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TELECOM ITALIA S P A  
Form 6-K  
June 19, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15D-16  
UNDER THE SECURITIES EXCHANGE ACT OF 1934

FOR THE MONTH OF JUNE 2013

TELECOM ITALIA S.p.A.  
(Translation of registrant's name into English)

Piazza degli Affari 2  
20123 Milan, Italy  
(Address of principal executive offices)

Indicate by check mark whether the registrant files  
or will file annual reports under cover of Form 20-F or Form 40-F:

FORM 20-F  FORM 40-F

Indicate by check mark if the registrant  
is submitting the Form 6-K in paper  
as permitted by Regulation S-T Rule 101(b)(1):

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is submitting the Form 6-K in paper  
as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information  
contained in this Form, the registrant is also thereby furnishing  
the information to the Commission pursuant to Rule 12g3-2(b)  
under the Securities Exchange Act of 1934.

YES  NO

If "Yes" is marked, indicate below the file number assigned  
to the registrant in connection with Rule 12g3-2(b): 82- \_\_\_\_\_

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2012

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The Telecom Italia Group

The Business Units

DOMESTIC

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

Business

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Top

•

National Wholesale

•

Other (Support Structures)  
INTERNATIONAL WHOLESAL

Telecom Italia Sparkle Group

•

Telecom Italia Sparkle S.p.A.

•

Lan Med Nautilus Group

BRAZIL

The Brazil Business Unit (Tim Brasil group) offers Tim Brasil Serviços e Participações S.A. services using UMTS and GSM technologies. Moreover, with the acquisitions of Intelig Telecomunicações, Tim Fiber RJ and Tim Fiber SP, the services portfolio has been extended by offering fiber optic data transmission using Tim Participações S.A. full IP technology such as DWDM and MPLS and by offering residential broadband services.

Intelig Telecomunicações Ltda

–

Tim Celular S.A.

#### ARGENTINA

The Argentina Business Unit (Sofora - Telecom Argentina Sofora Telecomunicaciones S.A. (Sofora) group) operates in Argentina and Paraguay. Specifically, in Argentina it operates in fixed telecommunications through the company Telecom Argentina and in mobile telecommunications through the company Telecom Nortel Inversora S.A. Personal (with the Personal brand), and in Paraguay it operates in mobile telecommunications with the company Nucleo.

Telecom Argentina S.A.

–

Telecom Argentina USA Inc.

–

Telecom Personal S.A.

–

Nucleo S.A. (Paraguay)

#### MEDIA

Media operates in the business segments of television broadcasting through La7, La7d and the MTV group, the production of multimedia music platforms and satellite channels and also the management of analog and digital broadcasting networks, as well as accessory services and television broadcasting platforms.

•

MTV group

•

TI Media Broadcasting S.r.l. (network operator)

#### OLIVETTI

Olivetti operates in the sector of office products and services for Information Technology. It carries out Solution Provider activities to automate processes and business activities for small and medium-size enterprises, large corporations and vertical markets. The reference market is focused mainly in Europe, Asia and South

America.

•

Olivetti I-Jet

•

European Affiliates

Board of Directors

Executive Chairman	Franco Bernabè
Deputy Chairman	Aldo Minucci
Managing Director and Chief Operating Officer	Marco Patuano
Directors	César Alierta Izuel Tarak Ben Ammar Lucia Calvosa (independent) Elio Cosimo Catania (independent) Massimo Egidi (independent) Jean Paul Fitoussi (independent) Gabriele Galateri di Genola Julio Linares López Gaetano Micciché Renato Pagliaro Mauro Sentinelli (independent) Luigi Zingales (independent)
Secretary to the Board	Antonino Cusimano

Board of Statutory Auditors

Chairman	Enrico Maria Bignami
Acting Auditors	Roberto Capone Gianluca Ponzellini Salvatore Spiniello Ferdinando Superti Furga
Alternate Auditors	Ugo Rock Vittorio Mariani Franco Patti

## Letter to the Shareholders

To the Shareholders,

Weak signs of recovery between 2010 and 2011 in Italy, our main market, gave way in 2012 to a sharp contraction in gross domestic product, which was driven down largely by falling domestic demand. The repercussions of the global financial crisis, combined with the structural weaknesses in the economy and the recessive effects of the necessary austerity measures adopted by the government, paint a picture that, unfortunately, is not particularly encouraging. The difficulties of the Italian economy were accompanied by a considerable slowdown in growth in Argentina and, in particular, in Brazil, the two Latin American countries in which we operate, with a consequent reduction in the compensating impact on the overall revenue performance that the Group had benefited from in the past.

In recent years, Telecom Italia has responded to a negative macroeconomic situation, which has led businesses and consumers to cutback sharply on consumption, and to growing both intra-market and inter-market competition, by taking steps which have brought tangible and visible results. These steps have included reducing Group debt by over six billion euros in five years, transforming and streamlining operating processes, injecting new life and vitality into our range of products and services, and making successful inroads into new business segments (such as cloud computing). The Group has also improved its regulatory standing with the creation of the Open Access division and the Supervisory Board.

These important accomplishments on the domestic market have been mirrored by equally significant achievements on the international front. Just three years ago, our international business (including international wholesale) accounted for just a quarter of revenues; today it accounts for two-fifths. Our plans to step-up and expand business in South America, combined with the growth in the sector in both Argentina and Brazil, are expected to bring our international revenues up in line with domestic revenues within just a few of years.

The balancing of our domestic and international revenues will represent the crowning achievement of the efforts made to transform Telecom Italia into a truly global player. It will also bring the Group two key advantages: on the operating front it will enable us to make the most of the different growth prospects offered by Europe and South America; and on the financial front, more stable and diversified cash flows will allow the Group to defend and improve its creditworthiness, enabling it to continue to enjoy favorable terms on capital markets.

In the year recently ended, net debt was reduced by more than two billion euros, demonstrating our capacity to generate the cash flow needed to meet the debt reduction targets we have set ourselves for the coming years.

In 2012 Telecom Italia Group continued to optimize its business unit portfolio through the sale of non-strategic assets. As part of this ongoing process, the Group sold off Matrix in 2012, and started the work that ultimately led to the sale of the subsidiary La7, completed in March 2013.

The debt reduction has not, however, penalized capital expenditure, which further grew over the year. Excluding the approximately 1.2 billion euros for the purchase of LTE frequencies in 2011, capital expenditure in 2012 rose by over 100 million euros in Italy, and by over 200 million euros in Brazil.

In recent years, much has been done to revitalize the Group by making its products and services more competitive, boosting capital expenditure, pushing into adjacent markets, and reducing Group debt. This has all been possible thanks to the ability to free-up financial and human resources, through efficiency improvements in processes, organizational structures, and purchasing.

Despite all that has been done, we still have a long way to go. Improving efficiency is not a static target; efficiency goals change hand in hand with the market and new technologies. The never-ending pursuit of greater efficiency in operations, management and sales is the only true recipe for delivering the expected results, even in an economic environment as fraught with difficulty as today's.

We have always been, and will always continue to be, firmly committed to achieving visible and tangible results, no matter how difficult the situation. This is the commitment on which our Group is wagering its future. The commitment that demonstrates the value, determination, and professionalism of all the people who work at Telecom Italia.

*Franco Bernabé*



Report on Operations

Telecom Italia Group



## Key Operating and Financial Data - Telecom Italia Group

Consolidated Operating and Financial Data<sup>(\*)</sup>

(millions of euros)	2012	2011	2010	2010	2009	2008
	(Restated)		(Restated)			
Revenues	29,503	29,957	27,571	27,571	26,894	28,746
EBITDA	(1) 11,645	12,171	11,452	11,412	11,115	11,090
EBIT before goodwill impairment loss	(1) 6,215	6,684	5,904	5,864	5,499	5,437
<i>Goodwill impairment loss</i>	(4,289)	(7,364)	(46)	(46)	(6)	–
EBIT	(1) 1,926	(680)	5,858	5,818	5,493	5,437
Profit (loss) before tax from continuing operations	(44)	(2,743)	4,128	4,132	3,339	2,894
Profit (loss) from continuing operations	(1,279)	(4,353)	3,579	3,582	2,218	2,217
Profit (loss) from Discontinued operations/ Non-current assets held for sale	2	(13)	(7)	(7)	(622)	(39)
Profit (loss) for the year	(1,277)	(4,366)	3,572	3,575	1,596	2,178
Profit (loss) for the year attributable to owners of the Parent	(1,627)	(4,811)	3,118	3,121	1,581	2,177
Normalized profit (loss) for the year attributable to owners of the Parent	2,394	2,518	2,605	2,608	2,203	2,277
Capital expenditures	5,196	6,095	4,583	4,583	4,543	5,040

## Consolidated Financial Position Data

(millions of euros)	12/31/2012	12/31/2011	12/31/2010	12/31/2009	12/31/2008
Total Assets	77,555	83,886	89,040	86,267	86,223
Total equity	23,012	26,694	32,555	27,120	26,328
- attributable to owners of the Parent	19,378	22,790	28,819	25,952	25,598
- attributable to non-controlling interests	3,634	3,904	3,736	1,168	730
Total Liabilities	54,543	57,192	56,485	59,147	59,895
Total equity and liabilities	77,555	83,886	89,040	86,267	86,223
Share capital	10,604	10,604	10,600	10,585	10,591
Net financial debt carrying amount	(1) 29,053	30,819	32,087	34,747	34,039
Adjusted net financial debt	(1) 28,274	30,414	31,468	33,949	34,526
Adjusted net invested capital	(2) 51,286	57,108	64,023	61,069	60,854
	55.1%	53.3%	49.2%	55.6%	56.7%

Debt Ratio (Adjusted net financial debt/  
Adjusted net invested capital)

Consolidated Profit Ratios<sup>(\*)</sup>

		2012	2011	2010	2010	2009	2008
		(Restated)(Restated)					
EBITDA/Revenues	(1)	39.5%	40.6%	41.5%	41.4%	41.3%	38.6%
EBIT/Revenues (ROS)	(1)	6.5%	n.s.	21.2%	21.1%	20.4%	18.9%
Adjusted net financial debt /EBITDA	(1)	2.4	2.5	2.7	2.8	3.1	3.1

(1) Details are provided under Alternative Performance Measures .

(2) Adjusted net invested capital = Total equity + Adjusted net financial debt.

(\*) Starting from 2012 the Telecom Italia Group has early adopted and retrospectively applied revised IAS 19 (Employee Benefits). As a result, the comparative figures for 2011 and 2010 have been restated on a consistent basis. Further details and the effects on the periods presented are provided in the Note Accounting policies to the Telecom Italia Group consolidated financial statements at December 31, 2012.

Headcount, number in the Group at year-end <sup>(1)</sup>

(number) 12/31/2012 12/31/2011 12/31/2010 12/31/2009 12/31/2008

Headcount (excluding headcount relating to Discontinued operations/Non-current assets held for sale) 83,184 84,154 84,200 71,384 75,320

Headcount relating to Discontinued operations/Non-current assets held for sale - - - 2,205 2,505

Headcount, average number in the Group<sup>(1)</sup>

(equivalent number) 2012 2011 2010 2009 2008

Headcount (excluding headcount relating to Discontinued operations/Non-current assets held for sale) 78,564 78,369 70,150 69,964 73,508

Headcount relating to Discontinued operations/Non-current assets held for sale - - - 2,168 3,277

## Financial Ratios

Telecom Italia S.p.A.  
(euros)

	2012	2011	2010
Share prices (December average)			
- Ordinary	0.70	0.83	0.98
- Savings	0.62	0.69	0.81
Dividends per share (2)			
- Ordinary	0.020	0.043	0.058
- Savings	0.031	0.054	0.069
Pay Out Ratio (2) (*)	70%	53%	32%
Market to Book Value (**)	0.74	0.74	0.76
Dividend Yield (based on December average) (2) (***)			
- Ordinary	2.86%	5.21%	5.93%
- Savings	5.03%	7.79%	8.47%

Telecom Italia Group  
(euros)

	2012	2011	2010
Basic earnings per share ordinary shares	(0.08)	(0.25)	0.16
Basic earnings per share savings shares	(0.08)	(0.25)	0.17

(1)

Includes employees with temp work contracts.

(2)

For the year 2012, the ratio was calculated on the basis of the proposed resolutions submitted to the shareholders meeting held on April 17, 2013. For all periods, the reference index was assumed to be the Parent's Normalized Earnings, calculated by excluding Non-recurring items (as detailed in the Note Significant non-recurring events and transactions in the separate financial statements of Telecom Italia S.p.A. at December 31, 2012).

(\*)

Dividends paid in the following year/Profit for the year.

(\*\*)

Capitalization/Equity of Telecom Italia S.p.A.

(\*\*\*)

Dividends per share/Share prices.



## Highlights 2012

The year 2012 continues to be affected by recession pressures in the domestic market and the slowdown in the economies of Latin American countries. These macroeconomic factors were combined with a general tightening of the competitive environment in the telecommunications sector, which the Group responded to both through an expansion of the offer range and continuous pursuit of operating efficiencies, maintaining, over 2012, the development of Consolidated revenues and defense of the Profit Base, which remained solid and among the best in the sector.

The results of these actions have made it possible to continue reducing financial debt and generating cash flow.

• Consolidated Revenues, in line with the prior year (+0.5% in organic terms), came to 29.5 billion euros, while EBITDA of 11.6 billion euros fell 4.3% (-2.0% in organic terms).

• In organic terms, Operating Profit (EBIT) decreased by 2.4%. In reported terms, EBIT for 2012 amounts to 1.9 billion euros, also as a result of the goodwill impairment loss totaling 4.3 billion euros, relating to Core Domestic (4 billion euros), the Argentina Business Unit (168 million euros) and Media (105 million euros). Reported EBIT for 2011 was a negative 680 million euros and was penalized by the impairment loss on goodwill allocated to Core Domestic (7.3 billion euros) and Media (57 million euros).

• The loss attributable to owners of the Parent came to 1.6 billion euros (compared to a loss of 4.8 billion euros in 2011). On a comparable basis the Normalized profit (loss) for the year attributable to owners of the Parent amounts to 2.4 billion euros, a decrease of 124 million euros compared to 2011.

• Operating cash generated in 2012, amounting to 6.5 billion euros, more than compensated requirements for the payment of dividends, taxes and finance expenses. Adjusted net financial debt came to 28.3 billion euros at the end of 2012, down 2.1 billion euros compared to the end of 2011.

## Financial Highlights

(millions of euros)	2012	2011	% Change	
			Reported	Organic
Revenues	29,503	29,957	(1.5)	0.5
EBITDA	(1) 11,645	12,171	(4.3)	(2.0)
EBITDA Margin	39.5%	40.6%	(1.1)pp	
Organic EBITDA Margin	40.2%	41.2%	(1.0)pp	
EBIT before goodwill impairment loss	(1) 6,215	6,684	(7.0)	
Goodwill impairment loss	(4,289)	(7,364)	(41.8)	
EBIT	(1) 1,926	(680)	n.s.	(2.4)

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EBIT Margin		6.5%	<i>n.s.</i>	<i>n.s.</i>
Organic EBIT Margin		22.0%	22.7%	(0.7)pp
Profit (loss) for the period attributable to owners of the Parent		(1,627)	(4,811)	(66.2)
Normalized profit (loss) for the period attributable to owners of the Parent		2,394	2,518	(4.9)
Capital expenditures (CAPEX)		5,196	6,095	(14.7)
		12/31/2012	12/31/2011	Change
Adjusted net financial debt (1)	(1)	28,274	30,414	(2,140)

Details are provided under Alternative Performance Measures .

Starting from 2012 the Telecom Italia Group has early adopted and retrospectively applied revised IAS 19 (Employee Benefits). As a result, the comparative figures for 2011 have been restated on a consistent basis. Further details and the effects on the periods presented are provided in the Note Accounting policies to the Telecom Italia Group Consolidated Financial Statements at December 31, 2012.

Review of Operating and Financial Performance - Telecom Italia Group

Revenues

Revenues amount to 29,503 million euros in 2012, down 1.5% from 29,957 million euros in 2011; the fall of 454 million euros is primarily due to the Domestic Business Unit, offset by increases in the Argentina Business Unit (+564 million euros) and the Brazil Business Unit (+134 million euros). In terms of organic variation, consolidated revenues grew by 0.5% (+151 million euros).

Specifically, the organic change in revenues is calculated by excluding:

- the effect of foreign exchange rate fluctuations<sup>(1)</sup> of -569 million euros, mainly affecting the Brazil Business Unit (-535 million euros) and to a largely negligible extent the Argentina Business Unit (-55 million euros) and other Group companies (+21 million euros);
- the effect of the change in the scope of consolidation (-14 million euros), largely due to sales of Loquendo (Domestic BU) on September 30, 2011 and Matrix (Other Operations) on October 31, 2012;
- the effect of a reduction in revenues of 22 million euros due to the closing of commercial disputes with other operators.

The breakdown of revenues by operating segment is the following:

(millions of euros)	2012		2011		Change amount	Change	
		% of total		% of total		%	% organic
Domestic	17,884	60.6	18,991	63.4	(1,107)	(5.8)	(5.8)
<i>Core Domestic</i>	<i>16,933</i>	<i>57.4</i>	<i>18,082</i>	<i>60.4</i>	<i>(1,149)</i>	<i>(6.4)</i>	<i>(6.2)</i>
<i>International Wholesale</i>	<i>1,393</i>	<i>4.7</i>	<i>1,393</i>	<i>4.6</i>	-	-	<i>(1.4)</i>
Brazil	7,477	25.3	7,343	24.5	134	1.8	9.8
Argentina	3,784	12.8	3,220	10.7	564	17.5	19.6
Media, Olivetti and Other Operations	564	1.9	700	2.3	(136)		
<i>Adjustments and Eliminations</i>	<i>(206)</i>	<i>(0.6)</i>	<i>(297)</i>	<i>(0.9)</i>	<i>91</i>		
Total consolidated revenues	29,503	100.0	29,957	100.0	(454)	(1.5)	0.5

The Domestic Business Unit (divided into Core Domestic and International Wholesale) reports a decline of 1,097 million euros (-5.8%) in organic Revenues in 2012, compared to 2011.

This trend is partly attributable to the entry into force, in July 2012, of the new mobile termination rates (MTR), which involve a 53% reduction (from 5.3 to 2.5 euro cents), representing a sharp drop compared to the tariff revisions in the previous year. Specifically, in the fourth quarter of 2012 alone, the impact on consolidated revenues from incoming mobile traffic resulting from the introduction of the new rates is -84 million euros. The performance of the domestic market was also affected by the macroeconomic environment and the competitive scenario.

In detail:

•

Organic revenues from services amount to 17,099 million euros in 2012, down 5.5% compared to 2011. In particular, revenues from services in the Mobile business show a decrease of 9% compared to 2011 (-11.7% in the fourth quarter of 2012). The Fixed-line business recorded falling revenues from services of 487 million euros (-3.8% compared to 2011, -6.6% in the fourth quarter of 2012).

•

Product revenues total 807 million euros and are 93 million euros lower compared to 2011. The growth in Mobile devices, driven by a greater commercial push on mobile Internet-enabled devices was absorbed by the sharp contraction of Fixed-line products, attributable to a contraction of the market, but also to a more selective commercial strategy to defend the profit base.

As for the Brazil Business Unit, organic revenues grew 9.8% in 2012 compared to the prior year. Revenues from services continued their positive trend (+6.9% compared to 2011), driven by the growth of the customer base (reaching approximately 70.4 million lines at December 31, 2012, up 9.8% compared to December 31, 2011). Handset revenues also showed a positive trend (+35.3% compared to 2011).

As for the Argentina Business Unit, organic revenues gained 19.6% compared to 2011 (+619 million euros). In particular, mobile business revenues recorded growth of 22.2%, while the fixed area, which is coming out of a decade of partially blocked regulated tariffs, grew 13.0% over the prior year.

An in-depth analysis of revenue performance by individual Business Unit is provided under Financial and Operating Highlights - The Business Units of the Telecom Italia Group .

## EBITDA

EBITDA is 11,645 million euros, decreasing 526 million euros (-4.3%) compared to the prior year; the EBITDA margin is 39.5% (40.6% in 2011). In organic terms EBITDA fell by 246 million euros (-2.0%), 1 percentage point lower in proportion to revenues, down from 41.2% in 2011 to 40.2% in 2012, due to the greater weight of South American revenues, where margins are lower than for Domestic Business, and to higher mobile handset sales, aimed at a greater penetration of data services.

Details of EBITDA and EBITDA margins by operating segment are as follows:

(millions of euros)	2012		2011		Change amount	Change	
		% of total		% of total		%	% organic
Domestic	8,676	74.5	9,173	75.4	(497)	(5.4)	(4.9)
<i>EBITDA margin</i>		48.5		48.3		0.2 pp	0.4 pp
Brazil	1,996	17.1	1,990	16.4	6	0.3	8.9
<i>EBITDA margin</i>		26.7		27.1		(0.4) pp	(0.2) pp
Argentina	1,121	9.6	1,035	8.5	86	8.3	11.7
<i>EBITDA margin</i>		29.6		32.2		(2.6) pp	(2.2) pp
Media, Olivetti and Other							
Operations	(139)	(1.1)	(26)	(0.3)	(113)		
	(9)	(0.1)	(1)	-	(8)		

*Adjustments and  
Eliminations*

Total consolidated EBITDA	11,645	100.0	12,171	100.0	(526)	(4.3)	(2.0)
<i>EBITDA margin</i>	<i>39.5</i>		<i>40.6</i>			<i>(1.1) pp</i>	<i>(1.0) pp</i>

EBITDA was particularly impacted by the change in the line items analyzed below:

•

Acquisition of goods and services (12,948 million euros; 12,859 million euros in 2011). The increase of 89 million euros is largely due to the surge in the commercial and technical costs of the Argentina Business Unit (+300 million euros, including a negative exchange rate effect of 24 million euros) and the Brazil Business Unit (+109 million euros, including a negative exchange rate effect of 320 million euros), needed to support the growth of the customer base, voice and data traffic volumes, sales of mobile Internet-enabled devices and, consequently revenues in the Latin America area. Countering these changes is the domestic business which reduced acquisitions by 345 million euros compared to 2011, also partly attributable to a decrease in the portion of revenues to be paid to other operators, connected to the reduction in mobile termination rates.

•  
Employee benefits expenses (3,919 million euros; 3,992 million euros in 2011).

