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*F I N A N C E*

**Telecom Italia Finance**

**Société Anonyme**

12, rue Eugène Ruppert

L-2453 Luxembourg

R.C.S. Luxembourg B 76.448

Unaudited Semi Annual Accounts  
as at June 30, 2012

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## **Directors' report**

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The first half of the year 2012 of Telecom Italia Finance (the "Company" or "TI Finance") ends with a profit of EUR 48.372.814,69 versus a positive result of EUR 47.702.675,41 in the same period 2011.

During the concerned period, the Company continued its activity of providing financial assistance to Telecom Italia Group companies.

The on-going borrowing and lending activity generated a positive margin equal to EUR 67,63 million (EUR 53,02 million for the corresponding period 2011) of which EUR 5,36 million booked as dividends on Telecom Italia S.p.A. shares (EUR 7,22 million in the corresponding period 2011).

Impairments for a total amount of EUR 16,34 million (EUR 0,54 million in 2011) have been booked, mainly in relation to the participations in Telecom Italia S.p.A. Moreover an impairment of EUR 1,31 million (EUR 3,62 million in 2011) has been registered in relation to Clessidra investments fund.

The net financial position as per June 30, 2012 is positive for EUR 1.532,95 million (EUR 1.471,58 million as per December 31, 2011).

### **Notes**

As of June 30, 2012, the total outstanding nominal amount of notes issued by Telecom Italia Finance amounts to EUR 1.892.678.337,56 (EUR 2.893.576.798,40 as of December 31, 2011). The notes are unconditionally and irrevocably guaranteed by the Parent Company Telecom Italia S.p.A.

During the first six months of the year 2012,

a) Matured and were repaid, by reducing for the same amount cash deposit with banks, the following notes:

- On March 14, 2012 the EUR 107.715.000,00 Floater rate Notes.
- On April 24, 2012 the EUR 812.545.000,00 7,25% Notes (11,56 million of which had been bought back on the market during the first months of the current year.

b) the Company bought back in the market:

- EUR 80,78 million in nominal amount of its EUR EUR 758.000.000,00 6,875% Notes maturing January 2013. Such Notes have been cancelled on June 28, 2012. Due to the cancellation, the principal amount of debt outstanding with regards to these notes is EUR 677.938.000,00.

### **Fixed assets**

On June 26, Telecom Italia S.p.A. redeemed its EUR 2.500.000.000,00 7,375% Notes due June 2012, entirely subscribed by Telecom Italia Finance and repaid to the Company EUR 2.684.375.000,00 being the sum of principal plus accrued interest.

### **Credit towards Lehman Brothers Special Finance Inc**

On June 25, an agreement has been reached with Lehman Brothers Special Finance Liquidators ("LBSF") concerning the nominal amount of the claims towards such company and the guarantor, Lehman Brothers Holding Inc.

The agreed amount equals to USD 35.696.077,01 (vs. the requested amount of USD 35.752.789,99) as far as LBSF and USD 35.590.272,35 in respect of the Guarantor.

On July 19, an order was entered in the United States Bankruptcy Court for the Southern District of New York allowing the aforesaid agreed amounts.

### **Share Capital**

The subscribed share capital of TI Finance is EUR 542.090.241,00, consisting of 55.428.450 ordinary shares, nominal value EUR 9,78 per share; all of the shares have been issued and are fully paid-up.

### **Risks**

The Directors consider the following as the principal risks that could materially affect the result and the financial position of the Company in the second part of the year:

- the value of holdings in associated undertakings, equity investments and securities issued from third parties may be adversely affected by financial and economic development;
- foreign currency risk: according to risk management policies, Telecom Italia Finance hedges the foreign currency exposure on its assets and liabilities in currencies other than euro through currency swap contracts or natural hedge positions;
- interest rate risk: according to risk management policies and to management strategies and in order to modify its interest rate exposure, Telecom Italia Finance enters into interest rate swaps. However, no assurance can be given that fluctuations in interest rates will not adversely affect its results of operations or cash flows.

The Company is exposed to generic market, credit and liquidity risks.

These financial risks are managed by:

- the application of guidelines defined at Group level, which preview a monitoring by a Group committee of the level of exposure to market risk consistency with prefixed general objectives;
- the identification of the most suitable financial instruments, including derivatives, to reach prefixed objectives;
- the monitoring of the results achieved.

Additional details on financial risk management policies of Telecom Italia Group are available in the Telecom Italia consolidated accounts.

### **Events subsequent to June 30, 2012**

During the second half of the year 2012 it is foreseen to continue the activity of financial assistance to Telecom Italia Group companies and continue to manage the market risks above mentioned.

The Board remarks that the current financial environment characterized by very low level of short term interest rates will influence the return on liquid assets and may adversely impact the earnings of the second half of the year.

No event after the closing has a material impact on the financials herein reported.

The Company does not perform research and development activities. The Company did not acquire and does not hold its own shares.

Financials as of June 30, 2012 herein reported have not been audited. They comprise the balance sheet, the profit and loss account, the cash flow statement and the explanatory notes.

