



**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, 2016, which have been  
authorized by the Board of Directors held  
on July 22, 2016.

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## **Directors' report**

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The first half of the year 2016 of Telecom Italia Finance (the "Company" or "TI Finance") ends with a loss of EUR 11.516.559,27 vs. a positive result of EUR 33.823.122,56 in the same period of 2015.

Certain values referred to year 2015 reported herein below have been reclassified in order to give better understanding to the Directors' report.

The P&L of the period has been impacted by the reduction of intercompany borrowing by EUR 2 billion executed at the end of June 2015 which produced an evenly balanced reduction of liquid assets allocated in deposits with banks, third party portfolio bonds and lending to the Parent Company.

The reduced contribution of EUR 45,3 million *vis a vis* the first half 2015 is mainly due to:

- EUR -14,8 million related to reduced margins on intercompany lending due to lower volume and lower interest rate levels;
- EUR -18,7 million related to extraordinary income in the first half of 2015 due to the termination of derivative agreements;
- EUR 9,6 million related to bond portfolio investments (positive overall result of EUR 2,5 million in 2016 vs. negative result of EUR 7,0 million);
- EUR -23,2 million related to reduced contribution of the participations (impairment of EUR -10,1 million in the first half of 2016 vs. revaluation of EUR 13,0 million in the same period 2015).

The net financial position as of June 30, 2016 is positive for EUR 1.670 million (EUR 1.670 million as of December 31, 2015).

### **Notes**

As of June 30, 2016 the total outstanding nominal amount of notes issued by TI Finance amounts to EUR 2.315.000.000,00 (EUR 2.315.000.000,00 as of December 31, 2015). The notes are unconditionally and irrevocably guaranteed by the Parent Company Telecom Italia S.p.A.

### **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.

### **Merger between Telecom Italia Finance and Telecom Italia International NV**

Respectively on June 9, 2016 and June 10, 2016 the Boards of Directors of TI Finance and of Telecom Italia International N.V. ("TI International") approved a "Joint Merger Plan" in view of the merger of Telecom Italia International N.V. with and into TI Finance.

TI International is a public company with limited liability (*naamloze vennootschap*) incorporated under the laws of the Netherlands, having its official seat and its office at Strawinskylaan 1627, 1077 XX Amsterdam. The Dutch company is 100% owned by Telecom Italia S.p.A. and its main activity is holding of participations.

According to the terms of the merger, all assets and liabilities of TI International will be transferred by universal succession to TI Finance, which will be vested with all right and liabilities of TI International, which will cease to exist.

The execution of the merger is subject to the approval by extraordinary shareholders' meetings of both TI Finance and TI International which are expected to take place by the end of July 2016.

Once approved by the shareholders, the merger will be effective as soon as the resolutions are published in accordance with applicable laws. Should the merger be approved, the share capital of TI Finance will be increased from the current amount of EUR 542.090.241,00 to EUR 1.818.691.978,50.

## **Risks**

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

- 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 group management policies, TI 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: in order to modify its interest rate exposure, TI 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.

Moreover, the Company is exposed to generic market, credit and liquidity risks:

- credit risk: representing the risk of non-fulfillment of obligations assumed by a counterparty in relation to lending and liquidity management activities;
- liquidity risk: related to the need to meet short-term financial liabilities.

The above described financial risks are managed through:

- the application of the following guidelines defined at Group level:
  - for market risk: fully hedging the exchange risk and minimizing exposure to interest rates through appropriate diversification of the portfolio, including the use of derivative financial instruments;
  - for credit risk: liquidity management is based on prudential criteria and articulated in investment of temporary cash surplus (money market instruments) and investment of a permanent level of liquidity (bond portfolio management). In both situations, in order to manage the counterparty risk, the counterparties are selected according to their credit rating and the exposure is regulated both by names diversification and by tenor;
  - for liquidity risk: an adequate level of financial flexibility is obtained by maintaining a treasury margin that allows the refinancing requirements to be covered for at least the next twelve months.
- the identification of the most suitable financial instruments, including derivatives, to reach prefixed objectives;
- the monitoring of the results achieved.

Telecom Italia Finance is committed to the following Group organizational model:

- *Definition of strategic guidelines:* in charge of the Group Finance “Risk Committee” of which the CEO and the Treasurer of Telecom Italia Finance are members.
- *Execution activity:* in charge of Telecom Italia Finance Front and Back Office which, among others, implements such guidelines in coordination with the Group Treasurer and Capital Markets.
- *Group Financial Planning & Risk Control:* any deviation from the guidelines is reported by the Group Financial Risk Controller to the Finance “Risk Committee”.

Additional details on financial risk management policies of Telecom Italia Group are available in the Telecom Italia S.p.A. consolidated accounts and related documents.

#### **Events subsequent to June 30, 2016 - Evolution of the second semester 2016**

During the second half of the year 2016 it is foreseen to continue the activity of financial assistance to Telecom Italia Group companies and continue to manage the market risks above mentioned.

Moreover, following the approval by the shareholders of the merger project, in the second part of the year the Company will increase as well the holding of participations activity.

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

On November 15, 2016 will mature and shall be repaid the EUR 1.300.000.000,00 6,125% mandatory convertible notes issued on November 15, 2013. The repayment will be financed by reducing the deposits with banks and the intragroup lending activity.

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, 2016 herein reported have not been audited. They comprise the balance sheet, the profit and loss account, the cash flow statements and the explanatory notes.