Employee benefits expenses record a decrease of 73 million euros. The change was influenced by:

–  
the reduction of 203 million euros in the Italian component of employee benefits expenses, mainly due to the reduction in ordinary employee benefits expenses, resulting from the decrease in the average salaried workforce of 1,214 compared to 2011, and from restructuring expenses that were 4 million euros lower (8 million euros in 2012; 12 million euros in 2011). In 2012, these expenses derive from the balance between the provision charge of 15 million euros for Olivetti I-Jet (resulting from the agreements signed with the trade unions of the company put into liquidation of June 19, 2012 and June 25, 2012) and the realize to the income statement of a total of 7 million euros from the remaining amount of the provision for mobility under Law 223/91 by the Parent Telecom Italia S.p.A. (6 million euros), and by TI Sparkle and TI Information Technology (for a total of 1 million euros). In 2011 the provision for mobility under Law 223/91, relating to the agreements signed in 2010 with the trade unions of the Parent Telecom Italia S.p.A. and of TI Information Technology, was adjusted by a total of 12 million euros;

–  
the increase of 130 million euros in the foreign component of employee benefits expenses, linked to the increase of 1,409 in the average salaried workforce, relating to the Brazil Business Unit and the Argentina Business Unit, and the overall increase of 17 million euros in restructuring expenses, related to the provision charge of the Argentina Business Unit (15 million euros) and Olivetti Engineering S.A., a subsidiary of Olivetti I-Jet (2 million euros, for the agreements with the trade unions of July 13, 2012).

•  
Other operating expenses (1,882 million euros; 1,859 million euros in 2011).

These are substantially in line with 2011.

The decreases for the Domestic Business Unit (-70 million euros) and the Brazil Business Unit (-28 million euros, including a negative exchange rate effect of 54 million euros) are essentially offset by the increases for the other Business Units, primarily the Argentina Business Unit (+76 million euros, including a negative exchange rate effect of 6 million euros). In particular:

–  
write-downs and expenses in connection with credit management (548 million euros; 533 million euros in 2011) consist of 370 million euros (389 million euros in 2011) relating to the Domestic Business Unit, 100 million euros (unchanged compared to 2011) relating to the Brazil Business Unit and 47 million euros (29 million euros in 2011) relating to the Argentina Business Unit;

–  
 provision charges (214 million euros; 128 million euros in 2011) consist of 91 million euros (60 million euros in 2011) relating to the Brazil Business Unit, 92 million euros (50 million euros in 2011) relating to the Domestic Business Unit and 17 million euros (unchanged compared to 2011) relating to the Argentina Business Unit;

–  
 telecommunications operating fees and charges (621 million euros; 675 million euros in 2011) consist of 487 million euros (554 million euros in 2011) relating to the Brazil Business Unit, 73 million euros (61 million euros in 2011) relating to the Argentina Business Unit and 59 million euros (58 million euros in 2011) relating to the Domestic Business Unit.

### **Depreciation and amortization**

Details are as follows:

(millions of euros)	2012	2011	Change
Amortization of intangible assets with a finite useful life	2,212	2,163	49
Depreciation of property, plant and equipment owned and leased	3,128	3,333	(205)
Total	5,340	5,496	(156)

The decrease in depreciation and amortization charges is mainly in reference to the Domestic Business Unit (-305 million euros), essentially due to the lower amounts of depreciable or amortizable assets, offset by the increase in depreciation and amortization charges of the Argentina Business Unit (+130 million euros), partly due to the reduction in the useful lives of Intangible assets recognized in relation to Customer Relationships which resulted in an increase of 66 million euros in amortization charges.

#### Gains (losses) on disposals of non-current assets

In 2012, gains on disposals of non-current assets were recorded for 53 million euros and included the gain, net of the incidental expenses of 49 million euros, in connection with the completion of the sale of Matrix on October 31, 2012, as well as net gains on non-current assets mainly relating to the Domestic Business Unit.

In 2011, net gains on disposals of non-current assets amounted to 3 million euros and included the gain of 35 million euros, net of the related incidental expenses, realized on the sale of Loquendo at the end of September 2011 and the net losses from the disposal of tangible assets, mainly of the Parent, for the replacement and subsequent disposal of dedicated mobile telephony plant.

#### Impairment reversals (losses) on non-current assets

Net impairment losses on non-current assets amount to 4,432 million euros in 2012 (7,358 million euros in 2011) and are essentially the result of the impairment test conducted for the annual financial statements. Specifically, this item refers to:

–

4,016 million euros for the impairment loss on the Core Domestic Cash Generating Unit in the Domestic Business Unit. This goodwill was previously written down by 7,307 million euros in 2011;

–

a total impairment of Non-Current Assets and Goodwill for 157 million euros in the Media Business Unit, taking account of the outcome of the impairment test process and the expected sale of the investee La7 S.r.l.. Specifically, the amount of impairment loss relating solely to the goodwill of the Media Business Unit is 105 million euros, while the remainder relates to non-current assets. This goodwill was previously written down by 57 million euros in 2011;

–

a total impairment loss of 253 million euros on Intangible assets and Goodwill in the Argentina Business Unit, recognized at the time control was acquired by the Telecom Italia Group. In detail, the amount of the impairment loss on Goodwill is 168 million euros, while the remaining portion (85 million euros) relates to the impairment loss on Customer relationships.

There are also additional impairment losses totaling 6 million euros.

Further details are provided in the Notes to the consolidated financial statements at December 31, 2012 of the Telecom Italia Group.

## EBIT

EBIT totals 1,926 million euros (negative 680 million euros in 2011) and includes in particular the effects of the above-mentioned impairment losses, relating to the impairment test process (4,426 million euros in 2012, 7,364 million euros in 2011). Organic EBIT is 6,504 million euros, decreasing 157 million euros (-2.4%) compared to 2011; the EBIT margin is 22.0% (22.7% in 2011; -0.7 percentage points).

Share of profits (losses) of associates and joint ventures accounted for using the equity method

The Share of profits (losses) of associates and joint ventures accounted for using the equity method is a loss of 6 million euros in 2012 , and mainly relates to Tiglio I S.r.l.

In 2011 this was a loss of 39 million euros, due to the write-down of the entire investment in the Italtel Group.

Other income (expenses) from investments

In 2012 other income (expenses) from investments shows a net income of 2 million euros.

In 2011, the income balance of Other income (expenses) from investments was 16 million euros and referred to the gain (17 million euros) on the sale of the entire 27% investment in the Cuban operator EtecSA.

## Finance income (expenses)

Finance income (expenses) is an expense balance of 1,966 million euros (an expense balance of 2,040 million euros in 2011), with an improvement of 74 million euros. This decrease is essentially due to the positive change in the value of several hedging derivatives, attributable to market fluctuations linked to currency translation. These changes, which are unrealized accounting changes, do not result in any actual monetary settlement. Other positive effects derive from the higher capitalization of finance expenses relating to the purchase of rights to use LTE mobile telephony frequency bands, by the Domestic Business Unit.

## Income tax expense

Income tax expense amounts to 1,235 million euros, decreasing 375 million euros compared to 2011. This item also includes the non-recurring benefit totaling 319 million euros, related to the recognition of the receivables for years prior to 2012, following the entry into force of Decree Law 16/2012, which enabled a request for a refund of IRES tax for the IRAP tax calculated on the cost of labor. Net of this effect, income tax decreased by 56 million euros compared to 2011, mainly as a result of the reduction in the tax base of the Parent Telecom Italia.

## Profit (loss) from Discontinued operations/Non-current assets held for sale

This item shows a profit of 2 million euros in 2012, compared to a loss of 13 million euros in the previous year. It includes income and expenses incurred in connection with sales transactions of prior years.

## Profit (loss) for the year

Profit (loss) for the year can be broken down as follows:

(millions of euros)	2012	2011
Profit (loss) for the year	(1,277)	(4,366)
Attributable to:		
Owners of the Parent:		
Profit (loss) from continuing operations	(1,629)	(4,798)
Profit (loss) from Discontinued operations/Non-current assets held for sale	2	(13)
Profit (loss) for the year attributable to owners of the Parent	(1,627)	(4,811)
Non-controlling interests:		
Profit (loss) from continuing operations	350	445
	—	—

Profit (loss) from Discontinued operations/Non-current assets held for sale		
Profit for the year attributable to Non-controlling interests	350	445

In 2012 the normalized profit (loss) for the year attributable to owners of the Parent, calculated net of the impact of non-recurring items – including the above-mentioned impairment losses on Goodwill and Non-Current Assets – and of the tax benefit related to the request for an IRES tax refund for the IRAP tax calculated on labor costs, amounts to a profit of 2,394 million euros (2,518 million euros in 2011).

## Financial and Operating Highlights

## The Business Units of the Telecom Italia Group

Starting from the 2012 Half-year Financial Report, the Telecom Italia Group has early adopted and retrospectively applied revised IAS 19 (Employee Benefits). As a result, the comparative 2011 figures of the Business Units have been restated on a consistent basis.

## Domestic

The company Matrix, which was sold on October 31, 2012, was classified under Other Operations in 2012, and thus excluded from the Domestic Core Domestic Business Unit. The periods under comparison have been reclassified accordingly.

(millions of euros)	2012	2011	Change		
			amount	%	% organic
Revenues	17,884	18,991	(1,107)	(5.8)	(5.8)
EBITDA	8,676	9,173	(497)	(5.4)	(4.9)
<i>EBITDA margin</i>	48.5	48.3		0.2pp	0.4pp
EBIT	1,078	(1,996)	3,074	n.s.	(2.6)
<i>EBIT margin</i>	6.0	n.s.		n.s.	1.0pp
Headcount at year-end (number) (*)	53,224	55,047	(1,823)	(3.3)	
(*)					

The headcount change includes the effects resulting from the acquisition, as of January 1, 2012, of the Contact Center business and the related 249 staff from the company Advalso in the Olivetti Business Unit.

## Fixed

	12/31/2012	12/31/2011	12/31/2010
Physical accesses at year-end (thousands)	21,153	21,712	22,122
<i>of which Retail physical accesses at year-end (thousands)</i>	13,978	14,652	15,351
Broadband accesses in Italy at year-end (thousands)	8,967	9,089	9,058
<i>of which Retail broadband accesses (thousands)</i>	7,020	7,125	7,175
Network infrastructure in Italy:			
access network in copper (millions of km pair, distribution and connection)	114.5	112.2	111.7
access and carrier network in optical fiber (millions of km - fiber)	5.7	4.6	4.3
Network infrastructure abroad:			
European backbone (km of fiber)	55,000	55,000	55,000
Mediterranean (km of submarine cable)	7,500	7,500	7,000
South America (km of fiber)	30,000	30,000	30,000
Atlantic (km of submarine cable)	15,000	15,000	15,000
Total traffic:			
Minutes of traffic on fixed-line network (billions)	101.8	108.9	121.5

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Domestic traffic	85.9	93.3	104.1
International traffic	15.9	15.6	17.4
DownStream and UpStream traffic volumes (PBytes)	2,202	1,937	1,647

Mobile

	12/31/2012	12/31/2011	12/31/2010
Number of lines at year-end (thousands)	32,159	32,227	31,018
Change in lines (%)	(0.2)	3.9	0.5
Churn rate (%) <sup>(1)</sup>	26.6	21.9	22.0
Total average outgoing traffic per month (millions of minutes)	3,664	3,633	3,305
Total average outgoing and incoming traffic per month (millions of minutes)	4,921	4,843	4,597
Mobile browsing volumes (PBytes) <sup>(2)</sup>	93.1	75.9	53.0
Average monthly revenues per line (euro) <sup>(3)</sup>	15.5	17.4	19.7

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

(2)

National traffic excluding roaming.

(3)

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

The financial and operating highlights of the Domestic Business Unit are reported according to two Cash Generating units (CGU):

•

**Core Domestic:** includes all telecommunications activities inherent to the Italian market. Revenues are broken down in the following tables according to the net contribution of each market segment to the CGU s results, excluding intrasegment transactions. The sales market segments defined on the basis of the customer centric organizational model are as follows:

–

**Consumer:** comprises the aggregate of voice and Internet services and products managed and developed for persons and families in the Fixed and Mobile telecommunications markets and also public telephony;

–

**Business:** is constituted by the aggregate of voice, data, Internet and ICT solutions services and products managed and developed for SMEs (small and medium-size enterprises) and SOHOs (Small Office Home Office) in the Fixed and Mobile telecommunications markets;

–

**Top:** comprises the aggregate of voice, data, Internet and ICT solutions services and products managed and developed for Top, Public Sector, Large Account and Enterprise customers in the Fixed and Mobile telecommunications markets;

–

**National Wholesale:** consists of the management and development of the portfolio of regulated and unregulated wholesale services for Fixed and Mobile telecommunications operators in the domestic market;

–

**Other (Support Structures):** includes:

–

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

–

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

•

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

## Main financial data

Key results of the Domestic Business Unit by customer/business segment in 2012 compared to 2011 are as follows:

## Core Domestic

(millions of euros)	2012	2011	Change %		
			amount	%	% organic
Revenues	16,933	18,082	(1,149)	(6.4)	(6.2)
<i>Consumer (1)</i>	8,835	9,168	(333)	(3.6)	(3.6)
<i>Business (2)</i>	2,777	3,064	(287)	(9.4)	(9.4)
<i>Top (2)</i>	3,102	3,529	(427)	(12.1)	(12.1)
<i>National Wholesale</i>	2,052	2,104	(52)	(2.5)	(1.5)
<i>Other</i>	167	217	(50)	(23.0)	(19.6)
EBITDA	8,460	8,941	(481)	(5.4)	(4.8)
<i>EBITDA margin</i>	50.0	49.4		0.6pp	0.7pp
EBIT	958	(2,136)	3,094	n.s.	(2.3)
<i>EBIT margin</i>	5.7	(11.8)		17.5pp	1.2pp
Headcount at year-end					
(number)	52,289	54,038	(1,749)	(3.2)	

(1) The company Matrix, which was sold on October 31, 2012, was classified under Other Operations in 2012, and thus excluded from the Consumer segment of Core Domestic. The periods under comparison have been reclassified accordingly.

(2) The figures of the Business and Top segments in 2011 have been reclassified for purposes of comparison with the figures for 2012, which take into account the new customer classification criteria introduced at the beginning of 2012.

## International Wholesale

(millions of euros)	2012	2011	Change %		
			amount	%	% organic
Revenues	1,393	1,393	-	-	(1.4)
<i>of which third party</i>	985	960	25	2.6	0.5
EBITDA	229	243	(14)	(5.8)	(9.2)
<i>EBITDA margin</i>	16.4	17.4		(1.0)pp	(1.4)pp
EBIT	121	141	(20)	(14.2)	(12.4)
<i>EBIT margin</i>	8.7	10.1		(1.4)pp	(1.2)pp
Headcount at year-end					
(number)	935	1,009	(74)	(7.3)	
Revenues					

In addition to the deteriorating economic climate and a market characterized by sharp tariff cuts (on traditional services) and tough competition, the decline in revenues also partly reflects the new mobile termination rates (MTR) -

which involve a 53% reduction (from 5.3 to 2.5 euro cents) - and a Europe-wide cap on the price of roaming traffic.

Against this background, the performance for the year, in terms of organic change over the previous year, shows a 5.8% contraction compared to 2011. The downturn is primarily attributable to the decline in revenues on traditional services, only partly offset by the growth in innovative services, especially Fixed-line Broadband and Mobile Internet.

In detail:

•

Consumer: Revenues for the Consumer segment amount to 8,835 million euros, decreasing 333 million euros compared to 2011 (-3.6%); the trend continues the overall recovery from the reduction recorded in 2011 (-5.0%) despite the negative impact of lower termination rates (-211 million euros). This recovery was due in particular to a stabilization of the erosion in voice revenues (both Fixed and Mobile), strong growth in Browsing revenues and growth in sales of devices (+118 million euros, +35.4%), especially Mobile Internet enabled devices. The reduction, which is entirely attributable to revenues from services (-451 million euros, -5.1%), is attributable in addition to the aforementioned lower termination rates to traditional Voice and Messaging services, the effects of which are in part offset by growth in Mobile Internet (+70 million euros, +13%) and Fixed Broadband Access (+34 million euros, +3.6%). In the fourth quarter, however, revenues slowed down (-4.5% compared to the same period in 2011, -1.9% excluding the impact from the above-mentioned reduction in Mobile termination rates MTR), especially in the Mobile segment, which - in addition to the discontinuity in incoming termination - also reflects increased competitive pressure with resulting contraction in financial and commercial performance.

•

Business: Revenues in the Business segment amount to 2,777 million euros in 2012, decreasing 9.4% or 287 million euros compared to 2011, due to erosion of the customer base (-6.6% Fixed and -4.8% Mobile, excluding data only lines, compared to 2011) and to a fall in usage and Average Revenue Per User (ARPU) especially on Voice services. The fourth quarter of 2012 shows a 12.1% contraction, with a downturn compared to previous periods mainly attributable to the impact of the new mobile termination rates and declining Data Roaming revenues resulting from the introduction of a *price cap* in the European Union.

•

Top: revenues in the Top segment amount to 3,102 million euros in 2012, decreasing 427 million euros (-12.1%) compared to 2011, mainly due to a slow down in demand due to the negative economic situation. Revenues from services show a decline of 260 million euros (-8.6%), primarily attributable to traditional voice and data services, only partly offset by growth in new services, in particular Cloud and Mobile Internet. In the fourth quarter, performance continued to slow down (-17.8%), partly due to the reduction in termination rates and declining Data Roaming revenues (following the aforementioned introduction of a price cap in the European Union). Revenues from sales show a decrease of 167 million euros (-34% compared to 2011). This performance, in addition to the deteriorating economic situation already noted for services, also reflects more selective commercial policies aimed at improving profitability.

•

National Wholesale: Revenues in the Wholesale segment amount to 2,052 million euros in 2012, a decline of 52 million euros (-2.5%) on 2011, mainly due to lower carrying and interconnection revenues, only partly offset by growth in access services to alternative operators.

International Wholesale Revenues

In 2012 the International Wholesale segment revenues amount to 1,393 million euros, in line with the previous year (-1.4% in organic terms).

Over the year the Company continued to pursue rationalization measures aimed at a more selective customer portfolio and traffic strategy.

Revenue performance in the Voice (+1.4%) and IP/Data (+5.8%) businesses helped to contain the contraction reported in the other segments, especially multinational customers (-10%).

The last quarter of 2012 shows a decline in revenues of 39 million euros over the same period in 2011 (-10.2%; -10.9% in organic terms). The Voice (-10.7%), Mobile Services (-12.7%) and multinational customer (-6.6%) segments show a decline, while revenues from IP/Data continue a positive trend (+4%).

## EBITDA

EBITDA for the Domestic Business Unit amounts to 8,676 million euros in 2012, down 497 million euros from 2011 (-5.4%). The EBITDA margin is 48.5%, up +0.2 percentage points on 2011. This result was affected by the reduction in revenues from services (-1,014 million euros, -397 million euros in the fourth quarter of 2012), only partly offset by the lower revenues due to other TLC operators (mainly attributable to lower termination rates) and by efficiencies achieved through the selective control and containment of operating expenses.

Organic EBITDA in 2012 amounts to 8,829 million euros (-458 million euros, or -4.9% compared with 2011), with an organic EBITDA margin of 49.3%, up on the previous year (+0.4 percentage points).

With regard to the change in the main costs, the following is noted:

(millions of euros)	2012	2011	Change
Acquisition of goods and services	6,409	6,754	(345)
Employee benefits expenses	2,834	3,031	(197)
Other operating expenses	699	769	(70)

In particular:

•

acquisition of goods and services decreased by 345 million euros (-5.1%) compared to 2011. This reduction is mainly due to a decline in revenues due to other TLC operators, owing principally to the reduction in Mobile termination rates;

•

employee benefits expenses are down 197 million euros from 2011, attributable mostly to the reduction in the average salaried workforce by 710 compared to the previous year, offset by higher expenses as a result of the acquisition, as of January 1, 2012, of the Contact Center business and the related 249 staff from the company Advalso of the Olivetti Business Unit. In 2012, an amount of 7 million euros was released to the income statement following the closure of the mobility procedure under Law 223/91, covering the period 2010-2012, by the Parent Telecom Italia S.p.A., Telecom Italia Sparkle and TI Information Technology. It should be noted that in 2011 the provision for mobility expenses under Law 223/91, relating to the agreement signed with the trade unions in 2010, had been increased by 12 million euros, 9 million euros of which for Telecom Italia S.p.A. and 3 million euros for TI Information Technology.

•

other operating expenses decreased by 70 million euros compared with 2011, as shown in the following table:

(millions of euros)	2012	2011	Change
---------------------	------	------	--------

Write-downs and expenses in connection with credit management	370	389	(19)
Provision charges	92	50	42
Telecommunications operating fees and charges	59	58	1
Indirect duties and taxes	103	108	(5)
Sundry expenses	75	164	(89)
Total	699	769	(70)
EBIT			

EBIT is a positive 1,078 million euros, compared to a negative 1,996 million euros in 2011, up 3,074 million euros. This performance particularly comprises the goodwill impairment loss of 4,016 million euros referring to the Core Domestic Cash Generating unit (7,307 million euros in 2011), recorded on the basis of the results of the impairment test.

Organic EBIT, calculated by also excluding the above mentioned goodwill impairment losses, is 5,226 million euros with a decrease of 139 million euros (-2.6%) compared to 2011. The organic EBIT margin increased from 28.2% in 2011 to 29.2% in 2012.

## Brazil

	(millions of euros)		(millions of Brazilian reals)		Change		
	2012	2011	2012	2011	amount	%	%
	(a)	(b)	(c)	(d)	(c-d)	(c-d)/d	Organic
Revenues	7,477	7,343	18,764	17,086	1,678	9.8	9.8
EBITDA	1,996	1,990	5,008	4,631	377	8.1	8.9
<i>EBITDA margin</i>	<i>26.7</i>	<i>27.1</i>	<i>26.7</i>	<i>27.1</i>		<i>(0.4)pp</i>	<i>(0.2)pp</i>
EBIT	966	984	2,424	2,289	135	5.9	7.4
<i>EBIT margin</i>	<i>12.9</i>	<i>13.4</i>	<i>12.9</i>	<i>13.4</i>		<i>(0.5)pp</i>	<i>(0.3)pp</i>
Headcount at year-end (number)			11,622	10,539	1,083	10.3	

	2012	2011
Lines at year-end (thousands)	70,362	64,070
MOU (minutes/month)(*)	135.8	128.6
ARPU (reais)	19.1	21.4

(\*)

Net of visitors.

