**5.30**	**37,560**	**5.46**

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Total Financial assets

	As of December 31, 2012		As of December 31, 2011	
	Adjusted carrying amount (millions of euros)	Effective interest rate (%)	Adjusted carrying amount (millions of euros)	Effective interest rate (%)
Cash and cash equivalents	5,840	1.31	5,167	2.52
Euro Commercial Papers	150	0.27	219	1.51
Securities	2,282	8.20	2,358	7.29
Other receivables	276	5.72	389	5.22
Total	**8,548**	**3.27**	**8,133**	**4.01**

With respect to financial assets, the weighted average effective interest rate is not materially affected by the use of derivatives.

As for market risk management using derivatives, reference should be made to the Note Derivatives .

Credit risk

Exposure to credit risk for the Telecom Italia Group consists of possible losses that could arise from the failure of either commercial or financial counterparts to fulfill their assumed obligations. Such exposure mainly stems from general economic and financial factors, the potential occurrence of specific insolvency situations of some borrowers and other more strictly technical-commercial or administrative factors.

The Telecom Italia Group s maximum theoretical exposure to credit risk is represented by the carrying amount of the financial assets and trade receivables recorded in the financial statements.

Risk related to trade receivables is managed using client scoring and analysis systems. For specific categories of trade receivables the Group also makes use of factoring, mainly on a non-recourse basis.

Provision charges for bad debts are recorded for specific credit positions that have elements of individual risk. On credit positions that do not present such characteristics, provision charges are recorded by customer segment according to the average uncollectibility estimated on the basis of statistics. Further details are provided in the Note Trade and miscellaneous receivables and other current assets .

For the credit risk relating to the asset components which contribute to the determination of Net financial debt , it should be noted that the management of the Group s liquidity is guided by conservative criteria and is principally based on the following:

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money market management: the investment of temporary excess cash resources during the year which are expected to turn around within the subsequent 12-month period;

- bond portfolio management: the investment of a permanent level of liquidity and the investment of that part of liquidity which is expected to turn around for cash requirement purposes after a 12-month period, as well as the improvement in the average yield.

In order to limit the risk of the non-fulfillment of the obligations undertaken by the counterpart, deposits of the European companies are made with leading high-credit-quality banking and financial institutions. Investments by the companies in South America are made with leading local counterparts. Moreover, deposits are made generally for periods of less than three months. With regard to other temporary investments of liquidity, there are investments in Euro Commercial Paper (the issuers all have at least an A- rating by Standard & Poor s or equivalent and headquarters in Europe) and bonds featuring a limited level of risk. All investments were carried out in compliance with the Guidelines on Financial risk management and control adopted by the Group in August 2012, which replaced previous policies in force since July 2009.

In order to minimize credit risk, the Group also follows a diversification policy for its investments of liquidity and allocation of its credit positions among different banking counterparts. Consequently, there are no significant positions with any one single counterpart.

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Liquidity risk

The Group pursues the objective of achieving an adequate level of financial flexibility which is expressed by maintaining a current treasury margin to cover the refinancing requirements at least for the next 12 months with irrevocable bank lines and liquidity.

Current financial assets at December 31, 2012, together with unused committed bank lines, ensure complete coverage of debt repayment obligations beyond 24 months.

14% of gross financial debt at December 31, 2012 (nominal repayment amount) will become due in the next 12 months.

The following tables report the contractual cash flows, not discounted to present value, relative to gross financial debt at nominal repayment amounts and the interest flows, determined using the terms and the interest and exchange rates in place at December 31, 2012. The portions of principal and interest of the hedged liabilities includes both the disbursements and the receipts of the relative hedging derivatives.

Financial liabilities Maturities of contractually expected disbursements

		Maturing by December 31, of the year						
		2013	2014	2015	2016	2017	After 2017	Total
		(millions of euros)						
Bonds	Principal	2,894	2,546	2,544	2,250	2,919	13,170	26,323
	Interest	1,524	1,339	1,220	1,092	969	7,517	13,661
Loans and other financial liabilities	Principal	1,416	2,753	1,118	624	818	1,569	8,298
	Interest	202	152	33	40	(14)	(403)	10
Finance lease liabilities	Principal	205	108	144	151	162	594	1,364
	Interest	92	84	76	67	57	121	497
Non-current financial liabilities(*)	**Principal**	**4,515**	**5,407**	**3,806**	**3,025**	**3,899**	**15,333**	**35,985**
	Interest	**1,818**	**1,575**	**1,329**	**1,199**	**1,012**	**7,235**	**14,168**
Current financial liabilities	Principal	638						638
	Interest	6						6
Total financial liabilities	**Principal**	**5,153**	**5,407**	**3,806**	**3,025**	**3,899**	**15,333**	**36,623**
	Interest	**1,824**	**1,575**	**1,329**	**1,199**	**1,012**	**7,235**	**14,174**

(*) Including hedging and non-hedging derivatives.

Derivatives on financial liabilities Contractually expected interest flows

	Maturing by December 31, of the year						
	2013	**2014**	**2015**	**2016**	**2017**	**After 2017**	**Total**
	(millions of euros)						
Disbursements	828	656	544	476	463	3,966	6,933
Receipts	(864)	(726)	(639)	(536)	(536)	(4,527)	(7,828)
Hedging derivatives net (receipts) disbursements	**(36)**	**(70)**	**(95)**	**(60)**	**(73)**	**(561)**	**(895)**
Disbursements	34	24	22	21	8	12	121
Receipts	(12)	(7)	(6)	(6)	(3)	(4)	(38)
Non-hedging derivatives net (receipts) disbursements	**22**	**17**	**16**	**15**	**5**	**8**	**83**
Total net receipts	**(14)**	**(53)**	**(79)**	**(45)**	**(68)**	**(553)**	**(812)**

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Consolidated Financial Statements Notes To Consolidated Financial Statements

Market value of derivatives

In order to determine the fair value of derivatives, the Telecom Italia Group uses various valuation models.

The mark-to-market calculation is determined by discounting to present value the interest and notional future contractual flows using market interest rates and exchange rates.

The notional amount of IRS does not represent the amount exchanged between the parties and therefore does not constitute a measurement of credit risk exposure which, instead, is limited to the amount of the difference between the interest rates paid/received.

The market value of CCIRSs, instead, also depends on the difference between the reference exchange rate at the date of signing the contract and the exchange rate at the date of measurement, since CCIRSs imply the exchange of the reference interest and principal, in the respective currencies of denomination.

NOTE 17 DERIVATIVES

Derivative financial instruments are used by the Telecom Italia Group to hedge its exposure to foreign exchange rate risk and the change in commodity prices and the management of interest rate risk and also to diversify the parameters of debt so that costs and volatility can be reduced to within predetermined operational limits.

Derivative financial instruments at December 31, 2012 are principally used to manage debt positions. They include interest rate swaps (IRS) to reduce interest rate exposure on fixed-rate and variable-rate bank loans and bonds, as well as cross currency and interest rate swaps (CCIRS) and currency forwards to convert the loans secured in different foreign currencies to the functional currencies of the various companies of the Group.

IRS transactions, provide for or may entail, at specified maturity dates, the exchange of flows of interest, calculated on the notional amount, at the agreed fixed or variable rates.

The same also applies to CCIRS transactions which, in addition to the settlement of periodic interest flows, may provide for the exchange of principal, in the respective currencies of denomination, at maturity and possibly spot.

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The following tables present the derivative financial instruments of the Telecom Italia Group at December 31, 2012 and at December 31, 2011, by type:

Type	Hedged Risk	Notional amount at 12/31/2012	Notional amount at 12/31/2011	Spot (*) Mark-to-Market (Clean Price) at 12/31/2012	Spot (*) Mark-to-Market (Clean Price) at 12/31/2011
			(millions of euros)		
Interest rate swaps	Interest rate risk	2,400	3,100	(1)	9
Cross Currency and Interest Rate Swaps	Interest rate risk and currency exchange rate risk	3,179	3,257	188	193
Total Fair Value Hedge Derivatives		**5,579**	**6,357**	**187**	**202**
Interest rate swaps	Interest rate risk	3,120	3,370	(228)	(307)
Cross Currency and Interest Rate Swaps	Interest rate risk and currency exchange rate risk	10,402	10,402	(577)	56
Commodity Swap and Options	Commodity risk (energy)	27		1	
Forward and FX Options	Currency exchange rate risk	32	1	(2)	
Total Cash Flow Hedge Derivatives		**13,581**	**13,773**	**(806)**	**(251)**
Total Non-Hedge Accounting Derivatives		**627**	**730**	**45**	**(22)**
Total Telecom Italia Group Derivatives		**19,787**	**20,860**	**(574)**	**(71)**

(*) Spot Mark-to-market above represents the market measurement of the derivative net of the accrued portion of the flow in progress.

The hedge of cash flows by derivatives designated as cash flow hedges was considered highly effective and at December 31, 2012 led to:

- recognition in equity of unrealized losses of 430 million euros;

- reversal from equity to the income statement of net losses from exchange rate adjustments of 111 million euros.

Furthermore, at December 31, 2012, the total loss of the hedging instruments still recognized in equity amounted to 8 million euros as a result of the effect of transactions early terminated over the years. The negative impact reversed to the income statement during 2012 is 6 million euros.

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The transactions hedged by cash flow hedges will generate cash flows and will produce economic effects in the income statement in the periods indicated in the following table:

Currency of denomination	Notional amount in currency of denomination (millions)	Start of period	End of period	Rate applied	Interest period
USD	2,000	Jan 2013	Nov 2013	5.25%	Semiannually
Euro	120	Jan 2013	Nov 2015	3-month Euribor +0.66%	Quarterly
GBP	500	Jan 2013	Dec 2015	5.625%	Annually
GBP	850	Jan 2013	June 2019	6.375%	Annually
GBP	400	Jan 2013	May 2023	5.875%	Annually
USD	186	Jan 2013	Oct 2029	5.45%	Semiannually
USD	1,000	Jan 2013	Nov 2033	6.375%	Semiannually
USD	1,000	Jan 2013	July 2036	7.20%	Semiannually
Euro	250	Jan 2013	July 2013	3-month Euribor +0.63%	Quarterly
USD	1,000	Jan 2013	June 2018	6.999%	Semiannually
USD	1,000	Jan 2013	June 2038	7.721%	Semiannually
Euro	400	Jan 2013	June 2016	3-month Euribor +0.79%	Quarterly
Euro	1,500	Jan 2013	Aug 2014	1-month Euribor +0.1575%	Monthly
Euro	350	Jan 2013	Mar 2014	6-month EIB +0.29%	Semiannually
Euro	400	Jan 2013	Sept 2013	3-month EIB +0.15%	Quarterly
Euro	100	Jan 2013	Dec 2013	6-month Euribor -0.023%	Semiannually
GBP	750	Jan 2013	Dec 2017	3.72755%	Annually
USD	1,000	Jan 2013	June 2014	6.175%	Semiannually
USD	1,000	Jan 2013	June 2019	7.175%	Semiannually
USD	1,000	Jan 2013	Sept 2034	6%	Semiannually

The method selected to test the effectiveness retrospectively and, whenever the principal terms do not fully coincide, prospectively, for cash flow hedge derivatives, is the Volatility Risk Reduction (VRR) Test. This test assesses the ratio between the portfolio risk (where the portfolio means the derivative and the item hedged) and the risk of the hedged item taken separately. In short, the portfolio risk must be significantly less than the risk of the item hedged.

The ineffective portion recognized in the income statement from designated cash flow hedge derivatives during 2012 is equal to 0.1 million euros.

NOTE 18 SUPPLEMENTARY DISCLOSURES ON FINANCIAL INSTRUMENTS

Measurement at fair value

The majority of non-current financial liabilities of the Telecom Italia Group are composed of bonds, the fair value of which can be easily determined by reference to financial instruments which, in terms of size and diffusion among

investors, are commonly traded on the relative markets (please refer to the Note Financial Liabilities non-current and current). However, as concerns other types of financing, the following assumptions have been made in order to determine fair value:

- for variable-rate loans: the nominal repayment amount has been assumed;

- for fixed-rate loans: fair value has been assumed as the present value of future cash flows using market interest rates at December 31, 2012.

Lastly, for the majority of financial assets, their carrying amount constitutes a reasonable approximation of their fair value since these are short-term investments that are readily convertible into cash.

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

- Level 1: quoted prices in active market;

- Level 2: prices calculated using observable market inputs;

- Level 3: prices calculated using inputs that are not based on observable market data.

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The following tables set out, for assets and liabilities at December 31, 2012 and 2011 and in accordance with the categories established by IAS 39, the supplementary disclosure on financial instruments required by IFRS 7 and the schedules of gains and losses.

Key for IAS 39 categories	
	Acronym
Loans and Receivables	LaR
Financial assets Held-to-Maturity	HtM
Financial assets Available-for-Sale	AfS
Financial Assets/Liabilities Held for Trading	FAHfT and FLHfT
Financial Liabilities at Amortized Cost	FLAC
Hedging Derivatives	HD
Not applicable	n.a.

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Carrying amount for each class of financial asset/liability at December 31, 2012

	IAS 39 categories	Note	Carrying amounts in financial statements at 12/31/2012	Amounts recognized in the financial statements according to IAS 39				Amounts recognized in financial statements according to IAS 17
				Amortized cost	Cost	Fair value taken to equity	Fair value recognized in the income statement	
				(millions of euros)				
Assets								
Non-current financial assets								
Other investments	AfS	8	39		26	13		
Securities, financial receivables and other non-current financial assets								
of which loans and receivables	LaR	9	40	40				
of which securities	AfS	9	22			22		
of which hedging derivatives	HD	9	2,291			1,819	472	
of which non- hedging derivatives	FAHfT	9	33				33	
of which receivables for lease contracts	n.a.	9	110					110
Miscellaneous receivables and other non-current assets(*)								
of which loans and receivables	LaR	10	337	330	7			
		(A)	**2,872**	**370**	**33**	**1,854**	**505**	**110**
Current financial assets								
Trade and miscellaneous receivables and other current assets(*)								
of which loans and receivables	LaR	13	5,687	5,687				
Securities								
of which available-for-sale	AfS	9	754			754		
Financial receivables and other current financial assets								
of which loans and receivables	LaR	9	116	116				
of which hedging derivatives	HD	9	246			185	61	

of which non-hedging derivatives	FAHfT	9	39				39	
of which receivables for lease contracts	n.a.	9	101					101
Cash and cash equivalents	LaR	9	7,436	7,436				
		(B)	**14,379**	**13,239**		**939**	**100**	**101**
Total		**(A+B)**	**17,251**	**13,609**	**33**	**2,793**	**605**	**211**
Liabilities								
Non-current financial liabilities								
of which liabilities at amortized cost(**)	FLAC/HD	15	30,361	30,361				
of which hedging derivatives	HD	15	2,558			2,386	172	
of which non-hedging derivatives	FLHfT	15	13				13	
of which finance lease liabilities	n.a.	15	1,159					1,159
		(C)	**34,091**	**30,361**		**2,386**	**185**	**1,159**
Current financial liabilities								
of which liabilities at amortized cost(**)	FLAC/HD	15	5,564	5,564				
of which hedging derivatives	HD	15	350			327	23	
of which non-hedging derivatives	FLHfT	15	17				17	
of which finance lease liabilities	n.a.	15	219					219
Trade and miscellaneous payables and other current liabilities(*)								
of which liabilities at amortized cost	FLAC	22	7,268	7,268				
		(D)	**13,418**	**12,832**		**327**	**40**	**219**
Total		**(C+D)**	**47,509**	**43,193**		**2,713**	**225**	**1,378**

(*) Part of assets or liabilities falling under application of IFRS 7.

(**)They also include those at adjusted amortized cost that qualify for hedge accounting.

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Comparison between carrying amount and fair value for each class of financial asset/liability at December 31, 2012

			Amounts recognized in the financial statements according to IAS 39					
	IAS 39 categories	Carrying amounts in financial statements at 12/31/2012	Amortized cost	Cost	Fair value taken to equity	Fair value recognized in the income statement	Amounts recognized in financial statements according to IAS 17	Fair Value at 12/31/2012
				(millions of euros)				
Assets								
Loans and receivables	LaR	13,616	13,609	7				13,616
Available-for-sale financial assets	AfS	815		26	789			815
Financial assets at fair value through profit or loss held for trading	FAHfT	72				72		72
Of which non-hedging derivatives	*FAHfT*	*72*				*72*		*72*
Hedging derivatives	HD	2,537			2,004	533		2,537
Assets measured according to IAS 17	n.a.	211					211	211
Total		**17,251**	**13,609**	**33**	**2,793**	**605**	**211**	**17,251**
Liabilities								
Financial liabilities at amortized cost(*)	FLAC/HD	43,193	43,193					44,741
Financial liabilities at fair value through profit or loss held for trading	FLHfT	30				30		30
Of which non-hedging derivatives	FLHfT	30				30		30
Hedging derivatives	HD	2,908			2,713	195		2,908
Liabilities measured according to IAS 17	n.a.	1,378					1,378	1,793
Total		**47,509**	**43,193**		**2,713**	**225**	**1,378**	**49,472**

(*) They also include those at adjusted amortized cost that qualify for hedge accounting.

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Fair value hierarchy level for each class of financial asset/liability at December 31, 2012

				Hierarchy levels		
	IAS 39 categories	Note	Carrying amounts in financial statements at 12/31/2012 (millions of euros)	Level 1(*)	Level 2(*)	Level 3(*)
Assets						
Non-current financial assets						
Other investments	AfS	8	39	3	10	
Securities, financial receivables and other non-current financial assets						
of which securities	AfS	9	22	22		
of which hedging derivatives	HD	9	2,291		2,291	
of which non-hedging derivatives	FAHfT	9	33		33	
	(A)		**2,385**	**25**	**2,334**	
Current financial assets						
Securities						
of which available-for-sale	AfS	9	754	754		
of which held for trading	FAHfT	9				
Financial receivables and other current financial assets						
of which hedging derivatives	HD	9	246		246	
of which non-hedging derivatives	FAHfT	9	39		39	
	(B)		**1,039**	**754**	**285**	
Total	**(A+B)**		**3,424**	**779**	**2,619**	
Liabilities						
Non-current liabilities						
of which hedging derivatives	HD	15	2,558		2,558	
of which non- hedging derivatives	FLHfT	15	13		13	
	(C)		**2,571**		**2,571**	
Current liabilities						

of which hedging derivatives	HD	15	350	350
of which non-hedging derivatives	FLHfT	15	17	17
	(D)		**367**	**367**
Total	**(C+D)**		**2,938**	**2,938**

(*) Level 1: quoted prices in active markets.

Level 2: prices calculated using observable market inputs.

Level 3: prices calculated using inputs that are not based on observable market data.

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Carrying amount for each class of financial asset/liability at December 31, 2011

				Amounts recognized in financial statements according to IAS 39				
	IAS 39 categories	Note	Carrying amounts in financial statements at 12/31/2011	Amortized cost	Cost	Fair value taken to equity	Fair value recognized in the income statement	Amounts recognized in financial statements according to IAS 17
				(millions of euros)				
Assets								
Non-current financial assets								
Other investments	AfS	8	38		26	12		
Securities, financial receivables and other non-current financial assets								
of which loans and receivables	LaR	9	56	56				
of which securities	AfS	9	12			12		
of which hedging derivatives	HD	9	2,701			2,181	520	
of which non- hedging derivatives	FAHfT	9	27				27	
of which receivables for lease contracts	n.a.	9	153					153
Miscellaneous receivables and other non-current assets(*)								
of which loans and receivables	LaR	10	349	339	10			
		(A)	**3,336**	**395**	**36**	**2,205**	**547**	**153**
Current financial assets								
Trade and miscellaneous receivables and other current assets(*)								
of which loans and receivables	LaR	13	6,632	6,632				
Securities								
of which available-for-sale	AfS	9	1,006			1,006		
of which held for trading	FAHfT	9	1				1	
Financial receivables and other current financial assets								
of which loans and receivables	LaR	9	79	79				
of which hedging derivatives	HD	9	244			153	91	

of which non-hedging derivatives	FAHfT	9	24				24	
of which receivables for lease contracts	n.a.	9	115					115
Cash and cash equivalents	LaR	9	6,714	6,714				
		(B)	**14,815**	**13,425**		**1,159**	**116**	**115**
Total		**(A+B)**	**18,151**	**13,820**	**36**	**3,364**	**663**	**268**
Liabilities								
Non-current financial liabilities								
of which liabilities at amortized cost(**)	FLAC/HD	15	32,003	32,003				
of which hedging derivatives	HD	15	2,513			2,332	181	
of which non-hedging derivatives	FLHfT	15	40				40	
of which finance lease liabilities	n.a.	15	1,304					1,304
		(C)	**35,860**	**32,003**		**2,332**	**221**	**1,304**
Current financial liabilities								
of which liabilities at amortized cost(**)	FLAC/HD	15	5,614	5,614				
of which hedging derivatives	HD	15	196			166	30	
of which non-hedging derivatives	FLHfT	15	36				36	
of which finance lease liabilities	n.a.	15	245					245
Trade and miscellaneous payables and other current liabilities(*)								
of which liabilities at amortized cost	FLAC	22	7,388	7,388				
		(D)	**13,479**	**13,002**		**166**	**66**	**245**
Total		**(C+D)**	**49,339**	**45,005**		**2,498**	**287**	**1,549**

(*) Part of assets or liabilities falling under application of IFRS 7.