For the Board of Directors  
The Managing Director  
Adriano Trapletti

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## Balance Sheet

TELECOM ITALIA FINANCES A. BALANCE SHEET AS AT JUNE 30, 2012					
ASSET - [EUR]		30.JUNE.2012	31.DECEMBER.2011	LIABILITIES - [EUR]	
<b>B. Formation expenses</b>	[n.3]	<b>5.285.009,89</b>	<b>5.755.176,31</b>	<b>A. Capital and reserves</b>	<b>1.719.316.975,97</b>
<b>C. Fixed assets</b>		<b>3.130.381.718,51</b>	<b>3.146.051.875,03</b>	I. Subscribed capital	[n.12] 542.090.241,00
II. Tangible assets				IV. Reserves	[n.13]
3. Other fixtures and fittings, tools and equipment	[n.4]	35.061,33	39.502,58	1. Legal reserve	14.659.704,79
III. Financial assets				4. Other reserves	865.769.812,13
1. Shares in affiliated undertakings	[n.6]	1.467.735.248,25	1.483.904.598,68	V. Profit or loss brought forward	248.424.403,36
2. Loans to affiliated undertakings	[n.5]	1.651.069.237,47	1.649.974.454,04	VI. Result for the financial period	48.372.814,69
3. Shares in undertakings with which the company is linked by virtue of participating interests	[n.6]	54.569,72	223.493,66	<b>C. Provisions</b>	<b>0,00</b>
5. Investments held as fixed assets	[n.7]	11.487.601,74	11.909.826,07	3. Other provisions	0,00
<b>D. Current assets</b>		<b>5.552.935.287,12</b>	<b>6.247.118.030,97</b>	<b>D. Not Subordinated debts</b>	<b>6.969.355.288,56</b>
II. Debtors				1. Debenture loans	
2. Amounts owed by affiliated undertakings	[n.8]			b) Non convertible notes	[n.14]
a) becoming due and payable after less than one year		1.140.039.239,50	199.526.791,98	ii) becoming due and payable after more than one year	
b) becoming due and payable after more than one year		21.934.167,75	2.958.574,43	2. Amounts owed to credit institutions	[n.15]
4. Other debtors				a) becoming due and payable after less than one year	358.415.806,97
a) becoming due and payable after less than one year		13.798.018,59	10.678.688,73	b) becoming due and payable after more than one year	449.701.331,52
b) becoming due and payable after more than one year	[n.9]	177.262.141,66	79.136.281,02	4. Trade creditors	
III. Investments	[n.10]			a) becoming due and payable after less than one year	65.492,90
1. Shares in affiliated undertakings and in undertakings with which the company is linked by virtue of participating interests		0,00	2.595.210.040,98	6. Amounts owed to affiliated undertakings	[n.16]
3. Other investments		275.437.239,49	373.473.743,51	a) becoming due and payable after less than one year	2.697.819.105,81
IV. Cash at bank and in hand	[n.11]	3.924.464.480,13	2.986.133.910,32	b) becoming due and payable after more than one year	1.458.294.976,31
<b>E. Prepayments and accrued income</b>		<b>106.619,01</b>	<b>240.415,24</b>	8. Tax and social security	
				a) Tax	65.049,30
				b) Social security	24.317,16
				9. Other creditors	
				a) becoming due and payable after less than one year	31.417.996,72
				b) becoming due and payable after more than one year	25.662.696,57
<b>TOTAL ASSETS</b>		<b>8.688.708.634,53</b>	<b>9.399.165.497,55</b>	<b>E. Accruals and deferred income</b>	<b>36.370,00</b>
				<b>TOTAL LIABILITIES</b>	<b>8.688.708.634,53</b>

The accompanying notes are an integral part of these annual accounts.

## Profit and Loss

TELECOM ITALIA FINANCE S.A.					
PROFIT AND LOSS FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2012					
A. CHARGES - [EUR]	30.JUNE.2012	30.JUNE.2011	B. INCOME - [EUR]	30.JUNE.2012	30.JUNE.2011
1. Raw materials and consumables	4.211,86	2.895,29	1. Net turnover	71.846,79	99.698,70
2. Other external charges	404.703,91	491.013,90			
3. Staff costs	430.666,32	490.561,48	6. Income from financial fixed assets [n.22]	57.414.503,27	62.691.371,46
a) Wages and salaries	374.429,72	427.970,14	a) derived from affiliated undertakings	57.390.623,10	62.691.371,46
b) Social security costs	38.708,95	46.645,81	b) other income from participating interests	23.880,17	0,00
c) Social security costs relating to pensions	14.977,48	15.945,53			
d) Other social security costs	2.550,17	0,00			
4. Value adjustments	482.772,72	12.751,78	7. Income from financial current assets [n.23]	8.074.031,18	4.233.127,17
a) on formation expenses and on tangible and intangible fixed assets	482.772,72	12.751,78	a) derived from affiliated undertakings	0,00	3.474.000,00
5. Other operating charges	29.820,25	35.019,80	b) other income	8.074.031,18	759.127,17
6. Value adjustments and fair value adjustments on financial fixed assets [n.17]	17.652.998,70	4.159.468,84			
7. Value adjustments and fair value adjustments on financial current assets. Loss on disposal of transferable securities [n.18]	3.829.487,10	14.591.536,60	8. Other interest and other financial income [n.24]	660.107.961,82	226.652.461,00
8. Interest payable and similar charges [n.19]	654.138.327,37	225.964.919,37	a) derived from affiliated undertakings	325.661.456,41	160.910.366,48
a) concerning affiliated undertakings	279.172.303,55	18.457.101,02	b) other interest receivable and similar income	334.446.505,41	65.742.094,52
b) other interest payable and similar charges	374.966.023,82	207.507.818,35			
9. Extraordinary charges	0,00	6.189,62	9. Extraordinary income	8.500,73	100.447,42
10. Tax on profit or loss [n.20]	131.040,87	120.073,66			
11. Other taxes not included in the previous caption [n.21]	200.000,00	200.000,00			
12. Profit for the financial period	48.372.814,69	47.702.675,41	12. Loss for the financial period	0,00	0,00
TOTAL CHARGES	725.676.843,79	293.777.105,75	TOTAL INCOME	725.676.843,79	293.777.105,75

The accompanying notes are an integral part of these annual accounts.