## Main financial data

## Revenues

Revenues for 2012 amount to 18,764 million reals, increasing 1,678 million reals on 2011 (+9.8%). Revenues from services come to 16,420 million reals, up from 15,353 million reals in 2011 (+6.9%). Revenues from product sales are up from 1,733 million reals in 2011 to 2,344 million reals in 2012 (+35.3%), reflecting the company's strategy of market penetration with high-end handsets (smartphones/web phones) and tablets as an important lever for the expansion of revenues from data services.

Mobile Average Revenue Per User (ARPU) amounts 19.1 reals for 2012 compared with 21.4 reals for 2011 (-10.7%). The performance of ARPU and revenues from services not only reflects competitive pressures that have led to a decline in unit prices in the voice business, but also the lower mobile operator network interconnection rate, in force since February 2012.

The total number of lines at December 31, 2012 is 70.4 million, 9.8% higher than on December 31, 2011, representing a 26.9% market share in terms of lines.

Revenues in the fourth quarter of 2012 amount to 5,026 million reais, up 315 million reais compared to the same period of 2011 (+6.7%).

## EBITDA

EBITDA in 2012 amounts to 5,008 million reais, an improvement of 377 million reais on 2011 (+8.1%). EBITDA growth was sustained by the increase in revenues, mainly VAS, essentially offset by higher termination costs due to increased traffic volumes and costs strictly linked to changes in the customer base. EBITDA margin is 26.7%, 0.4 percentage points lower than 2011.

Organic EBITDA in 2012 amounts to 5,061 million reais, an improvement of 412 million reais on 2011 (+8.9%). Organic EBITDA margin is 27.0%, 0.2 percentage points lower than the previous year. The increased margin in revenues from services was offset by the greater share of revenues from sales of smartphones/web phones.

It should be noted that organic EBITDA is calculated excluding the administrative penalties imposed by the Brazilian telecommunications authority (ANATEL) and other non organic expenses for a total of 53 million reais. In particular, disputes with ANATEL concerning the years 2007/2009 and amounting to 26 million reais, were recognized following confirmation by the Board of the Brazilian telecommunications authority of measures taken against Tim Brasil. An additional 11 million reais relates to disputes with other operators regulated by ANATEL for the years 2008-2011. Sundry non organic expenses mainly relate to the write-down of receivables; Tim Brasil will take the necessary legal steps to recover the amount of these receivables. Organic EBITDA in 2011 took into account of non organic expenses of 18 million reais.

EBITDA in the fourth quarter of 2012 amounts to 1,422 million reais, up 104 million reais compared to the same period of 2011 (+7.9%).

With regard to changes in costs, the following is noted:

	(millions of euros)		(millions of Brazilian reais)		
	2012	2011	2012	2011	Change
	(a)	(b)	(c)	(d)	(c-d)
Acquisition of goods and services	4,508	4,399	11,313	10,234	1,079
Employee benefits expenses	344	321	865	747	118
Other operating expenses	719	747	1,804	1,738	66
Change in inventories	2	(19)	4	(45)	49

• acquisition of goods and services amounts to 11,313 million reais (10,234 million reais in 2011). The 10.5% increase compared to the previous year (+1,079 million reais) can be analyzed as follows:

+418 million reais for the revenues due to other TLC operators;

+497 million reais for the purchases referring primarily to product cost;

+191 million reais for rent and lease costs;

-27 million reais for external services costs;

•

employee benefits expenses, amounting to 865 million reais, are up 118 million reais compared with 2011 (+15.8%). The average workforce grew from 9,194 in 2011 to 10,051 in 2012. The percentage of employee benefits expenses to revenues is 4.6%, increasing 0.2 percentage points compared to 2011.

•

other operating expenses come to 1,804 million reais, increasing 3.8% (1,738 million reais in 2011). Such expenses consist of the following:

(millions of Brazilian reais)	2012	2011	Change
Write-downs and expenses in connection with credit management	251	232	19
Provision charges	228	140	88
Telecommunications operating fees and charges	1,223	1,290	(67)
Indirect duties and taxes	30	33	(3)
Sundry expenses	72	43	29
Total	1,804	1,738	66

#### EBIT

EBIT amounts to 2,424 million reais, up 135 million reais on 2011. This result is due to a higher contribution from EBITDA partly offset by higher depreciation and amortization charges of 241 million reais (2,581 million reais in 2012, compared to 2,340 million reais in 2011).

The organic change in EBIT compared to the same period in 2011 is positive by 170 million reais with an EBIT margin of 13.2% (13.5% in 2011) due to the non-organic items described above.

Organic EBIT in the fourth quarter of 2012 amounts to 754 million reais, an improvement of 32 million reais on 2011.

## Argentina

	(millions of euros)		(millions of Argentine pesos)		Change		
	2012	2011	2012	2011	amount	%	%
	(a)	(b)	(c)	(d)	(c-d)	(c-d)/d	Organic
Revenues	3,784	3,220	22,116	18,496	3,620	19.6	19.6
EBITDA	1,121	1,035	6,553	5,947	606	10.2	11.7
<i>EBITDA margin</i>	29.6	32.2	29.6	32.2	(2.6)pp	(2.2)pp	
EBIT	214	509	1,253	2,925	(1,672)	(57.2)	(3.5)
<i>EBIT margin</i>	5.7	15.8	5.7	15.8	(10.1)pp	(3.1)pp	
Headcount at year-end (number) (*)			16,803	16,350	453	2.8	

(\*) Includes employees with temp work contracts: 3 at December 31, 2012 and 1 at December 31, 2011.

	2012	2011	Change	%
			amount	
Fixed-line				
Lines at year-end (thousands)	4,128	4,141	(13)	(0.3)
ARBU (Average Revenue Billed per User) (Argentine pesos)	48.2	45.7	2.5	5.5
Mobile				
Lines at year-end (thousands)	21,276	20,342	934	4.6
Telecom Personal lines (thousands)	18,975	18,193	782	4.3
<i>% postpaid lines (**)</i>	33%	32%		1pp
MOU Telecom Personal (minutes/month)	99	99	-	-
ARPU Telecom Personal (Argentine pesos)	57.7	51.4	6.3	12.3
Núcleo mobile lines (thousands)(***)	2,301	2,149	152	7.1
<i>% postpaid lines (**)</i>	19%	17%		2pp
Broadband				
Broadband accesses at year-end (thousands)	1,629	1,550	79	5.1
ARPU (Argentine pesos) (****)	102.3	87.0	15.3	17.6

(\*\*)

Includes lines with a ceiling invoiced at the end of the month which can be topped-up with prepaid refills.

(\*\*\*) Includes WiMAX lines.

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

## Revenues

Revenues in 2012 amount to 22,116 million pesos, increasing 3,620 million pesos (+19.6%) compared with 2011 (18,496 million pesos) thanks to growth of the broadband and mobile customer base, as well as ARPU. Revenues for the fourth quarter of 2012 amount to 6,092 million pesos, up 953 million pesos compared to the same period of 2011 (5,139 million pesos). The main source of revenues for the Argentina Business Unit is mobile telephony, which accounts for about 73% of the consolidated revenues of the Business Unit, increasing more than 22% compared to 2011.

Fixed-line telephony service: the number of fixed lines at December 31, 2012 is substantially unchanged compared to the end of 2011. Even though the fixed-line regulated services in Argentina continue to be influenced by the rate freeze imposed by the Emergency Economic Law of January 2002, ARBU rose by 5% compared to 2011, thanks to the sale of value-added services and the distribution of traffic plans.

Mobile telephony service: Telecom Personal mobile lines in Argentina increased by 782 thousand compared to the end of 2011, arriving at a total of 18,975 thousand lines at December 31, 2012, 33% of which were postpaid. At the same time, thanks to high-value customer acquisitions and leadership in the smartphone segment, ARPU grew 12.3% to 57.7 pesos (51.4 pesos in the 2011). A large part of this growth is attributable to value added services (including SMS messaging and Internet) which together account for approximately 53% of revenues from mobile telephony services in 2012.

In Paraguay, the Núcleo customer base grew about 7.1% compared to December 31, 2011 and at December 31, 2012 it reached 2,301 thousand lines, 19% of which were postpaid.

Broadband: Telecom Argentina's overall portfolio of broadband lines at December 31, 2012 reached 1,629 thousand accesses, with an increase of 79 thousand accesses compared to the end of 2011, representing about 5.1% growth. ARPU was up 17.6% to 102.3 pesos (87 pesos in 2011) through the change in pricing strategy and reduced promotional discount associated with customer acquisition and retention.

## EBITDA

EBITDA shows an increase of 606 million pesos to 6,553 million pesos in 2012, +10.2% compared with 2011. The EBITDA margin is 29.6%, 2.6 percentage points less than in 2011, mainly due to the higher impact of acquisitions of materials and services and employee benefits expenses.

Organic EBITDA - calculated excluding the 90 million pesos in restructuring costs involving employees of certain specific segments - is up 11.7% compared with 2011 with an EBITDA margin of 30%.

With regard to changes in costs, the following is noted:

	(millions of euros)		(millions of Argentine pesos)		
	2012	2011	2012	2011	Change
	(a)	(b)	(c)	(d)	(c-d)
Acquisition of goods and services	1,698	1,398	9,927	8,031	1,896
Employee benefits expenses	586	478	3,422	2,746	676
	408	332	2,387	1,903	484

Other operating expenses

Change in inventories	(16)	(17)	(94)	(96)	2
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• acquisition of goods and services totals 9,927 million pesos (8,031 million pesos in 2011). The increase of 23.6% compared to the prior year (+1,896 million pesos) is mainly due to higher external service costs of 1,246 million pesos and higher purchases of raw materials, auxiliaries, consumables and merchandise of 424 million pesos;

• employee benefits expenses amount to 3,422 million pesos, increasing 676 million pesos compared to 2011 (+24.6%). The rise is due to salary increases, resulting from the periodic revision of trade union agreements, mainly to reflect the effect of inflation, and the above-mentioned staff restructuring costs of 90 million pesos only partially offset by a reduction in other employee benefits expenses totaling 65 million pesos. In addition, an increase is recorded in the average number of employees in the mobile area. The percentage of employee benefits expenses to total revenues is 15.5%, increasing 0.7 percentage points over 2011;

• other operating expenses: amount to 2,387 million pesos, increasing 25.4% (1,903 million pesos in 2011). Such expenses consist of the following:

(millions of Argentine pesos)	2012	2011	Change
Write-downs and expenses in connection with credit management	275	169	106
Telecommunications operating fees and charges	424	348	76
Indirect duties and taxes	1,592	1,286	306
Sundry expenses	96	100	(4)
Total	2,387	1,903	484

#### EBIT

EBIT for 2012 comes to 1,253 million pesos compared to 2,925 million pesos recorded in the previous year. The decrease (1,672 million pesos) is essentially due to the restructuring expenses described above, as well as the complete impairment of the goodwill, recognized at the time control was acquired by the Telecom Italia Group (979 million pesos), the partial impairment of the Customer relationships (501 million pesos) and the increase in amortization charges for Customer relationships resulting from the updating of their useful lives (383 million pesos).

In the absence of such impairment losses and restructuring expenses, EBIT for 2012 would have been 2,823 million pesos, down 102 million pesos compared to 2011, with an EBIT margin of 12.7% (-3.1 percentage points compared to the previous year).

## Media

On May 9, 2012, the Board of Directors of Telecom Italia Media took note of the decision of the Board of Directors of Telecom Italia S.p.A. to initiate the process of disposal of the Media segment. As a result, in May 2012 a company restructuring transaction was initiated that led to the creation of La7 S.r.l., a wholly owned subsidiary of Telecom Italia Media S.p.A., to which - with effect from September 1, 2012 - the television assets were transferred through the assignment of a business area by Telecom Italia Media S.p.A.

(millions of euros)	2012	2011	Change		
			amount	%	% organic
Revenues	222	238	(16)	(6.7)	(6.7)
EBITDA	(45)	27	(72)	n.s.	n.s.
<i>EBITDA margin</i>	<i>(20.3)</i>	<i>11.3</i>			
EBIT	(263)	(88)	(175)	n.s.	n.s.
<i>EBIT margin</i>	<i>n.s.</i>	<i>(37.0)</i>			
Headcount at year-end (number)	735	765	(30)	(3.9)	

	2012	2011
La7 audience share Free to Air (average during the period, in %)	3.5	3.8
Gross advertising revenues (millions of euros)	225	242

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

## Revenues

Revenues amount to 222 million euros in 2012, decreasing 16 million euros compared to 238 million euros in 2011. In greater detail:

•

Revenues for La7<sup>2</sup> in 2012, before intragroup eliminations, amount to 123 million euros, down 16 million euros on the previous year. This result reflects the reduction in net advertising revenues, which in 2012 declined by 3 million euros, -2.7% on 2011, which was nevertheless sharply counter to the market trend (Nielsen estimates a decrease of 15.3% in the television market for the period January-November 2012); this decline was exacerbated by the loss of revenues from the Competence Center, which ceased operations in September 2011, and had previously generated revenues for 13 million euros.

In 2012, La7 had an average daily audience share of 3.5% and the La7d channel reported net advertising revenues of 8 million euros, up 2 million euros (+27.7%).

•  
MTV Group revenues come to 55 million euros, before intragroup eliminations, decreasing 19 million euros compared to 2011 (74 million euros). This reduction is mainly due to lower net advertising revenues (40 million euros in 2012 compared to 50 million euros in 2011) and the decrease in Playmaker activities to third parties by 7 million euros.

•  
Revenues from Network Operator activities (TIMB), before intragroup eliminations, total 75 million euros, compared to 55 million euros in the previous year, increasing by 20 million euros. The positive change is due both to the evolution of existing contracts and to new channels put under contract at the end of 2011 for digital terrestrial TV on Multiplexes, which led to the full use of the available digital band since February 2012.

#### EBITDA

EBITDA in 2012 is a negative 45 million euros, down 72 million euros compared to 2011, which, included compensation of 21 million euros for the early termination of the Competence Center contract with Telecom Italia S.p.A.; in organic terms, the reduction comes to 51 million euros. In particular:

•  
EBITDA of La7 is -66 million euros, with a negative change of 71 million euros compared to 2011 (5 million euros including the above-mentioned compensation); on a comparable basis the reduction is 50 million euros. This result largely reflects both the contraction in revenues mentioned above and higher operating costs mostly connected with programming costs of La7 (30 million euros) and La7d (4 million euros) channels. The result was also adversely affected by the absence of profits from the Competence Center business (13 million euros of revenues in 2011) which ceased operations in September 2011;

•  
EBITDA for the MTV group amounts to -11 million euros, decreasing by 17 million euros compared to 2011 primarily due to the decrease in revenues described above, and as a result of the profound editorial transformation of the main channel which during the year went from being a purely musical channel to a more entertainment oriented channel targeted to a young/adult audience;

•  
EBITDA relating to Network Operator activities is 43 million euros, improving 20 million euros over 2011; this result was influenced by the above-mentioned increase in sales while operating costs were substantially in line with the previous year.

#### EBIT

EBIT is a negative 263 million euros, compared to -88 million for 2011, representing a worsening of 175 million euros. Specifically, 2012 includes a total impairment loss of Non-Current Assets and Goodwill of 157 million euros, established following the impairment test process and also taking account of the prospective sale of the investee La7 S.r.l.. In detail, the impairment loss relating to solely Goodwill is 105 million euros (57 million euros of impairment loss in 2011). Excluding the previously mentioned income of 21 million euros from the results for 2011 and the aforementioned impairment loss on goodwill and other, minor, non organic items from the results for 2012, the organic reduction in EBIT amounts to 56 million euros.

#### Sale of La7 S.r.l.

On March 4, 2013, the Board of Directors of Telecom Italia Media S.p.A., a subsidiary of Telecom Italia S.p.A., voted to grant a mandate to finalize the agreement for the sale of the entire investment in La7 S.r.l. to Cairo Communication S.p.A., excluding the 51% of MTV Italia S.r.l. On March 6, 2013, Telecom Italia Media and Cairo Communication signed an agreement for the sale of 100% of La7 S.r.l..

Under the agreements reached, Telecom Italia Media S.p.A. will receive a sale consideration of 1 million euros. La7 S.r.l. will be recapitalized for a sufficient amount to ensure a positive net financial position, at the transfer date, of no less than 88 million euros. This recapitalization will also contribute to reaching the agreed level of equity of 138 million euros at the transfer date.

As a result of the transaction, Telecom Italia S.p.A. has waived intragroup financial receivables, due from Telecom Italia Media S.p.A., for a total amount of 100 million euros.

According to the agreements, a long-term transmission capacity supply contract will also be entered into between La7 S.r.l. and Telecom Italia Media Broadcasting S.r.l..

This sale allows the Telecom Italia Group to terminate its financial support of La7 S.r.l. while keeping the network operator Telecom Italia Media Broadcasting S.r.l. within its scope of operations.

The finalization of the sale is subject to the authorizations required under the applicable regulations.

## Olivetti

On January 1, 2012, the contact center activities and resources of Advalso S.p.A. were sold to Telecontact Center S.p.A. (a subsidiary of Telecom Italia Domestic Business Unit), as part of a project to bring all Telecom Italia Group call center operations under centralized management.

In addition, on June 13, 2012 the shareholders of the subsidiary Olivetti i-Jet S.p.A. voted to place the company in liquidation.

(millions of euros)	2012	2011	Change amount	Change %	% organic
Revenues	280	343	(63)	(18.4)	(13.3)
EBITDA	(57)	(36)	(21)	(58.3)	27.8
<i>EBITDA margin</i>	<i>(20.4)</i>	<i>(10.5)</i>			
EBIT	(65)	(43)	(22)	(51.2)	27.9
<i>EBIT margin</i>	<i>(23.2)</i>	<i>(12.5)</i>			
Headcount at year-end (number)	778	1,075	(297)	(27.6)	

## Revenues

Revenues for 2012 amount to 280 million euros, down 63 million euros compared to 2011. Organic revenues, calculated on a comparable scope of consolidation, to take account of the above-mentioned transfer to Telecontact Center S.p.A. (21 million euros in 2011), and net of a favorable exchange rate difference of 1 million euros, are down 43 million euros (-13.3%). If the revenues under the agreements with the Parent, Telecom Italia S.p.A., regulating brands and patents are also excluded, the reduction is 38 million euros (-11.8%).

The decrease in revenues is largely related to: lower sales of 21 million euros in the indirect channel in Italy (SME and professional offices), the channel most exposed to the current market crisis; lower sales of 10 million euros in the International and Latin America areas, due to the cancellation of product supply contracts with unsatisfactory margins; and lower product supply contracts with Telecom Italia of 4 million euros. The remaining decline in revenues was due to lower sales of industrial applications resulting from the winding up of Olivetti I-Jet S.p.A..

## EBITDA

EBITDA is a negative 57 million euros, 21 million euros lower than 2011. The result is affected by provision charges for restructuring expenses and other winding up expenses totaling 31 million euros, as a result of the start of the liquidation of Olivetti I-Jet S.p.A, in accordance with the process of repositioning the business unit's activities, in line with the shift towards a paperless world and mobile applications. Excluding these expenses, the organic change in EBITDA is a positive 10 million euros (+27.8%), thanks to both the improved percentage margin and the sizable reduction in operating costs (lower overheads and labor costs). These two factors more than offset the lower absolute margins resulting from the decline in sales.



**EBIT**

EBIT is a negative 65 million euros, a decrease of 22 million euros from 2011, when it stood at a negative 43 million euros. The result was affected, in addition to the charges and provisions mentioned above in relation to the EBITDA, by impairment losses on assets of 3 million euros related to the winding-up Olivetti I-Jet S.p.A.. Excluding these items, organic EBIT is up 12 million euros (+27.9%) to -31 million euros in 2012 from -43 million euros in 2011.

## Main Commercial Developments of the Business Units of the Group

### Domestic

#### Consumer Mobile

The 2012 sales campaign at TIM focused on the acquisition of new lines through Mobile Number Portability (MNP). A new MNP promotion was launched in the first quarter of the year, giving new customers the chance to select a rate plan of their choosing ( Raddoppio Ricariche , with a two-year discount on the subscription to one or two options). In the fourth quarter, TIM launched the new range of TUTTO A SECONDI rate plans, designed to satisfy all customer needs, for both new and existing TIM customers.

For the high-value segment, in the first half of 2012 TIM launched the new entry-level Tutto Compreso 250 rate plan, along with new Internet+SMS options. The Tutto Compreso range was completely overhauled in the second half of the year, and TIM launched a number of special add-ons for the range, including TIM Cloud and the SEMPRE NUOVO deal (option of changing smartphone every 12 months). At Christmas, in response to the unlimited call minutes and SMS offers promoted by major competitors, TIM launched the Tutto Compreso Unlimited rate plan, offering unlimited call minutes and SMS messages, Internet traffic, roaming and VAS content such football, music, news and cloud services.

Campaign efforts continued to be targeted throughout the year at Young consumers, through the increase of TIM's presence in key segments for the youth market (music, cinema and sport), diversified media campaigns, the launch of new services such as TIM Cloud (cloud space to store and share content with friends) and the expansion of the Tim Young offer range (Limited Edition, Summer Edition, TIM Young XL).

For the Ethnic segment, TIM stepped up its campaign at the beginning of the year with the launch of new TIM Card Etniche deals, offering even more competitive rate plans for the main ethnic groups living in Italy (Romanians, Albanians and Moroccans). In the second quarter, the TIM Community option was launched for online traffic, while in the third quarter, the TIM International add-on was introduced for all mass market profiles, offering discounted rates for calls to all countries of origin.

In an effort to boost market share in certain geographic segments, TIM introduced a new campaign approach involving targeted deals designed to meet the needs of local consumers (launched in Apulia, followed by Veneto, Liguria and Sardinia).

The year 2012 was marked by the development of Ultra Internet services on 42 Mbps HSPA+ technology and on the new 4G-LTE network. Launched in November, the new Ultra Internet 4G LTE service enables connection speeds up to ten times faster than the 14.4 Mbps HSPA network, and more than double the speed offered by 42 Mbps HSPA technology. 4G rate plans for Internet sticks and tablets were initially launched in four cities (Rome, Milan, Turin and Naples) and then extended to serve a total of 21 cities and 9 tourist spots by the end of 2012. The 4G LTE rate plans are targeted at the premium segment and feature high data volumes, excellent service quality in terms of network performance and exclusive content and services.

The Small Screen segment (Internet via smartphone) took off in a major way in 2012, with sharp growth in users driven by the spread of smartphones – a segment that TIM continues to lead in terms of sales – and by the competitiveness and simplicity of the offer range (TIMxSmartphone).