(**)They also include those at adjusted amortized cost that qualify for hedge accounting.

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Comparison between carrying amount and fair value for each class of financial asset/liability at December 31, 2011

			Amounts recognized in the financial statements according to IAS 39					
	IAS 39 categories	Carrying amounts in financial statements at 12/31/2011	Amortized cost	Cost	Fair value taken to equity	Fair value recognized in the income statement	Amounts recognized in financial statements according to IAS 17	Fair Value at 12/31/2011
				(millions of euros)				
Assets								
Loans and receivables	LaR	13,830	13,820	10				13,830
Available-for-sale financial assets	AfS	1,056		26	1,030			1,056
Financial assets at fair value through profit or loss held for trading	FAHfT	52				52		52
Of which non-hedging derivatives	FAHfT	51				51		51
Hedging derivatives	HD	2,945			2,334	611		2,945
Assets measured according to IAS 17	n.a.	268					268	268
Total		**18,151**	**13,820**	**36**	**3,364**	**663**	**268**	**18,151**
Liabilities								
Financial liabilities at amortized cost(*)	FLAC/HD	45,005	45,005					42,576
Financial liabilities at fair value through profit or loss held for trading	FLHfT	76				76		76
Of which non-hedging derivatives	FLHfT	76				76		76
Hedging derivatives	HD	2,709			2,498	211		2,709
Liabilities measured according to IAS 17	n.a.	1,549					1,549	1,600
Total		**49,339**	**45,005**		**2,498**	**287**	**1,549**	**46,961**

(*) They also include those at adjusted amortized cost that qualify for hedge accounting.

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Fair value hierarchy level for each class of financial asset/liability at December 31, 2011

				Hierarchy levels		
	IAS 39 categories	Note	Carrying amounts in financial statements at 12/31/2011	Level 1(*)	Level 2(*)	Level 3(*)
			(millions of euros)			
Assets						
Non-current financial assets						
Other investments	AfS	8	38	2	10	
Securities, financial receivables and other non-current financial assets						
of which securities	AfS	9	12	12		
of which hedging derivatives	HD	9	2,701		2,701	
of which non-hedging derivatives	FAHfT	9	27		27	
(A)			**2,778**	**14**	**2,738**	
Current financial assets						
Securities						
of which available-for-sale	AfS	9	1,006	1,006		
of which held for trading	FAHfT	9	1		1	
Financial receivables and other current financial assets						
of which hedging derivatives	HD	9	244		244	
of which non-hedging derivatives	FAHfT	9	24		24	
(B)			**1,275**	**1,006**	**269**	
Total (A+B)			**4,053**	**1,020**	**3,007**	
Liabilities						
Non-current financial liabilities						
of which hedging derivatives	HD	15	2,513		2,513	
of which non- hedging derivatives	FLHfT	15	40		40	
(C)			**2,553**		**2,553**	
Current financial liabilities						

of which hedging derivatives	HD	15	196	196
of which non-hedging derivatives	FLHfT	15	36	36
	(D)		**232**	**232**
Total	**(C+D)**		**2,785**	**2,785**

(*) Level 1: quoted prices in active markets.

Level 2: prices calculated using observable market inputs.

Level 3: prices calculated using inputs that are not based on observable market data.

Gains and losses by IAS 39 category Year 2012

	IAS 39 categories	**Net gains/(losses), 2012 (1) (millions of euros)**	***Of which interest***
Loans and receivables	LaR	(446)	*216*
Available-for-sale financial assets	AfS	29	
Financial assets and liabilities at fair value through profit and loss held for trading	FAHfT/FLHfT	6	
Financial liabilities at amortized cost	FLAC	(1,833)	*(1,792)*
Total		**(2,244)**	***(1,576)***

(1) Of which 2 million euros relates to fees and expenses not included in the effective interest rate calculation on financial assets/liabilities other than those at fair value through profit or loss held-for-trading.

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Gains and losses by IAS 39 category Year 2011

	IAS 39 categories	Net gains/(losses), 2011(1) (millions of euros)	*Of which interest*
Loans and receivables	LaR	(461)	*195*
Available-for-sale financial assets	AfS	45	
Financial assets and liabilities at fair value through profit and loss held for trading	FAHfT/FLHfT	52	
Financial liabilities at amortized cost	FLAC	(1,847)	*(1,813)*
Total		**(2,211)**	***(1,618)***

1) Of which, 3 million euros relates to fees and expenses not included in the effective interest rate calculation on financial assets/liabilities other than those at fair value through profit or loss held-for-trading.

NOTE 19 EMPLOYEE BENEFITS

Employee benefits decreased 123 million euros compared to December 31, 2011 and are composed of the following:

		As of December 31, 2010	Increases/ present value	Decrease	Exchange differences and other changes	As of December 31, 2011
				(millions of euros)		
Provision for employee severance indemnities	**(A)**	**986**	**(75)**	**(82)**		**829**
Provision for pension plans		59	(3)	(1)	(34)	21
Provision for termination benefit incentives		275	19	(105)		189
Total other provisions for employee benefits	**(B)**	**334**	**16**	**(106)**	**(34)**	**210**
Total	**(A+B)**	**1,320**	**(59)**	**(188)**	**(34)**	**1,039**
Of which:						
Non-current portion		*1,129*				*850*

*Current portion**	*191*	*189*

(*) The current portion refers only to Other provisions for employee benefits.

		As of December 31, 2011	Increases/ present value	Decrease	Exchange differences and other changes	As of December 31, 2012
				(millions of euros)		
Provision for employee severance indemnities	**(A)**	**829**	**99**	**(92)**	**(1)**	**835**
Provision for pension plans		21	2	(1)	1	23
Provision for termination benefit incentives		189	18	(147)	(2)	58
Total other provisions for employee benefits	**(B)**	**210**	**20**	**(148)**	**(1)**	**81**
Total	**(A+B)**	**1,039**	**119**	**(240)**	**(2)**	**916**
Of which:						
Non-current portion		*850*				*872*
*Current portion**		*189*				*44*

(*) The current portion refers only to Other provisions for employee benefits.

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Provision for employee severance indemnities only refers to Italian companies and increased overall by 6 million euros. The reduction of 92 million euros under decreases refers to indemnities paid to employees who terminated employment or for advances. The increase of 99 million euros in the column Increases/present value includes the following:

	Year ended December 31,		
	2012	2011	2010
	(millions of euros)		
Current service cost (*)			
Finance expenses	43	42	44
Net actuarial losses (gains) for the year	56	(117)	(4)
Total (income) expense	**99**	**(75)**	**40**
Effective return on plan assets	**n/a**	**n/a**	**n/a**

(*) Following the social security reform in 2007, the portions intended for the INPS Treasury Fund or for the supplementary pension funds have been recorded under Employee benefits expenses , in Social security expenses , and not as Employee severance indemnities expenses . The latter account will still be used only for the severance indemnity expenses of companies with less than 50 employees, equal to 0.4 million euros in 2012 (basically unchanged compared to 2011).

The net actuarial losses recognized at December 31, 2012 (56 million euros) are essentially related to the changes in the economic parameters (discount and inflation rate), while the net actuarial gains posted in 2011 (117 million euros) were affected by the changes in the economic parameters, as well as the introduction of the new law on pensions (Law no. 214 of December 22, 2011) which extended the estimated period of service of the employees.

According to national law, the amount to which each employee is entitled depends on the period of service and must be paid when the employee leaves the company. The amount of severance indemnity due upon termination of employment is calculated on the basis of the period of employment and the taxable compensation of each employee. This liability is adjusted annually based on the official cost-of-living index and legally-prescribed interest earned. The liability is not associated with any vesting condition or period or any funding obligation; hence, there are no assets servicing the provision.

Under the regulations introduced by Legislative Decree 252/2005 and Law 296/2006 (the State Budget Law 2007), for companies with at least 50 employees, the severance indemnities accruing from 2007 are assigned, as elected by the employees, to either the INPS Treasury Fund or to supplementary pension funds and take the form of a Defined contribution plan .

However, for all companies, the revaluations of the amounts in the provision for employee severance indemnities existing at the election date, and also the amounts accrued and not assigned to supplementary pension plans for companies with less than 50 employees, are retained in the provision for employee severance indemnities. In

accordance with IAS 19 (2011), this provision has been recognized as a Defined benefit plan .

Under IAS 19 (2011), employee severance indemnities have been recalculated with actuarial techniques using the Projected Unit Credit Method as follows:

- the future possible benefits which could be paid to each employee registered in the program in the event of retirement, death, disability, resignation etc. have been projected on the basis of a series of financial assumptions (cost-of-living increases, interest rate, increase in compensation etc.). The estimate of future benefits includes any increases for additional service seniority as well as the estimated increase in the compensation level at the measurement date only for employees of companies with less than 50 employees during the year 2006;

- the average present value of future benefits has been calculated, at the measurement date, on the basis of the annual interest rate adopted and the probability that each benefit has to be effectively paid;

- the liability of each company concerned has been calculated as the average present value of future benefits that will be generated by the existing provision at the measurement date, without considering any future accruals (for companies with at least 50 employees during the year 2006) or by identifying the amount of the average present value of future benefits which refer to the past service already accrued by the employee in the company at the measurement date (for the others), i.e. adopting the service pro rate .

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The following assumptions have been made in 2012 and in 2011:

Financial assumptions	Executives	Non executives
Inflation rate	2.0% per annum	2.0% per annum
Discount rate (1)	4.5% per annum	4.5% per annum
Employee severance indemnities annual increase rate (2)	3.0% per annum	3.0% per annum
Increase in compensation		
equal to or less than 40 years of age	1.0% per annum	1.0% per annum
over 40 but equal to or less than 55 years of age	0.5% per annum	0.5% per annum
over 55 years of age	0.0% per annum	0.0% per annum

(1) In 2011, the discount rate was 5.1% per annum both for executives and non executives.

(2) Refers only to 2012.

Demographic assumptions	Executives	Non executives
Probability of death	Mortality tables RG 48 published by Ragioneria Generale dello Stato	Mortality tables RG 48 published by Ragioneria Generale dello Stato
Probability of disability	INPS tables divided by age and sex	INPS tables divided by age and sex
Probability of resignation (in relation to the company):		
up to 40 years of age	From 3.0% to 5.0% per annum	From 1.5% to 4.0% per annum
over 40 up to 50 years of age	From 1.5% to 4.0% per annum	From 0.5% to 2.5% per annum
over 50 years of age	none	none
Probability of retirement:	Reaching the minimum requisites established by the Obligatory General Insurance updated on the basis of Law 214 of December 22, 2011	

Probability of receiving at the beginning of the year an advance from the provision for severance indemnities accrued equal to 70%	3.0% per annum	3.0% per annum

The adoption of the above assumptions resulted in a liability for employee severance indemnities at December 31, 2012 of 835 million euros (829 million euros at the end of 2011).

Provision for pension plans principally refer to pension plans operating in foreign companies of the Group.

Provision for termination benefit incentives decreased in total by 131 million euros. More specifically, the use during the year of the provision for mobility under Law 223/91 and the release of that provision to the income statement by the Parent, Telecom Italia, and by Telecom Italia Sparkle, TI Information Technology, Olivetti and Olivetti I-Jet, were offset by provisions made by the Argentina Business Unit for corporate restructuring expenses and charges resulting from agreements with trade unions entered into by Olivetti I-Jet (June 19, 2012 and June 25, 2012) and its subsidiary Olivetti Engineering S.A. (July 13, 2012), to manage redundancies in the company placed in liquidation.

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NOTE 20 PROVISIONS

Provisions increased 71 million euros compared to December 31, 2011 and are composed of the following:

	As of December 31, 2011	Increase	Used through income statement	Uses directly	Exchange differences and other changes	As of December 31, 2012
			(millions of euros)			
Provision for taxation and tax risks	149	12	(4)	(13)	(2)	142
Provision for restoration costs	455	28		(6)	(14)	463
Provision for legal disputes	339	184	(1)	(114)	(41)	367
Provision for commercial risks	63	76	(2)	(6)	(1)	130
Provision for risks and charges on investments and corporate-related transactions	116	3	(6)	(26)	1	88
Other provisions	128	6	(6)	(4)	7	131
Total	**1,250**	**309**	**(19)**	**(169)**	**(50)**	**1,321**
Of which:						
Non-current portion	*831*					*863*
Current portion	*419*					*458*

Provision for taxation and tax risks decreased 7 million euros as the net result from provision charges and utilizations, mainly attributable to the Brazil Business Unit (-2 million euros), the Argentina Business Unit (-2 million euros) and Olivetti Multiservices (-3 million euros).

Provision for restoration costs refers to the provision for the estimated cost to dismantle tangible assets and restore the sites used by Telecom Italia S.p.A., the companies of the Brazil Business Unit and the companies of the Argentina Business Unit. The provision increased 8 million euros compared to the previous year, inclusive of new provision charges and utilizations made by Telecom Italia S.p.A. and the Brazil Business Unit, as well as the effect of the foreign exchange differences.

Provision for legal disputes includes the provision for litigation with employees, social security entities and third parties and shows an increase of 28 million euros compared to December 31, 2011.

The provision for **commercial risks** increased 67 million euros from the prior year as a result of provisions made primarily by Telecom Italia S.p.A. to cover existing risks.

Provision for risks and charges on investments and corporate-related transactions shows a reduction of 28 million euros following the utilizations by the companies Telecom Italia S.p.A. and Telecom Italia Deutschland Holding

GmbH.

Other provisions are substantially unchanged from December 31, 2011 and comprise the provision made in prior years for the Telecom Italia Sparkle case in the amount of 86 million euros, the provision for the liberalization of frequencies, and the provisions made for regulatory proceedings.

NOTE 21 MISCELLANEOUS PAYABLES AND OTHER NON CURRENT LIABILITIES

Miscellaneous payables and other non-current liabilities decreased 103 million euros compared to December 31, 2011 and are composed of the following:

	As of December 31,	
	2012	2011
	(millions of euros)	
Payables to social security agencies	36	46
Capital grants	29	36
Deferred income	771	858
Income tax payables*	59	63
Other payables and liabilities	158	153
Total	**1,053**	**1,156**

(*) Analyzed in the Note *Income taxes* .

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Payables to social security agencies refer to the residual amount payable to INPS for estimated employee benefit obligations owed under Law 58/1992. Details are as follows:

	As of December 31,	
	2012	2011
	(millions of euros)	
Non-current payables:		
Due from 2 to 5 years after the end of the reporting period	20	28
Due beyond 5 years after the end of the reporting period	16	18
	36	**46**
Current payables	**12**	**23**
Total	**48**	**69**

Deferred income includes 394 million euros (462 million euros at December 31, 2011) for the deferral of revenues from the activation of Telecom Italia S.p.A. telephone service and 268 million euros (301 million euros at December 31, 2011) for the deferral of revenues from the sale of transmission capacity, referring to future years.

NOTE 22 TRADE AND MISCELLANEOUS PAYABLES AND OTHER CURRENT LIABILITIES

Trade and miscellaneous payables and other current liabilities decreased 442 million euros compared to December 31, 2011 and are composed of the following:

		As of December 31,			
		2012		2011	
			Of which Financial Instruments IAS 39		*Of which Financial Instruments IAS 39*
		(millions of euros)			
Payables on construction work	**(A)**	**35**		**31**	
Trade payables:					
Payables to suppliers		5,481	*5,481*	4,929	*4,929*
Payables to other telecommunication operators		638	*638*	1,335	*1,335*
	(B)	**6,119**	***6,119***	**6,264**	***6,264***
Tax payables	**(C)**	**641**		**773**	

Miscellaneous payables and other current liabilities:					
Payables for employee compensation		625	*625*	520	*520*
Payables to social security agencies		212		230	
Trade and miscellaneous deferred income		853		909	
Advances received		20		19	
Customer-related items		1,003	*274*	1,081	*316*
Payables for TLC operating fee		35		70	
Dividends approved, but not yet paid to shareholders		60	*60*	60	*60*
Other current liabilities		437	*190*	419	*228*
Employee benefits (except for Employee severance indemnities) for the current portion expected to be settled within 1 year		44		189	
Provisions for risks and charges for the current portion expected to be settled within 1 year		458		419	
	(D)	**3,747**	***1,149***	**3,916**	***1,124***
Total	**(A+B+C+D)**	**10,542**	***7,268***	**10,984**	***7,388***

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Further details on Financial Instruments are provided in the Note Supplementary disclosure on financial instruments .

Trade payables (due within 12 months) amounting to 6,119 million euros (6,264 million euros at December 31, 2011) mainly refer to Telecom Italia S.p.A. (3,114 million euros), the companies in the Brazil Business Unit (1,718 million euros) and the Argentina Business Unit (591 million euros). The reduction of 145 million euros compared to December 31, 2011 is partly due to the settlement of disputes with another operator, leading, inter alia, to a reduction in trade payables of 432 million euros.

Tax payables refer in particular to the VAT payable of Telecom Italia S.p.A. (104 million euros), the government concession tax of Telecom Italia S.p.A. (66 million euros), other tax payables of the Brazil Business Unit (242 million euros) and the Argentina Business Unit (87 million euros).

NOTE 23 CONTINGENT LIABILITIES, OTHER INFORMATION, COMMITMENTS AND GUARANTEES

The most significant arbitration cases and legal or fiscal disputes in which the Telecom Italia Group is involved at December 31, 2012 are described below.

The Telecom Italia Group has posted liabilities totaling 285 million euros for those disputes described below where the risk of loss has been considered probable.

A) Significant disputes and pending legal actions

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

The trial of a number of the defendants currently subject to precautionary measures (including the former chief executive officer and two former employees of Telecom Italia Sparkle) continues. The prosecutor has accused the Telecom Italia defendants of cross-border criminal conspiracy and tax evasion. The charge of cross-border criminal conspiracy is a possible offence that may entail administrative liability for a corporation, pursuant to Legislative Decree no. 231/2001.

In relation to this trial, Telecom Italia Sparkle filed an application to bring a civil action against all the defendants. The Court ruled this application inadmissible in its hearing on December 18, 2010, since it considered such an action incompatible with the company s position as a subject of investigation pursuant to Legislative Decree no. 231/2001.

Given the complexity of the proceeding, and since it is not yet possible to have full knowledge of all the documentation related to the proceedings, the Company cannot yet determine its final outcome. However, while an unfavorable outcome cannot be ruled out in principle, Telecom Italia Sparkle will pursue its defense with the utmost vigor to prove its innocence in the matters at issue. Regarding the effects of a conviction under Legislative Decree no. 231/2001, in addition to the administrative fines (the amount of which would be low) and injunctive measures, the proceeds of the crime would be seized. According to the case made by the Prosecutor, and without considering the effect of the Company s defense arguments, such illegal profits would be 72 million euros. As this sum was guaranteed by bond and recorded as a provision in the 2009 consolidated financial statements, and based on the information available, the Company does not believe it is exposed to material loss in excess of the 72 million euros provision previously recognized in the consolidated financial statements and/or already seized; 10 million euros are currently

still under seizure for guarantees related to the proceedings.

There remains some residual tax risk. As far as indirect taxes are concerned, in July 2010 Telecom Italia Sparkle paid the fines equal to 25% of the sum imposed the whole of the VAT considered to be non-deductible, plus applicable interest, for an aggregate of 418 million euros. As far as direct tax is concerned, a possible claim of liability relating to the applicability in the instant case of the rules regarding the non-deductibility of the costs associated with the criminal activity and/or costs for phantom transactions remain pending. Based on the uncertainty about the interpretation of these rules officially expressed by the tax authorities as well as the fact that the Italian Parliament was considering the advisability of amending these rules (as subsequently implemented by enacting Law n. 44 of 2012) which seemed not to be in line with the Constitutional Principles (with regard to this the Constitutional Court issued an interlocutory judgment), the company considered the related risk to be only a possibility and did not make any provision in its 2010 and 2011 accounts.

In December 2012 the Italian Revenue Agency (*Agenzia delle Entrate*) issued three formal notifications to Telecom Italia Sparkle of fines relating to the years 2005, 2006 and 2007. The fines were based on the assumption that the telephone traffic in the carousel fraud did not exist. Carousel fraud relates to the practice of importing goods and services from a country where they are not subject to VAT, selling them with VAT added, and subsequently deliberately not paying the VAT to the government.

The amount of these fines 25% of the crime related costs considered not deductible by the Revenue Agency in aggregate equaled 280 million euros. Although settlement discussions had begun, after an in-depth investigation and assessment based on the opinions of tax experts, the Company decided not to settle, and filed defensive arguments with the Italian Revenue Agency. In light of the investigations carried out the Company believes that the risk of additional taxes becoming payable is only possible, and therefore no provision has been made in its 2012 accounts.