For the Board of Directors  
The Managing Director  
Adriano Trapletti

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## Balance Sheet - Assets

TELECOM ITALIA FINANCE S.A. BALANCE SHEET AS AT JUNE 30, 2016			
ASSETS - [EUR]	30.JUNE.2016	31.DECEMBER.2015	
<b>A. Subscribed capital unpaid</b>	<b>0,00</b>	<b>0,00</b>	
I. Subscribed capital not called	0,00	0,00	
II. Subscribed capital called but unpaid	0,00	0,00	
<b>B. Formation expenses</b>	<b>[n.3] 6.381.416,95</b>	<b>10.554.232,53</b>	
<b>C. Fixed assets</b>	<b>4.374.604.121,41</b>	<b>4.362.352.125,36</b>	
I. Intangible assets			
1. Costs of development	0,00	0,00	
2. Concessions, patents, licenses, trade marks and similar rights and assets, if they were			
a) acquired for valuable consideration and need not be shown under C.I.3.	0,00	0,00	
b) created by the undertaking itself	0,00	0,00	
3. Goodwill, to the extent that it was acquired for valuable consideration	0,00	0,00	
4. Payments on account and intangible fixed assets under development	0,00	0,00	
II. Tangible assets			
1. Land and buildings	0,00	0,00	
2. Plant and machinery	0,00	0,00	
3. Other fixtures and fittings, tools and equipment	[n.4] 184.023,32	152.324,82	
4. Payments on account and tangible assets in the course of construction	0,00	0,00	
III. Financial assets			
1. Shares in affiliated undertakings	[n.5] 1.489.915.280,46	1.500.102.114,29	
2. Loans to affiliated undertakings	[n.6] 2.882.117.223,00	2.859.479.169,08	
3. Participating interests	[n.5] 42.872,78	42.485,23	
4. Loans to undertakings with which the undertaking is linked by virtue of participating interests	0,00	0,00	
5. Investments held as fixed assets	[n.7] 2.344.721,85	2.576.031,94	
6. Other loans	0,00	0,00	
<b>D. Current assets</b>	<b>3.507.824.082,21</b>	<b>3.906.394.736,01</b>	
I. Stocks			
1. Raw materials and consumables	0,00	0,00	
2. Work in progress	0,00	0,00	
3. Finished good and goods for resale	0,00	0,00	
4. Payments on account	0,00	0,00	
II. Debtors			
1. Trade debtors	0,00	0,00	
a) becoming due and payable within one year	0,00	0,00	
b) becoming due and payable after more than one year	0,00	0,00	
2. Amounts owed by affiliated undertakings	[n.8] 1.312.197.793,58	1.277.662.814,02	
a) becoming due and payable within one year	4.258.297,64	23.350.685,59	
b) becoming due and payable after more than one year	0,00	0,00	
3. Amounts owed by undertakings with which the undertaking is linked by virtue of participating interests	0,00	0,00	
a) becoming due and payable within one year	0,00	0,00	
b) becoming due and payable after more than one year	0,00	0,00	
4. Other debtors	[n.9] 21.461.702,40	23.386.161,38	
a) becoming due and payable within one year	282.648.484,04	320.333.099,57	
b) becoming due and payable after more than one year			
III. Investments			
1. Shares in affiliated undertakings	0,00	0,00	
2. Own shares	0,00	0,00	
3. Other investments	[n.10] 677.645.637,84	1.177.764.698,87	
IV. Cash at bank and in hand	[n.11] 1.209.612.166,71	1.083.897.276,58	
<b>E. Prepayments</b>	<b>161.269,65</b>	<b>531.042,38</b>	
<b>TOTAL ASSETS</b>	<b>7.888.970.890,22</b>	<b>8.279.832.136,28</b>	

The accompanying notes are an integral part of these semi-annual accounts

## Balance Sheet - Liabilities

TELECOM ITALIA FINANCES S.A. BALANCE SHEET AS AT JUNE 30, 2016			
LIABILITIES - [EUR]		30.JUNE.2016	31.DECEMBER.2015
<b>A. Capital and reserves</b>		<b>1.870.266.688,96</b>	<b>1.881.783.248,23</b>
I. Subscribed capital	[n.12]	542.090.241,00	542.090.241,00
II. Share premium account		0,00	0,00
III. Revaluation reserves		0,00	0,00
IV. Reserves	[n.13]		
1. Legal reserve		25.201.659,13	21.799.229,82
2. Reserve for own shares		0,00	0,00
3. Reserves provided for by the articles of association		0,00	0,00
4. Other reserves, including the fair value reserve			
a) other available reserves		470.964.149,72	470.964.149,72
b) other non available reserves		394.805.662,41	394.805.662,41
V. Profit or loss brought forward		448.721.535,97	384075379,07
VI. Profit or loss for the financial year		-11.516.559,27	68.048.586,21
VII. Interim dividends		0,00	0,00
VIII. Capital investment subsidies		0,00	0,00
<b>B. Provisions</b>		<b>3.272.120,32</b>	<b>3.320.395,39</b>
1. Provisions for pensions and similar obligations		0,00	0,00
2. Provisions for taxation	[n.14]	1.764.597,39	1.798.277,58
3. Other provisions	[n.15]	1.507.522,93	1.522.117,81
<b>C. Creditors</b>		<b>6.003.457.869,86</b>	<b>6.366.843.884,91</b>
1. Debenture loans			
a) Convertible loans	[n.16]		
i) becoming due and payable within one year		1.349.820.013,66	1.310.225.068,31
ii) becoming due and payable after more than one year		0,00	0,00
b) Non convertible loans	[n.17]		
i) becoming due and payable within one year		34.223.850,04	73.756.620,86
ii) becoming due and payable after more than one year		1.015.791.316,15	1.015.816.505,78
2. Amounts owed to credit institutions	[n.18]		
a) becoming due and payable within one year		274.391.801,23	347.411.504,84
b) becoming due and payable after more than one year		175.361.683,47	152.590.218,97
3. Payments received on account of orders in so far as they are shown separately as deductions from stocks			
a) becoming due and payable within one year		0,00	0,00
b) becoming due and payable after more than one year		0,00	0,00
4. Trade creditors			
a) becoming due and payable within one year		227.370,81	543.958,70
b) becoming due and payable after more than one year		0,00	0,00
5. Bills of exchange payable			
a) becoming due and payable within one year		0,00	0,00
b) becoming due and payable after more than one year		0,00	0,00
6. Amounts owed to affiliated undertakings	[n.19]		
a) becoming due and payable within one year		1.565.479.446,83	1.821.871.398,44
b) becoming due and payable after more than one year		1.572.894.872,93	1.609.649.177,08
7. Amounts owed to undertakings with which the undertaking is linked by virtue of participating interests			
a) becoming due and payable within one year		0,00	0,00
b) becoming due and payable after more than one year		0,00	0,00
8. Other creditors			
a) Tax authorities		0,00	0,00
b) Social security authorities		30.563,07	37.546,99
c) Other creditors	[n.20]		
i) becoming due and payable within one year		10.978.654,03	11.591.199,35
ii) becoming due and payable after more than one year		4.258.297,64	23.350.685,59
<b>D. Deferred income</b>		<b>11.974.211,08</b>	<b>27.884.607,75</b>
<b>TOTAL LIABILITIES</b>		<b>7.888.970.890,22</b>	<b>8.279.832.136,28</b>