The TIM range was enhanced over the year with brand new content for the Cubovision, Cubomusica and Cubolibri deals, available by subscription, by service card, in packs and bundled together with other rate plans. Media rights were also purchased from Lega Calcio to broadcast live league games, goal highlights and match highlights on smartphones/tablets, available for Android devices and iPhones as of January 2013.

In June 2012, TIM released its new website, optimized for tablet and smartphone viewing. The new website features a new graphics and page structure, enhancing the usability of the site's contents.

#### Consumer Fixed-line

The 2012 sales campaign focused on winning back former customers and retaining existing ones. The campaign was spearheaded by the push on InternetSenzaLimiti and TuttoSenzaLimiti rate plans, enhanced by a loyalty promotion which waives the home line activation fee for new Telecom Italia customers that stay with the company for at least 24 months. In February, new, lower prices on international calls were added to bundled offers. In the second quarter, winbacks were targeted with the InternetSenzaLimiti plus Cubovision bundled offer, co-marketed with Samsung and LG Smart TVs. Convergent promotions were also introduced over the year, with TIM Internet Start launched in July and Internet Ovunque in October. In December bundled offers were pushed with a special promotion waiving the ADSL activation fee.

Another focus of the sales campaign was to raise the value of customers, in terms of number. Efforts were spearheaded by a drive on the Superinternet option, begun at the start of the year and designed to meet growing demand for higher broadband download and, especially, upload speeds, and to position Telecom Italia as a leading player in cutting-edge residential services. Alongside this, the new Internet Play option was introduced, which reduces connection latency (ping time) by up to 40 per cent, guaranteeing faster response times and enhanced performance for online multiplayer games.

On December 5, a new range of Ultra Internet Fibra Ottica plans was launched in three of the seven cities authorized, offering customers a broadband speed of 30 Mbps thanks to the next-generation Fiber-To-The-Cabinet (FTTCab) network. Based on FTTCab and VDSL technology, the deals guarantee a data transmission speed nearing the nominal speed.

Telecom Italia pushed ahead in 2012 with plans to simplify pricing structures for voice calls, introducing as of July 1:

- 
- a single national rate for local and national fixed-fixed calls, with no differentiation by time frame or distance of calls;
- 
- single fixed-mobile calling rate, with no distinction made between calls to different mobile operators, anytime of day.

With a view to improving service quality for customers, as of December, Telecom Italia bills have been made even simpler and easier to read, with a new graphic arrangement and clearer statement of cost items.

In 2012, a new Pay TV Cubovision deal was launched, offering over 25 thematic channels and hundreds of on-demand features at a competitive monthly subscription cost. Cubovision content can be accessed by computer, by a next-generation Samsung or LG Smart TV, or by an ordinary television set connected to a Cubovision decoder. The Cubovision deal is being promoted as an anycast subscription formula for viewing at home by computer or television, or viewing on the move via smartphone and tablet. In the second half of the year, new channels were launched, as well as a bundled offer of Cubovision and a Notebook computer.

To step up the push on the Tutto Senza Limiti + Cubomusica deal, a promotion was launched in December offering a six-month subscription free of charge with all new Internet Senza Limiti activations. Cubomusica features all the latest music by Italian and international artists across all musical genres, and a wide selection of playlists by well-known artists and DJs, broadcast as streaming media which users can access without restriction via their computers.

## Business

The range of business offers was completely renewed over the course of the year. The convergent range was enhanced with two new innovative deals. Offerta Linea Valore+ is the first fee free fixed-line deal inclusive of all calls to fixed-line numbers and calls to TIM mobile numbers. The Mobile TIM SuMisura+ package includes unrestricted voice call and data traffic bundles, offering unlimited call time to fixed-line numbers. Customers can also choose between a smartphone or a package of added voice calling minutes or SMS messages. Also in the year, the Insieme rate plan was launched to reward customers who choose to activate a new fixed line by installing a new line or transferring from another operator together with at least one mobile line. The range of broadband deals was enhanced for the fixed-line network with the introduction of Super Internet, offering flat-rate ADSL access (20 Mbps download speed/1 Mbps upload speed) with guaranteed minimum bandwidth, a static IP address and WiFi router included. For the mobile network, the Naviga Tablet deal was launched, targeted at customers seeking an all-inclusive product + data package.

A new rate plan for mid-to-high value multi-access customers in the fixed-line segment was introduced during the year, called Azienda Valore. The flexible plan offers special deals on voice calls to fixed-line numbers and on traffic to mobile numbers operated by other mobile operators. Likewise, in the mobile segment, the Soluzione Clienti Azienda rate plan was introduced, which provides substantial benefits on intercom traffic and bundled profiles.

Towards the end of the year the Mobile SoHo rate plan range was enhanced with the launch of TIM Senza Problemi. The new deal is Italy's first top-up plan for business customers to include unlimited national calls and SMS messages towards all operators and ultra-Internet connection, as well as a next-generation smartphone with all risks service and assistance, and a free new handset after 24 months.

The campaign to acquire new customers involved the coordinated launch of a series of special deals targeted at both fixed-line and mobile customers. In the fourth quarter, an important customer care initiative was launched for both new and legacy high-value customers with SoHo and Small Enterprise plans. The targeting of the new unlimited Senza Problemi rate plan at these customers combined with cross-selling and up-selling initiatives is designed to consolidated the relationship with these key customers, lengthening their life cycle and share of wallet with Telecom Italia.

The agreement signed with Microsoft Italia on April 4 is of special importance for the development of innovative business solutions. Its aim is to encourage digital development in Italian small and medium-size enterprises through the spread of computer solutions based on cloud computing. The agreement, giving the go-ahead to the new Prospettiva Impresa project, involves the creation of a joint sales channel within the ITIS (Information Technology Impresa Semplice) partner network, dedicated by Telecom Italia to small and medium-size enterprises. In September, an agreement was entered into with Unioncamere (Italian federation of chambers of commerce) to promote a digital

innovation culture among Italian small and medium-size enterprises and to maximize the spread of infrastructure and broadband and ultrabroadband services throughout the country.

#### Top Clients & Public Sector

In 2012, the Top Clients & Public Sector division gave its internal organization an overhaul, restructuring its business on the basis of customer and market criteria. Customers were reclassified on the basis of their potential ICT expenditure, splitting the reference market into four new segments, TOP, STRATEGIC, LARGE and MEDIUM ENTERPRISE, each with its own Go-to-Market and Customer Care model. The range of ICT, mobile and fixed-line offers was enhanced with new solutions targeting each of the new customer segments, with innovative services introduced to complement the Nuvola Italiana range of cloud services. The aim of the initiative was to defend Telecom Italia's market leadership of the segment and counter competitor initiatives.

In the ICT segment, as a Cloud Service Broker Telecom Italia has developed a new network of partners able to integrate their own solutions with Nuvola Italiana ICT services. The strategy involves the direct provision of infrastructure as a service (IaaS), with partnerships encouraged for the delivery of applications.

Also for the ICT segment, the new Nuvola IT Self Data Center cloud service was designed and launched for customers to create their own virtual data centers. The service gives customers flexibility in building their own IT architectures and solutions with the use of virtual machines. Nuvola IT Sinfonia is another cloud computing service for the ICT segment, designed specially for businesses which need to outsource the creation and management of their geographical WAN network as well as its future development. Medium Enterprises can also add local Nuvola ItDataspaces or Nuvola ItIntouchHD cloud services to the package. A number of new security services were also launched during the year for the Nuvola Italiana range. Nuvola It Area Protection enables customers to make the most of Telecom Italia's IP connectivity services, protect company networks from any potential external attacks and create secure VPNs with other company offices and remote users. Nuvola ItDDoS is designed to mitigate the impact of Distributed Denial of Service attacks targeted at saturating the customer's online services. The network-based service permits malicious traffic to be stopped before it reaches the customer's systems, while preserving Internet access. Finally, Nuvola It Mail Protection is a ready-to-use service implemented in data centers, designed to protect company mail servers from computer viruses and spam.

Cloud computing services launched in 2012 for the mobile segment included: Nuvola It Mobile Device Management, targeted at medium-high value customers. The service enables mobile handsets to be managed/configured remotely, thereby limiting or eliminating the need for the handset user to set up the phone; Nuvola ItOne company, dedicated to Top customers, offering a range of bundled minute and SMS rate plans; TIM Company NET is targeted at financial salespeople and agents, combining the potential of top-up plans with all-inclusive solutions. Finally, TIM Senza Problemi is the first corporate rate plan to bundle unlimited voice calls and SMS messages, data traffic, and roaming at a connection speed of up to 42.2 Mbps.

In the fixed-line segment, the Azienda Tutto Compreso range was enhanced with the new TrunkSIP package, an entry-level VoIP deal that is flexible in terms of both price and features. The package delivers phone and Internet access via a single connection to the customer's traditional switchboard, with voice services provided through the broadband connection. The new Voce Base Senza Confini deal lets customers who occasionally travel abroad make calls at discounted roaming rates, without fixed monthly charges.

#### Brazil

TIM pressed ahead in 2012 with innovation plans, introducing technological developments and covering increasingly larger swathes of the country.

In an effort to reinforce its image in Brazil, in the fourth quarter of 2012 TIM launched the Trem Azul (blue train) campaign, in which the train symbolizes the company and its commitment to promoting telecommunications and Internet access by helping people aboard.

TIM's commitment to full transparency was given concrete form in the release of a new website for all its stakeholders, outlining all the company's customer service initiatives and developments in the network, with constant updates showing its geographical coverage. A detailed network plan and the commitments undertaken with the Brazilian Telecommunications Agency (Anatel) are also available on the website.

For the fifth consecutive year, the Sao Paulo Stock Exchange (Bovespa) has included TIM in its Corporate Sustainability Index (ISE), in recognition of the company's ongoing commitment to sustainable development, environmental stewardship, corporate social responsibility and corporate governance.

For the Consumer segment, in November TIM launched the Infinity Day promotion, which transforms the pay per call concept into a pay per day deal (0.50 reais/day for local calls, plus an additional 0.50 reais/day for long-distance calls to TIM numbers). The same week it was launched, Anatel issued an injunction suspending the promotion; the injunction was finally lifted on January 13, 2013.

TIM also launched a new option for the Liberty Controle rate plan called Liberty Controle Express, reserved to customers who accept direct debit billing to their credit card. The option comes with all the regular features of the Liberty Controle deal, including unlimited on-net calls, both local and long-distance, using the code 41, and a credit limit for off-net calls.

In December, TIM reached the milestone of 70 million customers. To celebrate, a prize was given to the seventy-millionth customer at a special event in Rio de Janeiro. The winner was given a free trip to Las Vegas for two people, plus a smartphone and one year's free subscription to the TIM Liberty+ 400 rate plan (unlimited on-net calls and 400 minutes/month of off-net calls).

As concerns phone offers, TIM continued its strategy of promoting the purchase and spread of smartphones. New handset models were included in the range in the fourth quarter of 2012, including the affordably priced Samsung Galaxy Pocket (starting from 349 reais) and the Motorola RAZR™ HD, the first smartphone developed specially for the 4G network, and assembled entirely in Brazil (premium range phone, priced at 1,699 reais).

In December, TIM organized a whole series of events for the launch of the new iPhone 5, with lotteries and special discounts for customers registered on the website. The events were a regular sellout at all the nine stores hosting them. The new iPhone 5 16 GB has been included in the range at a starting price of 249 reais/month, of which 200 reais is the monthly installment on the device (for 12 months) and 49 reais/month is for the Liberty+ 50 plan.

At the 2012 Futurecom trade show, TIM announced a new partnership with Telebrás to expand the National Broadband Program (PNBL). Under the agreement, infrastructure will be shared for the creation of a high-speed broadband network in the North and Northeast regions of Brazil.

In the home broadband segment, TIM is stepping up the roll-out of the Live TIM service, now available also in Duque de Caxias - Rio de Janeiro. Live TIM earned TIM the prestigious Entrepreneurial Company of the Year award for the Latin American telecommunications sector, an award sponsored by the consultancy Frost & Sullivan.

In the fourth quarter of 2012, TIM opened additional new proprietary stores, raising the number to a total of 131. The aim of the store drive is to increase the postpaid customer base. The company also launched a new training program for the sales force, focused on providing a quality, interactive and innovative service.

On the corporate social responsibility front, TIM sponsored urban works and a series of workshops with international artists in the Paraisópolis community, located south of Sao Paulo.

## Argentina

### Fixed-line telephony and broadband services

In the fixed-line segment, residential voice revenues showed moderate growth in 2012, driven primarily by the rise in sales of monthly rate plans and supplementary services. The focus was placed on satisfying demand for access services while stemming the fall in MOU (minutes of use), due to the substitution effect of growing mobile traffic, and increasing average revenue billed per user (ARBU).

In the VAS Voice segment, efforts continued to be focused in 2012 on satisfying customer demand and increasing ARBU on access lines by pushing packages and maintenance services.

The range of Aladino handsets was expanded in 2012 with the introduction of the new Aladino 420 and new premium-range fax machines.

The strength of the Arnet brand lies in the effectiveness of communication campaigns and its differentiated range of rate plans, priced competitively for different segments and offering varying connection speeds. In 2012, thanks to a smart pricing strategy, average revenue per user (ARPU) increased.

### Mobile telephony services

Mobile Number Portability was introduced in Argentina in March 2012. As a result, sales campaigns during the year for products and services were focused specifically on customer retention.

Personal continued to develop the Personal Black platform targeted at high-value customers. New rate plans were added to the range, offering the chance to use unused call minutes the following month and launching new innovative handsets. Personal also continued the strategy of offering top-up benefits and exclusive perks for Club Personal members. In addition, the Grupo Familiar option was launched for mobile lines belonging to a single family household, enabling family members to call and send each other SMS messages for free. Finally, Personal kept up its winning unlimited Internet for the day deal, which has made Personal a leader in the segment.

The 2012 sales campaign for Núcleo focused on voice, SMS and data packages for the prepaid segment, and flexible rate plans for the postpaid segment. Núcleo also pushed a number of customer retention initiatives for high-value customers, mainly involving campaigns to replace handsets. In the fourth quarter of 2012, following the introduction of Mobile Number Portability in Paraguay as of November 30, Núcleo focused its efforts on informing the market of the benefits of portability.

## Olivetti

At the SMAU 2012 exhibition, Olivetti announced it would be integrating HI Credits, the remote mobile phone payment solution developed by Reply, into Nettuna@ 3000, Olivetti's integrated cash register, designed to meet the needs of retail stores and eateries. The new system will enable users to make totally secure payments from their own smartphones.

In the fourth quarter of 2012, Olivetti was awarded the first tenders assigned by the Sardinia Region for the supply of approximately 10,000 Interactive Multimedia Board (IMB) kits to the region's primary and secondary schools.

In the banking sector, graphometric signature projects were completed for the Iside and Phoenix platforms, and a contract was won with Carige for the supply of this technology. Again in the banking and insurance sector, a contract was won with Banca Generali for a mobile paperless banking project.

In the utilities and services sector, the customer base adopting Olivetti signature pads for acquiring graphometric signatures from customers on energy contracts was broadened to include, among others, GDF Suez Optima. In addition, Olivetti's mobile process automation solutions were adopted during the year by the Italian Interior Ministry and the Emilia Romagna region's 118 emergency service.

Internationally, Olivetti installed approximately 15,000 branch systems for the China Construction Bank, as part of a bigger tender won by Olivetti in China in 2012 for the supply of around 30,000 systems. Finally, in Portugal, the Caixa General de Depositos, the country's biggest bank, chose Olivetti for a pilot paperless banking project involving graphometric signature pads in branches.

Principal changes in the regulatory framework

Domestic

Wholesale fixed markets

*Wholesale access services*

With Decision 578/10/CONS of November 11, 2010, AGCom set the new rates for wholesale access services to Telecom Italia's fixed network (unbundling, bitstream and Wholesale Line Rental) and the calculation of the Weighted Average Cost of Capital (WACC), both applicable for the period May 1, 2010 to December 31, 2012. The WACC applicable to Telecom Italia's wholesale access services was set at 9.36%.

In particular, for the unbundling charge (Local Loop Unbundling – LLU), AGCom set the following amounts: 8.70 euros per month as of May 1, 2010; 9.02 euros per month as of January 1, 2011; and 9.28 euros per month as of January 1, 2012.

As concerns Wholesale Line Rental (WLR), offered only from Telecom Italia telephone exchanges which are not open to unbundled services (LLU), AGCom's outgoing board adopted Decision 59/12/CIR approving the 2012 Reference Offer with the exception of the WLR rate. Instead, by Decision 284/12/CONS, a public consultation was called over a new WLR rate of 11.90 euros per month applicable as of June 1, 2012, to replace the rate of 12.88 euros per month set by Decision 578/10/CONS for all of 2012. The consultation procedure was closed by AGCom in December 2012 by Decision 643/12/CONS, which set the monthly WLR rate at 11.70 euros per month for the period June 1 to December 31, 2012. Telecom Italia has challenged Decisions 59/12/CIR and 284/12/CONS with the Administrative Court (TAR) of Lazio, and is looking into grounds for challenging Decision 643/12/CONS. Telecom Italia holds that the decisions are illegitimate as they impose a change in the WLR rate for 2012 that was not determined on the basis of a market analysis procedure; under European and national legislation, obligations on undertakings may only be amended on the basis of a market analysis (article 45 of the Electronic Communications Code, as per article 16 of the Framework Directive).

On September 4, 2012, AGCom approved Decision 390/12/CONS initiating a third round of analyses of the wholesale and retail fixed access markets. The analyses are expected to set new network caps for wholesale access services to the copper network for the period 2013–2015. The AGCom decision cites article 47(2-quater) of Law No. 35 of April 4, 2012, by which two specific statutory obligations were imposed on Telecom Italia, namely the unbundling of costs for accessory maintenance services in the supply of LLU lines, and the sourcing of those services from both internal and external providers. The statutory obligations are clearly in breach of European legislation, under which obligations on undertakings with Significant Market Power (SMP) can only be introduced by AGCom. As a result, on July 14, 2012, the European Commission brought an infringement proceeding against the Italian government, in which the Commission specified that the Italian article 47 (2-quater) breaches the provisions of directives in the sector (specifically, Directive 2009/140/EC) concerning the exclusive powers and independence of the regulatory authority and the imposition of statutory obligations outside the procedures set forth by European directives.

Finally, on December 20, 2012, AGCom called two public consultations, one concerning WLR service rates for 2013 (Decision 141/12/CIR), and the other concerning bitstream service rates for 2013 (Decision 642/12/CONS). By doing so, AGCom anticipated the findings of the third round of analyses of wholesale and retail fixed access markets, initiated by Decision 390/12/CONS. Specifically, for the monthly WLR rate, AGCom has proposed maintaining the 2012 rate, on the basis of reductions in some service components, such as, for example, the activation charge. For

bitstream services, AGCom has proposed reducing the naked access charge of 11.71 euros per month to 10.17 euros per month, and the shared access charge of 7.79 euros per month to 7.33 euros per month.

*Wholesale origination, termination and call transit*

On April 28, 2011, AGCom approved Decision 229/11/CONS requiring that, as of January 1, 2012, the price of TDM termination services on the fixed networks of Telecom Italia and other licensed operators should be set on a symmetric basis, at a rate equal to Telecom Italia's charge at the local Urban Group Stage (SGU) telephone exchange. Decision 229/11/CONS also established that, as of 2013, a single symmetric rate will only apply to IP termination for Telecom Italia and other fixed-line operators. As specifically concerns TDM termination services, on September 4, 2012 AGCom adopted Decision 92/12/CIR approving the Telecom Italia 2012 Reference offer and setting a price of 0.272 euro cents per minute for local SGU level termination; the price set was 10 per cent lower than the 2011 price. In that same decision, AGCom approved the 2012 price for district SGT level termination for Telecom Italia, reducing it to 0.361 euro cents per minute (versus 0.57 euro cents per minute in 2011). Telecom Italia call origination prices are now the same as its termination service prices.

On September 26, 2012, AGCom adopted Decision 421/12/CONS calling a public consultation procedure on the 2012 TDM termination rate for the fixed networks of other licensed operators, set on a symmetrical basis at 0.272 euro cents per minute, equal to the price charged by Telecom Italia at the local SGU level. The proposal is currently being examined by the European Commission.

As concerns fixed network IP interconnection services, on December 20, 2012 AGCom submitted a proposal to the European Commission on a framework for setting IP service prices for 2013–2015 on termination services (imposed on Telecom Italia as well as other licensed operators) and origination services. For the first time, at the request of Telecom Italia, origination prices will be set at a markedly higher rate than termination prices (in 2012 they were set at equivalent rates).

(eurocents/minute)	2012	2013	2014	2015
IP termination	0.272	0.206	0.127	0.043
IP origination	0.272	0.245	0.198	0.140

Finally, AGCom adopted Decision 12/13/CONS initiating procedures to restore, for the year 2013, price setting for TDM interconnection services. The segment had been deregulated under Decision 229/11/CONS, however technical problems have significantly delayed migration towards IP interconnection.

*New Generation Networks*

To complete the regulatory framework for access to next generation networks set forth in its Decision 1/12/CONS of January 18, 2012, in February 2012 AGCom initiated three procedures concerning: 1) the cost model for the determination of prices for wholesale services received and supplied and definition of the areas of competition for the geographic differentiation of bitstream service selling prices; 2) evaluation of the imposition on all operators of obligations for symmetrical access to vertical fiber cabling and to the sections leading to the buildings; 3) evaluation of possible amendments to the regulation of the copper wire sub loop unbundling service in the light of the possible introduction of vectoring technology on FTTCab-VDSL accesses. On March 19, 2012, in compliance with the provisions of Decision 1/12/CONS, Telecom Italia released its Reference Offer for the year 2012 for wholesale NGAN access services (local installation infrastructures, ducts along the access network, primary and secondary fiber optics, terminating segments in fiber optics, end-to-end access services and bitstream FTTCab and FTTH services).

AGCom called three corresponding public consultations on the NGAN Reference Offer, by Decision 95/12/CIR for FTTC and FTTH bitstream services, Decision 105/12/CIR for NGAN infrastructure services (local installation infrastructures, ducts along the access network, primary and secondary fiber optics, terminating segments in fiber optics), and Decision 114/12/CIR for NGAN end-to-end access services. All three consultations have been closed, however final decisions on access prices have yet to be released.