National tax disputes

As set out in the 2010 Annual Report:

- in October 2010, the Milan Revenue Agency (*Agenzia delle Entrate*) issued a formal notice of assessment to the subsidiary Olivetti Multiservices S.p.A. (OMS), which contested the invalid deduction of VAT in the tax years 2005 and 2006 totalling approximately 198 million euros, after recalculation of the so-called pro-rata of non-deductibility ;

- in December 2010, the Milan Revenue Agency served Telecom Italia and OMS, as jointly obliged parties, two assessment notices relating to property transfers made in December 2005 to the Raissa and Spazio Industriale funds, for which the companies in question were accused of non-payment of stamp duty and mortgage tax, requesting payment of approximately 61 million euros including interest and fines; and

- in March 2011, the Milan Revenue Agency served Telecom Italia S.p.A and OMS with assessment notices relating to property transfers made in March 2006 to the Raissa and Spazio Industriale funds, for which the companies in question were accused of non-payment of stamp duty and mortgage tax, requesting payment of approximately 10 million euros in tax and interest.

With respect to the assessment notices for stamp duty and mortgage tax, since these notices were final, the companies have filed an appeal to the Milan Provincial Tax Commission, applying for the cancellation of the notices as well as for the suspension of the collection proceedings currently underway. The companies have also filed an application for an internal review and suspension of the claims with the competent offices of the Milan Revenue Agency.

In February 2012, the Milan Revenue Agency filed a brief with the Milan Tax Commission in which it notified its full cancellation of all the assessment notices, declaring the consequent termination of matters in dispute.

With respect to the VAT claims disclosed above, in November 2012 Telecom Italia reached a pre-trial agreement with the Milan Revenue Agency in which it undertook to pay a total sum of approximately 43 million euros in interest. As a result of this settlement, the remaining disputes are now closed.

International tax and regulatory disputes

On March 22, 2011 Tim Celular received a notice of tax assessment issued by the Brazilian Federal Tax Authorities in the total amount, at the date of the claim, of 1,265 million Reais (approximately 550 million euros), including fines and interest, upon completion of a tax audit covering the financial years 2006, 2007, 2008 and 2009 for the companies Tim Nordeste Telecomunicações S.A. and Tim Nordeste S.A. (formerly denominated Maxitel S.A.), companies which have been progressively merged in several steps into Tim Celular for the purpose of simplifying the corporate structure in Brazil.

The notice of tax assessment contains a number of matters, the most significant of which are:

· the disallowance of the fiscal effects of the merger between Tim Nordeste Telecomunicações S.A. and Maxitel S.A.; and

- the disallowance of the deduction of amortization of goodwill related to the acquisition of Tele Nordeste Celular Participações S.A. (**TNC**).

The adjustments raised in the notice of tax assessment have been challenged by Tim Celular, at the administrative level, with the filing of an initial defense document on April 20, 2011. On April 20, 2012, Tim Celular was notified of the first level decision which maintains the assessments; Tim Celular filed an appeal against this decision on May 21, 2012 which appeal is pending.

The management of Tim Celular and Tim Participações, as supported by legal opinions, believes it is unlikely that the company could suffer any negative consequences in relation to these matters.

With regard to Tim Participações Brazilian subsidiaries, other tax disputes cases are ongoing, including claims for significant amounts. The most relevant cases are related to the tax deductibility of goodwill amortization, several matters of indirect taxation (mainly related to ICMS a kind of Brazilian VAT and the composition of its basis of calculation and the possibility to account tax credits) and regulatory contributions to the Brazilian Regulatory Agency for Telecommunications (*Agência Nacional de Telecomunicações*) (**ANATEL**) and two Brazilian Ministry of Communications public funds, *Fundo de Universalização dos Serviços de Telecomunicações* (**FUST**) and *Fundo Para o Desenvolvimento Tecnológico das Telecomunicações* (**FUNTTEL**). Based on legal opinions issued to the aforementioned companies, management believes the risk of loss is not probable for the aforementioned companies.

Investigation by the Public Prosecutor s Office of Monza

Criminal proceedings are currently pending before the Public Prosecutor s Office of Monza as part of the preliminary investigation of a number of subjects, including allegations against employees of the Company, with respect to the supply under lease and/or sale of assets transactions which would constitute various offences committed against Telecom Italia, among others.

On December 16, 2011 Telecom Italia, the injured party in the aforesaid criminal proceedings, filed a complaint against persons unknown with the Public Prosecutor s Office of Monza.

Following a tax investigation of the above matter, the Monza Tax Police (*Guardia di Finanza*) served a notice of assessment on the Company in December 2012 with findings pertaining to direct taxation and VAT for the years 2007, 2008 and 2009. In particular, the findings related to the existence of phantom transactions between Telecom Italia and a supplier as well as between Telecom Italia and a leasing company, resulting in associated costs being partially non-deductible for income tax purposes and the respective transactions being inadmissible for VAT purposes. The Company reached an agreement with the Revenue Agency (*Agenzia delle Entrate*) of Milan pursuant to which it accepted the findings under dispute; the total amount due is approximately 4 million euros.

Taking account of the potential risks related to other transactions still under investigation, together with the matters that have been agreed, the total provision set aside in the 2012 financial statements is 11 million euros.

Administrative offence charge pursuant to Legislative Decree 231/2011 for the so-called Telecom Italia Security Affair

In December 2008 Telecom Italia received a notice of commencement of proceedings for administrative offenses under articles 21 and 25, paragraphs 2 and 4 of Legislative Decree 231/2001, following the investigation, by the

Public Prosecutor of Milan, of former Company employees and consultants charged with a series of crimes, including among others the offense, under legislative decree 231/2001, of bribing public officials to obtain information from confidential archives. In May 2010, the Judge concluded that the 400,000 euros fine that the Company had agreed to pay was adequate: after this judgment, Telecom Italia was no longer a defendant in the criminal trial. At the same time, the Judge approved the motion for settlement of the proceedings (plea bargaining) presented by many other defendants, including ex-employees of the Group.

In a preliminary hearing before Section One of the Milan Court of Assizes held in 2011, Telecom Italia acted in the dual role of suing civil party and civilly liable party. On the one hand Telecom Italia was admitted as a civil party permitted to establish claims against all the defendants, and on the other hand the Company was also cited as the

party with civil liability for the actions of the defendants in relation to 32 civil parties. The companies Telecom Italia Latam and Telecom Italia Audit and Compliance Services (now merged into Telecom Italia) also participated in the hearing as civil parties, having filed appearances since the preliminary hearing and brought charges against the defendants for hacking.

After lengthy evidential hearings which lasted more than a year 22 civil parties filed claims for compensation, against Telecom Italia as civilly liable party, for over 60 million euros (over 42 million euros of which was requested by a single civil party). The Company itself, as civil party, also through its claims against the defendants, requested that they be found liable for all the damages suffered as a result of the facts of the case.

On February 13, 2013 the Milan Court of Assizes issued its judgment, sentencing certain of the defendants to terms of imprisonment ranging from 7 years and 6 months to a suspended sentence of one year s imprisonment.

The Court also recognized that there had been non-monetary damage to some of the civil parties as a consequence of the alleged activities, and sentenced the defendants, jointly and severally with civilly liable party Telecom Italia, to compensate said civil parties in an amount totaling 270,000 euros (of which 170,000 euros are to be paid jointly and severally by Pirelli & C. S.p.A.).

At the same time, the Court ordered certain of the defendants to pay compensation for monetary and non-monetary damage suffered by Telecom Italia, making a provisional award to Telecom Italia of 10 million euros. The Court also recognized the existence of non-monetary damages to the companies Telecom Italia Latam and Telecom Italia Audit & Compliance Services, ordering the defendants to pay compensation for damages on an equitable basis of 20,000 euros for each of the companies.

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In many proceedings described in the paragraph below, in addition to the amount that has been accrued, it is not possible to determine whether any loss is probable or to estimate the amount of any loss. Numerous legal and factual issues may need to be resolved, including through potentially lengthy discovery and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a liability can be reasonably estimated for any claim. The Telecom Italia Group cannot predict if, how, or when such claims will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage of their development or where claimants seek substantial or indeterminate damages.

Therefore as permitted by par. 91 of IAS 37 we have not disclosed an estimate of the financial effect, and the other information required by IAS 37 par. 86 (b) because it was not practicable to do so.

In each of the material legal proceedings and investigations, review and proceedings described below, unless specifically noted otherwise, it is not possible to reliably estimate with any certainty the liability, if any, or the effect these proceedings investigations and reviews, and any related developments, may have on the Telecom Italia Group. Moreover, in the case in which the disclosure of information with respect to a particular dispute or proceeding could seriously prejudice the position of Telecom Italia or its subsidiaries, only the general nature of the dispute is described.

Antitrust Case A426

With reference to the investigation for abuse of the dominant position started by the Italian Antitrust Authority (AGCM) in May 2010, following a complaint filed by Fastweb (alleging that Telecom Italia acted so as to exclude its competitors in the public tenders held in 2010 by Consip and Enel for the award of contracts for fixed telephony services and IP connectivity), on June 19, 2012, the AGCM approved the undertakings proposed by Telecom and closed the investigation without any finding of abuse.

In October 2012 the Company informed AGCM that the undertakings had been implemented in compliance with the above-mentioned approval decision; AGCM acknowledged this in December 2012.

Antitrust Case A428

On June 23, 2010, prompted by complaints filed by Wind and Fastweb, AGCM started an investigation into two alleged abuses of dominant position by Telecom Italia. According to Wind, Telecom Italia allegedly hindered or delayed the activation of access services, by means of unjustified and spurious refusals. Moreover, according to both complainants, Telecom Italia allegedly offered its access services to final customers at economic and technical conditions that could allegedly not be matched by competitors purchasing wholesale access services from Telecom Italia itself, only in those geographic areas of the Country where unbundled access services to the local network are available, and hence where other operators can compete more fiercely with the Company.

In any case, with reference to one of the offers complained of (relating to an invitation to tender issued by the Florence municipal authority), on February 1, 2011, AGCom closed its investigation after verifying that the economic terms of Telecom Italia s offer with regard to traffic services could be matched by its competitors.

While reiterating that it had always acted in full compliance with the applicable regulations, Telecom Italia filed a proposal of undertakings in order to remove all of the concerns advanced in the AGCM decision to open the investigation. AGCM initially published the proposal (in August 2011), inviting comments from interested parties, and then rejected it by decision served in March 2012. The Company appealed the rejection decision before the Administrative Court (TAR) for Lazio.

In December 2012 AGCM announced the preliminary findings of its investigation, according to which Telecom Italia was responsible for two distinct abusive behaviours: (i) a constructive refusal to supply, in having opposed an unjustifiably high number of refusals (so-called KOs) to requests for the activation of wholesale services by OLOs in the three year period 2009-2011 and (ii) the margins squeeze through the application of economic conditions in the areas open to unbundling that could not be replicated by an equally efficient competitor, from 2008 to July 2011. At the end of January 2013, the Company filed its defence, asking that the investigation be closed. The investigation is scheduled to end on April 30, 2013. On February 6, 2013 Telecom Italia appeared before the Board of AGCM at the final hearing.

Antitrust Case I757

On September 12, 2012, AGCM started an investigation against Telecom Italia, Wind and Vodafone to ascertain the existence of an agreement restrictive of competition aimed at excluding from the market the new operator BIP Mobile S.r.l.

BIP Mobile S.r.l., which intends to present itself as the first lowcost virtual operator, does not have its own sales network, since it accesses the market using the multibrand distribution channel. According to the complaint it submitted to AGCM, the company has been faced with cancellations by retailers that distribute mobile telephony products of various operators, allegedly induced by pressures that were supposedly the fruit of a concerted strategy between Telecom Italia, Vodafone and Wind .

The investigation is scheduled to be completed by September 30, 2013. Since the procedure is still at an early stage, an assessment of its outcome would be premature.

Dispute relative to Adjustments on license fees for the years 1994-1998

Relating to the disputes filed by Telecom Italia and Tim (now merged with Telecom Italia) relating to the Ministry of Communications request for payment of the balance of the amounts paid in concession charges for the years 1994-1998, the Administrative Court (TAR) for Lazio rejected the Company s appeal against the Ministry for payment of the sum of approximately 11 million euros for the balance of the charges for the 1994 financial year, 9 million euros of which related to revenues not received due to bad debts. Telecom Italia will appeal this TAR decision to the Council of State (*Consiglio di Stato*).

Fastweb

In January 2011 Fastweb appointed an arbitrator in relation to its request for 146 million euros in damages, allegedly suffered after the breach by Telecom Italia of the contract for the supply of the unbundling of the local

loop (LLU). In particular, Fastweb complained that, in the period from July 2008 to June 2010, Telecom Italia had refused, unlawfully, to execute approximately 30,000 requests to migrate customers to the Fastweb network. Telecom Italia has filed a counterclaim.

The other disputes pending before the Court of Milan (Impresa Semplice and Winback) have been settled.

Vodafone

In July 2006 Vodafone brought a case against Telecom Italia in the Milan Court of Appeals, seeking payment of damages set originally at 525 million euros and subsequently raised to 759 million euros. Plaintiff maintains that Telecom Italia engaged in abusive conduct, due to its dominant position in fixed telephony, to strengthen its role in the contiguous mobile telephony market, with exclusionary effects to the detriment of its competitor.

Telecom Italia filed an appearance, fully contesting the claims of the other party.

In a judgment on November 2, 2011, the Court of Appeals declared that it was not competent in this matter and referred the case to the Civil Court. The terms for the resumption of the Vodafone case before the Milan Court passed without being satisfied, resulting in the termination of the respective proceedings.

H3G

As part of a broader agreement with H3G, in June 2012 the following civil disputes were settled by mediation without additional costs other than those for which provision had already been made:

- a case brought by H3G for compensation for damages of 122 million euros alleging presumed discriminatory behaviour and unfair competition by Telecom Italia against H3G in relation to fixed-mobile termination tariffs in the period 2008/2010. Telecom Italia had filed an appearance contesting the claims and submitting, alternatively, a counterclaim for 465 million euros;

- a case brought by Telecom Italia for compensation of 230 million euros for damages related to the termination charges applied to it by H3G that were higher than those applied to other operators in the period between September 2005 and February 2008;

- a case brought by H3G for compensation for presumed damages arising from the alleged discriminatory behavior by Telecom Italia in the market for calls from its mobile network to H3G network customers. In particular, according to the complainant, Telecom Italia was accused of applying to its own sales divisions fees lower than those applied to H3G from April 2008. The damages claimed were quantified as approximately 120 million euros. Telecom Italia had filed a reply contesting the claims and submitting a counterclaim for 260 million euros;

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a challenge by Telecom Italia before the Rome Appeal Court against the arbitration awards on the subject of mobile-mobile termination tariffs for the period between September 2005 and December 2007;

- a case started by H3G claiming compensation for alleged damages arising from the alleged violation of the mobile customer portability procedures. The damages claimed were quantified as approximately 60 million euros. Telecom Italia had filed a reply contesting the claims and submitting a counterclaim for 20 million euros; and

- an injunction sought by Telecom Italia to recover approximately 21 million euros for additional costs paid to H3G for the period from July 2010 to February 2011, after the repricing of the termination tariffs on the H3G mobile network (resolution 667/08/Cons).

Federazione Anti Pirateria Audiovisiva (FAPAV)

In June 2010, antipiracy group Federazione Anti Pirateria Audiovisiva (FAPAV) commenced proceedings against Telecom Italia in the Rome Court claiming 320 million euros of damages allegedly resulting from its non-prevention of the illicit downloading of films by customers of the Company accessing certain websites. According to the claimant, Telecom Italia did not adopt the necessary technical and administrative measures to prevent the illegal use of its network. FAPAV also asked that the Company provide the Judicial Authorities with information that identifies the customers involved in the alleged unlawful activities.

These proceedings follow a precautionary procedure at the end of which the Rome Court excluded both any liability of Telecom Italia for the information it carries, and the obligation to suspend the internet access service of which Telecom Italia is merely supplier. The Court ordered the Company only to supply all the information in its possession on the alleged unlawful activity and other information that identifies the subjects involved.

Telecom Italia, which has complied with the order filed a reply asking that the claims of the other party be rejected in their entirety. The Italian association of authors and publishers (SIAE) has joined these proceedings to support FAPAV s position.

Wind

In a writ issued in January 2012 Wind commenced proceedings against Telecom Italia claiming damages (90 million euros) arising from alleged unfair competition caused by Telecom Italia s refusal to activate service requests in the period July 2009 - October 2010; the plaintiff s main complaint alleges that such strategy of unfair competition was enacted by Telecom Italia both through alleged technical boycotting of service activation requests, and through offers and discounts tailored to customers interested in Wind s offers. Such conduct, with which Telecom Italia has been charged, has previously been the subject of complaints by Wind and Fastweb before the Anti-trust authority, which initiated proceedings A428. Telecom Italia filed a reply challenging the claims made by Wind.

Eutelia and Voiceplus

In June 2009, Eutelia and Voiceplus filed a complaint alleging Telecom Italia s abuse of dominant position in the premium service market (involving the offering to the public of services through so-called Non Geographical Numbers). Plaintiffs sought compensation of approximately 730 million euros for losses suffered.

The case follows a precautionary procedure in which Milan Court of Appeals prohibited certain behaviours and issued an injunction ordering Telecom Italia to cease the alleged abuses in the Company s business relations with Eutelia and Voiceplus, relating to the Non Geographic Numbers for which Telecom Italia managed the revenues from the end customers on behalf of such OLOs and according to regulatory requirements. Telecom Italia filed a reply, asking that the request for damages be rejected in its entirety.

Teleunit

On October 29, 2009 Teleunit filed a complaint before the Court of Appeal of Milan alleging Telecom Italia s abuse of dominant position in the premium service market (involving the offering to the public of services through so called Non Geographical Numbers and Telecom Italia s regulatory obligation to collect payments, on behalf of these OLOs, from end users). Plaintiff sought damages of approximately 362 million euros for the losses incurred. Telecom Italia has filed a formal reply to dispute plaintiff s claims.

Irregular sale of handsets to companies in San Marino Investigation by the Public Prosecutor s Office of Forlì

In June 2012, the Company was notified of a search warrant issued by the Public Prosecutor s Office of Forlì, as part of a proceeding in which one employee, subsequently suspended, and three former employees of the Company were the subject. The alleged charges were criminal conspiracy associated with false declaration through the use of invoices or other documents for non-existent transactions and of issuing invoices or other documents for non-existent

transactions , in reference to an alleged system of carousel fraud carried out during 2007-2009 by employees of Italian and San Marino companies. In particular, the criminal fraud claims relate to the sale of mobile telephony handsets and accessories, allegedly in place among various companies operating in Italy and San Marino.

The allegations were subject to investigation as part of the Greenfield Project, the results of which were subsequently made available to the investigating Judicial Authority of Bologna which, initially, had been in charge of the investigations. In this regard, as a result of the Greenfield Project findings, the Company autonomously and voluntarily regularized certain invoices issued to San Marino companies for which the tax obligations had not been fully discharged. The documentation relating to this voluntary regularization was also sent to the Public Prosecutor s Office of Bologna which, in 2011, ordered the case to be dismissed. Telecom Italia has also provided the Public Prosecutor s Office of Forlì with all the material provided to the Public Prosecutor s Office of Bologna.

The investigation continues and, to date, the Company has not received any further notices; a proper assessment of the outcome of the proceedings is therefore premature.

Poste

Certain action brought by Ing. C. Olivetti & C. S.p.A. (now Telecom Italia) against Poste, the Italian postal service, in relation to non-payment by Poste for services rendered under contracts to supply IT goods and services are still pending. The outcome of the lower court s judgments was partially favorable to Telecom Italia. The judgments have been appealed by Poste in individual rehearings.

Following these rehearings, a judgment of the Rome Appeal Court confirmed one of the outstanding payables to Telecom Italia, while another judgment of the same Court voided one of the disputed contracts. After this judgment, Poste filed a claim for the return of approximately 58 million euros, opposed by Telecom Italia, given that the judgment of the Italian Supreme Court considering amendment of the above judgment was still pending. Telecom Italia opposed and appealed for suspension of execution, arguing that it had not been ordered to pay specific restitution at that time, and hence there was no valid right to execute the judgment. Accepting this argument, the Rome Court suspended execution, as requested.

After this judgment of the Supreme Court that quashed and remanded the decision of the Appeal Court on which the order was based, the Rome Court declared that the matter at issue in the enforcement proceedings was discontinued, since the claim made by Poste had been rejected. The judgment was resubmitted to another section of the Rome Appeal Court.

Gruppo Elitel Telecom S.p.A.

A proceeding was started in Rome by the receivership of Elinet S.p.A. (an alternative telecommunications operator) against its former administrators, auditors and auditing companies as well as against Telecom Italia, in which claims were formulated regarding the alleged performance by Telecom Italia, of management and co-ordination activities of the Elitel Group (a group in which the Company has never had any type of interest), allegedly also implemented through improper trade receivables management in connection with a significant existing loan owed to Telecom Italia by the Elitel Group. The receiverships of Elitel s.r.l. and of Elitel Telecom S.p.A. (at the time the parent company of the Elitel Group) are also party to these proceedings. The monetary claims advanced by the three receiverships amount to a total of 282 million euros. Telecom Italia filed a reply, challenging the claims of the plaintiffs.