## Cash Flow Statements

TELECOM ITALIA FINANCE S.A. CASH FLOW STATEMENT AS AT JUNE 30, 2012		
	30.JUNE.2012	30.JUNE.2011
<b>Operating Activities</b>		
Profit after tax	48.372.814,69	47.702.675,41
Adjustments for		
Amortization of formation expenses and on tangible and intangible fixed assets	482.772,72	12.751,78
Finance Income	-725.204.763,17	-293.456.885,97
Finance Expenses	675.266.582,81	244.195.066,59
Changes in trade and other receivables	-676,43	132.839,83
Changes in trade and other payables	-643.215,72	-845.093,58
<b>Net cash flows from operating activities</b>	<b>-1.726.485,10</b>	<b>-2.258.645,94</b>
<b>Cash flows from Investing activities</b>		
Changes in Property, plant and equipment	-8.165,05	-21.648,15
Changes in Participations, funds and other securities	2.518.115.261,64	1.485.379.183,88
Investments and re-payments in Financial Receivables	-875.764.504,48	413.784.084,02
Interest, commissions and other financial income received	688.399.451,01	351.675.175,75
Dividends received	5.282.362,42	7.124.249,49
<b>Net cash flows from investing activities</b>	<b>2.336.024.405,54</b>	<b>2.257.941.044,99</b>
<b>Cash flows from Financing activities</b>		
Net change in short-term Financial Payables	246.082.834,83	423.151.957,97
Repayments of borrowings	-920.260.000,00	-1.883.885.000,00
Interest, commissions and other financial expenses paid	-722.165.409,06	-418.437.757,54
<b>Net cash flows from financing activities</b>	<b>-1.396.342.574,23</b>	<b>-1.879.170.799,57</b>
Net Increase / Decrease in Cash and Cash Equivalents	937.955.346,21	376.511.599,48
Net foreign exchange differences in C&CE	2.519.170,35	3.135.003,66
Cash and cash equivalents at 01 January	2.982.723.773,55	1.054.452.217,92
<b>Cash and cash equivalents at the end of the period</b>	<b>[n.11] 3.923.198.290,12</b>	<b>1.434.098.821,06</b>

The accompanying notes are an integral part of these annual accounts.

**TELECOM ITALIA FINANCE S.A.**  
**CASH FLOW STATEMENT AS AT JUNE 30, 2012**

	30.JUNE.2012	31.DECEMBER.2011
<b>Operating Activities</b>		
Profit after tax	48.372.814,69	69.919.778,31
Adjustments for		
Amortization of formation expenses and on tangible and intangible fixed assets	482.772,72	1.357.288,46
Finance Income	-725.204.763,17	-943.610.603,53
Finance Expenses	675.266.582,81	869.388.051,50
Changes in trade and other receivables	-676,43	-133.063,50
Changes in trade and other payables	-643.215,72	-675.966,06
<b>Net cash flows from operating activities</b>	<b>-1.726.485,10</b>	<b>-3.754.514,82</b>
<b>Cash flows from Investing activities</b>		
Changes in Property, plant and equipment	-8.165,05	-21.648,15
Changes in Participations, funds and other securities	2.518.115.261,64	2.739.342.026,41
Investments and re-payments in Financial Receivables	-875.764.504,48	713.774.951,21
Interest, commissions and other financial income received	688.399.451,01	930.368.816,39
Dividends received	5.282.362,42	7.124.249,49
<b>Net cash flows from investing activities</b>	<b>2.336.024.405,54</b>	<b>4.390.588.395,35</b>
<b>Cash flows from Financing activities</b>		
Net change in short-term Financial Payables	246.082.834,83	210.425.128,94
Repayments of borrowings	-920.260.000,00	-1.883.885.000,00
Interest, commissions and other financial expenses paid	-722.165.409,06	-792.667.170,53
<b>Net cash flows from financing activities</b>	<b>-1.396.342.574,23</b>	<b>-2.466.127.041,59</b>
Net Increase / Decrease in Cash and Cash Equivalents	937.955.346,21	1.920.706.838,94
Net foreign exchange differences in C&CE	2.519.170,35	7.564.716,69
Cash and cash equivalents at 01 January	2.982.723.773,55	1.054.452.217,92
<b>Cash and cash equivalents at the end of the period</b>	[n.11] <b>3.923.198.290,12</b>	<b>2.982.723.773,55</b>

*The accompanying notes are an integral part of these annual accounts.*

## **Notes to the accounts**

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as at June 30, 2012

### **Note 1 – General**

Telecom Italia Finance (the “Company”, “Ti Finance”) was incorporated on June 2, 2000 for an unlimited duration. The current registered office is established at 12, Rue Eugène Ruppert L-2453 Luxembourg. The registered number is B 76.448.

The corporate object is to provide any financial assistance to Telecom Italia S.p.A. (the “Parent Company”) itself as well as to all companies in which the Parent Company has a direct or indirect interest. This is implemented by the provision of loans and the granting of guarantees or securities in any kind or form. The object of the Company is further to provide domiciliation and administration services to companies being part of the Telecom Italia Group and to exercise any activity in relation thereto as provided in the law of May 31, 1999 on the domiciliation of companies, as amended. The Company may acquire and hold interests in Luxembourg and/or in foreign undertakings. The Company may also use its funds to invest in real estate and in intellectual property rights in any kind or form. The Company may participate at the creation and development of any other companies and entities and provide financial assistance in any kind or form. The Company may borrow in any kind or form and issue bonds or notes. Generally the Company may carry out any commercial, industrial or financial operation, relating directly or indirectly to its object.

The financial year begins on January 1st and ends on December 31st of each year.

### **Note 2 – Summary of significant accounting policies**

#### Basis of presentation

The accounts in hand are prepared in accordance with the accounting principles and regulations generally accepted in the Grand Duchy of Luxembourg (“Luxembourg GAAP”).

As allowed by the amended law of 19 Dec. 2002, the Board of Directors of the Company has decided to include the cash flow statement based on the indirect method.

Euro (EUR) is the book accounting currency.

#### Use of estimates

The preparation of financial statements in accordance with Luxembourg GAAP, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the accounts, and reported amounts of revenues and expenses during that reporting period. Actual results could differ from those estimates.

#### Foreign currency translation

The Company follows the multi-currency accounting policy that consists in recording the assets and the liabilities in their original currencies, the same being converted into EUR at the end of each month. The net exchange differences that arise from these conversions are reflected in the profit and loss account in the item "other financial charges/ financial income".

The realized income and charges in currencies other than EUR are recorded in their respective currencies and converted at the exchange rate prevailing on the respective transaction dates.