Pending completion of the regulatory framework for next generation access services, on November 2, 2012, AGCom approved the Telecom Italia retail offer prepared in compliance with Decision 61/11/CONS. The decision thus authorizes Telecom Italia to sell NGAN retail services, as of December 5, 2012, to a maximum of 40,000 customers, only in cities where other licensed operators already offer NGAN retail services or operate their own infrastructures (Rome, Milan, Turin, Genoa, Bologna, Naples and Bari).

Retail fixed markets

*Local, national and fixed-to-mobile calls and telephone line rental*

As of January 1, 2013, Telecom Italia introduced a new simplified pricing schedule for its General Offer to Business customers. Specifically, the rate maneuver adopted can be described as follows:

•

Introduction of a single calling rate for all national voice calls (local and long distance);

•

Lower rates for fixed-to-mobile calls;

•

Change in the call set-up charge.

National and fixed-to-mobile calls	Business General Offer Prices in euro cents (VAT excluded)			
	Prices applied until		Prices as of	
	December 31, 2012		January 1, 2013	
	Set-up charge	Per minute charge	Set-up charge	Per minute charge
Local		1.00		0.00
Long-distance	10.00	7.00	20.00	
Fixed-to-mobile		8.00		3.00

Calls are charged by the second.

Beginning April 1, 2013, Telecom Italia will introduce further price simplifications on its General Offer for Consumers. Specifically, the rate maneuver adopted can be described as follows:

•

Introduction of a single calling rate for all national voice calls (local and long distance) and fixed-to-mobile traffic;

•

Change in the call set-up charge;

•

Introduction of a 50 per cent discount on national voice calls lasting more than three hours (calls charged in advance by the minute);

•

Inflation-indexing of the basic telephone line rental charge, raising the amount from 16.64 euros per month, VAT included, to 17.40 euros per month, VAT included.

National and fixed-to-mobile calls	Consumer General Offer Prices in euro cents (21% VAT included)			
	Prices applied until		Prices as of	
	March 31, 2013		April 1, 2013	
	Set-up charge	Per minute charge	Set-up charge	Per minute charge
National calls (local and long distance)	7.94	1.90	5.00	5.00
Fixed-to-mobile Calls charged in advance by 60 seconds.		9.90		

Also as of April 1, 2013, Telecom Italia will be introducing a single cancellation fee on contracts terminated both before and after 12 months. The fee will be applicable to all Consumer and Business customers, where a contract is terminated for reasons not attributable to Telecom Italia. The single cancellation fee of 34.90 euros, including VAT, is lower than both the current fee of 48.40 euros, including VAT, for the cancellation of either the phone or ADSL line, and the fee of 60.50 euros, including VAT, for the cancellation of both lines.

## Wholesale mobile markets

*Termination on the mobile network*

In compliance with Lazio Administrative Court (TAR) ruling 8381 of October 10, 2012 and rulings 10263 and 10265 of December 7, 2012, which annulled AGCom Decision 621/11/CONS with regard to the price asymmetry approved for the operator H3G until June 30, 2013, on January 10, 2013 AGCom adopted Decision 11/13/CONS justifying the grounds for such price asymmetry and reinstating it until June 30, 2013. Telecom Italia is currently assessing whether to challenge Decision 11/13/CONS.

*SMS termination rates*

On September 13, 2012, AGCom approved Decision 420/12/CONS calling a public consultation on the findings of a market analysis on SMS termination, a segment that is not designated a relevant market by the European Commission. At present, SMS termination prices are not regulated and mobile network operators set their own prices on a commercial basis, applying the principle of reciprocity (or symmetry). In the draft provisions put to public consultation, AGCom concludes that the SMS termination market does not require *ex ante* regulation, as it is effectively competitive. The proposal is currently being examined by the European Commission.

*International roaming*

On May 30, 2012, the European Commission approved the new **Roaming III** regulation that came into effect on July 1, 2012.

The Regulation is founded on the application of measures in three principal areas:

(a)

enforcement of the obligation for transparency and of the cap mechanism (wholesale until 2022 and retail until 2017) with a broadening of the body of services affected (retail data), according to the following glide path:

(euros)	Roaming II		Roaming III	
	July 1, 2011	July 1, 2012	July 1, 2013	July 1, 2014
<i>Wholesale Voice</i>	0.18	0.14	0.10	0.05
<i>Retail outgoing Voice</i>	0.35	0.29	0.24	0.19
<i>Retail incoming Voice</i>	0.11	0.08	0.07	0.05
<i>Wholesale SMS</i>	0.04	0.03	0.02	0.02
<i>Retail SMS</i>	0.11	0.09	0.08	0.06
<i>Wholesale Data</i>	0.50 /Mb	0.25 /Mb	0.15 /Mb	0.05 /Mb
<i>Retail Data</i>		0.70 /Mb	0.45 /Mb	0.20 /Mb

(b)

the obligation, for mobile network operators, to provide access to wholesale roaming services at regulated prices;

(c)

the introduction, as of 2014, of a new structural measure under which customers have the possibility of purchasing roaming services from a supplier other than their supplier of national services; the technical mode of implementation of this structural measure will be defined in a later act which the Commission will publish, also on the basis of a technical analysis by the BEREC, not later than January 1, 2013.

## Brazil

### Suspension of the sale of new SIM cards in some areas of Brazil

On July 18, 2012, Anatel, the Brazilian telecommunications regulator, after adopting a new method for measuring quality, issued a ruling which, among other things, ordered Tim Celular (a subsidiary of the Tim Brasil group) to suspend the sale of new SIM cards in 18 Brazilian states and in the Federal District of Brasilia starting from July 23, 2012. The petition to suspend the measure filed by Tim Celular was denied and on July 24, 2012 Tim Celular presented Anatel with a specific action plan for all the States outlining the individual steps that will be taken to guarantee better service and network quality.

On August 2, 2012, Anatel approved the action plan presented by Tim Celular, ordering an immediate lifting of the suspension of sales together with steps to constantly and continuously monitor the execution of the action plan.

### Auction for the user rights to mobile telephony frequencies

In June 2012, Tim Celular made a bid for the acquisition of licenses to fourth-generation (4G) mobile telephony frequency bands.

On June 12 and 13, 2012, the Brazilian regulator, Anatel, announced the results of the auction, awarding Tim Celular licenses to one national 10+10MHz band and six regional 10+10MHz bands, as well as a 7+7MHz band in the 450MHz range in four states. The total value of the investment is 382 million reais and allows the Tim Brasil group to use the new frequencies for 15 years (renewable for another 15 years).

On October 16, 2012, Tim Celular signed the implementing agreement for the use of radio frequencies in the 2.5GHz range and the provision of SMP and SCM services, together with the other mobile telephone operators which in June were awarded 4G licenses. At the same time, Tim Celular paid a deposit of 36.5 million reais on the licenses, with the remainder due by June 5, 2013.

## Argentina

### Auction for the user rights to mobile telephony frequencies

With regard to the public auction called by the *Secretaría de Comunicaciones* (SC) to reassign frequency bands in the 850MHz - 1900MHz range returned by Telefónica Móviles de Argentina S.A., on September 5, 2012, SC notified Telecom Personal of its Resolution SC 71/2012 canceling, as contemplated in the auction regulations, the auction

called by Resolution SC 57/2011, for reasons of expediency, merit and convenience of the State. In addition, the *Secretaría de Comunicaciones* was instructed by the relevant minister to identify the technical and legal mechanisms and instruments required to assign the frequencies formerly to be auctioned to the state-owned Empresa Argentina de Soluciones Satelitales S.A. (ARSAT), and to prepare a business plan for the use of the frequencies in question, either directly or through third parties.

In December 2012:

•

Decree 2426/12 licensed the frequencies formerly to be auctioned to ARSAT;

•

the federal government, by Decree 2427/12, declared the development, implementation and operation of a Federal Wireless Network to be a matter of public interest, and authorized the Ministry of Federal Planning, Public Investments and Services, which controls ARSAT, to take all the necessary steps to implement just such a network;

•

ARSAT was licensed to operate without restriction as a provider of telecommunications services of all kinds.

Telecom Personal management is presently assessing the various implications of Resolution 71/2012 and Decree 2426/2012 for the company. It is also working on identifying the steps it will need to take to be able to continue providing a mobile telephony service of the highest quality.

## Media

### Digital frequencies

In 2009, AGCom adopted Decision 181/09/CONS, enacted in article 45 of Law 88/2009, setting forth criteria for the full digital switchover of terrestrial television networks. On the basis of the measure, the Ministry for Economic Development allocated temporary licenses to the digital frequencies. The measure was necessary due to infringement proceeding 2005/5086 brought by the European Commission against Italy, which found that problems in the Italian television sector and the monopolization of frequencies by RAI and Mediaset needed to be redressed.

In an effort to overcome the European Commission's findings, in 2010 AGCom adopted Decision 497/10/CONS providing for the allocation of licenses to additional digital dividend frequencies free of charge, in what came to be known as the beauty contest. With its publication in Italy's Official Gazette on April 28, 2012, Law 44/12 repealed and annulled the beauty contest, replacing it with a competitive bid auction according to new criteria to be set forth by AGCom.

TIMB, Telecom Italia Media Group's digital terrestrial broadcaster, holds licenses to four national networks, two of which are analog (channels LA7 and MTV) and two are digital (MBONE and TIMB1) and as such its interests were damaged in 2009 when it was awarded only three DVB-T digital frequencies (UHF CH 47, UHF CH 48 and UHF CH 60).

Accordingly, in 2009 the Group challenged the ministerial decision awarding the digital frequencies before the Administrative Court (TAR) of Lazio (general docket 9621/09), calling on the court, as its main application, to:

•  
annul the ministerial decision assigning only three frequencies, which were also of lower quality compared to those awarded to RAI and Mediaset, and establish TIMB's entitlement to the awarding of four frequencies;

in the alternative:

•  
award compensation for damages deriving from the failure to award a fourth network (calculated on the market value of a multiplex, equal to at least 240,000,000 euros) and from the delay in its awarding (1,740,000 euros per Mbps per year).

As part of the same case, the Group also challenged the allocation of UHF CH 60, given that it cannot guarantee the same transmission quality as the other frequencies awarded to other national broadcasters due to interference suffered by the channel from LTE-800 mobile services (former UHF television channels 61-69) and due to the lack of international coordination with Malta, limiting the channel's use in Sicily.

The hearing for petition 9621/09 has been set for May 8, 2013.

In 2012, TIMB filed an appeal (general docket 4746/12) against the measure to release the three guarantees which had been signed in order to take part in the beauty contest. This measure, in fact, accepts the legal annulment of the beauty contest which had taken place and its replacement with an auction. As a precautionary measure, TIMB asked for:

•  
suspension of the effectiveness of the measure, by, if necessary, referral to the Constitutional Court or referral to the EU Court of Justice, with the consequent obligation to conclude the beauty contest procedure;

•  
compensation for damages for:

–  
costs to prepare the three applications (357,890.23 euros); cost of employees reassigned from other tasks (135,100.00 euros); investments not used because of the introduction of DVB-T2 technology (3,937,600.00 euros); investments, the value of which cannot be quantified, in HD programming on La7 and La7D;

–  
expectations with regard to the Business Plan which forecast EBIT for a total of 105,201,000.00 euros in ten years with binding contracts for Lot C (in which TIMB was the sole party admitted) and 171,186,000.00 euros in ten years, of which 67,258,000.00 euros with binding contracts for one of the two B Lots (from which RAI was supposed to have been excluded since it did not fulfill the requisites established by the tender procedure and the Regulation).

In chambers on July 11, 2012, the TAR of Lazio deferred the hearing on the merits of the case, which will be set once AGCom sets forth new auction criteria.

At the end of 2012, AGCom called a public consultation on the new auction rules for awarding digital dividend frequencies.

The new rules put to auction twenty-year licenses to three lots of frequencies below 700MHz (L Lots) and licenses expiring on December 31, 2017 to three lots of frequencies above 700MHz (U Lots). The starting price of the auction was not set.

TIMB has been excluded from bidding for the L Lots, due to its being recognized once again on a par with RAI and Mediaset. The restriction makes TIMB the only existing broadcaster that cannot hold twenty-year licenses to four DVB-T networks.

Through the consultation process, TIMB has requested: (i) that a market analysis be conducted to identify the effective power of each broadcaster in the sector; (ii) that suitable corrective measures be introduced to safeguard competition; (iii) that the structural nature of the five-multiplex cap be specified; (iv) that the illegitimate allocation of frequencies, that is of the DVB-H frequencies not utilized, be canceled; (v) that dominant broadcasters be excluded from bidding and that UHF CH 60 be substituted immediately by UHF CH 55 in the U Lots.

The new auction rules could be finalized by the early months of 2013, once the formal opinion of the European Commission is received.

Law 44/12 also requires AGCom to set administrative license fees for the use of television frequencies by broadcasters. The new fee system for broadcasters using digital terrestrial technology will be applied from the date of January 1, 2013 and must not involve higher expenses for the State. Up until the end of 2012, the license fee will continue to be applied on activities that were carried out under licenses granted to the former analog television broadcasters.

The law provides other measures to favor the introduction of DVB-T2 technology in television equipment and in decoders. In particular, from January 1, 2015, equipment receiving television services sold by manufacturers to retail distributors must integrate a digital tuner to receive programs using DVB-T2 technology with MPEG-4 coding or subsequent evolutions.

#### LCN Channel numbering

Four rulings 4658/12, 4659/12, 4660/12 and 4661/12 were published on August 31, 2012 which repeal and annul the Logical Channel Number (LCN) plan introduced by AGCom Decision 366/10/CONS, after challenges were brought by Telenorba, SKY and a number of local broadcasters. Rulings 4659/12 and 4660/12 were especially critical. The latter, in the case brought by Telenorba, ruled in favor of the local broadcaster, overturning the assignment of numbers 7 8 9 to LA7, MTV and DeeJay, and finding that the channels MTV and DeeJay did not qualify as general broadcasting, but were instead targeted at a young, musical audience.

On September 4, 2012, AGCom adopted measures, in accordance with the rulings, which extend the current LCN assignment until the adoption of a new numbering plan. Given the complexity of the requirements to be fulfilled, the new plan will be announced within 180 days of the start of public consultation.

The public consultation procedure was closed in mid-November 2012. A new study was then initiated by AGCom into the habits and inclinations of users. The findings of the study have yet to be released.

TIMedia holds that the new AGCom LCN plan:

•

Cannot bring into question the assignment of LCN 7 to LA7, understood as seventh place following the six generalist channels of RAI and Mediaset. Ruling 4660/12 does not provide any justification for annulling LCN 7.

•  
Could reassign LCN 8 to MTV, as it is incorrect to consider the channel to be non-general music broadcasting, given that the general character of a broadcaster lies in the obligations and undertakings of the license holders to the former analog frequencies. The opinion survey on user habits and preferences has repeatedly confirmed that the majority of viewers prefer MTV on button 8 of their remote controls compared to all the other broadcasters.

### **LCN Dispute**

The Council of State postponed to May 17, 2013 the hearing on the action initiated by Telenorba for implementation of the ruling that annulled the AGCom LCN Plan and the assignment of LCN 7-8-9 (Council of State Ruling 4660/12). The Council of State decided it was necessary to first hold the hearing on the action for revocation of said ruling, submitted by TIMedia, MTV and All Music (Espresso Group).

The hearing for revocation has been set for April 5, 2013, following the deadline for AGCom's publication of the new LCN Plan (mid-April 2013).

## Competition

### Domestic

#### The market

The Italian TLC market continues to be highly competitive with significant use of the pricing as a lever, which has led to an ongoing impoverishment of the traditional service components, particularly voice service.

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

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

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

Over time, therefore, the traditional players' business models are changing to meet the challenges from the new entrants and to exploit new opportunities:

- 

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

- 

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

- 

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

-

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

With regard, on the other hand, to the positioning of the telecommunications operators in converging markets, there are a number of aspects at different levels of development:

- initiatives involving innovative services in the IT market with the expansion of Cloud services from the business to the consumer world;
- new wireless applications such as Machine-to-Machine and mobile payment;
- significant presence as enablers of online digital content use on the living room screen using OTT TV multidevice solutions.

#### Competition in Fixed Telecommunications

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

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

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

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

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

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

The spread of broadband is driven not only by the penetration of personal computers, but also by the growing demand for speed and access to new IP based services (Voice over IP, Content, social networking services, online gaming, IP Centrex, etc.). In 2012, however, the slowdown in growth of the fixed-line broadband market continued, due both to a

general tendency of operators to concentrate on the growth of flat-rate plans (dual play) with higher added value and to the deterioration in the macroeconomic environment.

The decline continued in revenues from the data transmission segment, which suffered the effects of competition that has led to reduction in average prices.

#### Competition in Mobile Telecommunications

The mobile market, although saturated and mature in its traditional component of voice services, still continues to see growth in the number of mobile lines, driven by the increase in multiSIM/multidevice customers and in non-human lines (at December 31, 2012, mobile lines in Italy numbered about 97 million with growth of about 1% over 2011 and with a penetration rate of approximately 159% of the population).

Alongside the steady contraction in traditional service components, such as voice and messaging, which also reflect the increasing spread of communication apps, there has been significant growth in the mobile broadband market, which, in the last few years has been, and in the future will continue to be, the main opportunity for the strategic and commercial growth of the mobile telecom industry, also thanks to the launch Ultra Broadband LTE.

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

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

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

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

#### Brazil

At the end of 2012, the Brazilian mobile market reached 261.8 million lines. This is 8.1% more than last year and a penetration of 132.7% of the population (123.9% in 2011). Net total increases for 2012 amounted to 19.5 million lines, 19.7 million less lines than for the prior year.

#### Argentina

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

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

being the preferred operator in the mobile sector in Argentina.

In Paraguay, Núcleo, despite operating in a market featuring strong competition, strengthened its market position. Its main competitor is Tigo (Millicom group).

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

Consolidated Financial Position and Cash Flows Performance

Non-current assets

•

**Goodwill:** down 4,492 million euros, from 36,902 million euros at the end of 2011 to 32,410 million euros at December 31, 2012, due to the impairment losses already mentioned above, totaling 4,289 million euros, of which 4,016 million euros for the Domestic - Core Domestic Business Unit, 168 million euros for the Argentina Business Unit and 105 million euros for the Media Business Unit, in addition to the exchange rate effect for the Brazilian and Argentine companies.

Specifically:

–

on October 31, 2011 the definitive allocation was made of the price paid for the acquisition of control of the companies Tim Fiber SP and Tim Fiber RJ. As a result, the overall goodwill of 556 million euros recognized provisionally in the consolidated financial statements at December 31, 2011 was adjusted to 499 million euros to reflect the definitive fair value at the acquisition date of control;

–

the process was completed for the definitive allocation of the price paid on July 27, 2011 for the acquisition of 4GH group, confirming the amount already assigned to goodwill of 16 million euros;

•

**Other intangible assets:** down 710 million euros, from 8,637 million euros at the end of 2011 to 7,927 million euros at December 31, 2012, representing the balance of the following items:

–

additions (+1,995 million euros);

–

amortization charge for the year (-2,212 million euros);

–

impairment losses (-127 million euros), substantially attributable to the Customer relationships of the Argentina Business Unit and the results of the impairment test of the Media Business Unit;

–

capitalization of borrowing costs relating to the acquisition of the user rights for the LTE mobile telephony frequencies (+52 million euros); the interest rate used is between 4.6% and 5.2%;

–

disposals, exchange differences, reclassifications and other movements (for a net balance of - 418 million euros).

•

**Tangible assets:** down 514 million euros from 15,993 million euros at the end of 2011 to 15,479 million euros at December 31, 2012, representing the balance of the following:

–

additions (+3,201 million euros);

–

depreciation charge for the year (-3,128 million euros);

–

disposals, impairment losses, exchange differences, reclassifications and other movements (for a net balance of -587 million euros).

## Consolidated equity

Consolidated equity amounts to 23,012 million euros (26,694 million euros at December 31, 2011), of which 19,378 million euros attributable to Owners of the Parent (22,790 million euros at December 31, 2011) and 3,634 million euros attributable to Non-controlling interests (3,904 million euros at December 31, 2011).

In greater detail, the changes in equity are the following:

(millions of euros)	12/31/2012	12/31/2011
At the beginning of the year	26,694	32,555
Total comprehensive income (loss) for the year	(2,649)	(4,606)
Dividends approved by:	(1,038)	(1,302)
<i>Telecom Italia S.p.A.</i>	(895)	(1,184)
<i>Other Group companies</i>	(143)	(118)
Issue of equity instruments	2	7
Effect of increase in economic interest in Argentina BU	-	(210)
Effect of capital transactions by companies in Brazil BU	-	240
Other changes	3	10
At the end of the year	23,012	26,694

## Cash flows

The main transactions that had an impact on the change in adjusted net financial debt during 2012 are the following:

**Change in adjusted net financial debt**

(millions of euros)	2012	2011	Change
EBITDA	11,645	12,171	(526)
Capital expenditures on an accrual basis	(5,196)	(6,095)	899
Change in net operating working capital:	207	(100)	307
<i>Changes in inventories</i>	12	(36)	48
<i>Change in trade receivables and net amounts due from customers on construction contracts</i>	851	3	848
<i>Change in trade payables (*)</i>	(161)	(63)	(98)
<i>Other changes in operating receivables/payables</i>	(495)	(4)	(491)
Change in provisions for employees benefits	(221)	(175)	(46)
Change in operating provisions and Other changes	35	(34)	69
Net operating free cash flow	6,470	5,767	703

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<i>EBITDA Margin</i>	21.9	19.3	2.6 pp
Sale of investments and other disposals flow	151	486	(335)
Share capital increases/reimbursements, incidental expenses	(2)	240	(242)
Financial investments flow	(10)	(925)	915
Dividend payment	(1,031)	(1,326)	295
Finance expenses, income taxes and other net non-operating requirements flow	(3,438)	(3,188)	(250)
Reduction/(Increase) in adjusted net financial debt	2,140	1,054	1,086

(\*)

Includes the change in trade payables for amounts due to fixed asset suppliers.

In addition to what has already been described with reference to EBITDA, the change in adjusted net financial debt during 2012 was particularly impacted by the following items:

Capital expenditures on an accrual basis

The breakdown of capital expenditures by operating segment is as follows:

(millions of euros)	2012		2011		Change
		% of total		% of total	
Domestic	3,072	59.1	4,185	68.7	(1,113)
Brazil	1,500	28.9	1,290	21.2	210
Argentina	557	10.7	556	9.1	1
Media, Olivetti and Other Operations	67	1.3	82	1.3	(15)
<i>Adjustments and Eliminations</i>	—	—	(18)	(0.3)	18
Total consolidated capital expenditures	5,196	100.0	6,095	100.0	(899)
<i>% of Revenues</i>	17.6		20.3		(2.7) pp

Capital expenditures total 5,196 million euros in 2012, a decrease of 899 million euros compared to 2011. In particular:

•

the **Domestic Business Unit** reported a fall of 1,113 million euros.