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



## Profit and Loss

TELECOM ITALIA FINANCE S.A. PROFIT AND LOSS FOR THE SIX MONTHS PERIOD		
	30.JUNE.2016	30.JUNE.2015
<b>1. Net turnover</b>	<b>63.819,94</b>	<b>63.820,02</b>
<b>2. Variation in stocks of finished goods and in work in progress</b>	<b>0,00</b>	<b>0,00</b>
<b>3. Work performed by the undertaking for its own purposes and capitalised</b>	<b>0,00</b>	<b>0,00</b>
<b>4. Other operating income</b>	<b>0,00</b>	<b>0,00</b>
<b>5. Raw materials and consumables and other external expenses</b>	<b>467.615,93</b>	<b>442.882,37</b>
a) Raw materials and consumables	8.123,25	4.776,81
b) Other external expenses	459.492,68	438.105,56
<b>6. Staff costs</b>	<b>511.319,66</b>	<b>546.748,45</b>
a) Wages and salaries	433.296,56	471.260,98
b) Social security costs	78.023,10	75.487,47
i) relating to pensions	28.036,81	25.686,93
ii) other social security costs	49.986,29	49.800,54
c) Other staff costs	0,00	0,00
<b>7. Value adjustments</b>	<b>4.203.820,16</b>	<b>4.906.557,40</b>
a) in respect of formation expenses and of tangible and intangible fixed assets	4.203.820,16	4.906.557,40
b) in respect of current assets	0,00	0,00
<b>8. Other operating expenses</b>	<b>40.267,70</b>	<b>54.996,24</b>
<b>9. Income from participating interests</b> [n.21]	<b>387,55</b>	<b>12.893.448,31</b>
a) derived from affiliated undertakings	0,00	12.893.448,31
b) other income from participating interests	387,55	0,00
<b>10. Income from other investments and loans forming part of the fixed assets</b> [n.22]	<b>69.659.978,13</b>	<b>83.170.402,92</b>
a) derived from affiliated undertakings	69.659.978,13	81.950.927,32
b) other income not included under a)	0,00	1.219.475,60
<b>11. Other interest receivable and similar income</b> [n.23]	<b>258.240.879,87</b>	<b>537.171.894,84</b>
a) derived from affiliated undertakings	69.569.870,98	186.906.892,84
b) other interest and similar income	188.671.008,89	350.265.002,00
<b>12. Share of profit or loss of undertakings accounted for under the equity method</b>	<b>0,00</b>	<b>0,00</b>
<b>13. Value adjustments in respect of financial assets and of investments held as current assets</b> [n.24]	<b>13.140.240,59</b>	<b>20.942.357,04</b>
<b>14. Interest payable and similar expenses</b> [n.25]	<b>320.717.396,60</b>	<b>571.732.438,36</b>
a) concerning affiliated undertakings	57.006.378,93	91.032.445,38
b) other interest and similar expenses	263.711.017,67	480.699.992,98
<b>15. Tax on profit or loss</b> [n.26]	<b>36.200,37</b>	<b>120.936,17</b>
<b>16. Profit or loss after taxation</b>	<b>-11.151.795,52</b>	<b>34.552.650,06</b>
<b>17. Other taxes not shown under items 1 to 16</b> [n.27]	<b>364.763,75</b>	<b>729.527,50</b>
<b>18. Profit or loss for the financial year</b>	<b>-11.516.559,27</b>	<b>33.823.122,56</b>

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

## Cash Flow Statements

	30.JUNE.2016	31.DECEMBER.2015
<b>Operating Activities</b>		
Profit before tax	-11.516.559,27	68.051.796,21
Adjustments for		
Amortization of formation expenses and on tangible and intangible fixed assets	4.203.820,16	9.137.949,27
Amortization and impairment of intangible assets	0,00	0,00
Value adjustments in respect of financial fixed assets [n.24]	10.418.143,92	1.977.405,16
Value adjustments in respect of investments held as current assets [n.24]	2.722.096,67	5.258.270,65
Finance Income	-327.828.192,50	-963.879.762,35
Finance Expenses	320.507.495,65	878.882.435,57
Changes in trade and other receivables	1.042.720,40	-2.038.111,60
Changes in trade and other payables	-593.505,62	529.721,00
Income Taxes Paid [n.26]	0,00	-4.012,50
<b>Net cash flows from operating activities</b>	<b>-1.043.980,59</b>	<b>-2.084.308,59</b>
<b>Cash flows from Investing activities</b>		
Changes in Property, plant and equipment	-62.703,08	-146.263,58
Changes in Intangible assets	0,00	0,00
Changes in Participations, funds and other securities	494.628.061,89	-143.421.202,33
Investments and re-payments in Financial Receivables	5.898.169,44	1.215.048.933,77
Interest, commissions and other financial income received	148.473.935,42	630.940.257,63
Dividends received	0,00	0,00
Income received from participations and funds	0,00	1.219.475,60
<b>Net cash flows from investing activities</b>	<b>648.937.463,67</b>	<b>1.703.641.201,09</b>
<b>Cash flows from Financing activities</b>		
Net change in short-term Financial Payables	-321.973.992,82	-1.840.518.662,21
Proceeds from borrowings	0,00	-146.929.180,14
Repayments of borrowings	0,00	0,00
Interest, commissions and other financial expenses paid	-188.738.049,67	-571.951.122,12
Dividends paid	0,00	0,00
<b>Net cash flows from financing activities</b>	<b>-510.712.042,49</b>	<b>-2.559.398.964,47</b>
Net Increase / Decrease in Cash and Cash Equivalents	137.181.440,59	-857.842.071,97
Net foreign exchange differences in C&CE	-10.951.088,52	53.859.954,27
Cash and cash equivalents at 01 January	1.083.362.168,37	1.887.344.286,07
<b>Cash and cash equivalents at the end of the period</b> [n.11]	<b>1.209.592.520,44</b>	<b>1.083.362.168,37</b>

The accompanying notes are an integral part of these semi-annual accounts

**TELECOM ITALIA FINANCE S.A.**  
**CASH FLOW STATEMENT AS AT JUNE 30, 2016**

	30.JUNE.2016	30.JUNE.2015
<b>Operating Activities</b>		
Profit before tax	-11.516.559,27	33.824.727,56
Adjustments for		
Amortization of formation expenses and on tangible and intangible fixed assets	4.203.820,16	4.906.557,40
Amortization and impairment of intangible assets	0,00	0,00
Value adjustments in respect of financial fixed assets [n.24]	10.418.143,92	1.110.679,95
Value adjustments in respect of investments held as current assets [n.24]	2.722.096,67	19.831.677,09
Finance Income	-327.828.192,50	-633.116.414,90
Finance Expenses	320.507.495,65	571.511.308,27
Changes in trade and other receivables	1.042.720,40	1.241.528,21
Changes in trade and other payables	-593.505,62	-338.204,68
Income Taxes Paid [n.26]	0,00	-1.605,00
<b>Net cash flows from operating activities</b>	<b>-1.043.980,59</b>	<b>-1.029.746,10</b>
<b>Cash flows from Investing activities</b>		
Changes in Property, plant and equipment	-62.703,08	-35.581,68
Changes in Intangible assets	0,00	0,00
Changes in Participations, funds and other securities	494.628.061,89	-338.463.284,28
Investments and re-payments in Financial Receivables	5.898.169,44	1.204.183.127,49
Interest, commissions and other financial income received	148.473.935,42	345.836.374,95
Dividends received	0,00	0,00
Income received from participations and funds	0,00	1.219.475,60
<b>Net cash flows from investing activities</b>	<b>648.937.463,67</b>	<b>1.212.740.112,08</b>
<b>Cash flows from Financing activities</b>		
Net change in short-term Financial Payables	-321.973.992,82	-1.443.502.911,85
Proceeds from borrowings	0,00	-146.929.180,14
Repayments of borrowings	0,00	0,00
Interest, commissions and other financial expenses paid	-188.738.049,67	-323.627.489,93
Dividends paid	0,00	0,00
<b>Net cash flows from financing activities</b>	<b>-510.712.042,49</b>	<b>-1.914.059.581,92</b>
Net Increase / Decrease in Cash and Cash Equivalents	137.181.440,59	-702.349.215,94
Net foreign exchange differences in C&CE	-10.951.088,52	39.947.592,13
Cash and cash equivalents at 01 January	1.083.362.168,37	1.887.344.286,07
<b>Cash and cash equivalents at the end of the period</b> [n.11]	<b>1.209.592.520,44</b>	<b>1.224.942.662,26</b>

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

## **Notes to the semi-annual accounts**

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as at June 30, 2016, which have been authorized by the Board of Directors held on July 22, 2016.