The exchange differences arising from the transactions expressed in currencies other than EUR are hedged either by balanced deposits and loans, or through currency swap contracts using the account « exchange revaluation » incorporated into "Interest and other financial charges" and "Other interest and other financial income" whose valuation at the year-end rate allows to hedge off the exchange risk.

#### Formation expenses

Formation expenses may include incorporation expenses and bond issuance expenses. Incorporation expenses are valued at purchase price including the expenses incidental thereto less cumulated depreciation amounts written off over maximum 5 years. Bond issuance expenses are written off on a straight-line basis over the period of the note.

#### Tangible assets

Tangible assets are stated at cost less accumulated depreciation and any impairment adjustments. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets. The carrying values of tangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

#### Shares in affiliated undertakings and share in undertakings with which the company is linked by virtue of participating interests

Equity investments in non-current assets are evaluated according to the historical cost method. The contingent write-downs are recorded in case of a permanent impairment loss of the investments estimated by the Board of Directors while comparing the net book value with the market value or with the net equity of the company.

#### Debtors

Debtors are valued at their nominal value. They are subject to value adjustments where they recovery is compromised. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

#### Investments

Investments in current assets are evaluated to the lower between the market value and the acquisition cost. Bonds purchased with the intention of holding to maturity are evaluated to acquisition cost that is never over the par amount.

### Cash at bank and in hand

Cash at bank and in hand is defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash at bank and in hand and short-term deposits which are held to maturity are carried at cost.

### Accrued income and charges

Accrued interest are shown with their principal amount.

### Prepayments and accrued income/Accruals and deferred income

“Prepayments and accrued income” and “Accruals and deferred income” accounts include prepaid charges and prepaid income.

Issue discounts and issue premiums are listed with the related notes, while other similar charges are classified in the “Formation expenses”. All are amortized through the profit and loss account on a straight-line basis over the lifetime of the notes.

### Derivative instruments

The commitments related to derivative instruments are recorded off-balance sheet at their nominal value as of transaction date. In case of negative Mark to Market value of non-hedging instruments at the financial statements closing date, a provision shall be recorded.

### Debts

Debts are recorded at their reimbursement value. Where the amount repayable on account is greater than the amount received, the difference is shown in the same line of the debt and is written off over the period of the debt based on a linear/actuarial method.

### Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**Note 3 – Formation expenses**

	<i>June 30, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Issuance expenses on debentures loans	5.174.933,25	5.595.263,97
Issuance expenses on amounts owed to credit institutions	110.076,64	159.912,34
	<b>5.285.009,89</b>	<b>5.755.176,31</b>

**Note 4 – Other fixtures and fittings, tools and equipment**

	<i>June 30, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Acquisitions at the beginning of the year	365.736,24	518.452,26
Acquisition during the period	8.165,05	21.648,15
Disposal or reduction during the period	(702,86)	(174.364,17)
Acquisition cost at the end of the period	373.198,43	365.736,24
Value adjustments at the beginning of the year	326.233,66	475.197,11
Value adjustments during the period	12.606,30	25.400,72
Disposal or reduction during the period	(702,86)	(174.364,17)
Value adjustments at the end of the period	338.137,10	326.233,66
	<b>35.061,33</b>	<b>39.502,58</b>

## Note 5 – Loans to affiliated undertakings

This item is composed by EUR 1.651.069.237,47 being the total amount of medium-long term loans granted to the Parent Company and other group companies (2011 – EUR 1.649.974.454,04).

	<i>June 30, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Nominal value: EUR: 250.000.000,00		
Expiring August 7, 2014		
Fixed rate: 6,558%	250.000.000,00	250.000.000,00
Nominal value: JPY 20.000.000.000		
Expiring October 29, 2029 [*]		
Floater rate: JPY Libor 6m + 0,9463%	199.740.337,56	199.600.798,40
Nominal value: JPY 20.000.000.000		
Expiring May 5, 2032 [*]		
Floater rate: JPY Libor 6m + 1,66%	199.740.337,56	199.600.798,40
Nominal value: EUR: 1.000.000.000,00		
Expiring July 28, 2033		
Fixed rate: 8,000%	1.000.000.000,00	1.000.000.000,00
Total from Parent Company	1.649.480.675,12	1.649.201.596,80
Nominal value: USD 1.000.000,00		
Expiring January 7, 2014		
Fixed rate: 4,09632%	794.281,175	772.857,24
Nominal value: USD 1.000.000,00		
Expiring August 4, 2014		
Fixed rate: 4,0367%	794.281,175	0,00
Total from other group companies	1.588.562,35	772.857,24
	<b><u>1.651.069.237,47</u></b>	<b><u>1.649.974.454,04</u></b>

[\*] Differences between June 30, 2012 and December 31, 2011 are due to exchange rate impact.

## Note 6 – Shares in affiliated undertakings and shares in undertakings with which the company is linked by virtue of participating interests

		Ownership (%)	Number of shares	Net Book value at the beginning of the year	at the beginning of the year	Gross book value changes during the first six month of the year	at the end of the year	at the beginning of the year	Value Adjustments changes during the first six month of the year	at the end of the period	Net Book value at the end of the period	Fair Value at the end of the period [**]
<b>1. Shares in affiliated undertakings</b>												
Telecom Italia S.p.A.	Piazza degli Affari, 2 Milan (Italy)	0,64	124.544.373	117.345.695,89	473.126.647,40	.	473.126.647,40	355.780.951,51	15.424.385,49	371.205.337,00	101.921.310,40	97.206.883,13
Telecom Italia Media S.p.A.	Via della Pineta Sacchetti, 229 Rome (Italy)	2,25	32.624.295	6.514.392,55	50.177.899,30	.	50.177.899,30	43.663.506,75	744.964,94	44.408.471,69	5.769.427,61	5.259.036,35
Telecom Italia Finance Ireland Ltd	3 Harbournmaster place, International financial Services Centre, Dublin 1 (Ireland)	100,00	1.360.000.000	1.360.000.000,00	1.360.000.000,00	.	1.360.000.000,00	.	.	.	1.360.000.000,00	
Olivetti Holding B.V.	Prins Bernhardplein 200 Amsterdam (Netherlands)	100,00	1.588.277	0,01	0,01	.	0,01	.	.	.	0,01	
Italtel Group S.p.A.	Via Reiss Romoli, Località Castelletto Settimo Milanese (Italy)	34,68	6.160.999 [*]	.	145.993.930,23	.	145.993.930,23	145.993.930,23		145.993.930,23	.	
Movenda S.p.A.	Via Pian Di Sco 82 Rome (Italy)	25,00	33.333	44.510,23	44.510,23	.	44.510,23	.	.	.	44.510,23	
<b>Total</b>				1.483.904.598,68	2.029.342.987,17	.	2.029.342.987,17	545.438.388,49	16.169.350,43	561.607.738,92	1.467.735.248,25	