Excluding capital expenditures for 2011 relating to the purchase of user rights for LTE mobile telephony frequency bands (1,223 million euros) there is a 110 million euros increase attributable in particular to the development of next generation networks (LTE and fiber) in part offset by the lower requirement in relation to delivery of new systems owing to the slowdown in fixed-line business;

•  
the **Brazil Business Unit** reported an increase of 210 million euros (including a negative exchange rate effect of 94 million euros), for the purchase of user rights for fourth generation (4G) mobile telephony frequency bands (145 million euros) as well as investments to improve the quality of the network infrastructure;

•  
the **Argentina Business Unit** reported capital expenditures in line with the prior year (+1 million euros already including a negative exchange rate effect of 9 million euros). In addition to costs of customer acquisition, expenditure was aimed at enlarging and upgrading broadband services to improve transmission capacity and increase access speed for customers, at traditional fixed-line access to meet demand and at *backhauling* to support mobile access growth. Telecom Personal also invested primarily in increased capacity and enlargement of the 3G network to support Mobile Internet growth.

#### Change in net operating working capital

In 2012 the change in net working capital resulted in the generation of operating cash flows of 207 million euros (in 2011 there was an overall requirement of 100 million euros).

In 2012 a number of disputes were settled with another operator which basically had a nil effect on the change in net operating working capital and on operating cash flows. This settlement led to a reduction in trade receivables of 350 million euros and trade payables of 432 million euros, and a net reduction in other net operating receivables/payables of 55 million euros.

#### Sale of investments and other disposals flow

Sale of investments and other disposals flow for the year 2012 totals 151 million euros and is principally attributable to:

–

85 million euros received, net of related incidental expenses and the net financial debt of the investee, from the sale on October 31, 2012 of the entire stake held in Matrix;

–

59 million euros from the collection of the installments on the sale of the investment in EtecSA Cuba, which took place at the end of January 2011.

In 2011 this amounted to 486 million euros and mainly consisted of:

–

411 million euros for the installments already received, net of related incidental expenses, on the above-mentioned sale of EtecSA Cuba.

–

53 million euros received, net of related incidental expenses and the net financial debt of the subsidiary, from the sale of the entire stake held in Loquendo on September 30, 2011.

#### Financial investments flow

In 2012 financial investments flow total 10 million euros and mainly relate to the payment of incidental expenses and other payables in connection with the acquisition of investments during the last part of the year. In 2011, the amount was 925 million euros, mainly relating to the increase in the stake held in the Sofora - Telecom Argentina group, the acquisition of control of the 4G Holding Group and the acquisition of control of the companies Tim Fiber SP and Tim Fiber RJ.

#### Share capital increases/reimbursements, incidental expenses

In 2012 these amount to a negative 2 million euros and relate to incidental expenses connected to the capital increase in Tim Participações S.A. that took place in 2011; on October 31, 2011, the capital increase of Tim Participações S.A. was completed with a cash in for the Telecom Italia Group of 240 million euros, net of the related incidental expenses.

#### Finance expenses, income taxes and other net non-operating requirements flow

Finance expenses, income taxes and other net non-operating requirements flow mainly includes the payment, during 2012, of net finance expenses (1,831 million euros), and income taxes (1,522 million euros), as well as the change in non-operating receivables and payables.

## Net financial debt

Net financial debt is composed as follows:

(millions of euros)	12/31/2012 (a)	12/31/2011 (b)	Change (a-b)
Non-current financial liabilities			
Bonds	23,956	24,478	(522)
Amounts due to banks, other financial payables and liabilities	8,976	10,078	(1,102)
Finance lease liabilities	1,159	1,304	(145)
	34,091	35,860	(1,769)
Current financial liabilities (*)			
Bonds	3,593	3,895	(302)
Amounts due to banks, other financial payables and liabilities	2,338	1,951	387
Finance lease liabilities	219	245	(26)
	6,150	6,091	59
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale	-	-	-
Total Gross financial debt	40,241	41,951	(1,710)
Non-current financial assets			
Securities other than investments	(22)	(12)	(10)
Financial receivables and other non-current financial assets	(2,474)	(2,937)	463
	(2,496)	(2,949)	453
Current financial assets			
Securities other than investments	(754)	(1,007)	253
Financial receivables and other current financial assets	(502)	(462)	(40)
Cash and cash equivalents	(7,436)	(6,714)	(722)
	(8,692)	(8,183)	(509)
Financial assets included in Discontinued operations/Non-current assets held for sale	-	-	-
Total financial assets	(11,188)	(11,132)	(56)
Net financial debt carrying amount	29,053	30,819	(1,766)
<i>Reversal of fair value measurement of derivatives and related financial assets/liabilities</i>	(779)	(405)	(374)
Adjusted net financial debt	28,274	30,414	(2,140)
<i>Detailed as follows:</i>			

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Total adjusted gross financial debt	37,681	39,382	(1,701)
Total adjusted financial assets	(9,407)	(8,968)	(439)
<i>(*) of which current portion of medium/long-term debt:</i>			
<i>Bonds</i>	3,593	3,895	(302)
<i>Amounts due to banks, other financial payables and liabilities</i>	1,681	1,064	617
<i>Finance lease liabilities</i>	219	245	(26)

The financial risk management policies of the Telecom Italia Group are directed towards diversifying market risks, hedging exchange rate risk in full and optimizing interest rate exposure by an appropriate diversification of the portfolio, which is also achieved by using carefully selected derivative financial instruments. Such instruments, it should be stressed, are not used for speculative purposes and all have an underlying, which is hedged.

Furthermore, in order to determine its exposure to interest rates, the Group defines an optimum composition for the fixed-rate and variable-rate debt structure and uses derivative financial instruments to achieve that prefixed composition. Taking into account the Group's operating activities, the optimum mix of medium/long-term non-current financial liabilities has been established, on the basis of the nominal amount, in a range of 65% - 75% for the fixed-rate component and 25% - 35% for the variable-rate component.

In managing market risks, the Group has adopted Guidelines for the Management and control of financial risk and mainly uses IRS and CCIRS derivative financial instruments.

The volatility of interest rates and exchange rates, which has been a prominent feature in financial markets since the fourth quarter of 2008, has significantly impacted the fair value measurement of derivative positions and the related financial assets and liabilities. Having said this and in order to present a more realistic analysis of net financial debt, starting from the Half-Year Financial Report at June 30, 2009, in addition to the usual indicator (renamed Net financial debt carrying amount), a new indicator has also been presented called Adjusted net financial debt which excludes effects that are purely accounting and non-monetary in nature deriving from the fair value measurement of derivatives and related financial assets and liabilities. The measurement of derivative financial instruments, which also has the objective of pre-setting the exchange rate and the interest rate of future variable contractual flows, does not, in fact, require an actual cash settlement.

### Sales of receivables to factoring companies

The sales of receivables to factoring companies finalized during 2012 resulted in a positive effect on net financial debt at December 31, 2012 of 1,233 million euros (1,334 million euros at December 31, 2011).

### Gross financial debt

#### Bonds

Bonds at December 31, 2012 total 27,549 million euros (28,373 million euros at December 31, 2011). Their nominal repayment amount is 26,323 million euros, decreasing 652 million euros compared to December 31, 2011 (26,975 million euros).

The change in bonds during 2012 is as follows:

<i>(millions of original currency)</i>	Currency	Amount	Issue date
New issues			
Telecom Italia S.p.A. 750 million euros 4.625% maturing 6/15/2015	Euro	750	6/15/2012

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Telecom Italia S.p.A. 750 million euros 6.125% maturing 12/14/2018	Euro	750	6/15/2012
Telecom Italia S.p.A. 1,000 million euros 4.500% maturing 9/20/2017	Euro	1,000	9/20/2012
Telecom Italia S.p.A. 1,000 million euros 4.000% maturing 1/21/2020	Euro	1,000	12/21/2012

<i>(millions of original currency)</i>	Currency	Amount	Repayment date
<b>Repayments</b>			
Telecom Italia S.p.A. 1,222.5 million euros 6.250% <sup>(1)</sup>	Euro	1,222.5	2/1/2012
Telecom Italia Finance S.A. 107.7 million euros 3-month Euribor + 1.30%	Euro	107.7	3/14/2012
Telecom Italia Finance S.A. 790 million euros 7.250% <sup>(2)</sup>	Euro	790	4/24/2012
Telecom Italia S.p.A. 1,000 million euros 3-month Euribor + 0.53%	Euro	1,000	12/6/2012

(1)

Net of buybacks by the Company of 27.5 million euros during 2011.

(2)

Net of buybacks by the Company of 210 million euros during 2011 and 2012.

As in previous years, during 2012, the Telecom Italia Group bought back bonds, with the aim of:

•

giving investors a further possibility of monetizing their positions;

•

partially repaying some debt securities before maturity, increasing the overall return on the Group's liquidity without inviting any additional risks.

In particular, the following bonds were repurchased:

(millions of original currency)	Currency	Amount	Buyback periods
<b>Buybacks</b>			
Telecom Italia Finance S.A. 790 million euros 7.250% maturing April 2012 <sup>(1)</sup>	Euro	11.6	January 2012
Telecom Italia Finance S.A. 678 million euros 6.875% maturing January 2013 <sup>(1)</sup>	Euro	80.8	January-May 2012
Telecom Italia S.p.A. 432 million euros 6.750%  maturing March 2013 <sup>(2)</sup>	Euro	212.9	July 2012
Telecom Italia S.p.A. 268 million euros 3-month Euribor +0.63% maturing July 2013	Euro	232.3	July 2012
Telecom Italia S.p.A. 284 million euros 7.875%  maturing January 2014	Euro	215.9	July 2012
Telecom Italia S.p.A. 557 million euros 4.750%  maturing May 2014	Euro	116.2	July 2012

(1)

Buybacks of the above bonds during 2011 amounted to 290 million euros (199 million euros on the bonds maturing April 2012 and 91 million euros on the bonds maturing January 2013). As a result, the total amount bought back was 382 million euros.

(2) As of December 2011, bonds had already been bought back for a total of 5 million euros. As a result, the total amount bought back was 218 million euros.

In reference to the Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group, at December 31, 2012, the nominal amount is equal to 230 million euros and decreased by 36 million euros compared to December 31, 2011 (266 million euros).

#### *Revolving credit facility and term loan*

The following table shows the composition and the draw down of the committed credit lines available at December 31, 2012:

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(billions of euros)	12/31/2012		12/31/2011	
	Agreed	Drawn down	Agreed	Drawn down
Revolving Credit Facility expiring February 2013	1.25	-	1.25	0.25
Revolving Credit Facility expiring August 2014	8.0	1.5	8.0	2.0
Revolving Credit Facility - expiring December 2013	0.2	-	0.2	0.2
Total	9.45	1.5	9.45	2.45

On May 24, 2012, Telecom Italia signed a new contract to extend half of the Revolving Credit Facility (RCF) of 8 billion euros expiring August 2014. The extension was obtained through a Forward Start Facility of 4 billion euros which will come into effect in August 2014 (or at a prior date if Telecom Italia early cancels the commitments under the current RCF 2014) and will expire in May 2017.

On September 21 and 28, 2012 the Company repaid the draw downs of 200 million and 250 million euros on the Revolving Credit Facilities expiring December 2013 and February 2013, respectively.

On October 8, 2012 the draw down of 500 million euros on the Revolving Credit Facility expiring August 2014 was repaid. As a result, the overall facility of 8 billion euros has currently been drawn down for a total of 1.5 billion euros.

Telecom Italia also has a bilateral stand-by credit line expiring August 3, 2016 for 100 million euros from Banca Regionale Europea, drawn down for the full amount.

*Maturities of financial liabilities and average cost of debt*

The average maturity of non-current financial liabilities (including the current portion of medium/long-term financial liabilities due within 12 months) is 7.13 years.

The average cost of the Group's debt, considered as the cost for the year calculated on an annual basis and resulting from the ratio of debt-related expenses to average exposure, is about 5.4%.

For details of the maturities of financial liabilities in terms of expected nominal repayment amounts, as contractually agreed, reference should be made to the Notes Financial liabilities (current and non-current) and Financial risk management in the consolidated financial statements at December 31, 2012 of the Telecom Italia Group.

*Current financial assets and liquidity margin*

The Telecom Italia Group's available liquidity margin amounts to 16,140 million euros at December 31, 2012, corresponding to the sum of Cash and cash equivalents and current Securities other than investments, totaling 8,190 million euros (7,721 million euros at December 31, 2011), and the committed credit lines, mentioned above, of which a total of 7,950 million euros has not been drawn down. This margin will cover Group Financial Liabilities due beyond the next 24 months.

In particular:

Cash and cash equivalents amount to 7,436 million euros (6,714 million euros at December 31, 2011). The different technical forms of investing available cash at December 31, 2012, which include Euro Commercial Papers of 150 million euros, may be broken down as follows:

•

Maturities: investments have a maximum maturity of three months;

•

Counterpart risk: investments by the European companies are made with leading banking, financial and industrial institutions with high-credit-quality. Investments by the companies in South America are made with leading local counterparts;

•

Country risk: investments are made mainly in major European financial markets.

Securities other than investments amount to 754 million euros (1,007 million euros at December 31, 2011). Such forms of investment represent alternatives to the investment of liquidity with the aim of raising the return. They consist of: Italian treasury bonds (BTPs) purchased by Telecom Italia S.p.A. and Telecom Italia Finance S.A., amounting respectively to 358 million euros and 204 million euros; 5 million euros of Italian Treasury Certificates (CCTs) (assigned to Telecom Italia S.p.A. as the holder of trade receivables, as per Italian Ministry of the Economy and Finance Decree of December 3, 2012); and 183 million euros of bonds purchased by Telecom Italia Finance S.A. with different maturities, all with an active market and consequently readily convertible into cash. The purchases of

BTPs and CCTs, which, pursuant to Consob Communication DEM/11070007 of August 5, 2011, represent investments in Sovereign debt securities, have been made in accordance with the Guidelines for the Management and control of financial risk adopted by the Telecom Italia Group in August 2012, in replacement of the previous policy in force since July 2009. For further details, reference should be made to the Note Financial risk management in the consolidated financial statements at December 31, 2012 of the Telecom Italia Group.

In the fourth quarter of 2012 adjusted net financial debt fell by 1,211 million euros from the end of September 2012. Operating free cash flow amply covered the income tax requirements of around 0.7 billion euros.

(millions of euros)	12/31/2012	09/30/2012	Change
	(a)	(b)	(a-b)
Net financial debt carrying amount	29,053	29,971	(918)
<i>Reversal of fair value measurement of derivatives and related financial assets/liabilities</i>	<i>(779)</i>	<i>(486)</i>	<i>(293)</i>
Adjusted net financial debt	28,274	29,485	(1,211)
<i>Detailed as follows:</i>			
Total adjusted gross financial debt	37,681	38,372	(691)
Total adjusted financial assets	(9,407)	(8,887)	(520)

Consolidated Financial Statements Telecom Italia Group

*The Telecom Italia Group consolidated financial statements for the year ended December 31, 2012 and the comparative figures for the prior year have been drawn up in accordance with international accounting standards issued by the International Accounting Standards Board and adopted by the European Union ( IFRS ).*

*In 2012 the Telecom Italia Group applied accounting policies in line with those used in the prior year, with the exception of:*

- *the early adoption and retrospective application of the revised IAS 19 (Employee Benefits). As a result, the comparative figures for 2011 have been restated on a consistent basis. Further details are provided in the Note Accounting policies in the consolidated financial statements at December 31, 2012 of the Telecom Italia Group;*

- *the new standards and interpretations adopted by the Group from January 1, 2012 that did not have any effect on the profit (loss) for 2012.*

*The Telecom Italia Group, in addition to the conventional financial performance measures established by IFRS, uses certain alternative performance measures in order to present a better understanding of the trend of operations and financial condition. Specifically, these alternative performance measures refer to: EBITDA; EBIT; the organic change in revenues, EBITDA and EBIT; and net financial debt carrying amount and adjusted net financial debt. Further details on such measures are presented under Alternative performance measures .*

*Moreover, the part entitled Business Outlook for the Year 2013 contains forward-looking statements in relation to the Group s intentions, beliefs or current expectations regarding financial performance and other aspects of the Group s operations and strategies. Readers of the Annual Report are reminded not to place undue reliance on forward-looking statements; actual results may differ significantly from forecasts owing to numerous factors, the majority of which are beyond the scope of the Group s control.*

Principal changes in the scope of consolidation

The following changes occurred during 2012:

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

The following changes occurred during 2011:

- *Tim Fiber Brazil: On October 31, 2011, acquisition of 100% of Eletropaulo Telecomunicações Ltda and 98.3% of AES Communications Rio de Janeiro S.A., telecommunications infrastructure operators in the states of San Paolo and Rio de Janeiro, now renamed TIM Fiber SP and TIM Fiber RJ respectively. The stake originally acquired in Tim*

*Fiber RJ was subsequently raised to 99.1% and the remaining 0.9% was the object of a purchase bid which concluded at the end of February 2012 bringing the ownership level to 99.7%. The acquisitions were carried out through the subsidiary Tim Celular S.A. into which the two companies were recently merged;*

•

*4GH group - Domestic: On July 27, 2011 the 4G Holding group (retail sales of telephony equipment) entered the consolidation area following the purchase of 71% of the ordinary shares of 4G Holding S.p.A. which in turn held 100% of 4G Retail S.r.l.. The two companies were merged in 2012;*

•

*Loquendo Domestic: on September 30, 2011, Loquendo S.p.A. was sold and consequently exited the scope of consolidation.*

## Separate Consolidated Income Statements

(millions of euros)	2012	2011	Change	
	(a)	(Restated) (b)	amount	%
Revenues	29,503	29,957	(454)	(1.5)
Other income	298	299	(1)	°
Total operating revenues and other income	29,801	30,256	(455)	(1.5)
Acquisition of goods and services	(12,948)	(12,859)	(89)	(0.7)
Employee benefits expenses	(3,919)	(3,992)	73	1.8
Other operating expenses	(1,882)	(1,859)	(23)	(1.2)
Change in inventories	12	56	(44)	(78.6)
Internally generated assets	581	569	12	2.1
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	11,645	12,171	(526)	(4.3)
Depreciation and amortization	(5,340)	(5,496)	156	2.8
Gains (losses) on disposals of non-current assets	53	3	50	°
Impairment reversals (losses) on non-current assets	(4,432)	(7,358)	2,926	°
Operating profit (loss) (EBIT)	1,926	(680)	2,606	n.s.
Share of profits (losses) of associates and joint ventures accounted for using the equity method	(6)	(39)	33	84.6
Other income (expenses) from investments	2	16	(14)	°
Finance income	2,082	2,464	(382)	(15.5)
Finance expenses	(4,048)	(4,504)	456	10.1
Profit (loss) before tax from continuing operations	(44)	(2,743)	2,699	n.s.
Income tax expense	(1,235)	(1,610)	375	23.3
Profit (loss) from continuing operations	(1,279)	(4,353)	3,074	n.s.
Profit (loss) from Discontinued operations/Non-current assets held for sale	2	(13)	15	°
Profit (loss) for the year	(1,277)	(4,366)	3,089	n.s.
Attributable to:				
Owners of the Parent	(1,627)	(4,811)	3,184	n.s.
Non-controlling interests	350	445	(95)	(21.3)



## Consolidated Statements of Comprehensive Income

In accordance with IAS 1 (*Presentation of Financial Statements*), the following statements of comprehensive income include the profit (loss) for the year as shown in the separate consolidated income statements and all non-owner changes in equity.