### **Note 1 – General information**

Telecom Italia Finance (the “Company”, “TI Finance”) was incorporated on June 2, 2000 for an unlimited duration. The 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 1<sup>st</sup> and ends on December 31<sup>st</sup> of each year.

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

#### Basis of preparation

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

As allowed by the amended law of December 19, 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 Board of Directors 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 balance sheet date.

The exchange differences arising from the transactions expressed in currencies other than EUR are hedged either by balanced deposits and loans or through derivative instruments, such as Cross Currency Interest Rate Swaps ("CCIRS") or foreign exchange agreements, all hereby referred to as "currency swaps".

Currency swaps combine two positions that are represented by the amounts that will be exchanged with the counterparty at the maturity of the contract. They are recorded as assets or liabilities to the net between the payable and the receivable amount. Generally, one is in EUR and the other in currencies other than EUR. This latter is converted into EUR at the balance sheet date.

The unrealized exchange differences that arise from all these conversions are reflected in the profit and loss account in the items "Other interest and similar financial charges/ Other interest and similar 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 rates used to translate foreign assets and liabilities are summarized in the table here below.

	<u>June 30, 2016</u>	<u>December 31, 2015</u>
<i>Local currency against 1 EUR</i>		
BRL (Brazilian real)	3,56352	4,25116
CHF (Swiss franc)	108670	1,08350
GBP (Pound sterling)	0,82650	0,73395
JPY (Japan Yen)	114,05000	131,07000
RON (Romanian Leu)	4,52340	4,52400
USD (U.S. dollar)	1,11020	1,08870

### 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 fixed assets

Tangible fixed 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.

### Financial fixed assets

Equity investments and securities held as fixed assets 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. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

#### Debtors

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

#### Other investments

Transferable securities in current assets are evaluated to the lower between the market value and the acquisition cost. A value adjustment is recorded where the market value is lower than the purchase price. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

#### 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 interest

Accrued interest are shown with their principal amount.

#### Prepayments / Deferred income

“Prepayments” and “Deferred income” accounts include prepaid charges and deferred income. Issue discounts and issue premiums are listed with the related notes, while other similar charges are classified in “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 is recorded.

#### Creditors

Creditors 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 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.

#### Provisions for taxation

Provisions for taxation corresponding to the difference between the tax liability estimated by the Company and the advance payments for the financial years are recorded under the caption “Provisions for taxation”.

### **Note 3 – Formation expenses**

All the formation expenses consist of issuance expenses related to long term debts.

	<i>Convertible loans EUR</i>	<i>Non convertible loans EUR</i>	<i>Total formation expenses EUR</i>
Balance as at 31.12.2015	7.139.107,63	3.415.124,90	10.554.232,53
Movements of the period			
Depreciation during the period	(4.073.095,89)	(99.719,69)	(4.172.815,58)
<b>Balance as at 30.06.2016</b>	<b>3.066.011,74</b>	<b>3.315.405,21</b>	<b>6.381.416,95</b>

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

	<i>June 30, 2016 EUR</i>	<i>December 31, 2015 EUR</i>
Acquisitions at the beginning of the period	368.798,97	224.319,97
Acquisitions during the period	62.703,08	146.263,58
Disposal or reductions during the period	0,00	(1.784,58)
<b>Acquisition cost at the end of the period</b>	<b>431.502,05</b>	<b>368.798,97</b>
Value adjustments at the beginning of the period	216.474,15	200.174,16
Value adjustments during the period	31.004,58	17.940,73
Disposal or reduction during the period	0,00	(1.640,74)
<b>Value adjustments at the end of the period</b>	<b>247.478,73</b>	<b>216.474,15</b>
	<b>184.023,32</b>	<b>152.324,82</b>

## Note 5 – Shares in affiliated undertakings and Participating interests

		Ownership (%)	Number of shares	Net Book value at the beginning of the period	at the beginning of the period	Gross book value changes during the period	at the end of the period	at the beginning of the period	Value Adjustments changes during the period	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. [*]	Via Negri, 1 Milan (Italy)	0,65	126.082.374	140.057.604,06	518.876.962,83	.	518.876.962,83	378.819.358,77	10.186.833,83	389.006.192,60	129.870.770,23	93.023.575,54
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	
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>				1.500.102.114,29	2.024.915.403,29	.	2.024.915.403,29	524.813.289,00	10.186.833,83	535.000.122,83	1.489.915.280,46	
<b>3. Participating interests</b>												
Venture Investors Property Recovery LLC (ex Consolidated IP Holdings Inc.)	c/o Sherwood Partners 101 University Avenue, Suite 100 Palo Alto (California - United States)	0,50	99.164	0,01	0,01	.	0,01	.	.	.	0,01	
Infomaster S.p.A.	Via V maggio 81 Genova (Italy)	2,93	19.412	42.485,21	413.304,84	.	413.304,84	370.819,63	-387,55	370.432,08	42.872,76	
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>				42.485,23	413.304,86	.	413.304,86	370.819,63	-387,55	370.432,08	42.872,78	

[\*] The Net Book value of Telecom Italia S.p.A. corresponds to the VWAP (Volume Weighted Average Price). This method takes in consideration prices and volumes exchanged during the last twelve months. The Board of Directors has assessed that the variance in the market value of Telecom Italia S.p.A. and consequently the difference between 'Fair Value at the end of the period' and 'Net Book Value at the end of the period' is not permanent, therefore no additional value adjustments are recorded on this financial asset in the accounts of the Company.

[\*\*] The amount of capital and reserves, as well as the result for the latest financial year available of the entities held for more than 20% are not disclosed as considered as having negligible importance for the purposes of art. 26 paragraph 3 of the law December 19, 2002.

[\*\*\*] The held percentage of Ordinary Share Capital is 19,373% (No. 1.720.634 Ordinary shares). 34,68% is the fully diluted percent age 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.



## Note 6 – Loans to affiliated undertakings

This item is composed by EUR 2.882.117.223,00 being the total amount of medium-long term loans granted to the Parent Company and other group companies (2015 – EUR 2.859.479.169,08). The detail by final payment date is as follows:

	June 30, 2016	December 31, 2015
	EUR	EUR
Nominal value: EUR 1.000.000.000,00		
Expiring July 29, 2033		
Fixed rate: 8,0000%	1.000.000.000,00	1.000.000.000,00
Nominal value: JPY 20.000.000.000		
Expiring October 29, 2029 <sup>[*]</sup>		
Floater rate: JPYLibor 6m + 0,9463%	175.361.683,47	152.590.218,97
Nominal value: EUR 1.700.000.000,00		
Expiring August 01, 2017		
Floater rate: Euribor 6m + 1,7000%	1.700.000.000,00	1.700.000.000,00
<b>Total to Parent Company</b>	<b>2.875.361.683,47</b>	<b>2.852.590.218,97</b>
<i>Mediterranean Nautilus</i>		
<i>Telekomünikasyon Hizmetleri TAS</i>		
Nominal value: USD 7.500.000,00		
Expiring July 30, 2018 <sup>[*]</sup>		
Fixed rate: 4,31222%	6.755.539,53	6.888.950,11
<b>Total to group companies</b>	<b>6.755.539,53</b>	<b>6.888.950,11</b>
	<b>2.882.117.223,00</b>	<b>2.859.479.169,08</b>

<sup>[\*]</sup> Differences between June 30, 2016 and December 31, 2015 are due to exchange rate impact.