### 3. Shares in undertakings with which the company is linked by virtue of participating interests

Consolidated IP Holdings Inc. [In Liquidation]	c/o Sherwood Partners 101 University Avenue, Suite 100 Palo Alto (California - United States)	2,93	2.131.366	0,01	0,01	.	0,01	.	.	.	0,01	
Infomaster S.p.A.	Via V maggio 81 Genova (Italy)	2,93	19.412	223.493,64	413.304,84	.	413.304,84	189.811,20	168.923,94	358.735,14	54.569,70	
Locationet System Ltd. [Dismissed]	Gold Bldg. 2nd Hamelacha St. P.O.Box 8673 Poleg Industrial Zone, Netanya (Israel)	-	-	.	840.183,67	-840.183,67	.	840.183,67	-840.183,67	.	.	
Piedmont Int. S.A. [Liquidated]	Not available	-	-	.	.	.	.	.	.	.	.	
Docunet Inc.	400 Oyster Pt Blvd Ste 111 South San Francisco (California - United States)	0,18	124.528	0,01	0,01	.	0,01	.	.	.	0,01	
<b>Total</b>				223.493,66	1.253.488,53	-840.183,67	413.304,86	1.029.994,87	-671.259,73	358.735,14	54.569,72	

[\*] - The held percentage of Ordinary Share Capital is 19,373% (No. 1.720.634 Ordinary shares). 34,68% is the fully diluted percentage taking into account the No. 4.440.365 Preferred shares having limited voting rights. All the shares of Italtel Group S.p.A. are pledged in favour of a group of banks in order to guarantee the performance of Italtel S.p.A. (100% controlled by Italtel Group) under certain financing agreements.

[\*\*] - Telecom Italia S.p.A. and Telecom Italia Media S.p.A. are evaluated according to the VWAP (Volume Weighted Average Price) method taking in consideration prices and volumes exchanged during the last twelve months.



On February 16, the liquidation of Piedmont International S.A., a Luxembourg based company, has been completed.

During the month of April Telecom Italia Finance did not take part in the capital increase of IFM Infomaster S.p.A. and the participation in such company has been diluted from 12,0% to 2,93%.

On June 25, all the preferred shares held in LocatioNet Systems Ltd, in liquidation have been bought back by LocatioNet itself.

#### ***Note 7 – Investments held as fixed assets***

This item is composed by parts in investment funds.

	<i>June 30, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Clessidra Capital Partners	10.624.861,54	11.047.085,87
The Golden Mouse Partnership	862.740,20	862.740,20
	<b>11.487.601,74</b>	<b>11.909.826,07</b>

## Note 8 – Amounts owed by affiliated undertakings

This item refers to the loans receivable within one year granted to group companies (included accrued interest and commissions thereon), to accruals on interest rate swaps with Parent and group companies and currency swaps with group companies.

### a) becoming due and payable after less than one year

	June 30, 2012	December 31, 2011
	EUR	EUR
Telecom Italia S.p.A.	893.074.748,91	42.811.558,24
Olivetti S.p.A.	88.406.868,59	23.357.695,02
Telecom Italia Media S.p.A.	60.017.337,67	45.090.359,50
Telecom Italia Netherlands B.V.	812.907,13	1.004.471,67
Telecom Italia Spain SL	2.005.266,29	2.507.262,66
TI Sparkle France S.A.	8.150.750,54	12.224.214,76
TMI Telemedia Int.	2.219.823,52	3.001.022,66
Mediterranean Nautilus Greece S.A.	24.997.749,60	24.989.045,59
Telecom Italia Capital S.A.	1.001.342,57	6.615.825,87
TI Sparkle Singapore P.T.E.	4.798.490,15	4.649.191,25
Mediterranean Nautilus B.V.	11.673.465,16	10.193.775,26
Mediterranean Nautilus		
Telekomünikasyon Hizmetleri TAS	9.544.764,81	9.285.987,05
Others	1.243.147,20	1.373.999,70
Accruals on interest rate swaps with Parent Company	25.816.763,14	9.524.165,08
Accruals on interest rate swaps with group companies	2.247.497,14	349.562,33
Currency swaps with group companies	4.028.317,08	2.548.655,34
	<b>1.140.039.239,50</b>	<b>199.526.791,98</b>

### b) becoming due and payable after more than one year

	June 30, 2012	December 31, 2011
	EUR	EUR
Currency swaps with group companies	21.934.167,75	2.958.574,43
	<b>21.934.167,75</b>	<b>2.958.574,43</b>

**Note 9 – Other debtors becoming due and payable after more than one year**

	<i>June 30, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Receivables from Lehman Brothers Special Financing Inc. [*]	10.930.557,57	10.382.070,07
Positive exchange evaluation of long term currency swaps	166.294.976,31	68.715.910,12
Other receivables	36.607,78	38.300,83
	<b>177.262.141,66</b>	<b>79.136.281,02</b>

[\*] It reflects the estimated recovery value of the credit registered vs. Lehman Brothers Special Financing Inc. in Liquidation (LBSF). Such credit was originally booked for EUR 25.016.035,74. During the year 2009 based on the documentation filed with the US Courts, the position has been converted from EUR into USD for an amount of USD 35.552.789,99.