(millions of euros)		2012	2011 (Restated)
Profit (loss) for the year	(a)	(1,277)	(4,366)
Other components of the Statements of Comprehensive Income:			
Available-for-sale financial assets:			
Profit (loss) from fair value adjustments		57	5
Loss (profit) transferred to the Separate Consolidated Income Statement		1	2
Net fiscal impact	(b)	(11) 47	(4) 3
Hedging instruments:			
Profit (loss) from fair value adjustments		(702)	523
Loss (profit) transferred to the Separate Consolidated Income Statement		272	(230)
Net fiscal impact	(c)	121 (309)	(83) 210
Exchange differences on translating foreign operations:			
Profit (loss) on translating foreign operations		(1,068)	(612)
Loss (profit) on translating foreign operations transferred to the Separate Consolidated Income Statement		-	75
Net fiscal impact	(d)	- (1,068)	- (537)
Remeasurements of employee defined benefit plans (IAS 19):			
Actuarial gains (losses)		(56)	117
Net fiscal impact	(e)	14 (42)	(33) 84

Share of other comprehensive income (loss) of  
 associates and joint ventures accounted for using  
 the equity method:

Profit (loss)		-	-
Loss (profit) transferred to the Separate Consolidated Income Statement		-	-
Net fiscal impact	(f)	-	-
Total	(g=b+c+d+e+f)	(1,372)	(240)
Total comprehensive income (loss) for the year	(a+g)	(2,649)	(4,606)
Attributable to:			
Owners of the Parent		(2,516)	(4,826)
Non-controlling interests		(133)	220

## Consolidated Statements of Financial Position

(millions of euros)	12/31/2012 (a)	12/31/2011 (b)	Change (a-b)
Assets			
Non-current assets			
Intangible assets			
Goodwill	32,410	36,902	(4,492)
Other intangible assets	7,927	8,637	(710)
	40,337	45,539	(5,202)
Tangible assets			
Property, plant and equipment owned	14,465	14,899	(434)
Assets held under finance leases	1,014	1,094	(80)
	15,479	15,993	(514)
Other non-current assets			
Investments in associates and joint ventures accounted for using the equity method	65	47	18
Other investments	39	38	1
Non-current financial assets	2,496	2,949	(453)
Miscellaneous receivables and other non-current assets	1,496	1,128	368
Deferred tax assets	1,432	1,637	(205)
	5,528	5,799	(271)
Total Non-current assets	(a) 61,344	67,331	(5,987)
Current assets			
Inventories	436	447	(11)
Trade and miscellaneous receivables and other current assets	7,006	7,770	(764)
Current income tax receivables	77	155	(78)
Current financial assets			
<i>Securities other than investments, financial receivables and other current financial assets</i>	1,256	1,469	(213)
<i>Cash and cash equivalents</i>	7,436	6,714	722
	8,692	8,183	509
Current assets sub-total	16,211	16,555	(344)
Discontinued operations/Non-current assets held for sale			
of a financial nature	—	—	—
of a non-financial nature	—	—	—
	—	—	—
Total Current assets	(b) 16,211	16,555	(344)
Total Assets	(a+b) 77,555	83,886	(6,331)



(millions of euros)	12/31/2012 (a)	12/31/2011 (b)	Change (a-b)
Equity and Liabilities			
Equity			
Equity attributable to owners of the Parent	19,378	22,790	(3,412)
Non-controlling interests	3,634	3,904	(270)
Total Equity	(c) 23,012	26,694	(3,682)
Non-current liabilities			
Non-current financial liabilities	34,091	35,860	(1,769)
Employee benefits	872	850	22
Deferred tax liabilities	848	1,084	(236)
Provisions	863	831	32
Miscellaneous payables and other non-current liabilities	1,053	1,156	(103)
Total Non-current liabilities	(d) 37,727	39,781	(2,054)
Current liabilities			
Current financial liabilities	6,150	6,091	59
Trade and miscellaneous payables and other current liabilities	10,542	10,984	(442)
Current income tax payables	124	336	(212)
Current liabilities sub-total	16,816	17,411	(595)
Liabilities directly associated with discontinued operations/Non-current assets held for sale of a financial nature	—	—	—
of a non-financial nature	—	—	—
	—	—	—
Total Current Liabilities	(e) 16,816	17,411	(595)
Total Liabilities	(f=d+e) 54,543	57,192	(2,649)
Total Equity and Liabilities	(c+f) 77,555	83,886	(6,331)

## Consolidated Statements of Cash Flows

(millions of euros)	2012	2011 (Restated)
Cash flows from operating activities:		
Profit (loss) from continuing operations	(1,279)	(4,353)
Adjustments for:		
Depreciation and amortization	5,340	5,496
Impairment losses (reversals) on non-current assets (including investments)	4,434	7,365
Net change in deferred tax assets and liabilities	79	156
Losses (gains) realized on disposals of non-current assets (including investments)	(54)	(18)
Share of losses (profits) of associates and joint ventures accounted for using the equity method	6	39
Change in provisions for employees benefits	(221)	(175)
Changes in inventories	12	(36)
Change in trade receivables and net amounts due from customers on construction contracts	851	3
Change in trade payables	(139)	(164)
Net change in current income tax receivables/payables	(473)	90
Net change in miscellaneous receivables/payables and other assets/liabilities	(35)	109
Cash flows from (used in) operating activities	(a) 8,521	8,512
Cash flows from investing activities:		
<i>Purchase of intangible assets on an accrual basis</i>	(1,995)	(3,066)
<i>Purchase of tangible assets on an accrual basis</i>	(3,201)	(3,029)
Total purchase of intangible and tangible assets on an accrual basis	(5,196)	(6,095)
<i>Change in amounts due to fixed asset suppliers</i>	(113)	557
Total purchase of intangible and tangible assets on a cash basis	(5,309)	(5,538)
Acquisition of control of subsidiaries or other businesses, net of cash acquired	(7)	(668)
Acquisitions/disposals of other investments	(3)	(1)
Change in financial receivables and other financial assets	519	(580)
Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of	40	51
Proceeds from sale/repayment of intangible, tangible and other non-current assets	77	435
Cash flows from (used in) investing activities	(b) (4,683)	(6,301)
Cash flows from financing activities:		
Change in current financial liabilities and other	(796)	1,351
Proceeds from non-current financial liabilities (including current portion)	4,624	4,523
	(5,659)	(5,290)

Repayments of non-current financial liabilities (including current portion)			
Share capital proceeds/reimbursements (including subsidiaries)		(2)	240
Dividends paid		(1,031)	(1,326)
Changes in ownership interests in consolidated subsidiaries		-	(211)
Cash flows from (used in) financing activities	(c)	(2,864)	(713)
Cash flows from (used in) discontinued operations/Non-current assets held for sale	(d)	-	-
Aggregate cash flows	(e=a+b+c+d)	974	1,498
Net cash and cash equivalents at beginning of the year	(f)	6,670	5,282
Net foreign exchange differences on net cash and cash equivalents	(g)	(247)	(110)
Net cash and cash equivalents at end of the year	(h=e+f+g)	7,397	6,670

## Additional Cash Flow Information

(millions of euros)	2012	2011 (Restated)
Income taxes (paid)/received	(1,522)	(1,381)
Interest expense paid	(3,518)	(3,044)
Interest income received	1,687	1,332
Dividends received	2	2

## Analysis of Net Cash and Cash Equivalents

(millions of euros)	2012	2011 (Restated)
Net cash and cash equivalents at beginning of the year:		
Cash and cash equivalents - from continuing operations	6,714	5,526
Bank overdrafts repayable on demand - from continuing operations	(44)	(244)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale	-	-
Bank overdrafts repayable on demand - from Discontinued operations/Non-current assets held for sale	-	-
	6,670	5,282
Net cash and cash equivalents at the end of the year:		
Cash and cash equivalents - from continuing operations	7,436	6,714
Bank overdrafts repayable on demand - from continuing operations	(39)	(44)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale	-	-
Bank overdrafts repayable on demand - from Discontinued operations/Non-current assets held for sale	-	-
	7,397	6,670

## Analysis of the main consolidated financial and operating items

## Acquisition of goods and services

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(millions of euros)	2012	2011	Change
Purchases of goods	2,610	2,525	85
Portion of revenues to be paid to other operators and interconnection costs	4,018	4,232	(214)
Commercial and advertising costs	2,154	2,259	(105)
Power, maintenance and outsourced services	1,847	1,618	229
Rent and leases	666	647	19
Other service expenses	1,653	1,578	75
Total acquisition of goods and services	12,948	12,859	89
<i>% of Revenues</i>	<i>43.9</i>	<i>42.9</i>	<i>1.0 pp</i>

Employee benefits expenses

(millions of euros)	2012	2011	Change
Employee benefits expenses - Italy	2,953	3,156	(203)
Ordinary employee expenses and costs	2,945	3,144	(199)
Company restructuring expenses	8	12	(4)
Employee benefits expenses Outside Italy	966	836	130
Ordinary employee expenses and costs	949	836	113
Company restructuring expenses	17	-	17
Total employee benefits expenses	3,919	3,992	(73)
<i>% of Revenues</i>	<i>13.3</i>	<i>13.3</i>	<i>-</i>

Average headcount of the salaried workforce

(equivalent number)	2012	2011	Change
Average salaried workforce Italy	52,347	53,561	(1,214)
Average salaried workforce Outside Italy	26,217	24,808	1,409
Total Average salaried workforce <sup>(1)</sup>	78,564	78,369	195

(1)

Includes staff on temp work contracts: average of 61 in 2012 (58 in Italy and 3 outside Italy).

In 2011 the average headcount was 87 (75 in Italy and 12 outside Italy).

Headcount at year-end

(number)	12/31/2012	12/31/2011	Change
Headcount Italy	54,419	56,878	(2,459)

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Headcount Outside Italy	28,765	27,276	1,489
Total <sup>(1)</sup>	83,184	84,154	(970)

(1)

Includes employees with temp work contracts: 43 at December 31,2012 and 42 at December 31, 2011.

Headcount at year-end Breakdown by Business Unit

(number)	12/31/2012	12/31/2011	Change
Domestic	53,224	55,047	(1,823)
Brazil	11,622	10,539	1,083
Argentina	16,803	16,350	453
Media	735	765	(30)
Olivetti	778	1,075	(297)
Other Operations	22	378	(356)
Total	83,184	84,154	(970)

Other income

(millions of euros)	2012	2011	Change
Late payment fees charged for telephone services	69	71	(2)
Recovery of employee benefit expenses, purchases and services rendered	36	36	–
Capital and operating grants	18	24	(6)
Damage compensation, penalties and sundry recoveries	53	36	17
Sundry income	122	132	(10)
Total	298	299	(1)

Other operating expenses

(millions of euros)	2012	2011	Change
Write-downs and expenses in connection with credit management	548	533	15
Provision charges	214	128	86
Telecommunications operating fees and charges	621	675	(54)
Indirect duties and taxes	391	349	42
Penalties, settlement compensation and administrative fines	29	41	(12)

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Association dues and fees, donations, scholarships and traineeships	25	23	2
Sundry expenses	54	110	(56)
Total	1,882	1,859	23

## Reconciliation between reported data and organic data

## EBITDA reconciliation of organic data

(millions of euros)	TELECOM ITALIA GROUP		Domestic		Telecom Italia S.p.A.	
	2012	2011	2012	2011	2012	2011
HISTORICAL EBITDA	11,645	12,171	8,676	9,173	8,433	8,936
Changes in the scope of consolidation		3		(1)		–
Foreign currency financial statements translation effect		(156)		7		–
Non organic (revenues and income) costs and expenses	220	93	153	108	159	105
<i>Disputes and settlements</i>	<i>118</i>	<i>42</i>	<i>114</i>	<i>63</i>	<i>118</i>	<i>63</i>
<i>Restructuring expenses (*)</i>	<i>39</i>	<i>12</i>	<i>(7)</i>	<i>12</i>	<i>(6)</i>	<i>9</i>
<i>Other (income) expenses, net</i>	<i>63</i>	<i>39</i>	<i>46</i>	<i>33</i>	<i>47</i>	<i>33</i>
COMPARABLE EBITDA	11,865	12,111	8,829	9,287	8,592	9,041

(\*) the item includes reversals and provisions to the mobility fund

	Brazil (millions of Brazilian reais)		Argentina (millions of Argentine pesos)		Media (millions of euros)		Olivetti (millions of euros)	
	2012	2011	2012	2011	2012	2011	2012	2011
HISTORICAL EBITDA	5,008	4,631	6,553	5,947	(45)	27	(57)	(36)
Changes in the scope of consolidation		–		–		–		(1)
Foreign currency financial statements translation effect		–		–		–		–
Non organic (revenues and income) costs and expenses	53	18	90	–	–	(21)	31	1
<i>Disputes and settlements</i>	<i>11</i>	–	–	–	–	–	–	–
<i>Restructuring expenses (*)</i>	–	–	90	–	–	–	31	1
<i>Other (income) expenses, net</i>	<i>42</i>	<i>18</i>	–	–	–	(21)	–	–

COMPARABLE EBITDA	5,061	4,649	6,643	5,947	(45)	6	(26)	(36)
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(\* the item includes reversals and provisions to the mobility fund

## EBIT reconciliation of organic data

(millions of euros)	TELECOM ITALIA GROUP		Domestic		Telecom Italia S.p.A.	
	2012	2011	2012	2011	2012	2011
HISTORICAL EBIT	1,926	(680)	1,078	(1,996)	944	(246)
Changes in the scope of consolidation		6		–		–
Foreign currency financial statements translation effect		(76)		6		–
Non organic (revenues and income) costs and expenses already described under EBITDA	220	93	153	108	159	105
Impairment of goodwill and other non-current assets	4,426	7,364	4,016	7,307	4,016	5,376
Net gains on disposals of non-current assets and investments	(71)	(46)	(21)	(60)	(36)	(15)
Restructuring expenses	3	–	–	–	–	–
COMPARABLE EBIT	6,504	6,661	5,226	5,365	5,083	5,220

	Brazil (millions of Brazilian reais)		Argentina (millions of Argentine pesos)		Media (millions of euros)		Olivetti (millions of euros)	
	2012	2011	2012	2011	2012	2011	2012	2011
HISTORICAL EBIT	2,424	2,289	1,253	2,925	(263)	(88)	(65)	(43)
Changes in the scope of consolidation		–		–		–		(1)
Foreign currency financial statements translation effect		–		–		–		–
Non organic (revenues and income) costs and expenses already described under	53	18	90	–	–	(21)	31	1

EBITDA

Impairment of goodwill and other non-current assets	-	-	1,480	-	157	57	-	-
Net gains on disposals of non-current assets and investments	-	-	-	-	(2)	-	-	-
Restructuring expenses	-	-	-	-	-	-	3	-
COMPARABLE EBIT	2,477	2,307	2,823	2,925	(108)	(52)	(31)	(43)

## Research and development

With regard to “Research and Development”, this subject is discussed in a specific paragraph of the Sustainability Section of this Report on Operations, in the chapter *The Community* .

## Events Subsequent to December 31, 2012

With regard to subsequent events, reference should be made to the specific Note *Events subsequent to December 31, 2012* in the consolidated and separate financial statements at December 31, 2012 of the Telecom Italia Group and Telecom Italia, respectively.

## Business Outlook for the Year 2013

As for the Telecom Italia Group’s outlook for the current year, the objectives linked to the principal financial and economic indicators, as outlined in the 2013-2015 Business Plan, foresee the following for the full year 2013:

- Revenues basically unchanged compared to 2012
- Reduction of percentage EBITDA to low-single digit
- Adjusted net financial debt of less than 27 billion euros.

## Principal risks and uncertainties

The business outlook for 2013 could be affected by risks and uncertainties caused by a multitude of factors, the majority of which are beyond the Group’s control.

The following are the main risks and uncertainties concerning the Telecom Italia Group’s activities in 2013.

### Macroeconomic trend

The negative impact of the global economic crisis which has affected Telecom Italia’s business over the last two years is likely to continue in 2013.

Italy's exposure to the sovereign debt crisis that has overshadowed the Euro area led to a renewed weakening of the Italian economy in 2012, after the slight recovery in 2010 and in 2011 following the sharp downturn caused by the global economic crisis that began at the end of 2008.

Since the end of 2011 the Italian economy has been dealing with the effects of a restrictive fiscal policy (a mix of spending cuts and tax increases) aimed at strengthening the implementation of the long-term plan to reduce the budget deficit with the objective of balancing the budget by 2013. This restrictive fiscal policy will continue over the short/medium-term, and the entry into force of the rules introduced by the Fiscal Compact on January 1, 2013 will result in increasing restrictions on the economy.

The necessary economic policy decisions taken to solve the structural imbalances and ensure sustainability over the long term have inevitably contributed to the weakness of domestic demand over the last two years (the longest period of decline in consumer spending since the end of World War II). This trend will continue in the current year.

The outlook for economic growth in Brazil is positive in the short/medium term, recovering from the slowdown in 2012. An expansive economic policy is in place to support growth and create a favorable environment both for consumer spending and investments, which, in particular, are also being driven by upcoming sports events (investments in infrastructure for the 2014 Football World Cup and the 2016 Olympic Games). A possible worsening of the macroeconomic scenario in Brazil could affect demand for telecommunications services.

For Argentina, positive economic growth is also forecast for the short/medium term (though at lower rates than Brazil), but with several possible critical issues, specifically concerning the evolution of consumer spending and investments.

#### Telecommunications market trend

Even though the telecommunications sector is generally considered less cyclical than other sectors, the continuing recessive macroeconomic scenario is severely impacting the outlook for development of our domestic market. Specifically, the weakness of the economy could result in the protraction of the more cautious approach by businesses to purchasing telecommunications services (reduction of operating costs and postponement of investments), and, in general, could place additional pressure on the prices of telecommunications services and reduce demand for our products and services.

The market of telecommunications in Brazil is primed for further growth, sustained by the growth in data for the mobile area as well as fixed phone lines. In addition, the trend of replacing fixed services with mobile services, seen in recent years, is also expected to continue.

On the Argentine market, growth is expected, driven by the evolution of fixed broadband and fixed and mobile value-added services. On the Mobile market, the effects of number portability could result in an additional increase in competition.

As for the domestic market, the development of the Brazilian and Argentine telecommunications markets is influenced by the evolution of the macroeconomic context. As a result, if the macroeconomic figures were to be worse than anticipated, this could reflect negatively on the demand for telecommunications services.

Furthermore, on a global scale, the telecommunications sector is being subjected to growing pressure from lateral competition by operators in the IT, Media and Devices/Consumer Electronics sectors, and by OTT operators which offer content and services via the Internet to people who do not have their own TLC network. Because of this, the evolution of the telecommunications markets in the main countries in which the Telecom Italia Group operates (Italy, Brazil and Argentina) may be influenced by the development of the competitive scenario with regard to these players.

#### Financial risks

The Telecom Italia Group pursues a policy of managing financial risks (market risk, credit risk and liquidity risk) by the definition, at a central level, of guidelines for directing operations, the identification of the most suitable financial instruments to reach prefixed objectives, the monitoring of the results achieved and the exclusion of the use of financial instruments for speculative purposes.

Furthermore, the Group pursues the objective of achieving an adequate level of financial flexibility which is expressed by maintaining a treasury margin to cover refinancing requirements at least for the next 12-18 months with liquidity and committed syndicated credit lines.

At the end of 2012, the Group had a treasury margin sufficient to meet its debt repayment obligations for the next 18-24 months, fully in line with the above-mentioned policy. Further details are provided in the Note Financial risk management to the consolidated financial statements at December 31, 2012 of the Telecom Italia Group.

Information for Investors

Telecom Italia S.p.A. Share Capital at December 31, 2012

Share capital	10,693,628,019.25 euros
Number of ordinary shares (par value 0.55 euros each)	13,416,839,374
Number of savings shares (par value 0.55 euros each)	6,026,120,661
Number of Telecom Italia S.p.A. ordinary treasury shares	37,672,014
Number of Telecom Italia S.p.A. ordinary shares held by Telecom Italia Finance S.A.	124,544,373
Percentage of ordinary treasury shares held by the Group to total share capital	0.83%
Market capitalization (based on December 2012 average prices)	13,098 million euros
Shareholders	

Composition of Telecom Italia S.p.A. shareholders according to the Shareholders Book at December 31, 2012, supplemented by communications received and other available sources of information (ordinary shares):

The shareholders of Telco (Generali Group: 30.58%; Mediobanca S.p.A.: 11.62%; Intesa Sanpaolo S.p.A.: 11.62%; Telefónica S.A.: 46.18%) signed a Shareholders Agreement, relevant for Telecom Italia pursuant to Legislative Decree 58/1998, art. 122. The description of the basic contents of the agreement is contained in the Report on the Corporate Governance and Share Ownership Structure, posted on the website: [www.telecomitalia.com](http://www.telecomitalia.com).

Major Holdings in Share Capital

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At December 31, 2012, taking into account the results in the Shareholders Book, communications sent to Consob and the Company pursuant to Legislative Decree 58 dated February 24, 1998, art. 120 and other sources of information, the principal shareholders of Telecom Italia S.p.A.'s ordinary share capital are as follows:

Holder	Type of ownership	Percentage of ownership
Telco S.p.A.	Direct	22.39%
Findim Group S.A.	Direct	4.99%

### Common Representatives

•

The special meeting of the savings shareholders held on May 28, 2010 elected Emanuele Rimini as the common representative for three financial years (up to the approval of the financial statements for the year ended December 31, 2012).

•

By decree of March 7, 2011, the Milan Court appointed Enrico Cotta Ramusino as the common representative of the bondholders for the Telecom Italia S.p.A. 2002-2022 bonds at variable rates, open special series, reserved for subscription by employees of the Telecom Italia Group, in service or retired, with a mandate for the three-year period 2011-2013.

•

By decree of October 18, 2012, the Milan Court confirmed the appointment of Francesco Pensato as the common representative of the bondholders for the Telecom Italia S.p.A. Euro 1,250,000,000 5.375 per cent. Notes due 2019, with a mandate for the three-year period 2012-2014.

### Annual Report on the Corporate Governance and Share Ownership Structure

The annual Report on the Corporate Governance and Share Ownership Structure is posted on the Company's website at the following address [www.telecomitalia.com](http://www.telecomitalia.com), Governance Section.

### Performance of the Stocks of the Major Companies in the Telecom Italia Group

Relative performance from 1/1/2012 – 12/31/2012

Telecom Italia S.p.A. vs. FTSE - All Shares Italia and DJ Stoxx TLC Indexes

Chart based on Telecom Italia ord. share price of EUR 0.8457 at 1/2/2012 - Stock market prices. Source: Reuters

Telecom Italia Media S.p.A. vs. FTSE - All Shares Italia and DJ Stoxx Media Indexes

Chart based on Telecom Italia Media ord. share price of EUR 0.1628 at 1/2/2012 - Stock market prices. Source: Reuters.

Tim Participações S.A. vs. BOVESPA Index (in Brazilian reais)

Chart based on Tim Participações ord. share price BRL 9.3171 at 1/2/2012 - Stock market prices. Source: Reuters.

Telecom Argentina S.A. (Class B ordinary shares) vs. Merval Index (in Argentine pesos)

Chart based on Telecom Argentina Class B price ARS 16.5472 at 1/2/2012 - Stock market prices. Source: Reuters.

Telecom Italia S.p.A. ordinary and savings shares, Tim Participações S.A. ordinary shares, Telecom Argentina S.A. Class B ordinary shares and Nortel Inversora S.A. Class B preferred shares are listed on the New York Stock Exchange (NYSE). The shares are listed through American Depositary Shares (ADS) representing, respectively, 10 Telecom Italia S.p.A. ordinary shares and 10 savings shares, 5 Tim Participações S.A. ordinary shares, 5 Telecom Argentina S.A. Class B ordinary shares and 0.05 Nortel Inversora S.A. Class B preferred shares.

Rating at December 31, 2012

During 2012, the three rating agencies -Telecom Italia by Standard & Poor's, Moody's and Fitch Ratings- issued the following ratings for Telecom Italia:

	Rating	Outlook
STANDARD & POOR'S	BBB	Negative
MOODY'S	Baa2	Negative
FITCH RATINGS	BBB	Negative

Subsequent to December 31, 2012 the rating agencies issued the following ratings:

•

on February 11, 2013, the rating agency Fitch Ratings confirmed Telecom Italia S.p.A.'s rating of BBB with outlook negative;

•

on February 11, 2013, the rating agency Moody's modified Telecom Italia S.p.A.'s rating from Baa2 to Baa3 with outlook negative;

•

on February 14, 2013, the rating agency Standard & Poor's put Telecom Italia S.p.A.'s BBB rating on credit watch negative.

#### Purchase of shares of group companies

During 2012, 25,917 Telecom Italia Media savings shares were purchased at an average price per share, including brokerage commission, of 0.20112 euros for a total of 5,212.46 euros.

Waiver of the obligation to publish disclosure documents for extraordinary operations

On January 17, 2013 the board of directors of Telecom Italia S.p.A. resolved to exercise the option, as per article 70(8) and article 71 (1 bis) of the Consob Regulation 11971/99, to waive the obligations to publish disclosure documents in the event of significant operations such as mergers, demergers, capital increases by means of the transfer of assets in kind, acquisitions and disposals.