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

The amount of EUR 2.344.721,85 (EUR 2.576.031,94 as of December 31, 2015) is related to the investment in the fund Clessidra Capital Partners. The movements occurred during 2016 are entirely attributable to value adjustments.

Moreover, the Company holds financial participation instruments (“FPI”) that have been converted on March 2013 from a loan granted to Italtel S.p.A. on the basis of a financial restructuring agreement under the Italian bankruptcy law. The FPI have been originally booked for EUR 4.500.000,00 and entirely adjusted to zero at the end of the year 2013.

## **Note 8 – Amounts owed by affiliated undertakings**

This item refers to the loans 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 within one year*

	<i>June 30, 2016</i>	<i>December 31, 2015</i>
	<i>EUR</i>	<i>EUR</i>
Mediterranean Nautilus Greece S.A.	14.962.837,25	14.969.493,31
Latin American Nautilus Ltd	0,00	5.860.862,89
Mediterranean Nautilus		
Telekomünikasyon Hizmetleri TAS	5.273,70	4.496,67
Olivetti S.p.A.	88.535.152,20	88.570.188,56
Telecom Italia Latam Participações e Gestão Administrativa Ltda	5.121.858,29	3.994.517,93
Telecom Italia S.p.A.	1.185.215.975,13	1.145.131.574,07
Ti Sparkle Singapore P.T.E.	5.493.138,27	5.593.546,13
Ti Sparkle Slovakia S.r.o.	352.730,22	403.121,68
Accruals on derivatives with Parent Company	9.583.837,77	6.237.077,66
Accruals on derivatives with group companies	2.921.473,79	6.877.071,04
Currency swaps with group companies	5.516,96	20.864,08
	<b>1.312.197.793,58</b>	<b>1.277.662.814,02</b>

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

	<i>June 30, 2016</i>	<i>December 31, 2015</i>
	<i>EUR</i>	<i>EUR</i>
Currency swaps with Parent Company	4.258.297,64	23.350.685,59
	<b>4.258.297,64</b>	<b>23.350.685,59</b>

**Note 9 – Other debtors**

*a) becoming due and payable within one year*

	<i>June 30, 2016</i>	<i>December 31, 2015</i>
	<i>EUR</i>	<i>EUR</i>
Accruals on derivatives	16.384.564,58	17.367.247,83
Currency swaps	691.810,19	1.670.438,60
Tax receivables <sup>[*]</sup>	4.385.327,63	4.348.474,95
	<b>21.461.702,40</b>	<b>23.386.161,38</b>

<sup>[\*]</sup> On November 2015, the Italian tax administration recognized the recovery of withholding tax unduly paid in 2007 and 2008 on dividends distributed by Telecom Italia S.p.A. and consequently TI Finance booked a credit for the corresponding amount (EUR 3.685.268,00) plus legal overdue interest. Differences between June 30, 2016 and December 31, 2015 are due to interest accrued during the period.

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

	<i>June 30, 2016</i>	<i>December 31, 2015</i>
	<i>EUR</i>	<i>EUR</i>
Receivables from Lehman Brothers Special Financing Inc. <sup>[*]</sup>	1.736.366,02	2.664.008,74
Currency swaps	280.894.872,93	317.649.177,08
Other receivables	17.245,09	19.913,75
	<b>282.648.484,04</b>	<b>320.333.099,57</b>

<sup>[\*]</sup> It reflects the estimated recovery value of the receivable registered vs. Lehman Brothers Special Financing Inc. in Liquidation (LBSF). Such receivable was originally booked for EUR 25.016.035,74. Based on the documentation filed with the US Courts, the position has been converted during 2009 from EUR into USD for an amount of USD 35.552.789,99 and then in 2012 updated to USD 35.590.272,35.

As of June 30, 2016 the following amounts have been distributed to TI Finance and the receivable has been reduced consequently:

-	On October 01, 2012	USD	9.902.109,46
-	On April 04, 2013	USD	904.595,34
-	On April 05, 2013	USD	1.029.741,89
-	On October 03, 2013	USD	2.359.453,91
-	On April 03, 2014	USD	2.442.185,91
-	On October 02, 2014	USD	1.642.017,14
-	On April 02, 2015	USD	1.114.712,60
-	On October 01, 2015	USD	838.577,06
-	On March 31, 2016	USD	173.026,77
-	On June 16, 2016	USD	799.565,99
			<hr/>
			<b>USD 21.205.986,07</b>

In accordance with market evaluations, the receivable is registered at its recoverable value of 5,40% (USD 1.927.713,50) of the principal value before distributions. The credit in hands is supported by the guarantee from Lehman Brothers Holding Inc. in Liquidation.

#### **Note 10 – Other investments**

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

	<i>June 30, 2016</i>	<i>December 31, 2015</i>
	<i>EUR</i>	<i>EUR</i>
Notes from other issuers	677.645.637,84	759.163.823,98
Commercial papers	0,00	68.822.559,35
SICAV	0,00	349.778.315,54
	<hr/>	<hr/>
	<b>677.645.637,84</b>	<b>1.177.764.698,87</b>

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

	June 30, 2016	December 31, 2015
	EUR	EUR
Cash in hand	110,62	110,62
Bank current accounts	482.664.156,57	609.373.451,17
Bank term deposit accounts	725.851.197,98	473.960.025,72
Other Liquid Assets	1.077.055,27	28.580,86
Cash and cash equivalent as shown in Cash Flow Statement	1.209.592.520,44	1.083.362.168,37
Accruals	19.646,27	535.108,21
	<b>1.209.612.166,71</b>	<b>1.083.897.276,58</b>

**Note 12 – Subscribed capital**

As of June 30, 2016 and December 31, 2015, 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, 2016 and December 31, 2015 the Company is 100% held by Telecom Italia S.p.A.

**Note 13 – Reserves**

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 cannot be distributed. Legal reserve is detailed as below:

shareholders meeting of April 4, 2008	EUR	1.584.401,26
shareholders meeting of April 28, 2010	EUR	3.228.314,61
shareholders meeting of April 11, 2011	EUR	6.351.000,00
shareholders meeting of April 4, 2012	EUR	3.495.988,92
shareholders meeting of April 3, 2013	EUR	1.053.103,05
shareholders meeting of April 2, 2014	EUR	913.935,61
shareholders meeting of April 1, 2015	EUR	5.172.486,37
shareholders meeting of April 6, 2016	EUR	3.402.429,31
	<b>EUR</b>	<b>25.201.659,13</b>

Movements for the period on the reserves and profit and loss items are as follows:

	<i>Legal reserve</i>	<i>Other reserves</i>	<i>Profit or loss brought forward</i>	<i>Profit or loss for the period</i>
	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>
Balance as at 31.12.2015	21.799.229,82	865.769.812,13	384.075.379,07	68.048.586,21
Movements of the period				
Allocation of prior year's profit	3.402.429,31	0,00	64.646.156,90	-68.048.586,21
Profit for the period	0,00	0,00	0,00	-11.516.559,27
Total movements	3.402.429,31	0,00	64.646.156,90	-79.565.145,48
<b>Balance as at 30.06.2016</b>	<b>25.201.659,13</b>	<b>865.769.812,13</b>	<b>448.721.535,97</b>	<b>-11.516.559,27</b>

**Note 14 – Provisions for taxation**

	<i>June 30, 2016</i>	<i>December 31, 2015</i>
	<i>EUR</i>	<i>EUR</i>
Provisions for Net Wealth Tax	1.613.450,00	1.613.450,00
Provisions for Value Added Tax	7.763,26	30.652,26
Provisions for Chamber of Commerce subscription	128.041,85	128.041,85
Other provisions for taxes	15.342,28	26.133,47
	<b>1.764.597,39</b>	<b>1.798.277,58</b>

**Note 15 – Other provisions**

In the framework of the liquidation of the 100% owned subsidiary, Olivetti Holding N.V., TI Finance on 2012 acquired the obligation to take part to the decontamination of a site in Burlington, New Jersey (USA), formerly owned by an Olivetti' subsidiary. Olivetti Holding transferred as well a provision for the completion of the concerned activity.