Greece Delan

In 2009, Carothers Ltd., as successor of Delan Cellular Services SA (Delan), started legal proceedings, seeking interim injunctive measures and on the merits, against Wind Hellas before the Greek courts. Wind Hellas in turn served Telecom Italia International with an impleader for compulsory intervention, allegedly on the basis of the indemnification obligations contained in the stock purchase agreement for the sale of the Greek subsidiary by Telecom Italia. The hearing for the pleading of the cases against Wind Hellas and against Telecom Italia International on the basis of the indemnity provisions was held on June 1, 2011. After a hearing on the merits of both the case commenced by Carothers Ltd. against Wind Hellas and the case commenced by Wind Hellas against Telecom Italia International based on the alleged indemnification obligations contained in the related stock purchase agreement for the sale of Wind Hellas by Telecom Italia, in April 2012, the Judge of First Instance determined that the court lacked

jurisdiction over Telecom Italia International (whose contractual indemnification obligation is governed by the law of New York and subject to arbitration), while ordering Wind Hellas to pay damages to Carothers for an overall amount of approximately 85 million euros (including costs and interests accrued). The judgment has been appealed by Wind Hellas, which subsequently released its claims against Telecom Italia International.

Subsequently, Wind Hellas served Telecom Italia International with a request for international arbitration, seeking a declaratory judgment asserting Wind Hellas right to be held harmless from any possible negative outcome arising from the ongoing appeal proceedings.

In August 2012, Telecom Italia International filed the answer to the request for arbitration and counterclaim, requesting among other things compensation for damages as a result of breach of the arbitral clause contained in the Stock Purchase Agreement executed in 2005 in connection with the notice of joinder to Telecom Italia International as guarantor before the Greek Courts.

Germany Telefónica arbitration

On February 23, 2012, Telecom Italia and Telecom Italia Deutschland Holding GmbH (TIDE) entered into a settlement with Telefónica Germany, aimed at preventing a potential litigation related to compensation claims proposed by Telefónica in connection with the share purchase agreement for the sale of the holding in HanseNet, signed by the Group in 2009, as well as resolving the arbitration started in 2011 by Telefónica against Telecom Italia and TIDE. On the basis of such agreement, a capital amount of approximately 40 million euros formerly deposited in escrow was withdrawn by Telecom Italia, while approximately 4.5 million euros were paid to Telefónica and approximately 16 million euros retained in escrow to cover certain potential future liabilities. On the basis of such arrangements Telefónica withdrew the aforementioned request for arbitration and the arbitration panel ordered the closing of the proceeding.

Brazil Opportunity Group Arbitration

In May 2012, Telecom Italia and Telecom Italia International were served with an arbitration claim brought by the Opportunity Group, claiming compensation for damages allegedly suffered as a consequence of the presumed breach of a certain settlement agreement executed in 2005. Based on claimant s allegations, such damages related to matters that have become publicly known as a result of the criminal proceedings pending before the Court of Milan regarding, among others, certain conduct of former employees of Telecom Italia s Security Department. Currently, the request for arbitration does not provide any specific indication relating to the damages claimed or evidence supporting the demand.

In August 2012, Telecom Italia and Telecom Italia International filed their joint answer, counterclaiming for breach of the settlement agreement executed in 2005 in connection with the civil action filed by Daniel Dantas and certain Opportunity Group companies in the aforementioned criminal proceedings before the Court of Milan. The Opportunity Group filed its answer on September 10, 2012 to the counterclaim for compensation for damages.

b) Other information

Mobile telephony criminal proceedings

With reference to the prepaid SIM cards activated during 2005-2008 and incorrectly associated with a customer identity document, recovery activities were completed on June 30, 2012 through either the regularization or termination of the remaining cards still in existence on that date. At the start of these recovery activities, around 5.5 million SIM cards had not correctly been associated with an identity document.

On March 21, 2012, Telecom Italia was served notice of the conclusion of preliminary enquiries, which set forth that the Company was under investigation within the meaning of Legislative Decree n. 231/2001 by the Public Prosecutor of Milan relating to charges of handling stolen goods (pursuant to art. 648 of the Criminal Code) and of counterfeiting (pursuant to art. 491-bis of the Criminal Code) committed, according to the allegations, by fourteen employees who

were at the time members of the then existing so-called ethnic channel, a former sales function within Telecom Italia, with the concurrent participation of a number of dealers (a total of 99 persons are being investigated for having activated approximately 109,000 SIM cards), for the purpose of obtaining unearned commissions from Telecom Italia. As the injured party damaged by such conduct, the Company brought two legal actions in 2008 and 2009, respectively, and had proceeded to suspend the employees involved in the criminal proceedings (suspension later followed by dismissal). It has also filed an initial statement of defense, together with a technical report by its own specialist, requesting that the proceedings against it be suspended, and that charges of aggravated fraud against the Company be brought against the other defendants. On December 19, 2012, the Public Prosecutor s Office filed a request for 89 natural persons and the Company itself to be remanded for trial; Telecom Italia is awaiting the notice informing it of the date set for the preliminary hearing. As an injured party, the Company will set out the grounds of its defense in the preliminary hearing. The date of the preliminary hearing has yet to be scheduled.

A criminal proceeding is pending against a former Executive Director (Mr. Riccardo Ruggiero) and two former managers who are charged with Preventing the public supervisory authorities from performing their functions with respect to the communication to AGCom of a customer base deemed to have been altered both by false extensions of 5,130,000 SIM cards topped up with 0.01 euros, and the activation of 1,042,447 SIM cards deemed irregular and not topped up in the twelve months after activation. This proceeding initially included the Company, pursuant to Legislative Decree n. 231/01. The Company, however, agreed a plea bargain and at the same time a motion for the declaration of the statute of limitations for the acts committed up until May 31, 2007, and was admitted to the trial as a civil party against the three natural persons charged.

During the hearing of July 10, 2012 the judge for the Preliminary Hearing declared that the statute of limitations applied to the Company only, for the actions committed up until May 31 2007; approved the plea bargain of Telecom Italia and ordered it to pay a fine of 600 thousand euros, acknowledging that from 2008 the Company had adopted an organizational model suitable to prevent the commission of acts similar to those committed; and set the date for the hearing against the three former managers charged before the third Criminal Section of the Milan Court for October 8, 2012.

During the first preliminary evidential hearing held on December 17, 2012 Telecom Italia filed a further motion to be admitted as a civil party to the trial of the three defendants. The Company then withdrew its application to be admitted to the proceedings against Mr. Riccardo Ruggiero after the approval by the Telecom Italia Shareholders Meeting (and the consequent completion) of a settlement agreement with the former Executive Director charged.

During the hearing on February 11, 2013, the Milan Court, taking the opposing view to the Judge at the above-mentioned preliminary evidential hearing, declared that it did not have jurisdiction, and ordered that the case be transferred to the Rome Public Prosecutor s Office.

Dispute concerning the license fee for 1998

Telecom Italia has initiated civil proceedings against the Prime Minister s Office (*Presidenza del Consiglio dei Ministri*) before the Rome Court for damages caused by the Italian State through appeal judgment No. 7506/09 by the Council of State (*Consiglio di Stato*) that, according to Company, violates the principles of EU law.

The main claim is based on EU case law that recognizes the right to claim liability of the State for violation of rights protected by EU law and breached by a final judgment, in respect of which no other remedy may be applied. The aforementioned final appeal judgment denied Telecom Italia s right to restitution of the license fee for 1998 (386 million euros for Telecom Italia and 143 million euros for Tim, plus interest). Telecom Italia s request had already been rejected by the Lazio Regional Administrative Court despite the favorable binding opinion of the European Court (ECJ) of Justice on February 23, 2008. The ECJ acknowledged the existence of a conflict between (i) EC Directive 97/13 on general authorizations and individual licenses in the telecommunications services industry, and (ii) the national regulations deferring for 1998 the obligation to pay the fee payable by telecommunications concession holders, despite the intervening deregulation process. The damages claimed are around 529 million euros, plus legal interest and revaluation.

The Italian Attorney General (*Avvocatura di Stato*) filed a challenge and submitted a counterclaim for the same sum. As regards the main claim (damages for manifest breach of EU law pursuant to law 117/88), the case was preliminarily reviewed by the Rome Court, which declared the inadmissibility of Telecom Italia s main claim. Upon an

appeal by the Company, the Court s decision was overturned by the Court of Appeals of Rome, which declared Telecom Italia s claim admissible. As a consequence, the proceedings will continue on both claims made by Telecom Italia.

Teletu

In 2012 Telecom Italia commenced proceedings in the Rome Court against the telecommunication operator Teletu. Telecom Italia is claiming damages of approximately 93 million euros arising from the alleged unlawful refusal by Teletu to have Teletu clients activate accounts with Telecom Italia.

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Other Liabilities Connected With Sales Of Assets And Investments

Under the contracts for the sale of assets and companies, the Telecom Italia Group has guaranteed compensation generally commensurate to a percentage of purchase price to buyers for liabilities deriving mainly from legal, tax, social security and labor-related issues.

In connection with these contingent liabilities, totaling about 1,100 million euros, only for those cases in which an outflow of resources is considered probable, an amount of 85 million euros has been accrued in the provision for risks.

Moreover, the Telecom Italia Group is committed to provide further compensation for certain specific contractual provisions under agreements for the sale of assets and companies, for which the contingent liabilities cannot at present be determined.

c) Commitments and guarantees

Guarantees for 18 million euros, net of back-to-back guarantees received, include surety bonds issued by Telecom Italia on behalf of associates (5 million euros) and other third parties for medium/long-term financial transactions.

Guarantees were provided by banks and other financial institutions on behalf of Telecom Italia to Group companies, amounting to 5,213 million euros, to guarantee financing received (2,343 million euros) and performance under outstanding contracts (2,870 million euros).

Among the guarantees provided by banks and other financial institutions on behalf of Telecom Italia are two guarantees in favor of the Ministry of Economic Development for the auction to assign the rights of use for the 800, 1800 and 2600 MHz frequencies. The guarantees amount, respectively, to 38 million euros (for the commitment undertaken by the Company to build equipment networks according to eco-sustainability characteristics) and 456 million euros (for the request to pay back the total amount owed over a period of 5 years). In particular, the Company has made a commitment to achieve energy savings in the new LTE technologies of approximately 10% on infrastructure and 20% on transmission devices over a period of 5 years (compared to energy consumed by current technology).

Details of the main guarantees received for EIB financing at December 31, 2012 are as follows:

Issuer	Amount (millions of euros) (1)
BBVA - Banco Bilbao Vizcaya Argentaria	687
Intesa SanPaolo	471
Bank of Tokyo Mitsubishi UFJ	254
Banco Santander	139
Sumitomo	109
SACE	105
Natixis(2)	92
Barclays Bank	75

(1) Relative to loans issued by EIB for Tim Rete Mobile, Telecom Italia Breitband Infrastruktur Deutschland, Telecom Italia Media Digital Network, Telecom Italia Banda Larga, Telecom Italia Ricerca & Sviluppo, Telecom Italia Digital Divide.

(2) With regard to the Telecom Italia Banda Larga project, in November 2012 the 92 million guarantee from CARIGE (which was no longer an eligible counterpart for EIB) was replaced with another guarantee from Natixis.

There are also surety bonds on the 3G service in Brazil for 82 million euros.

d) Assets pledged to guarantee financial liabilities

The contracts for low-rate loans granted by the Brazilian development bank BNDES (Banco Nacional de Desenvolvimento Econômico e Social) to Tim Celular for a total equivalent amount of 905 million euros are covered by specific covenants. In the event of non-compliance with the covenant obligations, BNDES will have a right to the receipts which transit on the bank accounts of the company.

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The loan granted by BBVA Banco Francés to Tierra Argentea S.A. (a wholly-owned Argentine subsidiary of the Telecom Italia Group) is secured by two pledges, respectively, of 15,533,834 Telecom Argentina S.A. shares and 2,351,752 American Depositary Shares (ADS) representing 117,588 Nortel Inversora S.A. Class B preferred shares. The covenants on the loan are described in the Note Financial liabilities (non-current and current).

NOTE 24 REVENUES

Revenues amounted to 29,503 million euros in 2012, 29,957 million euros in 2011 and 27,571 million euros in 2010, showing a decrease of 454 million euros in 2012 compared to 2011 and an increase of 2,386 million euros in 2011 compared to 2010.

Details are as follows:

	Year ended December 31,		
	2012	2011	2010
	(millions of euros)		
Equipment sales	2,289	2,188	1,608
Services	27,200	27,755	25,953
Revenues on construction contracts	14	14	10
Total	**29,503**	**29,957**	**27,571**

Revenues from telecommunications services are presented gross of amounts due to other TLC operators, of 3,439 million euros (3,664 million euros in 2011, -6.1%), included in the costs of services.

For a breakdown of revenues by operating segment/geographical area, reference should be made to the Note Segment Reporting .

NOTE 25 OTHER INCOME

Other income amounted to 298 million euros in 2012, 299 million euros in 2011 and 255 million euros in 2010, showing a decrease of 1 million euros in 2012 compared to 2011 and an increase of 44 million euros in 2011 compared to 2010.

Details are as follows:

	Year ended December 31,		
	2012	2011	2010
	(millions of euros)		
Late payment fees charged for telephone services	69	71	72
Recovery of employee benefit expenses, purchases and services rendered	36	36	47

Capital and operating grants	18	24	38
Damage compensation, penalties and sundry recoveries	53	36	18
Other income	122	132	80
Total	**298**	**299**	**255**

NOTE 26 ACQUISITION OF GOODS AND SERVICES

Acquisition of goods and services amounted to 12,948 million euros in 2012, 12,859 million euros in 2011, and 11,383 million euros in 2010, showing an increase of 89 million euros in 2012 compared to 2011 and of 1,476 million euros in 2011 compared to 2010.

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Details are as follows:

		Year ended December 31,		
		2012	2011	2010
		(millions of euros)		
Acquisition of raw materials and merchandise	**(A)**	**2,610**	**2,525**	**1,568**
Costs of services:				
Revenues due to other TLC operators		3,438	3,664	3,740
Interconnection costs		42	43	45
Commissions, sales commissions and other selling expenses		1,517	1,594	1,457
Advertising and promotion expenses		637	665	643
Professional and consulting services		436	418	380
Utilities		525	444	374
Maintenance		622	519	382
Outsourcing costs for other services		700	655	502
Mailing and delivery expenses for telephone bills, directories and other materials to customers		130	118	96
Other service expenses		847	804	848
	(B)	**8,894**	**8,924**	**8,467**
Lease and rental costs:				
Rent and leases		666	647	594
TLC circuit lease rents and rents for use of satellite systems		538	525	490
Other lease and rental costs		240	238	264
	(C)	**1,444**	**1,410**	**1,348**
Total	**(A+B+C)**	**12,948**	**12,859**	**11,383**

NOTE 27 EMPLOYEE BENEFITS EXPENSES

Employee benefits expenses amounted to 3,919 million euros in 2012, 3,992 million euros in 2011 and 3,981 million euros in 2010, showing a decrease of 73 million euros in 2012 compared to 2011 and an increase of 11 million euros in 2011 compared to 2010.

Details are as follows:

	Year ended December 31,		
	2012	2011	2010

				(millions of euros)
Employee benefits expenses				
Wages and salaries		2,793	2,788	2,615
Social security expenses		971	993	931
Other employee benefits		73	119	112
	(A)	**3,837**	**3,900**	**3,658**
Costs and provisions for temp work	**(B)**	**4**	**5**	**9**
Miscellaneous expenses for personnel and other labor-related services rendered:				
Remuneration of personnel other than employees		10	9	8
Charges for termination benefit incentives		48	64	56
Corporate restructuring expenses		25	12	258
Other		(5)	2	(8)
	(C)	**78**	**87**	**314**
Total	**(A+B+C)**	**3,919**	**3,992**	**3,981**

The decreased in employee benefits expenses in 2012 is mainly due to:

- the lower charge resulting from the reduction in the average salaried workforce of the Italian component by 1,214 compared to 2011;

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- the increase in the foreign component resulting from a higher average salaried workforce of 1,409 for the Brazil and Argentina Business Units;

- higher corporate restructuring expenses totaling 13 million euros. The provisions particularly concerned the restructuring expenses of the Argentina Business Unit (15 million euros) and charges resulting from agreements entered into with trade unions by Olivetti I-Jet (June 19, 2012 and June 25, 2012), and its subsidiary Olivetti Engineering S.A. (July 13, 2012), for a total of 17 million euros, aimed at managing the redundancies of the company in liquidation. These were offset by the release to the income statement of the remaining provision for mobility under Law 223/91 of the Parent, Telecom Italia S.p.A. (6 million euros) and of TI Sparkle and TI Information Technology (for a total of 1 million euros).

In 2012, certain companies of the Telecom Italia Group applied the defensive solidarity contracts provided for in the agreements with trade unions to promote the processes of sustainable conversion and retraining of redundant personnel. For the workers involved this means a reduction in working hours with a partial reimbursement by the INPS of the remuneration not received. In 2012 the implementation of these contracts resulted in absolute gains in terms of labor costs for a total of 68 million euros (77 million euros in 2011) with a reduction in the average salaried workforce amounting to 1,520 full time equivalents (1,879 average salaried workforce in 2011).

The increase in employee benefits expenses in 2011 is mainly due to:

- the increase connected with the consolidation of the Argentina Business Unit for the full year 2011 (+11,521 average salaried workforce compared to 2010);

- lower expenses owing to the contraction of the average salaried workforce (the above effect relating to the Argentina Business Unit is already excluded) by 3,301 compared to 2010, of which an average salaried workforce of 1,188 persons are under so-called solidarity contracts (1,879 in 2011 and 691 in 2010);

- the provisions for expenses for mobility under Law 223/91, related to the 2010 agreements with the unions entered into by the Parent Telecom Italia S.p.A. and Telecom Italia Information Technology, had been adjusted by 12 million euros, of which 9 million euros for the Parent Telecom Italia S.p.A. and 3 million euros for Telecom Italia Information Technology.

The average salaried workforce, including those with temp work contracts and excluding employees of Discontinued operations/Non-current assets held for sale, is as follows:

	Year ended December 31,		
	2012	2011	2010
	(Full time equivalent units)		
Executives	1,262	1,303	1,172
Middle management	6,431	6,418	5,316

White collars	70,715	70,457	63,410
Blue collars	95	104	168
Employees on payroll	**78,503**	**78,282**	**70,066**
Employees with temp work contracts	**61**	**87**	**84**
Total average salaried workforce	**78,564**	**78,369**	**70,150**

Headcount in service at December 31, 2012, including those with temp work contracts, is 83,184 (84,154 at December 31, 2011) with a net decrease of 970 units.

NOTE 28 OTHER OPERATING EXPENSES

Other operating expenses amounted to 1,882 million euros in 2012, 1,859 million euros in 2011 and 1,422 million euros in 2010, an increase of 23 million euros in 2012 compared to 2011 and an increase of 437 million euros in 2011 compared to 2010.

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Details are as follows:

	Year ended December 31,		
	2012	2011	2010
	(millions of euros)		
Impairments and expenses in connection with credit management	548	533	478
Provision charges	214	128	80
TLC operating fees and charges	621	675	484
Indirect duties and taxes	391	349	200
Penalties, settlement compensation and administrative fines	29	41	105
Association dues and fees, donations, scholarships and traineeships	25	23	24
Sundry expenses	54	110	51
Total	**1,882**	**1,859**	**1,422**
of which, included in the supplementary disclosure on financial instruments	*548*	*533*	*478*

Further details on Financial Instruments are provided in the Note Supplementary disclosure on financial instruments .

Other operating expenses in 2012 are substantially in line with 2011.

The reduction in the Domestic (-70 million euros) and Brazil (-28 million euros) Business Units, including a negative foreign exchange effect of 54 million euros, is fully offset by increases in other Business Units, mainly the Argentina Business Unit (+76 million euros including a negative foreign exchange effect of 6 million euros). In particular:

- impairments and expenses in connection with credit management (548 million euros; 533 million euros in 2011) consist of 370 million euros (389 million euros in 2011) for the Domestic Business Unit, 100 million euros (unchanged compared to 2011) for the Brazil Business Unit, and 47 million euros (29 million euros in 2011) for the Argentina Business Unit;

- provision charges (214 million euros; 128 million euros in 2011) consist of 92 million euros (50 million euros in 2011) for the Domestic Business Unit, 91 million euros (60 million euros in 2011) for the Brazil Business Unit, and 17 million euros (unchanged compared to 2011) for the Argentina Business Unit;

- telecommunications operating fees and charges (621 million euros; 675 million euros in 2011) consist of 487 million euros (554 million euros in 2011) for the Brazil Business Unit, 73 million euros (61 million

euros in 2011) for the Argentina Business Unit, and 59 million euros (58 million euros in 2011) for the Domestic Business Unit.

In 2011 compared to 2010, other operating expenses grew 437 million euros largely on account of the consolidation of the Argentina Business Unit for the full year 2011 (+248 million euros, including a negative exchange effect of 8 million euros), the increase in the Brazil Business Unit (+159 million euros) and the Domestic Business Unit (+69 million euros). In particular:

- impairments and expenses in connection with credit management refer largely to the Domestic Business Unit for 389 million euros, the Brazil Business Unit for 100 million euros (133 million euros in 2010) and the Argentina Business Unit for 29 million euros;

- provision charges, recorded mostly for pending disputes, refer mainly to the Brazil Business Unit for 60 million euros (18 million euros in 2010), the Domestic Business Unit for 50 million euros (53 million euros in 2010) and the Argentina Business Unit for 17 million euros;

- telecommunications operating fees and charges are principally linked to the Brazil Business Unit for 554 million euros (412 million euros in 2010), the Argentina Business Unit for 61 million euros and the Domestic Business Unit for 58 million euros (56 million euros in 2010).