During the month of June 2012 the amount of the credit guaranteed by Lehman Brothers Holding Inc. in Liquidation became USD 35.590.272,35.

In accordance with market evaluations, the credit is registered at its recoverable value of 38,67% (USD 13.761.571,98) of the initial value. The credit in hands is supported by the guarantee from Lehman Brothers Holding Inc. in Liquidation.

**Note 10 – Investments**

This item refers to the accrued value of the securities and can be detailed as follows:

	<i>June 30, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Notes issued by Parent Company [*]	0,00	2.595.210.040,98
	<b>0,00</b>	<b>2.595.210.040,98</b>
Notes from other issuers	166.516.864,01	153.843.043,36
Euro Commercial Papers	108.920.375,48	219.630.700,15
	<b>275.437.239,49</b>	<b>373.473.743,51</b>

[\*] Current portion of notes issued by Parent Company expired on June 26, 2012.

**Note 11 – Cash at bank and in hand**

	<i>June 30, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Cash in hand	1.021,58	98,34
Bank current accounts	4.071.841,31	1.542.599,90
Bank term deposit accounts	3.919.125.427,23	2.981.181.075,31
Cash and cash equivalent as shown in Cash Flow Statement	3.923.198.290,12	2.982.723.773,55
Accruals on bank term deposits	1.266.190,01	3.410.136,77
	<b>3.924.464.480,13</b>	<b>2.986.133.910,32</b>

**Note 12 – Subscribed capital**

As of June 30, 2012 and December 31, 2011, the authorized, issued and fully paid capital of EUR 542.090.241,00 is represented by 55.428.450 ordinary shares with a nominal value EUR 9,78 per share.

As of June 30, 2012 and December 31, 2011 the Company is 100% held by Telecom Italia S.p.A.

### Note 13 – Reserves

Reserves are split as follows:

	<i>June 30, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Legal reserve	<b>14.659.704,79</b>	<b>11.163.715,87</b>
Other reserves		
Reserves unavailable for distribution	394.805.662,41	394.805.662,41
Other distributable reserves	470.964.149,72	470.964.149,72
Total other reserves	<b>865.769.812,13</b>	<b>865.769.812,13</b>

The Company is required to allocate a minimum of 5% of its annual net income to a legal reserve, until this reverse equals 10% of the subscribed share capital. This reserve may not be distributed. Legal reserve has been set aside for an amount of EUR 1.584.401,26 by shareholders meeting as of April 4, 2008, increased by an amount of EUR 3.228.314,61 by shareholders meeting of April 28, 2010, increased by an amount of EUR 6.351.000,00 by shareholders meeting of April 11, 2011 and increased by an amount of EUR 3.495.988,92 by shareholders meeting of April 4, 2012.

	<i>Legal reserve</i>	<i>Other reserves</i>	<i>Profit brought forward</i>	<i>Profit for the financial period</i>
	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>
Balance as at 31.12.11	11.163.715,87	865.769.812,13	182.000.613,97	69.919.778,31
Movements of the period				
Allocation of prior year's profit	3.495.988,92	0,00	66.423.789,39	-69.919.778,31
Profit for the period	0,00	0,00	0,00	48.372.814,69
Total movements	3.495.988,92	0,00	66.423.789,39	-21.546.963,62
<b>Balance as at 30.06.12</b>	<b>14.659.704,79</b>	<b>865.769.812,13</b>	<b>248.424.403,36</b>	<b>48.372.814,69</b>

**Note 14 – Non convertible notes**

i) *becoming due and payable after less than one year*

	June 30, 2012	December 31, 2011
	EUR	EUR
Nominal value: EUR 107.715.000,00		
Expired March 14, 2012		
Floater rate: Euribor 3m + 1,300%	0,00	107.715.000,00
Nominal value: EUR 1.000.000.000,00		
Expired April 24, 2012		
Fixed rate: 7,250%	0,00	812.545.000,00
Nominal value: EUR 850.000.000,00		
Expiring January 24, 2013		
Fixed rate: 6,875%	677.938.000,00	<i>Classified in long term portion</i>
Prepaid income on notes (issue premiums)		
<i>Current portion</i>	285.581,80	890.298,52
Prepaid charges on notes (issue discounts)		
<i>Current portion</i>	-600.493,83	- 907.494,40
Accrued interest on notes	55.346.635,14	164.205.094,74
	<b>732.969.723,11</b>	<b>1.084.447.898,86</b>

i) *becoming due and payable after more than one year*

Nominal value: Eur 850.000.000,00		
Expiring January 24, 2013		
Fixed rate: 6,875%	<i>Classified in short term portion</i>	758.716.000,00
Nominal value: Jpy 20.000.000.000		
Expiring May 14, 2032[*]		
Fixed rate: 3,550%	199.740.337,56	199.600.798,40
Nominal value: Eur 800.000.000,00		
Expiring January 24, 2033		
Fixed rate: 7,750%	765.000.000,00	765.000.000,00
Nominal value: Eur 250.000.000,00		
Expiring January 24, 2033		
Fixed rate: 7,750%	250.000.000,00	250.000.000,00
Prepaid income on notes (issue premiums)		
<i>Long term portion</i>	5.591.926,44	5.733.543,71
Prepaid charges on notes (issue discounts)		
<i>Long term portion</i>	- 5.413.471,81	- 5.587.354,96
	<b>1.214.918.792,19</b>	<b>1.973.462.987,15</b>

[\*] Differences between June 30, 2012 and December 31, 2011 are due to exchange rate impact. The Note has embedded an option allowing the repayment of the total notional amount of the debt each year starting from 2012 to maturity. The Company sold to a bank the reverse option.