	<i>June 30, 2016</i>	<i>December 31, 2015</i>
	<i>EUR</i>	<i>EUR</i>
Provisions for future expenses	1.507.522,93	1.522.117,81
	<b>1.507.522,93</b>	<b>1.522.117,81</b>

## Note 16 – Convertible loans

On November 15, 2013 TI Finance issued a bond mandatorily exchangeable in Telecom Italia S.p.A. ordinary shares ("TI Shares") for a nominal amount of EUR 1,3 billion. The minimum conversion price has been fixed at EUR 0,6801 (equal to VWAP of the TI Shares between the open and close of Borsa Italiana on Friday 8 November 2013), the maximum conversion price at EUR 0,8331 (equal to 122,5% of the minimum conversion price). The conversion of the notes may be accelerated upon the occurrence of certain events or at request either of the Issuer or the bondholders. In the event of the winding-up, insolvency, dissolution or liquidation of TI Finance, the debt is subordinated to other obligations.

### a) becoming due and payable within one year

	June 30, 2016	December 31, 2015
	EUR	EUR
Nominal value: EUR: 1.300.000.000,00		
Expiring November 15, 2016		
Fixed rate: 6,1250%	1.300.000.000,00	1.300.000.000,00
Accrued interest	49.820.013,66	10.253.082,19
	<b>1.349.820.013,66</b>	<b>1.310.253.082,19</b>

## Note 17 – Non convertible loans

### i) becoming due and payable within one year

	June 30, 2016	December 31, 2015
	EUR	EUR
Issue premiums on notes		
Current portion	285.581,80	286.364,22
Issue discounts on notes		
Current portion	(234.785,04)	(235.428,29)
Accrued interest on notes	34.173.053,28	73.705.684,93
	<b>34.223.850,04</b>	<b>73.756.620,86</b>

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

	June 30, 2016	December 31, 2015
	EUR	EUR
Nominal value: EUR 800.000.000,00		
Expiring January 24, 2033		
Fixed rate: 7,7500%	765.000.000,00	765.000.000,00
Nominal value: EUR 250.000.000,00		
Expiring January 24, 2033		
Fixed rate: 7,7500%	250.000.000,00	250.000.000,00
Issue premiums on notes		
<i>Long term portion</i>	4.448.816,80	4.590.434,08
Issue discounts on notes		
<i>Long term portion</i>	(3.657.500,65)	(3.773.928,30)
	<b>1.015.791.316,15</b>	<b>1.015.816.505,78</b>

**Note 18 – Amounts owed to credit institutions**

a) *becoming due and payable within one year*

	June 30, 2016	December 31, 2015
	EUR	EUR
Payables to banks	270.393.012,51	342.735.569,21
Accrued interest	3.998.788,72	4.675.935,63
	<b>274.391.801,23</b>	<b>347.411.504,84</b>

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

	June 30, 2016	December 31, 2015
	EUR	EUR
Nominal value: Jpy 20.000.000.000		
Expiring October 29, 2029 <sup>[*]</sup>		
Fixed rate: 6,7500%	175.361.683,47	152.590.218,97
	<b>175.361.683,47</b>	<b>152.590.218,97</b>

<sup>[\*]</sup> Differences between June 30, 2016 and December 31, 2015 are due to exchange rate impact.

**Note 19 – Amounts owed to affiliated undertakings**

This item refers to the sums owed to group companies under the deposit agreements (included accrued interest thereon), to accruals on interest rate swaps with Parent and group companies and currency swaps with group companies.



*a) becoming due and payable within one year*

	<i>June 30, 2016</i>	<i>December 31, 2015</i>
	<i>EUR</i>	<i>EUR</i>
Latin American Nautilus Ltd	5.643.262,77	0,00
Latin America Nautilus USA Inc.	4.641.430,22	3.587.903,19
Mediterranean Nautilus Israel Ltd	6.331.232,48	6.439.332,60
Telecom Italia S.p.A.	209.900,97	431.459,43
Telecom Italia Finance Ireland Ltd <sup>[*]</sup>	66.000.000,00	66.000.000,00
TI Deutschland Holding GmbH	16.985.451,73	16.482.925,47
TI International NV	1.447.062.089,07	1.710.478.814,68
TI Telecom Italia Austria Telekommunikationsdienste GmbH	400.516,17	400.455,43
Others	934,63	989,19
Accruals on derivatives with Parent Company	8.008.817,96	3.288.742,60
Accruals on derivatives with group companies	10.195.810,83	14.758.627,46
Currency swaps with group companies	0,00	2.148,39
	<b>1.565.479.446,83</b>	<b>1.821.871.398,44</b>

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

	<i>June 30, 2016</i>	<i>December 31, 2015</i>
	<i>EUR</i>	<i>EUR</i>
Telecom Italia Finance Ireland Ltd <sup>[**]</sup>	1.292.000.000,00	1.292.000.000,00
Currency swaps with Parent Company	70.140.870,06	91.425.879,30
Currency swaps with group companies	210.754.002,87	226.223.297,78
	<b>1.572.894.872,93</b>	<b>1.609.649.177,08</b>

<sup>[\*]</sup> The amount represents a Promissory Note for EUR 66.000.000,00.