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NOTE 29 INTERNALLY GENERATED ASSETS

Internally generated assets amounted to 581 million euros in 2012, 569 million euros in 2011 and 547 million euros in 2010, showing an increase of 12 million euros in 2012 compared to 2011 and an increase of 22 million euros in 2011 compared to 2010.

Details are as follows:

	Year ended December 31,		
	2012	2011	2010
	(millions of euros)		
Intangible assets with a finite useful life	295	288	287
Tangible assets owned	286	281	260
Total	**581**	**569**	**547**

Internally generated assets mainly include labor costs of dedicated technical staff for software development and work in connection with the executive design, construction and testing of network installations.

NOTE 30 DEPRECIATION AND AMORTIZATION

Depreciation and amortization amounted to 5,340 million euros in 2012, 5,496 million euros in 2011 and 5,542 million euros in 2010, showing a decrease of 156 million euros in 2012 compared to 2011 and of 46 million euros in 2011 compared to 2010.

Details are as follows:

		Year ended December 31,		
		2012	2011	2010
		(millions of euros)		
Amortization of intangible assets with a finite useful life:				
Industrial patents and intellectual property rights		1,382	1,425	1,507
Concessions, licenses, trademarks and similar rights		336	325	314
Other intangible assets with a finite useful life		494	413	395
	(A)	**2,212**	**2,163**	**2,216**
Depreciation of tangible assets owned:				
Buildings (civil and industrial)		73	73	57
Plant and equipment		2,614	2,796	2,794
Manufacturing and distribution equipment		14	15	13

Ships				4
Other		306	333	343
	(B)	**3,007**	**3,217**	**3,211**
Depreciation of tangible assets held under finance leases:				
Buildings (civil and industrial)		113	110	109
Plant and equipment				
Other		8	6	6
	(C)	**121**	**116**	**115**
Total	**(A+B+C)**	**5,340**	**5,496**	**5,542**

In 2012, the decrease in depreciation and amortization charges mainly relates to the Domestic Business Unit (-305 million euros), offset in part by the increase in depreciation and amortization charges of the Argentina Business Unit (+130 million euros), which was partly due to the decrease in useful lives of Customer relationships resulting in higher amortization charges of 66 million euros.

In 2011, the increase in depreciation and amortization charges due to the entry of the Argentina Business Unit in the scope of consolidation for the full year 2011 (+390 million euros, including a negative exchange effect of

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13 million euros) was offset in part by the decrease in depreciation and amortization charges of the Domestic Business Unit (-327 million euros) and the Brazil Business Unit (-107 million euros, including the effect of the change in the Brazilian real/euro exchange rate of +3 million euros).

Further details are provided in the Notes Other intangible assets and Tangible assets (owned and under finance leases) .

For a breakdown of depreciation and amortization by operating segment/geographical area, reference should be made to the Note Segment Reporting .

NOTE 31 GAINS (LOSSES) ON DISPOSALS OF NON CURRENT ASSETS

Gains (losses) on disposals of non current assets amounted to a gain of 53 million euros in 2012, a gain of 3 million euros in 2011 and a gain of 11 million euros in 2010.

Details are as follows:

		Year ended December 31,		
		2012	2011	2010
		(millions of euros)		
Gains on disposals of non-current assets:				
Gains on the retirement/disposal of intangible and tangible assets		25	5	22
Gains on the disposal of investments in subsidiaries		49	35	2
	(A)	**74**	**40**	**24**
Losses on disposals of non-current assets:				
Losses on the retirement/disposal of intangible and tangible assets		21	37	13
	(B)	**21**	**37**	**13**
Total	**(A-B)**	**53**	**3**	**11**

In 2012, **net gains on disposals of non-current assets** amount to 53 million euros. In addition to the gain of 49 million euros, net of incidental expenses, realized on October 31, 2012 following the sale of the investment in Matrix, there were also net gains on tangible and intangible fixed assets mainly relating to the Domestic Business Unit.

In 2011 they amounted to 3 million euros and included the gain of 35 million euros, net of related incidental expenses, realized on the sale of Loquendo at the end of September 2011, and the net losses on the disposal of tangible assets, mainly of the Parent, for the replacement and subsequent disposal of dedicated mobile telephony plant.

In 2010, **net gains on disposals of non-current assets** were recorded for 11 million euros and included the gain, net of incidental expenses, for a total of 19 million euros in connection with the completion of the operation for the sale of

Elettra by the International Wholesale Domestic Business Unit.

NOTE 32 IMPAIRMENT REVERSALS (LOSSES) ON NON CURRENT ASSETS

Impairment losses on non-current assets, amounted to 4,432 million euros in 2012, 7,358 million euros in 2011 and 63 million euros in 2010.

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Details are as follows:

		Year ended December 31,		
		2012	2011	2010
		(millions of euros)		
Reversals of impairment losses on non-current assets:				
on intangible assets			9	
on tangible assets			1	
	(A)		**10**	
Impairment losses on non-current assets:				
on intangible assets		4,416	7,364	56
on tangible assets		16	4	7
	(B)	**4,432**	**7,368**	**63**
Total	**(A-B)**	**(4,432)**	**(7,358)**	**(63)**

In 2012, **impairment losses on non-current assets** amount to 4,432 million euros. They include:

- 4,016 million euros for the impairment loss on goodwill allocated to the Core Domestic Cash-Generating Unit (CGU) in the Domestic Business Unit (7,307 million euros in 2011);
- 168 million euros for the complete write-down of the goodwill of the Argentina Business Unit;
- 157 million euros (57 million euros in 2011) for the overall impairment loss on the assets and goodwill allocated to the Media Business Unit, established following the impairment test process and also taking account of the prospective sale of the investee LA7 Srl. Specifically, the amount of impairment loss relating solely to the goodwill assigned to the Media Business Unit is 105 million euros, while the remainder relates to assets;
- 85 million euros for the partial impairment loss of the Customer relationships of the Argentina Business Unit;
- there are also additional impairment losses totaling 6 million euros (4 million euros in 2011).

In 2011, reversals of **impairment losses on non-current assets** consist of impairment reversals carried out by the Lan Med group as a result of the partial increase in the asset values on which an impairment loss was recorded in 2006.

In 2010, **impairment losses on non-current assets** amount to 63 million euros and include 46 million euros for the impairment of the goodwill allocated to the Media Business Unit; the writedown was based on the results of the impairment test. The remaining amount comprises other writedowns of intangible and tangible assets and the provision charges for expenses connected with the transactions for the sale of BBNed and Elettra.

NOTE 33 OTHER INCOME (EXPENSES) FROM INVESTMENTS

Other income (expenses) from investments was an income of 2 million euros in 2012, of 16 million euros in 2011 and of 289 million euros in 2010.

Details are as follows:

	Year ended December 31,		
	2012	**2011**	**2010**
		(millions of euros)	
Dividends from Other investments	1	1	2
Net gains on disposals of Other investments	3	18	30
Sofora revaluation, net of reversal of the negative exchange rate reserve			266
Loss and impairment losses on Other investments	(2)	(3)	(9)
Total	**2**	**16**	**289**
of which, included in the supplementary disclosure on financial instruments	*1*	*(2)*	*22*

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In 2012, **Other income (expenses) from investments** is a positive 2 million euros.

In 2011, **Other income (expenses) from investments** is an income balance of 16 million euros and includes 17 million euros of the gain, net of transactions costs, on the sale of the entire 27% investment in the Cuban operator EtecSA. That amount is in addition to the benefit from the impairment reversal of 30 million euros, recorded in 2010 as part of the valuation using the equity method.

In 2010, **Other income (expenses) from investments** was an income balance of 289 million euros and specifically included the revaluation, net of the negative exchange rate effect, of 266 million euros on the investment interest already held in Sofora Telecomunicaciones (50%). In particular, as set forth in IFRS 3, following the acquisition of control of Sofora Telecomunicaciones, which took place on October 13, 2010, the investment interest previously held in the subsidiary, accounted for using the equity method, was remeasured at fair value at the acquisition date of control. The line item also included the net gain of 29 million euros realized on the settlement agreement reached between the Telecom Italia Group and the Bolivian government for the resolution of the dispute over the May 1, 2008 expropriation by that government of the investment held by the Group in Entel Bolivia.

NOTE 34 FINANCE INCOME AND FINANCE EXPENSES

Finance income

Finance income amounted to 2,082 million euros in 2012, 2,464 million euros in 2011 and 3,081 million euros in 2010, showing a decrease of 382 million euros in 2012 compared to 2011 and of 617 million euros in 2011 compared to 2010.

Details are as follows:

	Year ended December 31,		
	2012	2011	2010
	(millions of euros)		
Interest income and other finance income:			
Income from financial receivables recorded in non-current assets		1	1
Income from securities other than investments, recorded in non-current assets			
Income from securities other than investments, recorded in current assets	35	57	45
Income other than the above:			
Interest income	234	217	143
Exchange gains	364	513	740
Income from fair value hedge derivatives	214	328	502
Reversal of the Reserve for cash flow hedge derivatives to the income statement (interest rate component)	741	626	635
Income from non-hedging derivatives	18	24	44
Miscellaneous finance income	88	45	53

	(A)	**1,694**	**1,811**	**2,163**
Positive fair value adjustments to:				
Fair value hedge derivatives		79	415	841
Underlying financial assets and liabilities of fair value hedges derivatives		132	34	11
Non-hedging derivatives		177	204	66
	(B)	**388**	**653**	**918**
Reversal of impairment loss on financial assets other than investments	**(C)**			
Total	**(A+B+C)**	**2,082**	**2,464**	**3,081**
of which, included in the supplementary disclosure on financial instruments		*501*	*492*	*335*

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Finance expenses

Finance expenses amounted to 4,048 million euros in 2012, 4,504 million euros in 2011 and 5,199 million euros in 2010, showing a decrease of 456 million euros in 2012 compared to 2011 and of 695 million euros in 2011 compared to 2010.

Details are as follows:

		Year ended December 31,		
		2012	2011	2010
		(millions of euros)		
Interest expenses and other finance expenses:				
Interest expenses and other costs relating to bonds		1,514	1,534	1,646
Interest expenses to banks		238	228	218
Interest expenses to others		263	227	244
		2,015	1,989	2,108
Commissions		87	55	67
Exchange losses		424	560	734
Charges from fair value hedge derivatives		106	214	286
Reversal of the Reserve for cash flow hedge derivatives to the income statement (interest rate component)		836	753	772
Charges from non-hedging derivatives		53	62	87
Miscellaneous finance expenses		223	247	232
	(A)	**3,744**	**3,880**	**4,286**
Negative fair value adjustments to:				
Fair value hedge derivatives		132	121	68
Underlying financial assets and liabilities of fair value hedges derivatives		26	384	758
Non-hedging derivatives		146	119	87
	(B)	**304**	**624**	**913**
Impairment losses on financial assets other than investments	**(C)**			
Total	**(A+B+C)**	**4,048**	**4,504**	**5,199**
of which, included in the supplementary disclosure on financial instruments		*2,198*	*2,168*	*2,282*

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For a better understanding of the net effects relating to derivative financial instruments, the following table is presented:

		Year ended December 31,		
		2012	2011	2010
		(millions of euros)		
NET EXCHANGE GAINS AND LOSSES				
Exchange gains		364	513	740
Exchange losses		(424)	(560)	(734)
		(60)	**(47)**	**6**
NET RESULT FROM DERIVATIVES				
Income from fair value hedge derivatives		214	328	502
Charges from fair value hedge derivatives		(106)	(214)	(286)
Net result from fair value hedge derivatives	**(A)**	**108**	**114**	**216**
Positive effect of the Reversal of the Reserve of cash flow hedge derivatives to the income statement for the interest rate component		741	626	635
Negative effect of the Reversal of the Reserve of cash flow hedge derivatives to the income statement for the interest rate component		(836)	(753)	(772)
Net effect of the Reversal of the Reserve of cash flow hedge derivatives to the income statement for the interest rate component	**(B)**	**(95)**	**(127)**	**(137)**
Income from non-hedging derivatives		18	24	44
Charges from non-hedging derivatives		(53)	(62)	(87)
Net result from non-hedging derivatives	**(C)**	**(35)**	**(38)**	**(43)**
Net result from derivatives	**(A+B+C)**	**(22)**	**(51)**	**36**
NET FAIR VALUE ADJUSTMENT TO FAIR VALUE HEDGE DERIVATIVES AND UNDERLYING				
Positive fair value adjustment to fair value hedge derivatives		79	415	841
Negative fair value adjustment to underlying financial assets and liabilities of fair value hedge derivatives		(26)	(384)	(758)
Net fair value adjustments	**(D)**	**53**	**31**	**83**

Positive fair value adjustments to underlying financial assets and liabilities of fair value hedge derivatives		132	34	11
Negative fair value adjustments to fair value hedge derivatives		(132)	(121)	(68)
Net fair value adjustments	**(E)**		**(87)**	**(57)**
Net fair value adjustment to fair value hedge derivatives and underlyings	**(D+E)**	**53**	**(56)**	**26**
NET FAIR VALUE ADJUSTMENTS TO NON-HEDGING DERIVATIVES				
Positive fair value adjustments to non-hedging derivatives	**(F)**	**177**	**204**	**66**
Negative fair value adjustments to non-hedging derivatives	**(G)**	**(146)**	**(119)**	**(87)**
Net fair value adjustments to non-hedging derivatives	**(F+G)**	**31**	**85**	**(21)**

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NOTE 35 PROFIT (LOSS) FOR THE YEAR

The profits (loss) for the years ended December 31, 2012, 2011 and 2010 are summarized as follows:

	Year ended December 31,		
	2012	2011	2010
	(millions of euros)		
Profit (loss) for the year	**(1,277)**	**(4,366)**	**3,572**
Attributable to:			
Owners of the Parent			
Profit (loss) from continuing operations	(1,629)	(4,798)	3,125
Profit (loss) from Discontinued operations/Non-current assets held for sale	2	(13)	(7)
Profit (loss) for the year attributable to owners of the Parent	**(1,627)**	**(4,811)**	**3,118**
Non-controlling interests			
Profit (loss) from continuing operations	**350**	**445**	**454**
Profit (loss) from Discontinued operations/Non-current assets held for sale			
Profit (loss) for the year attributable to Non-Controlling interests	**350**	**445**	**454**

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NOTE 36 EARNINGS PER SHARE

For purposes of the calculation of diluted earnings per share, account was only taken of the potential ordinary shares relating to the equity compensation plans of the employees for which the market and non-market performance conditions were satisfied. In 2010, the additional dividends to which the savings shareholders are entitled (at a fixed amount of 0.011 euros per share) conventionally were allocated entirely to the profit from continuing operations.

		Year ended December 31,		
		2012	2011	2010
Basic and Diluted Earnings Per Share				
Owners of the Parent		(1,627)	(4,811)	3,118
Less: additional dividends for the Savings Shares (0.011 per share)				(66)
	(millions of euros)	**(1,627)**	**(4,811)**	**3,052**
Average number of Ordinary and Savings Shares	(millions)	19,304	19,290	19,266
Basic and diluted earnings per share Ordinary Shares		(0.08)	(0.25)	0.16
Plus: additional dividends per savings Share (0.011 per share)				0.01
Basic and diluted earnings per share Savings Shares	(Euro)	(0.08)	(0.25)	0.17
Basic and Diluted Earnings Per Share From continuing Operations				
Profit (loss) from continuing operations		(1,629)	(4,798)	3,125
Less: additional dividends for the Savings Shares (0.011 per share)				(66)
	(millions of euros)	**(1,629)**	**(4,798)**	**3,059**
Average number of Ordinary and Savings Shares	(millions)	19,304	19,290	19,266
Basic and diluted earnings per share from continuing operations Ordinary Shares		(0.08)	(0.25)	0.16
				0.01

Plus: additional dividends per savings Share (0.011 per share)					
Basic and diluted earnings per share from continuing operations	Savings Shares	(Euro)	(0.08)	(0.25)	0.17

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		Year ended December 31,		
		2012	2011	2010
Basic and Diluted Earnings Per Share From Discontinued operations/Non current assets held for sale				
Profit (loss) from Discontinued operations/Non-current assets held for sale	(millions of euros)	2	(13)	(7)
Average number of Ordinary and Savings Shares	(millions)	19,304	19,290	19,266
Basic and diluted earnings (loss) per share from Discontinued operations/ Non-current assets held for sale Ordinary Shares	(Euro)			
Basic and diluted earnings (loss) per share from Discontinued operations/ Non-current assets held for sale Savings Shares	(Euro)			

	Year ended December 31,		
	2012	2011	2010
Average number of Ordinary Shares(*)	13,277,621,082	13,264,375,078	13,239,883,276
Average number of Savings Shares	6,026,120,661	6,026,120,661	6,026,120,661
Total	**19,303,741,743**	**19,290,495,739**	**19,266,003,937**

(*) The number only takes into account the potential ordinary shares relating to the equity compensation plans of the employees for whom the market and non-market performance conditions were satisfied.

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Future potential changes in share capital

The following table shows the future potential changes in share capital on the basis of the options and rights granted under equity compensation plans still outstanding at December 31, 2012:

	Number of maximum shares issuable	Par value (thousands of euros) (*)	Paid-in capital (thousands of euros)	Subscription price per shares (euro)
Additional capital increases not yet approved (ordinary shares)				
Resolution by the shareholders meeting held on April 8, 2009	1,600,000,000	880,000	n.a.	n.a
Long Term incentive Plan 2010-2015 (capital increase in cash)	n.a.	4,118	n.a.	n.a.
Long Term incentive Plan 2010-2015 (bonus capital increase)	n.a.	4,118		
Long Term incentive Plan 2011 (capital increase in cash for Selected Management)	n.a.	4,606	n.a.	n.a.
Long Term incentive Plan 2011 (bonus capital increase for Selected Management)	n.a.	4,606		
Long Term incentive Plan 2011 (bonus capital increase for Top Management)	n.a.	3,099		
Long Term incentive Plan 2012 (capital increase in cash for Selected Management)	n.a.	4,791	n.a.	n.a.
Long Term incentive Plan 2012 (bonus capital increase for Selected Management)	n.a.	4,791		
Long Term incentive Plan 2012 (bonus capital increase for Top Management)	n.a.	3,581		
Total additional capital increases not yet approved (ordinary shares)		**913,710**		

(*) The Value for capital increases linked to incentive plan, is the total estimated value which also includes the possible paid-in capital. For further details, please refer to the Note Equity Compensation Plans .

With regard to additional share capital increases not yet resolved, the following should be noted.

The shareholders meeting of May 15, 2012 authorized the directors to increase the share capital to service the Long Term Incentive Plan 2012 ; the authorization was granted for five years as from May 15, 2012. The Long Term Incentive Plan 2012 was also approved during the meeting, according to the following terms:

- in cash through the issue of new ordinary shares of par value 0.55 euros each, with normal dividend rights, for a maximum amount of 5,500,000 euros, with the exclusion of the pre-emptive right pursuant to art. 2441, paragraph 8, of the Italian Civil Code and art. 134, paragraph 2 of Legislative Decree 58/1998, reserved for a part of the employees (defined as Selected Management), beneficiaries of the Long Term Incentive Plan 2012 , who in due time will be identified by the board of directors of the Company, and, therefore, subsequently for a maximum amount of 5,500,000 euros through the appropriation of a corresponding maximum amount of profits or reserves in accordance with art. 2349 of the Italian Civil Code, with the issue of ordinary shares in the number needed to grant a bonus share for every share subscribed in cash as above, within the dates, according to the conditions, and in the manner provided by the Long Term Incentive Plan 2012 ;
- for a maximum amount of 4,000,000 euros through the appropriation of a corresponding maximum amount of profits or profit reserves pursuant to art. 2349 of the Italian Civil Code, with the issue of ordinary shares reserved for a part of the employees (defined as Top Management), beneficiaries of the Long Term Incentive Plan 2012 , who in due time will be identified by the board of directors of the Company, within the dates, according to the conditions, and in the manner provided by the Long Term Incentive Plan 2012 .

As regards the share capital increase in cash, the board of directors shall fix the share issue price (including paid-in capital) in conformity with the provisions of the Long Term Incentive Plan 2012 and shall also fix the period

for its subscription, establishing that, if the approved capital increase is not fully subscribed to within that period, the share capital shall be increased for an amount equal to the subscriptions received up to the end of that period.

On June 28, 2012, the Board of Directors, pursuant to the powers granted to it by the extraordinary shareholders meeting of May 15, 2012, approved the launch of the Long Term Incentive Plan 2012 and granted the necessary authorities for its implementation, defining its regulation and contractual documents, identifying the Plan s beneficiaries and determining the maximum total amount of the capital increases for the Selected Management (4,790,925 euros for the capital increase in cash and 4,790,925 euros for the bonus capital increase) and the Top Management (3,580,500 euros for the bonus capital increase).

Further details are provided in the Note Equity compensation plans .