**Note 15 – Amounts owed to credit institutions**

a) *becoming due and payable after less than one year*

	<i>June 30, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Payables to banks	340.287.000,00	274.832.684,77
Accrued interest	18.513.596,13	9.548.696,99
Prepaid charges on notes (issue discounts)		
<i>Current portion</i>	- 384.789,16	- 385.843,37
	<b>358.415.806,97</b>	<b>283.995.538,39</b>

*b) becoming due and payable after more than one year*

	<i>June 30, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Nominal value: Eur 250.000.000,00		
Expiring August 7, 2013		
Fixed rate: 6,25%	250.000.000,00	250.000.000,00
Nominal value: Jpy 20.000.000.000		
Expiring October 29, 2029[*]		
Fixed rate: 5,45%	199.740.337,56	199.600.798,40
Prepaid charges on notes (issue discounts)		
<i>Long term portion</i>	- 39.006,04	- 229.819,30
	<b>449.701.331,52</b>	<b>449.370.979,10</b>

[\*] Differences between June 30, 2012 and December 31, 2011 are due to exchange rate impact.



## Note 16 – Amounts owed to affiliated undertakings

This item refers to (i) the deposit agreements within one year granted to group companies (included accrued interest thereon), (ii) to accruals on interest rate swaps with Parent Company and (iii) currency swaps with group companies.

### a) becoming due and payable after less than one year

	June 30, 2012	December 31, 2011
	EUR	EUR
TI Deutschland Holding GmbH	11.985.097,47	6.774.197,78
TI International NV	2.563.374.519,34	2.385.376.934,17
Mediterranean Nautilus Israel Ltd	13.057.435,22	12.694.462,00
Olivetti Holding BV	2.436.527,47	2.435.870,72
Olivetti Engineering	367.146,85	446.674,61
Telecom Italia Finance Ireland Ltd [*]	67.992.359,84	67.986.976,89
Mediterranean Nautilus Greece	0,00	16.029,92
Latin American Nautilus Ltd	25.069.213,07	29.762.650,25
Telecom Italia S.p.A.	354.230,38	933.564,96
Others	52,15	52,18
Interest rate swaps with Parent Company	1.501.122,86	38.967.502,09
Interest rate swaps with group companies	11.665.616,55	7.830.573,71
Currency and interest rate swaps with Parent Company	15.784,61	551.382,67
	<b>2.697.819.105,81</b>	<b>2.553.776.871,95</b>

### b) becoming due and payable after more than one year

	June 30, 2012	December 31, 2011
	EUR	EUR
Telecom Italia Finance Ireland Ltd [**]	1.292.000.000,00	1.292.000.000,00
Currency and interest rate swaps with group companies	112.514.301,19	15.214.313,32
Currency and interest rate swaps with Parent Company	53.780.675,12	53.501.596,80
	<b>1.458.294.976,31</b>	<b>1.360.715.910,12</b>

[\*] The amount includes, among others, a Promissory Note for EUR 66.000.000,00.

[\*\*] The amount of EUR 1.292.000.000,00 represents a payable beyond one year for Telecom Italia Ireland Ltd and corresponds to the unpaid portion of the share capital in this company.

**Note 17 – Value adjustments and fair value adjustments on financial fixed assets**

	June 30, 2012	June 30, 2011
	EUR	EUR
Adjustments on shares in undertakings		
Telecom Italia S.p.A.	15.424.385,49	940,82
Telecom Italia Media S.p.A.	744.964,94	483.673,22
Infomaster S.p.A.	168.923,94	50.419,92
Total value adjustments on shares	16.338.274,37	535.033,96
Value adjustments on Investment Funds	1.314.724,33	3.624.434,88
	<b>17.652.998,70</b>	<b>4.159.468,84</b>

**Note 18 – Value adjustments and fair value adjustments on financial current assets. Loss on disposal of transferable securities**

	June 30, 2012	June 30, 2011
	EUR	EUR
Value adjustments on securities	431.696,00	1.269.088,12
Losses on securities disposal	55.780,00	270.975,76
Losses on own securities bought back	3.342.011,10	13.051.472,72
	<b>3.829.487,10</b>	<b>14.591.536,60</b>

**Note 19 – Interest payable and similar charges**

*a) concerning affiliated undertakings*

	June 30, 2012	June 30, 2011
	EUR	EUR
Guarantee fee due to Parent Company	354.230,36	520.858,22
Charges on interest rate swaps with Parent Company	179.755.958,61	4.901.407,49
Charges on interest rate swaps with group companies	88.390.166,77	0,00
Charges on swap currency with group companies	269.947,81	324.904,70
Interest due to group companies	10.402.000,00	12.709.930,61
	<b>279.172.303,55</b>	<b>18.457.101,02</b>

*b) other interest payable and similar charges*

	<i>June 30, 2012</i>	<i>June 30, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Interest and charges vs. banks	18.821.305,33	11.410.461,67
Interest and charges on debentures	84.763.198,46	148.553.706,85
Charges on interest rate swaps	218.919.176,17	2.538.045,83
Charges on currency swaps	1.723.710,66	1.680.407,04
Losses on exchange rates	50.590.353,91	42.979.139,74
Other financial charges and commissions	148.279,29	346.057,22
	<b>374.966.023,82</b>	<b>207.507.818,35</b>

**Note 20 – Tax on profit or loss**

	<i>June 30, 2012</i>	<i>June 30, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Withholding tax on dividend received	73.045,62	99.324,14
Withholding tax on interest received	57.995,25	20.749,52
	<b>131.040,87</b>	<b>120.073,66</b>

**Note 21 – Other taxes not included in the previous caption**

The item includes payments of EUR 200.000,00 for the Net Wealth Tax.