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

**Note 20 – Other creditors***a) becoming due and payable within one year*

	<i>June 30, 2016</i>	<i>December 31, 2015</i>
	<i>EUR</i>	<i>EUR</i>
Accruals on derivatives	10.781.530,07	11.132.602,48
Currency swaps	196.504,85	458.137,36
Others	619,11	459,51
	<b>10.978.654,03</b>	<b>11.591.199,35</b>

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

	<i>June 30, 2016</i>	<i>December 31, 2015</i>
	<i>EUR</i>	<i>EUR</i>
Currency swaps	4.258.297,64	23.350.685,59
	<b>4.258.297,64</b>	<b>23.350.685,59</b>

**Note 21 – Income from participating interests***a) derived from affiliated undertakings*

	<i>June 30, 2016</i>	<i>June 30, 2015</i>
	<i>EUR</i>	<i>EUR</i>
Reversal of adjustments on shares in Telecom Italia S.p.A.	0,00	12.893.448,31
	<b>0,00</b>	<b>12.893.448,31</b>

*b) other income from participating interests*

	<i>June 30, 2016</i>	<i>June 30, 2015</i>
	<i>EUR</i>	<i>EUR</i>
Reversal of adjustments on shares in other equity investments	387,55	0,00
	<b>387,55</b>	<b>0,00</b>

**Note 22 – Income from other investments and loans forming part of the fixed assets***a) derived from affiliated undertakings*

	<i>June 30, 2016</i>	<i>June 30, 2015</i>
	<i>EUR</i>	<i>EUR</i>
Interest on long term loans to Parent Company	69.020.561,76	81.251.672,76
Interest on long term loans to group companies	639.416,37	699.254,56
	<b>69.659.978,13</b>	<b>81.950.927,32</b>

*b) other income not included under a)*

	<i>June 30, 2016</i>	<i>June 30, 2015</i>
	<i>EUR</i>	<i>EUR</i>
Income from investment funds	0,00	1.219.475,60
	<b>0,00</b>	<b>1.219.475,60</b>

**Note 23 – Other interest receivable and similar income***a) derived from affiliated undertakings*

	<i>June 30, 2016</i>	<i>June 30, 2015</i>
	<i>EUR</i>	<i>EUR</i>
Interest and commissions on receivables from Parent Company	1.102.088,17	5.417.497,93
Interest and commissions on receivables from group companies	2.074.885,15	3.412.958,88
Income on derivatives with Parent Company	23.273.586,13	127.295.494,51
Income on derivatives with group companies	27.369.320,28	35.117.488,68
MEB Option premium amortization <sup>[*]</sup>	15.749.991,25	15.663.452,84
	<b>69.569.870,98</b>	<b>186.906.892,84</b>

*b) other interest and similar financial income*

	<i>June 30, 2016</i>	<i>June 30, 2015</i>
	<i>EUR</i>	<i>EUR</i>
Interest on other securities	4.397.408,12	8.776.314,53
Interest on banks	1.499.226,28	2.413.369,88
Other interest, income and commissions	30.513,37	106.594,19
Accrued interest on tax receivables <sup>[**]</sup>	36.852,68	0,00
Income on derivatives with banks	53.431.548,26	110.467.524,28
Gain on exchange rates	127.386.255,38	220.510.353,12
Reversal of value adjustments on securities	272.389,80	298.364,68
Gain on securities disposal	1.616.813,00	7.692.481,32
	<b>188.671.006,89</b>	<b>350.265.002,00</b>

[\*] Please refer to Note 29 - Off balance sheet commitments.

[\*\*] Please refer to Note 9 – Other debtors.

**Note 24 – Value adjustments in respect of financial assets and of investments held as current assets**

	<i>June 30, 2016</i>	<i>June 30, 2015</i>
	<i>EUR</i>	<i>EUR</i>
Adjustments on shares in undertakings:		
Telecom Italia Media S.p.A.	0,00	1.067.041,43
Telecom Italia S.p.A.	10.186.833,83	0,00
Infomaster S.p.A.	0,00	1.465,52
Adjustments on funds and FPI:		
Clessidra Capital Partners	231.310,09	42.173,00
Value adjustments on notes from other issuers	2.722.096,67	19.831.677,09
	<b>13.140.240,59</b>	<b>20.942.357,04</b>

**Note 25 – Interest payable and similar expenses***a) concerning affiliated undertakings*

	<i>June 30, 2016</i>	<i>June 30, 2015</i>
	<i>EUR</i>	<i>EUR</i>
Guarantee fee due to Parent Company	209.900,95	221.130,09
Charges on derivatives with Parent Company	17.113.755,52	40.743.438,61
Charges on derivatives with group companies	38.188.549,11	44.958.282,31
Interest due to group companies	1.494.173,35	5.109.594,37
	<b>57.006.378,93</b>	<b>91.032.445,38</b>

*b) other interest and similar expenses*

	<i>June 30, 2016</i>	<i>June 30, 2015</i>
	<i>EUR</i>	<i>EUR</i>
Interest and charges to banks	10.143.150,11	11.589.975,48
Interest and charges on debentures	78.700.186,90	81.189.805,14
Charges on derivatives	46.368.810,03	164.003.252,84
Losses on exchange rates	127.513.660,18	219.972.657,70
Other financial charges and commissions	46.466,86	81.555,87
Losses on securities disposal	938.743,59	3.862.745,95
	<b>263.711.017,67</b>	<b>480.699.992,98</b>

**Note 26 – Tax on profit or loss**

	<i>June 30, 2016</i>	<i>June 30, 2015</i>
	<i>EUR</i>	<i>EUR</i>
Withholding tax on interest received	36.200,37	119.331,17
Income tax	0,00	1.605,00
	<b>36.200,37</b>	<b>120.936,17</b>

**Note 27 – Other taxes not shown under items 1 to 16**

The amount of EUR 364.763,75 (EUR 729.527,50 – June 2015) includes payments for the Net Wealth Tax.

## **Note 28 – Warranties**

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

## **Note 29 – 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, 2016</i>	<i>December 31, 2015</i>
	<i>EUR</i>	<i>EUR</i>
Foreign exchange agreements	21.536.687,57	22.972.137,53
Cross Currency Interest Rate Swaps ("CCIRS") <sup>[*]</sup>	452.225.860,96	429.454.396,46
	<b>473.762.548,53</b>	<b>452.426.533,99</b>

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

	<i>June 30, 2016</i>	<i>December 31, 2015</i>
	<i>EUR</i>	<i>EUR</i>
Foreign exchange agreements	534.307,82	1.191.852,72
Cross Currency Interest Rate Swaps ("CCIRS") <sup>[*]</sup>	78.576.533,31	69.661.141,25
	<b>79.110.841,13</b>	<b>70.852.993,97</b>

[\*] In these instruments contracts no exchange of notional amounts has been agreed with the counterparties.

In addition, the Company entered into some derivatives on other group companies request. Since TI Finance has a contract with an external counterparty and the opposite contract with an intercompany, the MTM exposure on these positions is neutral and there is no risk connected.

The table here below reports the sum of the notional amount for such derivatives.

	<i>June 30, 2016</i>	<i>December 31, 2015</i>
	<i>EUR</i>	<i>EUR</i>
Cross Currency Interest Rate Swaps ("CCIRS")	2.595.680.880,20	3.574.031.740,86
Foreign exchange agreements	207.348,76	1.918.160,44
Interest Rate Swaps ("IRS")	1.244.064.021,37	1.360.962.695,04
Options	0,00	315.600.041,80
	<b><u>3.839.952.250,33</u></b>	<b><u>6.747.275.182,40</u></b>

On December 20, 2013 the Telecom Italia S.p.A. shareholders' meeting approved to increase the share capital at the service of the mandatory exchangeable bond ("MEB") issued by TI Finance. Following Telecom Italia S.p.A. resolution, the intercompany option embedded in the terms and conditions of the exchangeable has been valued EUR 91.903.795,13. Such premium represents for TI Finance deferred income to be amortized till the maturity of the bond on November 15, 2016. This amortization is reflected in the Profit and Loss in Note 28 a) line "MEB Option premium amortization".