NOTE 37 SEGMENT REPORTING

a) Reporting by operating segment

Segment reporting is based on the following operating segments:

- Domestic
- Brazil
- Argentina
- Media
- Olivetti
- Other Operations

It should be noted that the company Matrix, which was sold on October 31, 2012, was classified under Other operations in 2012, and therefore excluded from the Core Domestic Domestic Business Unit. The periods under comparison have been restated accordingly.

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CONSOLIDATED INCOME STATEMENTS BY OPERATING SEGMENT

Brazil			Argentina			Media			Olivetti			Other operations			A
2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	201
(millions of euros)															
7,452	7,319	6,180	3,779	3,214	798	218	220	236	230	259	292	41	64	128	
25	24	19	5	6		4	18	22	50	84	99	21	55	77	(2
7,477	**7,343**	**6,199**	**3,784**	**3,220**	**798**	**222**	**238**	**258**	**280**	**343**	**391**	**62**	**119**	**205**	**(2**
14	25	18	13	6	2	5	26	5	18	18	25	5	2	3	(
7,491	**7,368**	**6,217**	**3,797**	**3,226**	**800**	**227**	**264**	**263**	**298**	**361**	**416**	**67**	**121**	**208**	**(2**
(4,508)	(4,399)	(3,520)	(1,698)	(1,398)	(347)	(197)	(167)	(171)	(274)	(329)	(368)	(56)	(89)	(131)	1
(344)	(321)	(283)	(586)	(478)	(114)	(67)	(61)	(61)	(66)	(69)	(72)	(22)	(33)	(50)	
(719)	(747)	(588)	(408)	(332)	(83)	(8)	(9)	(17)	(22)	(10)	(7)	(26)	(16)	(22)	
(191)	*(160)*	*(151)*	*(64)*	*(46)*	*(9)*	*(5)*	*(4)*	*(13)*	*(20)*	*(8)*	*(6)*	*(21)*	*(9)*	*(14)*	
(2)	19	(76)	16	17	(11)			(1)	7	11	12			(1)	
78	70	51													
(1,028)	(1,005)	(1,112)	(655)	(525)	(135)	(63)	(58)	(59)	(5)	(7)	(5)	(14)	(20)	(31)	
(2)	(1)	(4)	1	(1)		2						49	1	1	
			(253)			(157)	(57)	(46)	(3)			(1)	(1)	(8)	

966	**984**	**685**	**214**	**509**	**110**	**(263)**	**(88)**	**(92)**	**(65)**	**(43)**	**(24)**	**(3)**	**(37)**	**(34)**
													(37)	117

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REVENUES BY OPERATING SEGMENT

Brazil			Argentina			Media			Olivetti			Other operations			Adjustm elimin	
2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	20
(millions of euros)																	
871	934	745	380	347	276	64				226	258	292					
1		(1)								44	51	61				(44)	
872	**934**	**744**	**380**	**347**	**276**	**64**				**270**	**309**	**353**				**(44)**	
19,056	6,518	6,574	5,800	3,432	2,938	734	218	220	236	4	1		41	64	128		
87	25	25	19	5	6		4	18	22	6	33	38	21	55	77	(162)	(
19,143	**6,543**	**6,599**	**5,819**	**3,437**	**2,944**	**734**	**222**	**238**	**258**	**10**	**34**	**38**	**62**	**119**	**205**	**(162)**	(
10																	
10																	
19,937	7,452	7,319	6,180	3,779	3,214	798	218	220	236	230	259	292	41	64	128		
88	25	24	19	5	6		4	18	22	50	84	99	21	55	77	(206)	(
20,025	**7,477**	**7,343**	**6,199**	**3,784**	**3,220**	**798**	**222**	**238**	**258**	**280**	**343**	**391**	**62**	**119**	**205**	**(206)**	(

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CAPITAL EXPENDITURES BY OPERATING SEGMENT

Domestic			Brazil			Argentina			Media			Olivetti			Other operations			Adjustments and eliminations		
2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010
(millions of euros)																				
16	2,364	1,242	592	521	458	144	152	32	36	30	34	1	2	1	6	15	17		(18)	(3)
56	1,821	1,845	908	769	758	413	404	156	21	31	33	2	3	4	1	1	6			
72	**4,185**	**3,087**	**1,500**	**1,290**	**1,216**	**557**	**556**	**188**	**57**	**61**	**67**	**3**	**5**	**5**	**7**	**16**	**23**		**(18)**	**(3)**

HEADCOUNT BY OPERATING SEGMENT

	Domestic		Brazil		Argentina		Media		Olivetti		Other operations		Consolidated Total	
	As of December 31, 2012	As of December 31, 2011	As of December 31, 2012	As of December 31, 2011	As of December 31, 2012	As of December 31, 2011	As of December 31, 2012	As of December 31, 2011	As of December 31, 2012	As of December 31, 2011	As of December 31, 2012	As of December 31, 2011	As of December 31, 2012	As of December 31, 2011
	(number of employees)													
Headcount	53,224	55,047	11,622	10,539	16,803	16,350	735	765	778	1,075	22	378	83,184	84,154

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ASSETS AND LIABILITIES BY OPERATING SEGMENT

	Domestic		Brazil		Argentina		Media		Olivetti		Other operations		Adjustments and eliminations		Cons T
	As of December 31, 2012	As of December 31, 2011	As of December 31, 2012	As of December 31, 2011	As of December 31, 2012	As of December 31, 2011	As of December 31, 2012	As of December 31, 2011	As of December 31, 2012	As of December 31, 2011	As of December 31, 2012	As of December 31, 2011	As of December 31, 2012	As of December 31, 2011	As of Decembe 31, 2012
							(millions of euros)								
operating	47,487	51,538	6,653	6,876	2,967	3,791	241	405	22	29	9	100	(67)	(79)	57,312
rating assets	4,545	5,455	2,026	1,924	546	524	128	100	222	231	63	158	(88)	(175)	7,442
ting assets	**52,032**	**56,993**	**8,679**	**8,800**	**3,513**	**4,315**	**369**	**505**	**244**	**260**	**72**	**258**	**(155)**	**(254)**	**64,754**
accounted e equity	44	25										21	21	1	65
d Non-current or sale															
assets															12,736
															77,555
ting	**9,238**	**9,892**	**2,693**	**2,475**	**1,092**	**1,123**	**166**	**175**	**217**	**192**	**35**	**127**	**(153)**	**(252)**	**13,288**
irectly vith d Non-current or sale															
liabilities															41,255
															23,012
y and															**77,555**

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b) Reporting by geographical area

		Revenues						Non-current operating assets	
		Breakdown by location of operations			Breakdown by location of the Group s customers			Breakdown by location of operations	
		2012	2011	2010	2012	2011	2010	2012	2011
		(millions of euros)							
Italy	(A)	17,957	19,130	20,210	16,776	17,809	20,210	47,328	51,560
Outside Italy	(B)	11,546	10,827	7,361	12,727	12,148	7,361	9,984	11,100
Total	**(A+B)**	**29,503**	**29,957**	**27,571**	**29,503**	**29,957**	**27,571**	**57,312**	**62,660**

c) Information about major customers

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

NOTE 38 RELATED PARTY TRANSACTIONS

The following tables present the balances relating to transactions with related parties and the incidence of those amounts on the separate consolidated income statement, consolidated statement of financial position and consolidated statement of cash flows. Transactions with related parties, when not dictated by specific laws, were conducted at arm s length.

The **effects on the individual line items of the separate consolidated income statements** for the years 2012, 2011 and 2010 are as follows:

Separate consolidated income statement line items 2012

		Related parties							
	Total	Associates and joint ventures	Companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	Key managers	Total related parties	Transactions of Discontinued Operations	Total related parties net of Disc.Op.	% on line item
	(millions of euros)									
Revenues	29,503	36	2	987			1,025		1,025	3.5
Other income	298			3			3		3	1.0
Acquisition of goods and services	12,948	12	33	700			745		745	5.8

Employee benefits expenses	3,919		4	82	18	104	104	2.7
Finance income	2,082		45			45	45	2.2
Finance expenses	4,048	19	64			83	83	2.1

(*) Other related parties through directors, statutory auditors and key managers.

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Separated income statement line items 2011

		Related parties							
	Total	Associates and joint ventures	Companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	Key managers	Total related parties	Transactions of Discontinued Operations	Total related parties net of Disc.Op	% on line item
					(millions of euros)					
Revenues	29,957	91	2	1,007			1,100		1,100	3.7
Other income	299		1	1			2		2	0.7
Acquisition of goods and services	12,859	16	42	671			729		729	5.7
Employee benefits expenses	3,992			4	91	18	113		113	2.8
Finance income	2,464			127			127		127	5.2
Finance expenses	4,504	31		62			93		93	2.1

(*) Other related parties through directors, statutory auditors and key managers.

Separate consolidated income statement line items 2010

		Related parties							
	Total	Associates and joint ventures	Companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	Key managers	Total related parties	Transactions of Discontinued Operations	Total related parties net of Disc.Op.	% on line item
					(millions of euros)					
Revenues	27,571	130	22	876			1,028		1,028	3.7
Other income	255	2		4			6		6	2.4
Acquisition of goods and services	11,383	85	25	522			632		632	5.6
Employee benefits expenses	3,981			4	93	15	112		112	2.8
Finance income	3,081			153			153		153	5.0
Finance expenses	5,199	37		48			85		85	1.6

(*) Other related parties through directors, statutory auditors and key managers.

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The **effects on the individual line items of the consolidated statements of financial position** at December 31, 2012 and at December 31, 2011 are as follows:

Consolidated statement of financial position line items at December 31, 2012

		Related parties						
	Total	Associates and joint ventures	Companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	Total related parties	Transactions of Discontinued Operations	Total related parties net of Disc.Op.	% on line item
				(millions of euros)					
Non-current financial assets	(2,496)			(265)		(265)		(265)	10.6
Securities other than investments (current assets)	(754)								
Financial receivables and other current financial assets	(502)	(2)		(10)		(12)		(12)	2.4
Cash and cash equivalents	(7,436)			(279)		(279)		(279)	3.8
Current financial assets	(8,692)	(2)		(289)		(291)		(291)	3.3
Non-current financial liabilities	34,091	109		367		476		476	1.4
Current financial liabilities	6,150	103		75		178		178	2.9
Trade and miscellaneous receivables and other current assets	7,006	11	5	219		235		235	3.4
Miscellaneous payables and other non-current liabilities	1,053			2		2		2	0.2
Trade and miscellaneous payables and other current liabilities	10,542	10	39	253	25	327		327	3.1

(*) Other related parties through directors, statutory auditors and key managers.

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Consolidated Financial Statements **Notes To Consolidated Financial Statements**

Consolidated statement of financial position line items at December 31, 2011

		Related parties						
	Total	Associates and joint ventures	Companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	Total related parties	Transactions of Discontinued Operations	Total related parties net of Disc.Op	% on line item
				(millions of euros)					
Non-current financial assets	(2,949)			(269)		(269)		(269)	9.1
Securities other than investments (current assets)	(1,007)			(8)		(8)		(8)	0.8
Financial receivables and other current financial assets	(462)			(28)		(28)		(28)	6.1
Cash and cash equivalents	(6,714)			(278)		(278)		(278)	4.1
Current financial assets	(8,183)			(314)		(314)		(314)	3.8
Non-current financial liabilities	35,860	151		332		483		483	1.3
Current financial liabilities	6,091	134		58		192		192	3.2
Trade and miscellaneous receivables and other current assets	7,770	36	1	220		257		257	3.3
Miscellaneous payables and other non-current liabilities	1,156			3		3		3	0.3
Trade and miscellaneous payables and other current liabilities	10,984	10	45	167	30	252		252	2.3

(*) Other related parties through directors, statutory auditors and key managers.

The **effects on the individual line items of the consolidated statements of cash flows** for the years 2012, 2011 and 2010 are as follows:

Consolidated statement of cash flows line items 2012

		Related parties						
	Total	Associates and joint ventures	Companies controlled by associates and	Other related parties (*)	Pension funds	Total related parties	Transactions of Discontinued Operations	Total related parties net of	% on line item

		joint ventures				Disc.Op.	
				(millions of euros)			
Purchase of intangible and tangible assets on an accrual basis	5,196	2	124	1	127	127	2.4
Dividends paid	1,031			139	139	139	13.5

(*) Other related parties through directors, statutory auditors and key managers.

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Consolidated Financial Statements Notes To Consolidated Financial Statements

Consolidated statement of cash flows line items 2011

		Related parties						
	Total	Associates and joint ventures	Companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	Total related parties	Transactions of Discontinued Operations	Total related parties net of Disc.Op.	% on line item
				(millions of euros)					
Purchase of intangible and tangible assets on an accrual basis	6,095	3	162	1		166		166	2.7
Dividends paid	1,326			191	1	192		192	14.5

(*) Other related parties through directors, statutory auditors and key managers.

Consolidated statement of cash flows line items 2010

		Related parties						
	Total	Associates and joint ventures	Companies controlled by associates and joint ventures	Other related parties (*)	Pension funds	Total related parties	Transactions of Discontinued Operations	Total related parties net of Disc.Op.	% on line item
				(millions of euros)					
Purchase of intangible and tangible assets on an accrual basis	4,583	2	59	1		62		62	1.4
Dividends paid	1,093			163	1	164		164	15.0

(*) Other related parties through directors, statutory auditors and key managers.

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Consolidated Financial Statements Notes To Consolidated Financial Statements

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

With reference to Investments in associates, on May 18, 2012, following the transfer of a twenty-year right of use of spaces available in its passive infrastructure (ducts and pilings), throughout the territory of the Autonomous Province of Trento, Telecom Italia S.p.A. acquired a 41.1% interest in the company Trentino NGN S.r.l..

On January 31, 2011, Telecom Italia International N.V. finalized the sale of the entire 27% investment held in the Cuban operator EtecSA.

The most significant amounts are summarized as follows:

	2012	2011	2010	Type of contract
	(millions of euros)			
Revenues				
EtecSA			5	International telecommunications services, roaming and technical assistance
LI.SIT. S.p.A.			3	Lombardy Region social health system information networking and telephone services
NordCom S.p.A.	3	2	3	Voice services, data network connections, outsourcing, products and services
Telbios S.p.A.			2	Supply of telephone services, ADSL lines, sale of equipment and property leases
Teleleasing S.p.A. (in liquidation)	31	87	115	Sale of equipment
TM News S.p.A.	1	1	1	Fixed and mobile telephony services, property leases and administrative outsourcing
Other minor companies	1	1	1	
Total revenues	**36**	**91**	**130**	
Other income			**2**	Recoveryof costs of personnel on secondment and recovery of costs for services rendered
Acquisition of goods and services				
EtecSA		5	63	International telecommunications services and roaming
Movenda S.p.A.	3	1		Supply of SIM cards and related adapters, software analysis and development
NordCom S.p.A.	3	2	2	Purchase and development of IT solutions, supply of rented equipment and IT services, professional assistance services and

				applications maintenance services, supply and operation of customized offerings
Telbios S.p.A.			4	Supply of audio/visual products and hardware systems and software for remote medicine offerings and call center services
Teleleasing S.p.A. (in liquidation)	2	4	7	Purchase of goods sold under leasing arrangements with Telecom Italia customers
Tiglio I S.r.l			4	Property leases
TM News S.p.A.	4	4	4	Supply of information content for the TimSpot service, services and photos for intranet, supply of journalistic information (news, APCOM News data flow)
Other minor companies			1	
Totalacquisition of goods and services	**12**	**16**	**85**	
Financeexpenses				
Teleleasing S.p.A. (in liquidation)	19	23	27	Interest expenses for finance leases of equipment and finance leases
Other minor companies		8	10	
Total finance expenses	**19**	**31**	**37**	

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Consolidated Financial Statements			Notes To Consolidated Financial Statements
	As of December 31, 2012	As of December 31, 2011	Type of contract
	(millions of euros)		
Financial receivables and other current financial assets	**2**		Shareholder loan to Aree Urbane S.r.l. (in liquidation)
Non-current financial liabilities	**109**	**151**	Finance leases of equipment and finance leases with Teleleasing S.p.A. (in liquidation)
Current financial liabilities	**103**	**134**	Finance leases of equipment and finance leases with Teleleasing S.p.A. (in liquidation)
Other statement of financial position line items			
Trade and miscellaneous receivables and other current assets			
NordCom S.p.A.	1	1	Voice services, data network connections, outsourcing, products and services
Teleleasing S.p.A. (in liquidation)	8	33	Sale of equipment
TM News S.p.A.	1	1	Property leases and telecommunications services
Other minor companies	1	1	
Total trade and miscellaneous receivables and other current assets	**11**	**36**	
Trade and miscellaneous payables and other current liabilities			
Movenda S.p.A.	3	2	Supply of adapters for SIM cards, software analysis and development
Nord.Com S.p.A.	2	1	Purchase and development of IT solutions, supply of rented equipment and IT services, professional assistance services and applications maintenance services, supply and operation of customized offerings
Teleleasing S.p.A. (in liquidation)	2	5	Purchase of goods assigned under leasing arrangements with Telecom Italia customers
TM News S.p.A.	2	1	

			Supply of information content for the TimSpot service, services and photos for intranet, supply of journalistic information (news, APCOM News data flow)
Other minor companies	1	1	
Total trade and miscellaneous payables and other current liabilities	**10**	**10**	

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Consolidated Financial Statements	Notes To Consolidated Financial Statements

Consolidated statement of cash flows line items	2012	2011	2010	Type of contract
	(millions of euros)			
Purchase of intangible and tangible assets on an accrual basis	**2**	**3**	**2**	Acquisition from other minor companies

TRANSACTIONS WITH COMPANIES CONTROLLED BY ASSOCIATES AND JOINT VENTURES

The most significant amounts are summarized as follows:

Separate consolidated income statement line items	2012	2011	2010	Type of contract
	(millions of euros)			
Revenues	**2**	**2**	**22**	Equipment rental, telephone and communication services to the Italtel Group
Other income		**1**		Commercial transaction with the Italtel group
Acquisition of goods and services	**33**	**42**	**25**	Supply and maintenance of switching equipment, software development and platforms upgrading, and customized products and services, as part of Telecom Italia offerings to the Italtel group customers

Consolidated statement of financial position line items	As of December 31, 2012	As of December 31, 2011	Type of contract
	(millions of euros)		
Trade and miscellaneous receivables and other current assets	**5**	**1**	Supply of products and services, sale of products and convertible loan to the Italtel group
Total trade and miscellaneous payables and other current liabilities	**39**	**45**	

				Supply relationships linked to Capex and Opex for the Italtel group
Consolidated statement of cash flows line items	**2012**	**2011**	**2010**	**Type of contract**
		(millions of euros)		
Purchase of intangible and tangible assets on an accrual basis	**124**	**162**	**59**	Purchases of TLC equipment from Italtel group

At December 31, 2012 the Telecom Italia Group provided guarantees on behalf of the associate Aree Urbane S.r.l. (In liquidation), for 5 million euros.

TRANSACTIONS WITH OTHER RELATED PARTIES (through Directors, Statutory Auditors and Key Managers)

The Procedure for carrying out transactions with related parties pursuant to the Regulation containing the provisions on related party transactions adopted by Consob under Resolution 17221 of March 12, 2010, as amended provides that the procedure should be applied also to parties who, regardless of whether they qualify as related parties according to the accounting principles, participate in significant shareholders agreements according to art. 122 of the Consolidated Law on Finance, which govern the candidacy to the position of director of Telecom Italia, where the slate presented is the majority slate pursuant to art. 9 of the bylaws of the Company.