**Note 22 – Income from financial fixed assets***a) derived from affiliated undertakings*

	<i>June 30, 2012</i>	<i>June 30, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Dividend received from Parent Company	5.355.408,04	7.223.573,63
Interest on long term loans to Parent Company	51.798.194,70	55.261.603,33
Interest on long term loans to other group companies	237.020,36	206.194,50
	<b>57.390.623,10</b>	<b>62.691.371,46</b>

*b) other income from participating interests*

	<i>June 30, 2012</i>	<i>June 30, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Income from disposal of equity investment	23.880,17	0,00
	<b>0,00</b>	<b>0,00</b>

**Note 23 – Income from financial current assets***a) derived from affiliated undertakings*

	<i>June 30, 2012</i>	<i>June 30, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Gain on expired securities issued by Parent Company	0,00	3.474.000,00
	<b>0,00</b>	<b>3.474.000,00</b>

*a) other income*

	<i>June 30, 2012</i>	<i>June 30, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Reversal of value adjustments on securities	1.037.179,36	676.394,76
Gain on securities disposal	6.776.159,59	82.732,41
Value adjustment on receivables from Lehman Brothers	260.692,23	0,00
	<b>8.074.031,18</b>	<b>759.127,17</b>

## Note 24 – Other interest and other financial income

### a) derived from affiliated undertakings

	June 30, 2012	June 30, 2011
	EUR	EUR
Interest on securities issued by Parent Company	89.164.959,02	143.614.503,33
Interest and commissions on receivables from Parent Company	10.929.805,95	6.219.683,09
Interest and commissions on receivables from group companies	3.076.051,52	1.815.671,92
Income on currency and interest rate swaps with Parent Company	31.884.190,55	2.827.790,82
Income on currency and interest rate swaps with group companies	188.866.480,38	0,00
Income on currency swaps with group companies	1.681.359,28	1.670.366,74
Interest on own securities bought back	58.609,91	4.762.350,58
	<b>325.661.456,61</b>	<b>160.910.366,48</b>

### b) other interest receivable and similar income

	June 30, 2012	June 30, 2011
	EUR	EUR
Interest on other securities	3.744.401,02	4.593.798,61
Interest on banks	10.241.786,55	6.626.747,28
Income on currency and interest rate swaps with banks	269.609.858,58	10.814.094,20
Income on currency swaps with banks	271.960,94	428.054,54
Income on other derivatives	267.050,03	279.481,10
Gain on exchange rates	50.311.448,29	42.999.918,79
	<b>334.446.505,41</b>	<b>65.742.094,52</b>

## Note 25 – Warranties

All issued notes, derivative instruments, hedging interest and exchange risks and debts towards other financial institutions are guaranteed by the Parent Company.

## **Note 26 – Off balance sheet commitments**

The table here below reports the sum of the notional amount for derivative agreements entered by the Company.

	<i>June 30, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Currency swaps	181.956.085,70	247.514.504,95
IRS on liabilities	399.480.675,12	399.201.596,81
IRS on assets	3.537.210.638,64	3.622.576.736,94
CCIRS on Assets	2.451.474.632,00	1.087.145.628,00
Options	199.740.337,56	199.600.798,40
	<b>6.769.862.369,02</b>	<b>5.556.039.265,10</b>

The table here below reports the net sum of the mark to market value of the above reported derivative agreements.

	<i>June 30, 2012</i>	<i>December 31, 2011</i>
	<i>EUR</i>	<i>EUR</i>
Currency swaps	36.925,86	-1.227.159,46
IRS on liabilities	50.461.087,70	37.557.812,94
IRS on assets	0,00	-2.413.800,62
Options	-35.312.687,86	-31.934.611,48
	<b>15.185.325,70</b>	<b>1.982.241,38</b>

Furthermore, the Company has the commitment to subscribe up to EUR 25.000.000,00 in the investment fund Clessidra Capital Partner. As of June 30, 2012 payments of EUR 24.139.878,04 have been made.

The Company has also the commitment to subscribe up to EUR 2.400.000,00 in the investment fund Golden Mouse. As of June 30, 2012 payments of EUR 2.399.814,83 have been made.

## **Note 27 – Tax situation**

The Company is subject to the fiscal law in force in Luxembourg applicable to all commercial companies.

#### ***Note 28 – Consolidation***

The accounts of the Company are included in the consolidated accounts of Telecom Italia S.p.A., which are available at its registered office located in Milano, Piazza degli Affari 2.

According to the Board evaluation, none of its subsidiaries have a material interest for the purposes of art 319 (paragraph 3) of the Law of August 10, 1915 on commercial companies. Hence the Company is exempted under article 317 of the aforesaid law from establishing consolidated accounts and a consolidated management report for the period ended June 30, 2012.

#### ***Note 29 – Directors remuneration***

The Directors have not been remunerated in their capacity as Director during 2012.

#### ***Note 30 – Staff***

As of June 30, 2012 the company had 8 employees on its payroll (December 31, 2011 – 8). The average of employees during the fiscal year has been of 7,50 persons (2011 – 8,75).

#### ***Note 31 – Litigation***

The Company has not been and is not involved in litigation.

#### ***Note 32 – Auditor's fees***

During fiscal year 2012 a total of EUR 3.545,50 (2011 – EUR 48.940,00) has been paid to PricewaterhouseCoopers s.à.r.l., for audit and related audit activity.

### **Note 33 – Other information**

The exchange rates used to translate the financial statements of foreign operations are summarized in the table here below.

	<u>June 30, 2012</u>	<u>December 31, 2011</u>
<i>Local currency against 1 EUR</i>		
BRL (Brazilian real)	2,57880	2,28930
CHF (Swiss franc)	1,20300	1,21560
GBP (Pound sterling)	0,80680	0,83530
HUF ( Hungarian forint)	287,77000	314,58000
JPY (Japan Yen)	100,13000	100,20000
RON (Romanian leu)	4,45130	4,32330
USD (U.S. dollar)	1,25900	1,29390



#### **Declaration of the manager responsible for financial reporting**

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Pursuant to paragraph 4 of Luxembourg's Transparency Law, the undersigned Adriano Trapletti, Managing Director of the Company, to the best of his knowledge, hereby declares that the above interim financial statements prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and that the management report includes an indication of important events that have occurred during the first six months of the financial year, and their impact on the financial statements, together with a description of the principal risks and uncertainties for the remaining six months of the financial year.

Adriano Trapletti  
Managing Director