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, 2016 payments of EUR 24.621.128,04 have been made.

TI Finance has the commitment to subscribe up to EUR 2.400.000,00 in the investment fund Golden Mouse. As of June 30, 2016 payments of EUR 2.399.814,83 have been made.

Furthermore, the Company pledged its Italtel Group S.p.A. shares and its Italtel S.p.A. financial participation instruments in favor of a pool of banks financing both companies.

### **Note 30 – Tax situation**

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

### **Note 31 – 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, Via Negri 1 and on the website <http://www.telecomitalia.com>.

Telecom Italia S.p.A. accounts are not consolidated in the accounts of any other company.

According to the Board evaluation, none of the Company's 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, 2016.

**Note 32 – Directors remuneration**

The Directors have not been remunerated in their capacity as Director during 2016.

**Note 33 – Staff**

As of June 30, 2016 the company had on its payroll 10 employees (June 30, 2015 - 11). The average of employees during the fiscal period has been of 10 persons (June 30, 2015 – 10,33).

**Note 34 – Litigation**

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

**Note 35 – Auditor's fees**

During the first semester of 2016 a total of EUR 19.310,82 (Net without taxes) has been paid to PricewaterhouseCoopers, Société cooperative for the audit activity (in the first six months 2015 – EUR 6.011,58). No other amount has been paid to the Auditor.

**Note 36 – Adjustment on the comparison period**

According to the Grand Duchy Law of 18 December 2015 modifying the first book of the Commercial Code and the amended versions of the G.D Law of the 10 August 1915 on commercial companies and G.D. Law of the December 19, 2002 the Company has drawn the Balance Sheet and the Profit and Loss as at June 30, 2016 under the new layout.

The changes implemented did not impact particularly the layout of the Balance Sheet of the Company.

In the following page you can find the details concerning the reclassification made-up for the comparison period (June 30, 2015) of the Profit and Loss account.



**TELECOM ITALIA FINANCE S.A.**  
**PROFIT AND LOSS FOR THE SIX MONTHS PERIOD - OLD vs. NEW OUTLINE**

Old outline	New outline	Values June 2015 Old outline	Values June 2015 New outline	Delta	Notes
<b>CHARGES</b>					
---					
<b>1. Use of merchandise, raw materials and consumable materials</b>	<b>5. Raw materials and consumables and other external expenses</b>		<b>442.882,37</b>		
<b>2. Other external charges</b>	a) Raw materials and consumables	4.776,81	4.776,81		
	b) Other external expenses	438.105,56	438.105,56		
<b>3. Staff costs</b>	<b>6. Staff costs</b>	<b>546.748,45</b>	<b>546.748,45</b>		
a) Salaries and wages	a) Wages and salaries	471.260,98	471.260,98		
b) Social security on salaries and wages	---	46.173,00	---	46.173,00	Value reclassified to b) Social security costs ii) other social security costs
c) Supplementary pension costs	---	25.686,93	---	25.686,93	Value reclassified to b) Social security costs i) relating to pensions
d) Other social costs	---	3.627,54	---	3.627,54	Value reclassified to b) Social security costs ii) other social security costs
---	b) Social security costs	---	---		
---	i) relating to pensions	---	25.686,93	-25.686,93	Value reclassified from c) Supplementary pension costs
---	ii) other social security costs	---	49.800,54	-49.800,54	Value reclassified from b) Social security on salaries and wages and d) Other social costs
<b>4. Value adjustments</b>	<b>7. Value adjustments</b>	<b>4.906.557,40</b>	<b>4.906.557,40</b>		
a) on formation expenses and on tangible and intangible fixed assets	a) in respect of formation expenses and of tangible and intangible fixed assets	4.906.557,40	4.906.557,40		
<b>5. Other operating charges</b>	<b>8. Other operating expenses</b>	<b>54.996,24</b>	<b>54.996,24</b>		
<b>6. Value adjustments and fair value adjustments on financial fixed assets</b>	---	<b>1.110.679,95</b>	---	<b>1.110.679,95</b>	Value reclassified to 13. Value adjustments in respect of financial assets and of investments held as current assets
<b>7. Value adjustments and fair value adjustments on financial current assets. Loss on disposal of transferable securities</b>	<b>13. Value adjustments in respect of financial assets and of investments held as current assets</b>	<b>23.694.423,04</b>	<b>20.942.357,04</b>	<b>2.752.066,00</b>	Value reclassified from 6. Value adjustments and fair value adjustments on financial fixed assets and to 14. Interest payable and similar expenses b) other interest and similar expenses
<b>8. Interest and other financial charges</b>	<b>14. Interest payable and similar expenses</b>	<b>567.869.692,41</b>	<b>571.732.438,36</b>		
a) concerning affiliated undertakings	a) concerning affiliated undertakings	91.032.445,38	91.032.445,38		
b) other interest and similar financial charges	b) other interest and similar expenses	476.837.247,03	480.699.992,98	-3.862.745,95	Value reclassified from 7. Value adjustments and fair value adjustments on financial current assets. Loss on disposal of transferable securities
<b>11. Income tax</b>	<b>15. Tax on profit or loss</b>	<b>120.936,17</b>	<b>120.936,17</b>		
---	<b>16. Profit or loss after taxation</b>	---	<b>34.552.650,06</b>		
<b>12. Other taxes not included in the previous caption</b>	<b>17. Other taxes not shown under items 1 to 16</b>	<b>729.527,50</b>	<b>729.527,50</b>		
<b>13. Profit for the financial year</b>	<b>18. Profit or loss for the financial year</b>	<b>33.823.122,56</b>	<b>33.823.122,56</b>		
<b>INCOME</b>					
<b>1. Net turnover</b>	<b>1. Net turnover</b>	<b>63.820,02</b>	<b>63.820,02</b>		
---	<b>9. Income from participating interests</b>	---	<b>12.893.448,31</b>		
---	a) derived from affiliated undertakings	---	12.893.448,31	-12.893.448,31	Value reclassified from 6. Income from financial fixed assets a) derived from affiliated undertakings
<b>6. Income from financial fixed assets</b>	<b>10. Income from other investments and loans forming part of the fixed assets</b>	<b>96.063.851,23</b>	<b>83.170.402,92</b>		
a) derived from affiliated undertakings	a) derived from affiliated undertakings	94.844.375,63	81.950.927,32	12.893.448,31	Value reclassified to 9. Income from participating interests a) derived from affiliated undertakings
b) other income from participating interests	b) other income not included under a)	1.219.475,60	1.219.475,60		
<b>7. Income from financial current assets</b>	---	<b>7.990.846,00</b>	---		
b) other income from financial current assets	---	7.990.846,00	---	7.990.846,00	Value reclassified to 11. Other interest receivable and similar income b) other interest and similar expenses
<b>8. Other interest and other financial income</b>	<b>11. Other interest receivable and similar income</b>	<b>529.181.048,84</b>	<b>537.171.894,84</b>		
a) derived from affiliated undertakings	a) derived from affiliated undertakings	186.906.892,84	186.906.892,84		
b) other interest and similar financial income	b) other interest and similar income	342.274.156,00	350.265.002,00	-7.990.846,00	Value reclassified from 7. Income from financial current assets

#### **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