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The most significant amounts are summarized as follows:

Separate consolidated income statement line items

	2012	2011	2010	Type of contract
		(millions of euros)		
Revenues				
Generali group	70	74	62	Supply of telephone and data transmission services, peripheral data networks, connections, storage and telecommunications equipment and services for foreign holdings
Intesa Sanpaolo group	66	79	95	Telephone and MPLS and international data network services, ICT services, Microsoft licenses, Internet connectivity, high-speed connections and supply of authentication devices
Mediobanca group	5	7	6	Telephone and MPLS data network services and marketing of data and VoIP devices
Telefonica group	844	845	712	Interconnection services, roaming, broadband access fees, supply of IRU transmission capacity and software
Other minor companies	2	2	1	
Total revenues	**987**	**1,007**	**876**	
Other income	**3**	**1**	**4**	Damage compensation from the Generali group
Acquisition of goods and services				
A1 International Investments group	1			TV content rights
China Unicom group	2		1	International telecommunication and roaming services
Generali group	36	30	27	Insurance premiums and property leases
Intesa Sanpaolo group	18	17	13	Factoring fees, fees for technological top-ups and commissions for payment of telephone bills by direct debit and

				collections via credit cards
Mediobanca group	1	1	4	Credit recovery activities and factoring commissions
Telefonica group	642	622	477	Interconnection and roaming services, site sharing, co-billing agreements, broadband line sharing and unbundling
Other minor companies		1		
Total acquisition of goods and services	**700**	**671**	**522**	
Employee benefits expenses	**4**	**4**	**4**	Non-obligatory employee insurance taken out with the Generali group
Gains (losses) on disposals of non-current assets			**1**	
Finance income				
Intesa Sanpaolo group	33	112	122	Bank accounts, deposits and hedging derivatives
Mediobanca group	12	15	31	Bank accounts, deposits and hedging derivatives
Total finance income	**45**	**127**	**153**	
Finance expenses				
Intesa Sanpaolo group	51	55	26	Term Loan Facility, Revolving Credit Facility, hedging derivatives, loans and bank accounts
Mediobanca group	13	7	22	Term Loan Facility and Revolving Credit Facility and hedging derivatives
Total finance expenses	**64**	**62**	**48**	

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Consolidated Financial Statements			Notes To Consolidated Financial Statements
Consolidated statement of financial position line items	**As of December 31, 2012**	**As of December 31, 2011**	**Type of contract**
	(millions of euros)		
Non-current financial assets			
IntesaSanpaolo group	241	239	Hedging derivatives
Mediobancagroup	24	30	Hedging derivatives
Total non-current financial assets	**265**	**269**	
Securities other than investments (current assets)			
Generaligroup		2	Bonds
IntesaSanpaolo group		1	Bonds
Mediobancagroup		5	Bonds
Total securities other than investments (current assets)		**8**	
Financial receivables and other current financial assets			
IntesaSanpaolo group	9	27	Hedging derivatives
Mediobancagroup	1	1	Hedging derivatives
Total financial receivables and other current financial assets	**10**	**28**	
Cash and cash equivalents	**279**	**278**	Bank accounts and deposits with Intesa Sanpaolo group
Non-current financial liabilities			
IntesaSanpaolo group	280	233	Revolving Credit Facility, hedging derivatives and loans
Mediobancagroup	87	99	Revolving Credit Facility and hedging derivatives
Total non-current financial liabilities	**367**	**332**	
Current financial liabilities			
IntesaSanpaolo group	73	56	Current accounts, hedging derivatives and payables to other lenders
Mediobancagroup	2	1	Hedging derivatives
Telefonicagroup		1	

			Financial liabilities from previous corporate-related transactions
Total current financial liabilities	**75**	**58**	
Other statement of financial position line items			
Trade and miscellaneous receivables and other current assets			
Generaligroup	16	19	Supply of telephone and data transmission services, peripheral data networks, connections, storage, applications services and supply of telecommunications equipment and services for foreign holdings
IntesaSanpaolo group	104	98	Factoring services, supply of telephone, MPLS and international data network services, ICT services, Microsoft licenses, Internet connectivity and high-speed connections
Mediobancagroup		1	Supply of telephone and MPLS data network services and marketing of data and VoIP devices
Telefonicagroup	96	99	Interconnection services, roaming, broadband access fees, supply of IRU transmission capacity and software
Otherminor companies	3	3	
Total trade and miscellaneous receivables and other current assets	**219**	**220**	

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Consolidated Financial Statements **Notes To Consolidated Financial Statements**

Consolidated statement of financial position line items	As of December 31, 2012	As of December 31, 2011	Type of contract
	(millions of euros)		
Miscellaneous payables and other non-current liabilities	**2**	**3**	Deferred income relating to the supply of IRU transmission capacity to the Telefónica group
Trade and miscellaneous payables and other current liabilities			
A1 International Investments group	1	1	Purchase of TV content rights
IntesaSanpaolo group	177	86	Payable from sale of trade receivables from our suppliers, fees for technological top-ups, commissions for payment of telephone bills by direct debit and collections via credit cards
Mediobancagroup	1	1	Credit recovery activities
Telefonicagroup	73	79	Interconnection and roaming services, site sharing, co-billing agreements, broadband line sharing and unbundling
Otherminor companies	1		
Total trade and miscellaneous payables and other current liabilities	**253**	**167**	

Consolidated statement of cash flows line items	2012	2011	2010	Type of contract
		(millions of euros)		
Purchase of intangible and tangible assets on an accrual basis	**1**	**1**	**1**	Capitalization of costs associated with Ad unbundling in Germany to the A1 International Investment group
Dividends paid				
Telco	129	174	150	
Other minor companies	10	17	13	
Total dividens paid	**139**	**191**	**163**	

On February 23, 2012, a settlement agreement was reached between the Telecom Italia Group and Telefonica Germany over certain claims connected with the sale of the investment in HanseNet in 2010.

As established by the internal Procedure for the management of related party transactions, this agreement was submitted, after the Steering Committee s review, to the approval of the Committee for Internal Control and Corporate Governance which expressed a favorable opinion. Further details are provided in the Note Contingent liabilities, other information, commitments and guarantees .

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TRANSACTIONS WITH PENSION FUNDS

The most significant amounts are summarized as follows:

Separate consolidated income statements line items	2012	2011	2010	Type of contract
		(millions of euros)		
Employee benefits expenses				Contributions to pension funds
Fontedir	12	12	13	
Telemaco	65	73	74	
Other Italian and foreign pension funds	5	6	6	
Total employee benefits expenses	**82**	**91**	**93**	

Consolidated statement of financial position line items	As of December 31, 2012	As of December 31, 2011	Type of contract
	(millions of euros)		
Trade and miscellaneous payables and other current liabilities			Payables for contributions to pension funds
Fontedir	4	4	
Telemaco	21	24	
Other Italian and foreign pension funds		2	
Total trade and miscellaneous payables and other current liabilities	25	30	

Consolidated statement of cash flows line items	2012	2011	2010	Type of contract
		(millions of euros)		
Dividends paid		**1**	**1**	

* * *

Remuneration to key managers

In 2012, the total remuneration recorded on the accrual basis by Telecom Italia S.p.A. or by companies controlled by the Group in respect of key managers amounts to 18 million euros (18.4 million euros in 2011), analyzed as follows:

	2012	2011
	(millions of euros)	
Short-term remuneration	14.0 (1)	15.7 (5)
Long-term remuneration	1.9 (2)	1.4 (6)
Employment termination benefit incentives	1.0 (3)	0.05 (7)
Share-based payments (*)	1.1 (4)	1.2 (8)
	18.0	**18.4**

(1) of which 1.4 million euros recorded by the listed South American subsidiaries.

(2) of which 0.6 million euros recorded by the listed South American subsidiaries.

(3) of which -0.5 million euros recorded by the listed South American subsidiaries.

(4) of which 0.3 million euros recorded by the listed South American subsidiaries.

(5) of which 2.5 million euros recorded by the listed South American subsidiaries.

(6) of which 0.5 million euros recorded by the listed South American subsidiaries.

(7) of which 0.05 million euros recorded by the listed South American subsidiaries.

(8) of which 0.3 million euros recorded by the listed South American subsidiaries.

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(*) These refer to the fair value of the rights, vested to December 31, under the share-based incentive plans (PSG, TOP 2008 and LTI 2011) of Telecom Italia S.p.A. and its subsidiaries.

Short-term remuneration is paid during the year it pertains to, and, at the latest, within the six months following the end of that year. Long-term remuneration is paid when the related right becomes vested.

In the 2012, the contributions paid in to defined contribution plans (Assida and Fontedir) by Telecom Italia S.p.A. or by subsidiaries of the Group on behalf of key managers amount to 580,000 euros (344,000 euros in the 2011).

In 2012, Key managers, that is, those who have the power and responsibility, directly or indirectly, for the planning, direction and control of the operations of the Telecom Italia Group, including directors, are the following:

Directors:	
Franco Bernabè	Executive Chairman and Chief Executive Officer of Telecom Italia S.p.A.
Marco Patuano	Domestic Managing Director and Chief Operating Officer of Telecom Italia S.p.A.
Managers:	
Andrea Mangoni	South America General Manager(1) Head of Administration, Finance and Control and International Development(2)
Simone Battiferri	Head of Top Clients and Public Sector(3) Head of Business(4)
Franco Bertone	Direcciòn General Ejecutiva (CEO) Telecom Argentina
Franco Brescia	Head of Public & Regulatory Affairs
Stefano Ciurli	Head of Supply Chain & Real Estate(5)
Antonino Cusimano	Head of Legal Affairs
Luca Luciani	Chief Executive Officer of Tim Brasil(6)
Antonio Migliardi	Head of Human Resources and Organization
Giuseppe Roberto Opilio	Head of Technology
Piergiorgio Peluso	Head of Administration, Finance and Control(7)
Luca Rossetto	Head of Consumer
Alessandro Talotta	Head of National Wholesale Services
Paolo Vantellini	Head of Business Support Officer(8)

(1) from August 1, 2012.

(2) to September 25, 2012.

(3) from February 23 to December 26, 2012.

(4) from December 27, 2012.

(5) to December 17, 2012.

(6) to May 4, 2012.

(7) from September 26, 2012.

(8) from December 18, 2012.

NOTE 39 EQUITY COMPENSATION PLANS

Equity compensation plans in effect at December 31, 2012 are used for retention purposes and as a long-term incentive for the managers and employees of the Group.

However, it should be noted that these plans do not have any significant effect on the economic result or on the financial position and cash flows at December 31, 2012.

A summary is provided below of the plans in place at December 31, 2012.

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Description of stock option plans

· **Telecom Italia S.p.A. Top 2008 Stock Option Plan**

This plan refers to options granted on April 15, 2008 to the then chairman and chief executive officer, originally for 11,400,000 options, exercisable at the end of the vesting period, expiring after three years from the grant date at a price of 1.95 euros per option. The exercise period is from April 15, 2011 to April 15, 2014. Each option gives the right to one Telecom Italia S.p.A. ordinary share.

75% of the options granted (equal to 8,550,000 options) are not subordinate to performance targets and is still valid while the remaining 25% (equal to 2,850,000 options) was forfeited in 2010 because the performance targets were not reached. During 2012, no options were exercised, with the situation having remained unchanged compared to December 31, 2011.

Unexercised options expire at the end of the plan.

· **Tim Participações S.A. Stock Option Plan**

2011 Plan

A long-term incentive plan for managers in key positions in the company and its subsidiaries was approved by the shareholders meeting of Tim Participações S.A. on August 5, 2011. The exercise of the options is subordinate to reaching two performance objectives simultaneously: the increase in value of the company s ordinary shares and the performance of the prices of the company s shares against a reference index, defined by the directors of Tim Participações S.A. and composed principally of the share price of other companies in the telecommunications, information technology and media sectors.

The period of validity of the options is 6 years and the company does not have the legal obligation to repurchase or settle the options in cash or in any other form.

In relation to the options assigned in 2011, a third of these options can be exercised at the end of July 2012, another third after the first half of 2013 and the remaining third after the first half of 2014. Performance targets refer to the three years 2011-2013, measured in July of each year.

On the grant date of August 5, 2011, the exercise value of the options granted was calculated using the average weighted price of the shares of TIM Participações S.A.. This average considers the traded volume and the trading price of the shares of the company during the period of 30 days before July 20, 2011 (the date when the board of directors approved the plan).

On August 5, 2011, the grantees of the options were granted the right to purchase a total of 2,833,596 shares.

At December 31, 2012, a total of 944,520 options could be considered as vested. Up to that date none of the plan beneficiaries had exercised the options to purchase during the period established.

2012 Plan

On September 5, 2012, the shareholders meeting of Tim Participações S.A. approved the second granting of stock options for managers in key positions in the company and its subsidiaries. In keeping with the structure of the plan initiated in 2011, the exercise of the options is subordinate to the simultaneous achievement of two performance targets:

- absolute performance: increase in the value of TIM shares;
- relative performance: performance of TIM shares against a benchmark index composed of TLC and Media Technology companies listed on the Bovespa and in the Bovespa indices.

The period of validity of the options is 6 years and the company does not have the legal obligation to repurchase or settle the options in cash or in any other form.

In relation to the options assigned in 2012, a third of these options can be exercised at the end of September 2013, another third from September 2014 and the remaining third from September 2015. Performance targets refer to the three years 2012-2014, measured in August of each year.

On the grant date of September 5, 2012, the exercise value of the options granted was calculated using the average weighted price of the shares of TIM Participações S.A.. This average considers the traded volume and the trading price of the shares of the company during the period July 1 to August 31, 2012.

On September 5, 2012, the grantees of the options were granted the right to purchase a total of 2,661,752 shares. As of December 31, 2012, there were no options that could have already been exercised.

Description of other Telecom Italia S.p.A. equity compensation plans

- **Long Term Incentive Plan 2010-2015 (LTI 2010-2015 Plan)**

The Plan grants, to a selected number of Group management who are not already beneficiaries of other long-term incentive plans, a cash bonus based on three-year performance measured against pre-set targets, with the option of investing 50% of the bonus in Telecom Italia ordinary shares at market price. At the end of the three-year performance period, if the manager decides to invest half of the bonus, retaining these shares and maintaining an employment relationship with companies of the Group for the next two years, the manager will have the right to the grant of an equal number of free ordinary shares.

The performance targets are measured using the Total Shareholder Return of Telecom Italia (TSR TI) and Free Cash Flow (FCF). In particular, the payment of 65% of the bonus will be linked to the relative TSR TI in the three years 2010-2012 whereas the payment of 35%, instead, will be linked to an absolute performance indicator represented by the cumulative FCF during the period 2010-2012.

The beneficiaries were identified in relation to the person s organizational role and strategic potential and the bonus was determined as a percentage of the beneficiary s fixed annual compensation.

At the start of the Plan, the total maximum bonus potentially available to the 121 beneficiaries at the end of the three years was 8,754,600 euros, to be paid in cash in early 2013 in a variable amount in relation to the level of the pre-set three-year 2010-2012 performance targets reached. The option of investing 50% of the bonus in Telecom Italia ordinary shares would have determined, at the time of the grant, a share capital increase in cash reserved for the beneficiaries for the maximum equivalent of 4,377,300 euros, and this same amount was the maximum value of the bonus grant and the relative bonus increase in capital.

Beneficiaries of the Plan who subscribed to the shares and observed the terms and conditions above, in early 2015 will be allocated profits, pursuant to Article 2349 of the Italian Civil Code, through the issue of one bonus share for every subscribed share.

In reference to the situation at December 31, 2012, the total maximum bonus that may be granted to the 117 beneficiaries is 8,236,350 euros; the maximum amount of the investment at market price, and the relative capital increase in cash, is therefore equal to an equivalent amount of 4,118,175 euros. The maximum number of shares which may be assigned free of charge is the same as the number of shares subscribed.

· **Long Term Incentive Plan 2011 (LTI Plan 2011)**

The plan, approved by the shareholders meeting on April 12, 2011, replicates the basic rationale of the LTI 2010-2015 Plan. It covers Executive Management, Top Management and Selected Management. The plan is formulated according to a rolling perspective so that, normally, each year a new incentive cycle comes into effect, factored over the time frame of the company s strategic planning. An exception to this is the incentive plan for Executive Management, formulated in one-off terms consistently with the standard term of the mandate.

The objective of the plan is to reinforce the connection between management s compensation and, on one hand, company performance defined in the 2011-2013 business plan (measured by the cumulative Free Cash Flow in the three years 2011-2013 (so-called absolute performance: 35% weighted), and on the other hand, the growth of value relative to a group of peers (measured by the Total Shareholder Return (so-called relative performance: 65% weighted).

The plan calls for granting:

- to Selected Management, a cash bonus, with the option of investing 50% of the bonus in Telecom Italia ordinary shares at market price and the grant of bonus matching shares when specific conditions are met two years after subscription;
- to Top Management, a 50% bonus in cash and 50% for rights to a bonus grant of Telecom Italia ordinary shares after two years;
- to Executive Management, a bonus in cash and an equivalent number of Telecom Italia ordinary shares determined when the person is included in the Executive Management group of the Plan.

On July 7, 2011, the board of directors approved the start of the Plan. When the Plan started, besides the Executive Chairman and the Chief Executive Officer, the Plan covered 17 Top Managers and 128 Managers. The estimated maximum incentive for the three categories of incentive beneficiaries at the start of the Plan was equal to:

- for Selected Management a total bonus of 9,789,300 euros; the maximum value of the investment at market price, and the relative increase in capital in cash, including paid-in capital, was equal to an equivalent amount of 4,894,650 euros. The maximum number of shares which may be assigned free of charge is the same as the number of shares subscribed;
- for Top Management a total bonus of 6,512,400 euros, of which the equivalent maximum amount of the bonus grant, and the relative increase in capital was 3,256,200 euros;
- for Executive Management a total bonus of 5,400,000 euros and a corresponding maximum number of 5,795,234 shares, represented by treasury shares.

At December 31, 2012, besides the Executive Chairman and the Chief Executive Officer, 16 Top Managers and 124 Managers are still beneficiaries of the Plan. For these two last categories, the maximum incentive at December 31, 2012 is equal to:

- for Selected Management a total bonus of 9,211,350 euros; the maximum value of the investment at market price, and the relative increase in capital in cash, is equal to an equivalent amount of 4,605,675 euros. The maximum number of shares which may be assigned free of charge is the same as the number of shares subscribed;

for Top Management, a total bonus of 6,197,250 euros, of which the maximum equivalent amount of the bonus grant, and the relative bonus increase in capital is 3,098,625 euros.

· **Long Term Incentive Plan 2012 (LTI Plan 2012)**

In keeping with the long-term incentive structure decided in 2011, the shareholders meeting held on May 15, 2012 approved the LTI Plan 2012-2014. The Plan covers Top Management and Selected Management and excludes Executive Management.

The objective of the plan is to reinforce the connection between management s compensation and, on one hand, company performance defined in the 2012-2014 business plan measured by the cumulative Free Cash Flow (so-called absolute performance: 35% weighted), and on the other hand, the growth of value relative to a group of peers measured by the Total Shareholder Return (so-called relative performance: 65% weighted).

The plan calls for granting:

to Selected Management, a cash bonus, with the option of investing 50% of the bonus in Telecom Italia ordinary shares at market price and the grant of bonus Matching Shares when specific conditions are met two years after subscription;

to Top Management, a 50% bonus in cash and 50% for rights to a bonus grant of Telecom Italia ordinary shares after two years.

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On June 28, 2012, the board of directors approved the start of the Plan. When the Plan started the beneficiaries were 19 Top Managers and 127 Managers. The estimated maximum incentive for the two categories of incentive beneficiaries was equal to:

for Selected Management a total bonus of 9,581,850 euros; the maximum value of the investment at market price, and the relative increase in capital in cash, including paid-in capital, was equal to an equivalent amount of 4,790,925 euros, The maximum number of shares which may be assigned free of charge is the same as the number of shares subscribed;

for Top Management a total bonus of 7,161,000 euros, of which the equivalent maximum amount of the bonus grant, and the relative increase in capital was 3,580,500 euros;

At December 31, 2012 this situation remained unchanged.

Calculation of fair value measurement of the granted options and rights

The fair value of the options relating to the Top 2008 Plan was calculated using the Monte Carlo method according to the calculation parameters reported in the following table.

For the LTI Plans (2010-2015, 2011 and 2012), the following was measured:

- the debt component, determined as follows:

  the 65% linked to reaching TSR targets was calculated as the average of the levels of expected bonus weighted by the probability of the relative TSR scenarios occurring; such probability is measured using the Monte Carlo method;

  the 35% linked to reaching FCF targets was calculated as the bonus level according to the best estimate of expected FCF by making reference to the data of the Telecom Italia three-year plan;

- the equity component, determined as the theoretical value of the right to the bonus share calculated as the fair value of a 24-month call option on the Telecom Italia ordinary share, starting in three years.

Parameters used to determine fair value Telecom Italia S.p.A.

Plans/Parameters	Exercise price	Current price /	Volatility (2)	Period	Expected dividends	Risk-free interest rate

	(euro)	Spot (euro) (1)			(euro) (3)	(4)
TOP 2008 Plan	1.95	Market value Telecom Italia and other TLC companies at 4/15/2008	Telecom Italia (33.02%) and other TLC companies	3 years	0.08	3.7485% at 6 years
LTI Plan 2010-2015 equity component		0.9219	33.4281%	5 years	0.055 first year 0.060 second year	1.89 at 5 years
LTI Plan 2011 equity component Executive Management		0.8044	n.a.	3 years	0.05	2.095 at 3 years
LTI Plan 2011 equity component (Top Management and Selected Management)		0.7298	n.a.	5 years	0.07	2.591% at 5 years
LTI Plan 2012 equity component (Top Management and Selected Management)		0.7745	n.a.	5 years	0.043	1.25% at 5 years

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(1) In relation to the performance targets set in the Plan, consideration was given to the market prices of Telecom Italia shares and, if necessary, of other shares of the leading companies in the telecommunications sector at the grant date.

(2) In relation to the performance targets set in the Plan, consideration was given to the volatility values of the Telecom Italia share and, if necessary, of the shares of the leading companies in the telecommunications sector.

(3) For the 2008 Top Plan, dividends were assumed to be constant on the basis of the latest dividends paid. For the LTI 2010 2015, LTI 2011, and LTI 2012 Plans the dividends were estimated on the basis of Bloomberg data.

(4) The risk-free interest rate is considered the rate of government securities of the Federal Republic of Germany (the market benchmark for transactions in euro) with expirations commensurate with the life of the option. Solely for the LTI 2012 plan, the rate is a zero coupon at 5 years (the curve is assumed to be the best indicator of the risk-free rate).

Parameters used to determine fair value Tim Participaçoes

Plan/parameter	Exercise price (reais)	Current price/spot (reais)	Volatility	Period	Expected dividends (reais)	Risk-free interest rate
2011 Plan	8.84	8.31	51.73%	6 years		11.94 % year
2012 Plan	8.96	8.96	50.46%	6 years		8.89 % year

Effects on the income statement and statement of financial position

Compensation plans which call for payment in equity instruments are recorded at fair value which represents the cost of such instruments at the grant date and is recorded in the separate income statements under Employee benefits expenses over the period between the grant date and the vesting period with a contra-entry to the equity reserve Other equity instruments . The part of the plans which calls for the payment of compensation in cash is recorded in liabilities as the contra-entry of Employee benefits expenses ; at the end of each year the liability is measured at fair value.

Compensation plans which call for payment in equity instruments do not have significant impacts either on the income statements or the statements of financial position or of cash flows at December 31, 2012.

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NOTE 40 OTHER INFORMATION

a) Exchange rates used to translate the financial statements of foreign operations(*)

(Local Currency against 1 euro)	Year-end exchange rates (statements of financial position)			Average exchange rates for the year (income statements and statements of cash flows)		
	12/31/2012	12/31/2011	12/31/2010	Year 2012	Year 2011	Year 2010
Europe						
BGN Bulgarian Lev	1.95580	1.95580	1.95580	1.95580	1.95580	1.95580
CZK Czech Koruna	25.15100	25.78700	25.06100	25.14441	24.59461	25.28441
HUF Hungarian Forint	292.30000	314.58000	277.95000	289.29839	279.47926	275.43744
CHF Swiss Franc	1.20720	1.21560	1.25040	1.20525	1.23256	1.38036
TRY Turkish Lira	2.35510	2.44320	2.06940	2.31432	2.33825	1.99706
GBP Pound Sterling	0.81610	0.83530	0.86075	0.81103	0.86775	0.85804
RON Romanian Leu	4.44450	4.32330	4.26200	4.45814	4.23931	4.21185
North America						
USD U.S. Dollar	1.31940	1.29390	1.33620	1.28538	1.39162	1.32620
Latin America						
VEF Venezuelan Bolivar	5.66636	3.35994	3.46978	5.21554	3.61338	3.42870
BOB Bolivian Boliviano	9.18302	8.96385	9.36676	8.96600	9.74040	9.30962
PEN Peruvian Nuevo Sol	3.36777	3.48747	3.75086	3.39104	3.83245	3.74631
ARS Argentinean Peso	6.48641	5.56769	5.30994	5.84408	5.74419	5.18735
CLP Chilean Peso	631.72900	671.99700	625.27500	625.01857	672.51441	675.52315
COP Colombian Peso	2,331.23000	2,510.57000	2,571.38000	2,310.07238	2,569.51702	2,516.50868
MXN Mexican Peso	17.18450	18.05120	16.54750	16.90575	17.29084	16.74302
BRL Brazilian Real	2.69619	2.42710	2.22638	2.50953	2.32669	2.33215
PYG Paraguayan Guarani	5,573.15000	5,794.08000	6,090.40000	5,676.67356	5,817.48337	6,275.59686
UYU Uruguayan Peso	25.59770	25.92850	26.86160	26.02323	26.93149	26.60631
Other countries						
ILS Israeli Shekel	4.92580	4.94530	4.73775	4.95266	4.97723	4.94668

(*) Source: data processed by the European Central Bank, Reuters and major Central Banks

b) Research and development

Expenditures for research and development activities are represented by external costs, labor costs of dedicated staff and depreciation and amortization. Details are as follows:

	2012	2011	2010
	(millions of euros)		
Research and development costs expensed during the year	40	68	64
Development costs capitalized	562	543	634
Total research and development costs (expensed and capitalized)	**602**	**611**	**698**

Moreover, in the separate consolidated income statement for 2012 amortization charges are recorded for development costs, capitalized during the period and in prior periods, for an amount of 716 million euros.

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c) Operating leases

Revenue related

The Group has entered into agreements for line lease and hosting which cannot be canceled. At December 31, 2012 the amount of lease installments receivable is as follows:

	At December 31, 2012	At December 31, 2011
	(millions of euros)	
Within 1 year	104	4
From 2 to 5 years	159	
Beyond 5 years	14	
Total	**277**	**4**

Expense related

The Group has entered into agreements for lease of properties, vehicle rental and hosting which cannot be canceled. At December 31, 2012 the amount of lease installments receivable is as follows:

	At December 31, 2012	At December 31, 2011
	(millions of euros)	
Within 1 year	247	215
From 2 to 5 years	481	605
Beyond 5 years	137	155
Total	**865**	**975**

NOTE 41 EVENTS SUBSEQUENT TO DECEMBER 31, 2012

Sale of La7 S.r.l.

On March 4, 2013 the board of directors of Telecom Italia Media S.p.A., a subsidiary of Telecom Italia S.p.A., voted to grant a mandate to finalize the agreement for the sale of the entire investment in La7 S.r.l. to Cairo Communication S.p.A., excluding the 51% investment in MTV Italia S.r.l., part of the Media Business Unit. On March 6, 2013, Telecom Italia Media and Cairo Communication signed an agreement for the sale of 100% of La7 S.r.l..

Under the agreements reached, Telecom Italia Media S.p.A. will receive a sale consideration of 1 million euros. La7 S.r.l. will be recapitalized for a sufficient amount to ensure a positive net financial position, at the transfer date, of no

less than 88 million euros. This recapitalization will also contribute to reaching the agreed level of equity of 138 million euros, at the transfer date.

As a result of the transaction, Telecom Italia S.p.A. has waived intragroup financial receivables, due from Telecom Italia Media S.p.A., for a total amount of 100 million euros.

According to the agreements, a long-term transmission capacity supply contract will also be entered into between La7 S.r.l. and Telecom Italia Media Broadcasting S.r.l..

This sale allows the Telecom Italia Group to terminate its financial support of La7 S.r.l. while keeping the network operator Telecom Italia Media Broadcasting S.r.l. within its scope of operations.

Based on the agreements described above and also taking account of the expected performance of La7 S.r.l. up to the sale, additional negative income statement impacts are expected for the year 2013, of around 130 million euros, before amounts due to non-controlling interests.

The completion of the sale is subject to the receipt of required regulatory approvals.

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NOTE 42 LIST OF COMPANIES OF THE TELECOM ITALIA GROUP

The list is divided by type of investment, consolidation method and operating segment.

The following is indicated for each company: name, head office, country and share capital in the original currency, in addition to the percentage holding of share capital, the percentage of voting rights in the ordinary shareholders meeting if different than the percentage holding of share capital, and which companies hold the investment.

Telecom Italia Group

Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
PARENT COMPANY						
TELECOM ITALIA S.p.A.	MILAN (ITALY)	EUR	10,693,628,019			
Subsidiaries consolidated line-by-line						
DOMESTIC BUSINESS UNIT						
4G RETAIL S.r.l. (marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices)	TURIN (ITALY)	EUR	2,402,241	71.0000		TLC COMMERCIAL SERVICES S.r.l.
ADVANCED CARING CENTER S.r.l. (telemarketing activities and development, market research and surveys)	ROME (ITALY)	EUR	2,540,100	100.0000		TELECONTACT CENTER S.p.A.
FLAGSHIP STORE BOLOGNA 1 S.r.l.	BOLOGNA (ITALY)	EUR	20,000	100.0000		TLC COMMERCIAL SERVICES S.r.l.

(marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices)					
FLAGSHIP STORE BOLZANO 1 S.r.l. (marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices)	BOLZANO (ITALY)	EUR	20,000	100.0000	TLC COMMERCIAL SERVICES S.r.l.
FLAGSHIP STORE CATANIA 1 S.r.l. (marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices)	CATANIA (ITALY)	EUR	20,000	100.0000	TLC COMMERCIAL SERVICES S.r.l.
FLAGSHIP STORE FIRENZE 1 S.r.l. (marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices)	FLORENCE (ITALY)	EUR	20,000	100.0000	TLC COMMERCIAL SERVICES S.r.l.

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Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
FLAGSHIP STORE MILANO 1 S.r.l.	MILAN	EUR	50,000	100.0000		TLC COMMERCIAL SERVICES S.r.l.
(marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices)	(ITALY)					
FLAGSHIP STORE MILANO 2 S.r.l.	MILAN	EUR	50,000	100.0000		TLC COMMERCIAL SERVICES S.r.l.
(marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices)	(ITALY)					
FLAGSHIP STORE MODENA 1 S.r.l.	MODENA	EUR	20,000	100.0000		TLC COMMERCIAL SERVICES S.r.l.
(marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices)	(ITALY)					
FLAGSHIPSTORE ROMA 1 S.r.l.	ROME	EUR	50,000	100.0000		TLC COMMERCIAL SERVICES S.r.l.
(marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices)	(ITALY)					
FLAGSHIPSTORE ROMA 2 S.r.l.	ROME	EUR	50,000	100.0000		TLC COMMERCIAL SERVICES S.r.l.
(marketing of products and services in the field of fixed and mobile telecommunications and	(ITALY)					

all types of analog and digital devices)					
FLAGSHIP STORE SANREMO 1 S.rl.	SANREMO	EUR	20,000	100.0000	TLC COMMERCIAL SERVICES S.r.l.
(marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices)	(IMPERIA ITALY)				
FLAGSHIPSTORE TARANTO 1 S.r.l.	TARANTO	EUR	20,000	100.0000	TLC COMMERCIAL SERVICES S.r.l.
(marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices)	(ITALY)				
FLAGSHIPSTORE TORINO 1 S.r.l.	TURIN	EUR	20,000	100.0000	TLC COMMERCIAL SERVICES S.r.l.
(marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices)	(ITALY)				
FLAGSHIP STORE VERONA 1 S.r.l.	VERONA	EUR	20,000	100.0000	TLC COMMERCIAL SERVICES S.r.l.
(marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices)	(ITALY)				
FLAGSHIPSTORE VICENZA 1 S.r.l.	VICENZA	EUR	20,000	100.0000	TLC COMMERCIAL SERVICES S.r.l.
(marketing of products and services in the field of fixed and mobile telecommunications and all types of analog and digital devices)	(ITALY)				

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Name	Head Office	Currency	Share Capital	% ownership	% of voting rights	Held by
H.R. SERVICES S.r.l. (personnel training and services)	L AQUILA (ITALY)	EUR	500,000	100.0000		TELECOM ITALIA S.p.A.
I.T. TELECOM S.r.l. (other service activities connected with NCA information technology)	POMEZIA (ROME ITALY)	EUR	7,000,000	100.0000		TELECOM ITALIA S.p.A.
LAN MED NAUTILUS Ltd (telecommunications services, installation and maintenance of submarine cable systems, managed bandwidth services)	DUBLIN (IRELAND)	USD	1,000,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
LATIN AMERICAN NAUTILUS ARGENTINA S.A.	BUENOS AIRES	ARS	9,998,000	95.0000		LAN MED NAUTILUS Ltd
(managed bandwidth services)	(ARGENTINA)			5.0000		TELECOM ITALIA SPARKLE S.p.A.
LATIN AMERICAN NAUTILUS BOLIVIA SRL	LA PAZ	BOB	1,747,600	99.9999		TELECOM ITALIA SPARKLE S.p.A.
(managed bandwidth services)	(BOLIVIA)			0.0001		LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS BRASIL Ltda	RIO DE JANEIRO	BRL	6,850,598	99.9999		LATIN AMERICAN NAUTILUS BRASIL PARTICIPACOES Ltda
(managed bandwidth services)	(BRAZIL)			0.0001		LATIN AMERICAN NAUTILUS USA Inc.

LATIN AMERICAN NAUTILUS BRASIL PARTICIPACOES Ltda (investment holding company)	RIO DE JANEIRO (BRAZIL)	BRL	8,844,866	99.9999 0.0001	LAN MED NAUTILUS Ltd TELECOM ITALIA SPARKLE S.p.A.
LATIN AMERICAN NAUTILUS CHILE S.A. (managed bandwidth services)	SANTIAGO (CHILE)	CLP	13,101,482,259	100.0000	LAN MED NAUTILUS Ltd
LATIN AMERICAN NAUTILUS COLOMBIA Ltda (managed bandwidth services)	BOGOTA (COLOMBIA)	COP	240,225,000	100.0000	LAN MED NAUTILUS Ltd
LATIN AMERICAN NAUTILUS PANAMA S.A. (managed bandwidth services)	PANAMA	USD	10,000	100.0000	LAN MED NAUTILUS Ltd
LATIN AMERICAN NAUTILUS PERU S.A. (managed bandwidth services)	LIMA (PERÙ)	PEN	58,916,982	100.0000	LAN MED NAUTILUS Ltd
LATIN AMERICAN NAUTILUS St. Croix LLC (managed bandwidth services)	VIRGIN ISLANDS (USA)	USD	10,000	100.0000	LAN MED NAUTILUS Ltd
LATIN AMERICAN NAUTILUS USA Inc. (managed bandwidth services)	FLORIDA (USA)	USD	10,000	100.0000	LAN MED NAUTILUS Ltd

LATIN AMERICAN NAUTILUS VENEZUELA C.A. (managed bandwidth services)	CARACAS (VENEZUELA)	VEF	981,457	100.0000	LAN MED NAUTILUS Ltd

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MED-1 (NETHERLANDS) B.V.	AMSTERDAM	EUR	18,200	100.0000		MED-1 SUBMARINE CABLES Ltd
(investment holding company)	(NETHERLANDS)					
MED-1 ITALY S.r.l.	ROME	EUR	548,477	100.0000		MED-1 (NETHERLANDS) B.V.
(construction and maintenance of submarine cable in Italian territorial waters)	(ITALY)					
MED-1 SUBMARINE CABLES Ltd	RAMAT GAN	ILS	55,886,866	99.9123		TELECOM ITALIA SPARKLE S.p.A.
(construction and maintenance of the submarine cable Lev1)	(ISRAEL)					
MEDITERRANEAN NAUTILUS BULGARIA EOOD	SOFIA	BGN	100,000	100.0000		LAN MED NAUTILUS Ltd
(telecommunications services)	(BULGARIA)					
MEDITERRANEAN NAUTILUS GREECE S.A.	ATHENS	EUR	111,600	100.0000		LAN MED NAUTILUS Ltd
(telecommunications services)	(GREECE)					
MEDITERRANEAN NAUTILUS ISRAEL Ltd	RAMAT GAN	ILS	1,000	100.0000		LAN MED NAUTILUS Ltd
(international wholesale telecommunications services)	(ISRAEL)					
MEDITERRANEAN NAUTILUS ITALY S.p.A.	ROME	EUR	3,100,000	100.0000		LAN MED NAUTILUS Ltd.
(installation and maintenance of submarine cable systems)	(ITALY)					
MEDITERRANEAN NAUTILUS TELEKOMÜNIKASYON HIZMETLERI TICARET ANONIM SIRKETI	TAKSIM	TRY	5,639,065	100.0000		LAN MED NAUTILUS Ltd
(telecommunications services)	(ISTANBUL TURKEY)					

OLIVETTI MULTISERVICES S.p.A.	MILAN	EUR	20,337,161	100.0000	TELECOM ITALIA S.p.A.
(real estate management)	(ITALY)				
PATH.NET S.p.A.	ROME	EUR	25,800,000	100.0000	TELECOM ITALIA S.p.A.
(networking systems and telecommunications)	(ITALY)				
TECNOSERVIZI MOBILI S.r.l. (in liquidation)	ROME	EUR	26,000	100.0000	TELECOM ITALIA S.p.A.
(management of movable assets)	(ITALY)				
TELECOM ITALIA INFORMATION TECHNOLOGY S.r.l.	ROME	EUR	3,400,000	100.0000	TELECOM ITALIA S.p.A.
(planning, design, installation running of computer services)	(ITALY)				
TELECOM ITALIA NETHERLANDS B.V.	AMSTERDAM	EUR	18,200	100.0000	TELECOM ITALIA SPARKLE S.p.A.
(telecommunications services)	(NETHERLANDS)				
TELECOM ITALIA SAN MARINO S.p.A.	ROVERETA-FALCIANO	EUR	1,808,000	99.9999	TELECOM ITALIA SPARKLE S.p.A.
(telecommunications services in San Marino)	REPUBLIC OF SAN MARINO			0.0001	TELECOM ITALIA S.p.A.
TELECOM ITALIA SPAIN SL UNIPERSONAL	MADRID	EUR	2,003,096	100.0000	TELECOM ITALIA SPARKLE S.p.A.
(telecommunications services)	(SPAIN)				
TELECOM ITALIA SPARKLE CZECH S.R.O.	PRAGUE	CZK	6,720,000	100.0000	TELECOM ITALIA SPARKLE S.p.A.
(telecommunications services)	(CZECH REPUBLIC)				

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TELECOM ITALIA SPARKLE EST S.R.L.	BUCHAREST	RON	3,021,560	100.0000		TELECOM ITALIA SPARKLE S.p.A.
(telecommunications services)	(RUMANIA)					
TELECOM ITALIA SPARKLE HUNGARY K.F.T.	BUDAPEST	HUF	2,870,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
(telecommunications services)	(HUNGARY)					
TELECOM ITALIA SPARKLE OF NORTH AMERICA. INC.	NEW YORK	USD	15,550,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
(telecommunications and promotional services)	(USA)					
TELECOM ITALIA SPARKLE S.p.A.	ROME	EUR	200,000,000	100.0000		TELECOM ITALIA S.p.A.
(public and private telecommunication services management)	(ITALY)					
TELECOM ITALIA SPARKLE SINGAPORE PTE. LTD	SINGAPORE	USD	5,121,120	99.9999		TELECOM ITALIA SPARKLE S.p.A.
(telecommunications services)				0.0001		TELECOM ITALIA SPARKLE OF NORTH AMERICA. INC.
TELECOM ITALIA SPARKLE SLOVAKIA S.R.O.	BRATISLAVA	EUR	300,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
(telecommunications services)	(SLOVAKIA)					

TELECONTACT CENTER S.p.A.	NAPLES	EUR	3,000,000	100.0000	TELECOM ITALIA S.p.A.
(telemarketing services)	(ITALY)				
TELEFONIA MOBILE SAMMARINESE S.p.A.	B.GO MAGGIORE	EUR	78,000	51.0000	TELECOM ITALIA SAN MARINO S.p.A.
(mobile telephone services)	REPUBLIC OF SAN MARINO				
TELENERGIA S.r.l.	ROME	EUR	50,000	100.0000	TELECOM ITALIA S.p.A.
(import, export, purchase, sale and exchange of electricity)	(ITALY)				
TELSY ELETTRONICA E TELECOMUNICAZIONI S.p.A.	TURIN	EUR	390,000	100.0000	TELECOM ITALIA S.p.A.
(manufacturing and sale of electronic equipment and systems for encrypted telecommunications)	(ITALY)				
TI BELGIUM S.P.R.L. B.V.B.A	BRUSSELS	EUR	3,000,000	100.0000	TELECOM ITALIA SPARKLE S.p.A.
(telecommunications services)	(BELGIUM)				
TI GERMANY GmbH	FRANKFURT	EUR	25,000	100.0000	TELECOM ITALIA SPARKLE S.p.A.
(telecommunications services)	(GERMANY)				
TI SWITZERLAND GmbH	ZURICH	CHF	2,000,000	100.0000	TELECOM ITALIA SPARKLE S.p.A.
(telecommunications services)	(SWITZERLAND)				
TI TELECOM ITALIA (AUSTRIA) TELEKOMMUNICATIONDIESTE GMBH	VIENNA	EUR	2,735,000	100.0000	TELECOM ITALIA SPARKLE S.p.A.
(telecommunications services)	(AUSTRIA)				

TIS France S.A.S.	PARIS	EUR	18,295,000	100.0000	TELECOM ITALIA SPARKLE S.p.A.
(installation and management of telecommunication services for fixed network and related activities)	(FRANCE)				

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TLC COMMERCIAL SERVICES S.r.l. (acquisition and management of investments holdings involved on the marketing of products and services in the field of telecommunications and ICT)	ROME (ITALY)	EUR	500,000	100.0000		TELECOM ITALIA S.p.A.
TMI TELEMEDIA INTERNATIONAL Ltd (value-added and networking services)	LONDON (UK)	EUR	3,983,254	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TMI TELEMEDIA INTERNATIONAL DO BRASIL LTDA (telecommunications services and promotional services)	SAO PAULO (BRAZIL)	BRL	8,909,639	100.0000		TMI TELEMEDIA INTERNATIONAL Ltd
BRAZIL BUSINESS UNIT						
INTELIG TELECOMUNICAÇOES LTDA (telecommunications services)	RIO DE JANEIRO (BRAZIL)	BRL	4,041,956,045	99.9999 0.0001		TIM PARTICIPAÇÕES S.A. TIM CELULAR S.A.
TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A. (investment holding company)	RIO DE JANEIRO (BRAZIL)	BRL	7,169,029,859	100.0000		TELECOM ITALIA INTERNATIONAL N.V.
TIM CELULAR S.A. (telecommunications services)	SAO PAULO (BRAZIL)	BRL	9,434,215,720	100.0000		TIM PARTICIPAÇÕES S.A.
TIM PARTICIPAÇOES S.A.	RIO DE JANEIRO	BRL	9,886,886,593	66.6756		