## Related Party Transactions

In accordance with art. 5, paragraph 8 of Consob Regulation 17221 of March 12, 2010 concerning related party transactions and the subsequent Consob Resolution 17389 of June 23, 2010, there were no significant transactions entered into in 2012 as defined by art. 4, paragraph 1, letter a) of the aforementioned regulation or other transactions with related parties which had a major impact on the financial position or on the results of the Telecom Italia Group or Telecom Italia S.p.A..

Furthermore, there were no changes or developments regarding the related party transactions described in the 2011 report on operations which had a significant effect on the financial position or on the results of the Telecom Italia Group or Telecom Italia S.p.A. in 2012. During the 2012, moreover, the Board of directors of Telecom Italia S.p.A. approved the activation of a revolving credit facility with the company Telecom Italia Finance S.A. (a wholly-owned subsidiary), for an amount of 3 billion euros. This transaction is regulated at arm's length conditions.

Transactions with related parties, when not dictated by specific laws, were conducted at arm's length. Furthermore, the transactions were subject to an internal procedure which defines procedures and timing for verification and monitoring. The procedure can be consulted on the Company's website at the following address: [www.telecomitalia.com](http://www.telecomitalia.com), section Governance-channel governance system.

The information on related parties required by Consob Communication DEM/6064293 of July 28, 2006 is presented in the financial statements themselves and in the Note Related party transactions in the consolidated financial statements of the Telecom Italia Group and the separate financial statements of Telecom Italia S.p.A. at December 31, 2012.

Furthermore, a specific Group Steering Committee for relations with Telefónica has been in place since the end of 2007. Its purpose, among other things, is to identify business areas and activities that could lead to possible industrial synergies between the two Groups and propose plans for their implementation. The internal working groups consequently set up for this purpose continue to work jointly to identify numerous areas of interest regarding:

- 

the achievement of synergies, in the strict sense, especially in the areas of procurement, IT, technology and research and innovation, in which the common factor is the experience and expertise of each of the two parties, with resulting possible improvements;

- 

the sharing of best practices in the areas of specific processes or company services, aimed at improving performance in the respective domestic markets.

The program for industrial cooperation has already generated just over 1.3 billion euros during the three years 2008-2010, confirming the initial value assigned to the project announced to the market in March 2008. The portion of the synergies benefiting Telecom Italia is equal to 55%.

For the three-year period 2011-2013, this collaboration is continuing with the aim of achieving further synergies of a value comparable to that already achieved in the previous three years. During the two-year period 2011-2012 synergies were achieved for a value of around 1.0 billion euros, resulting in part from the extension of activities already under way and in part from the alignment of technology platforms and increasing attention to the exchange of expertise on innovative services, as well as the continuous improvement of their respective domestic performances as a result of sharing of best practices.

The operational sphere of the initiative excludes the operations of the two groups in Brazil and Argentina.

In view of its strategic nature, as well as having considered the circumstance that Telefónica is a related party of Telecom Italia, the Committee for Internal Control and Corporate Governance (as of December 6, 2012: Control and Risk Committee) has been called upon to monitor the manner in which the project is implemented, in light of the specific rules of conduct.

## Alternative Performance Measures

In this Report on Operations, in the consolidated financial statements of the Telecom Italia Group and in the separate financial statements of the Parent, Telecom Italia S.p.A., for the year ended December 31, 2012, in addition to the conventional financial performance measures established by IFRS, certain *alternative performance measures* are presented for purposes of a better understanding of the trend of operations and the financial condition. Such measures, which are also presented in other periodical financial reports (half-year financial report at June 30 and interim reports at March 31 and September 30) should, however, not be construed as a substitute for those required by IFRS.

The non-IFRS alternative performance measures used are described below:

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**EBITDA:** this financial measure is used by Telecom Italia as the financial target in internal presentations (*business plans*) and in external presentations (to analysts and investors). It represents a useful unit of measurement for the evaluation of the operating performance of the Group (as a whole and at the Business Unit level) and the Parent, Telecom Italia S.p.A., in addition to EBIT. These measures are calculated as follows:

Profit (loss) before tax from continuing operations	
+	Finance expenses
-	Finance income
+/-	Other expenses (income) from investments (1)
+/-	Share of losses (profits) of associates and joint ventures accounted for using the equity method (2)
EBIT - Operating profit (loss)	
+/-	Impairment losses (reversals) on non-current assets
+/-	Losses (gains) on disposals of non-current assets
+	Depreciation and amortization
EBITDA - Operating profit (loss) before depreciation and amortization, Capital gains (losses) and Impairment reversals (losses) on non-current assets	
(1)	

Expenses (income) from investments for Telecom Italia S.p.A.

(2)

Line item in Group consolidated financial statements only.

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Organic change in Revenues, EBITDA and EBIT: these measures express changes (amount and/or percentage) in revenues, EBITDA and EBIT, excluding, where applicable, the effects of the change in the scope of consolidation, exchange differences and non organic components constituted by non-recurring items and other non-organic income and expenses. Telecom Italia believes that the presentation of such additional information allows for a more complete and effective understanding of the operating performance of the Group (as a whole and at the Business Unit level) and the Parent. The organic change in revenues, EBITDA and EBIT is also used in presentations to analysts and investors. Details of the economic amounts used to arrive at the organic change are provided in this Report on Operations as well as an analysis of the major non-organic components for the years 2012 and 2011.

•

Net Financial Debt: Telecom Italia believes that Net Financial Debt represents an accurate indicator of its ability to meet its financial obligations. It is represented by Gross Financial Debt less Cash and Cash Equivalents and other Financial Assets. The Report on Operations includes two tables showing the amounts taken from the statement of financial position and used to calculate the Net Financial Debt of the Group and Parent.

In order to better represent the actual change in net financial debt, starting with the Half-Year Financial Report at June 30, 2009, in addition to the usual measure (renamed Net financial debt carrying amount ) a new measure has also been introduced called Adjusted net financial debt which excludes effects that are purely accounting in nature resulting from the fair value measurement of derivatives and related financial assets and liabilities.

Net financial debt is calculated as follows:

+Non-current financial liabilities  
 +Current financial liabilities  
 Financial liabilities directly associated with Discontinued operations/Non-current  
 + assets held for sale

A)Gross financial debt

+Non-current financial assets  
 +Current financial assets  
 Financial assets included in Discontinued operations/Non-current assets held for  
 + sale

B)Financial assets

C=(A -  
 B) Net financial debt carrying amount

D) Reversal of fair value measurement of derivatives and related financial  
 assets/liabilities

E=(C +  
 D) Adjusted net financial debt

Telecom Italia S.p.A.

Review of Operating and Financial Performance - Telecom Italia S.p.A.

Principal changes in the scope of consolidation

The following changes occurred during 2012:

•

Merger of TI Audit and Compliance Services S.c.a r.l. into Telecom Italia: the merger of TI Audit and Compliance Services S.c.a r.l. into Telecom Italia took effect for accounting purposes on January 1, 2012. This transaction, which was implemented to reorganize the Telecom Italia Group control governance structure by centralizing the internal control activities and expertise within the Parent, was carried out on the basis of the merger plan drawn up taking into account the financial position at June 30, 2011. On the effective date of the merger, Telecom Italia was the owner of 100% of the capital of TI Audit, having acquired, on December 20, 2011, by notarial deed, the interest of nominal value of 500,000.00 euros owned by Telecom Italia Media S.p.A..

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Merger of SAIAT into Telecom Italia: the merger of SAIAT, wholly owned by Telecom Italia, into the parent company took effect for accounting purposes on January 1, 2012. The transaction was carried out on the basis of the merger plan drawn up taking into account the financial position at December 31, 2011.

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Transfer of the Information Technology business of Telecom Italia to SSC, subsequently renamed TI Information Technology: the transfer of the Information Technology business of Telecom Italia in SSC became effective on November 1, 2012; the transfer was approved by extraordinary shareholders meeting of SSC, which approved an increase in the share capital up to 3.4 million euros to service the transfer and the change of the company name to TI Information Technology. The transfer was made on the basis of the financial position of the business at June 30, 2012, resulting from the appraisal report sworn by the expert appointed. The transaction involved the transfer - including the instrumental software, equipment, facilities and contracts with professional service providers - of the Information Technology business consisting of the Information Technology function (planning services, IT governance and security, information systems design) and the Human Resources and Organization Information Technology function. Following the transaction which involved the transfer of 1,177 employees to the new company working relations between Telecom Italia and Telecom Italia Information Technology will continue on the basis of agreements entered into between the parties.



(millions of euros)	2012	2011	Change		
			amount	%	% organic
Revenues	16,940	18,045	(1,105)	(6.1)	(6.1)
EBITDA	8,433	8,936	(503)	(5.6)	(5.0)
<i>EBITDA margin</i>	<i>49.8%</i>	<i>49.5%</i>	<i>0.3 pp</i>		
<i>Organic EBITDA margin</i>	<i>50.7%</i>	<i>50.1%</i>	<i>0.6 pp</i>		
Depreciation and amortization, Gains (losses) on disposals and Impairment reversals (losses) on non-current assets	3,511	3,783			
<b>EBIT BEFORE GOODWILL IMPAIRMENT LOSS</b>	4,961	5,134	(173)	(3.4)	
Goodwill impairment loss	(4,017)	(5,380)	1,363		
EBIT	944	(246)	1,190	°	(2.6)
<i>EBIT margin</i>	<i>5.6%</i>	<i>(1.4)%</i>	°		
<i>Organic EBIT margin</i>	<i>30.0%</i>	<i>28.9%</i>	<i>1.1 pp</i>		
Profit (loss) before tax	(1,025)	(2,480)	1,455		
Profit (loss) for the year	(1,821)	(3,645)	1,824		
Capital expenditures	3,005	4,122	(1,117)		
Net financial debt	34,878	36,402	(1,524)		
Headcount at year-end (number)	44,606	47,801	(3,195)	(6.7)	
Operating Performance					

#### Revenues

Revenues for 2012 amount to 16,940 million euros, down 1,105 million euros (-6.1%) from 2011.

The trend in revenues shows the following changes in the sales segments compared to 2011:

•

Consumer: In 2012 the Consumer segment revenues, totaling 8,835 million euros, decreased by 333 million euros (-3.6%) from 2011 (9,168 million euros), showing some recovery from the decline in 2011 (-519 million euros, or -5.4% compared to 2010). In particular, the contraction in revenues caused by the difficult economic situation and the impact of the entry into force of the new mobile termination rates (MTR) was offset by strong growth in revenues from Browsing and growth of revenues from the sale of devices (+118 million euros). The reduction in revenues from services (-451 million euros) is entirely attributable to the contraction of revenues from traditional voice services, particularly fixed voice (-74 million euros, or -6.2%) and outgoing Mobile voice (-227 million euros, or -8.8%). Revenues from Internet services on the other show an increase compared to 2011 due to the continuous growth of Interactive Mobile services (+74 million euros, or +10.7%) and the strong performance of Fixed Broadband services (+34 million euros);

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Business: Revenues in the Business segment amount to 2,777 million euros, decreasing 9.4% or -287 million euros from 2011 (3,064 million euros). This decrease relates primarily to fixed (-129 million euros) and broadband (-38 million euros) voice services. The business segment was also affected by the introduction of new mobile termination rates and a Europe-wide cap on the price of roaming traffic;

•  
 Top: revenues for the segment amount to 3,076 million euros, decreasing 435 million euros (-12.4%) from 2011 (3,511 million euros). The voice and ICT areas were penalized the most by the difficulties in the overall economic scenario, recording a decline of 14.8% (-140 million euros) and 15.7% (-129 million euros), respectively;

•  
 National Wholesale: revenues in the Wholesale segment come to 2,054 million euros, a decline of 50 million euros (-2.4%) on 2011 (2,104 million euros), mainly due to lower carrying and interconnection revenues, only partly offset by growth in access services to alternative operators.

#### EBITDA

EBITDA is 8,433 million euros, decreasing 503 million euros (-5.6%) from 2011.

The EBITDA margin is up from 49.5% in 2011 to 49.8% in 2012.

The organic change in EBITDA is a negative 5% (-449 million euros), calculated as follows:

(millions of euros)	2012	2011	Change
HISTORICAL EBITDA	8,433	8,936	(503)
Non organic (revenues and income) costs and expenses	159	105	54
<i>Restructuring expenses (*)</i>	(6)	9	(15)
<i>Disputes and settlements</i>	118	63	55
<i>Other (income) expenses</i>	47	33	14
COMPARABLE EBITDA	8,592	9,041	(449)

(\*) The item includes reversals and provisions to the mobility fund.

In organic terms the EBITDA margin is 50.7% of revenues (50.1% in 2011).

At the EBITDA level, the negative effects described under the comments on revenues are partly offset by the reduction in operating costs which are analyzed below.

Acquisition of goods and services

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Acquisition of goods and services totals 5,940 million euros, decreasing 384 million euros (-6.1%) from 2011 (6,324 million euros). The change is mainly attributable to a reduction in revenues due to other TLC operators, especially as a result of the reduction in mobile termination prices.

The increase in the cost of purchases of power, maintenance and outsourcing services was largely offset by the benefits of efficiency gains on fixed operating costs.

(millions of euros)	2012	2011	Change
Purchases of goods	1,033	1,088	(55)
Revenues due to other TLC operators and interconnection costs	1,311	1,730	(419)
Commercial and advertising costs	865	883	(18)
Consulting and professional services	151	163	(12)
Power, maintenance and outsourced services	1,101	982	119
Rent and leases	774	788	(14)
Other expenses	705	690	15
Total acquisition of goods and services	5,940	6,324	(384)
<i>% of Revenues</i>	35%	35%	-

## Employee benefits expenses

Details are as follows:

(millions of euros)	2012	2011	Change
Ordinary employee expenses and costs excluding actuarial (gains) losses	2,496	2,693	(197)
Expenses for mobility under Law 223/91	(6)	9	(15)
Total employee benefits expenses	2,490	2,702	(212)

The decrease of 212 million euros in employee benefits expenses is mainly attributable to a reduction in the ordinary component due to the lower average salaried workforce, which went from 46,206 in 2011 to 44,848 in 2012, a decrease of 1,358 (of whom +361 are under so-called solidarity contracts ).

In 2012, 6 million euros were released to the income statement as a result of the closure of the mobility procedure under Law 223/91 in place for the years 2010-2012. In 2011 the provision for expenses for mobility under Law 223/91, relating to agreement signed in 2010 with the unions, had been adjusted by 9 million euros.

Headcount at December 31, 2012 amounted to 44,606, down 3,195 from December 31, 2011, (including 1,177 outgoing employees following the transfer of the Information Technology business to SSC, later renamed TI Information Technology).

## Other operating expenses

Details are as follows:

(millions of euros)	2012	2011	Change
Write-downs and expenses in connection with credit management	362	359	3
Provision charges	88	48	40
Telecommunications operating fees and charges	58	57	1
Indirect duties and taxes	74	80	(6)
Penalties, settlement compensation and administrative fines	29	59	(30)
Association dues and fees, donations, scholarships and traineeships	21	20	1
Sundry expenses	24	82	(58)

Total	656	705	(49)
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Other operating expenses decreased by 49 million euros from 2011 (705 million euros), mainly due to lower costs for penalties and settlement compensation (30 million euros) and a decrease in sundry expenses (58 million euros), the effects of which were partially offset by the increase in provision charges (40 million euros). Write-downs and expenses in connection with credit management remained substantially unchanged from the previous year.

#### Depreciation, amortization and capital expenditures

Depreciation and amortization charges amount to 3,492 million euros (3,793 million euros in 2011), decreasing 301 million euros, with 220 million euros relating to tangible assets and 81 million euros to intangible assets. The reduction in depreciation is due to the decrease in depreciable assets, partly reflecting lower capital expenditures in recent years, especially in relation to rented assets in the Fixed area (-48 million euros the effect on depreciation).

The decrease in the amortization charge of intangible assets is mainly due to a lower amount of amortizable assets relating to the development of software applications and to a rationalization of IT platforms.

Capital expenditures amount to 3,005 million euros (4,122 million euros in 2011), decreasing 1,117 million euros, which reflects the net effect of additions in tangible assets of 36 million euros and the decrease in capital expenditures on intangible assets of 1,153 million euros. Moreover, the 2011 figure took into account the acquisition of user rights for the 800, 1800 and 2600 MHz frequencies to be allocated to broadband mobile services totaling 1,223 million euros.

#### Impairment losses on non-current assets

Net impairment losses on non-current assets amount to 4,017 million euros (5,380 million euros in 2011).

In particular, this line item includes 4,016 million euros for the impairment charge on goodwill referring to domestic activities (5,376 million euros in 2011). Further details are provided in the Note Goodwill in the separate financial statements of Telecom Italia S.p.A. at December 31, 2012.

#### EBIT

EBIT is 944 million euros, compared to a negative 246 million euros in 2011 which was the result of the above-mentioned impairment loss on goodwill of 5,376 million euros. As mentioned, this item includes 4,016 million euros for the goodwill impairment loss attributed to Telecom Italia S.p.A.

The EBIT margin grew from -1.4% in 2011 to 5.6% in 2012%.

The organic change in EBIT is a negative 2.6% (-137 million euros), calculated as follows:

(millions of euros)	2012	2011	Change
HISTORICAL EBIT	944	(246)	1,190
Non organic (revenues and income) costs and expenses already described under EBITDA	159	105	54

Gains (losses) on disposals of non-current assets	(36)	(15)	(21)
Impairment losses (reversals) on non-current assets	4,016	5,376	(1,360)
COMPARABLE EBIT	5,083	5,220	(137)

In organic terms the EBIT margin comes to 30% of revenues (28.9% in 2011).

Income (expenses) from investments

Details are as follows:

(millions of euros)	2012	2011	Change
Dividends	132	254	(122)
Other income and gains on disposals of investments	10	41	(31)
Impairment losses on financial assets	(104)	(442)	338
Losses on disposals of investments	(2)	–	(2)
Total	36	(147)	183

Specifically:

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dividends in 2012 mainly relate to Telecom Italia Sparkle (94 million euros), Telecom Italia Deutschland Holding (35 million euros) and Path.Net (1.5 million euros). Dividends in 2011 mainly related to Telecom Italia Sparkle (250 million euros);

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impairment losses mainly relate to write-downs of investments in Telecom Italia Deutschland Holding (35 million euros), Olivetti (50 million euros), Telecom Italia Media (9 million euros), Tiglio I (6 million euros) and Tierra Argentea (3 million euros);

•

impairment losses in 2011 mainly related to write-downs of investments in Matrix (130 million euros), Telecom Italia Media (45 million euros) and Telecom Italia Sparkle (199 million euros), Olivetti (36 million euros) and Telecom Italia Deutschland Holding (13 million euros);

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gains on the sale of investments related to the gain, net of incidental expenses, arising from the sale of the subsidiary Matrix S.p.A. on October 31, 2012; gains on the sale of investments in 2011 related to the gain, net of incidental expenses, from the sale of the subsidiary Loquendo S.p.A.;

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losses on the sale of investments mainly relate to the loss, net of incidental expenses, from the sale of the investment in Consorzio CRIAI in liquidation on August 6, 2012.

#### Finance income (expenses)

The balance of finance income/(expenses), which shows a decrease of 82 million euros, is a negative 2,005 million euros (a negative 2,087 million euros in 2011). This improvement was partly due to the reduction in borrowing costs related to lower financial debt, as well as the positive change in the value of certain hedging derivatives attributable to market fluctuations connected to currency conversions. These changes, which are unrealized accounting changes, do not result in any actual monetary settlement. Other positive effects were due to higher capitalization of borrowing costs relating to the acquisition by Telecom Italia of the user rights for LTE mobile frequencies.

#### Income tax expense

Income tax expense amounts to 796 million euros, decreasing 369 million euros compared to 2011. This item also includes the non-recurring benefit totaling 303 million euros, related to the recognition of the receivables for years prior to 2012, following the entry into force of Decree Law 16/2012 which enabled a request for a refund of IRES tax for the IRAP tax calculated on labor costs. Net of this effect, income tax decreased by 66 million euros compared to 2011, mainly as a result of the reduction in the tax base.

#### Profit (loss) for the year

The Parent, Telecom Italia S.p.A., posted a loss of 1,821 million euros in 2012 (loss of 3,645 million euros in 2011). Net of non-recurring items including the impairment loss on goodwill and the above-mentioned tax benefit from the recognition of the IRES tax refund relating to the IRAP tax calculated on labor costs, the net result for the year would have been a profit of 1,908 million euros (1,691 million euros in 2011).

## Financial Position and Cash Flows Performance

## Financial position structure

(millions of euros)	12/31/2012 (a)	12/31/2011 (b)	Change (a-b)
Assets			
Non-current assets	59,429	64,043	(4,614)
Goodwill	30,611	34,627	(4,016)
Other intangible assets	4,726	4,865	(139)
Tangible assets	10,493	10,817	(324)
Other non-current assets	12,775	12,852	(77)
Deferred tax assets	824	882	(58)
Current assets	7,341	8,110	(769)
Inventories, Trade and miscellaneous receivables and other current assets	4,301	5,172	(871)
Current income tax receivables	55	–	54
Current financial assets	2,985	2,938	47
	66,770	72,153	(5,383)
Equity and liabilities			
Equity	17,729	20,537	(2,808)
Non-current liabilities	36,613	36,736	(123)
Current liabilities	12,428	14,880	(2,452)
	66,770	72,153	(5,383)
Non-current assets			

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Goodwill: down 4,016 million euros as a result of the previously mentioned goodwill impairment loss attributed to Telecom Italia S.p.A..

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Other intangible assets: down 139 million euros being the balance of the following:

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additions (+1,198 million euros),

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amortization charge for the year (-1,385 million euros),

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capitalization of borrowing costs (+52 million euros),

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disposals, reclassifications and other movements (-4 million euros).

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Tangible assets: down 324 million euros being the balance of the following:

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additions (+1,808 million euros),

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depreciation charge for the period (-2,107 million euros),

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disposals, reclassifications and other movements (-25 million euros).

## Equity

Equity amounts to 17,729 million euros, decreasing 2,808 million euros compared to December 31, 2011 (20,537 million euros). The changes in equity during 2012 and 2011 are reported in the following table:

(millions of euros)	12/31/2012	12/31/2011
At the beginning of the year	20,537	25,564
Profit (loss) for the year	(1,821)	(3,645)
Dividends approved	(900)	(1,190)
Issue of equity instruments and other changes	17	7
Movements in the reserve for available-for-sale financial assets and derivative hedging instruments	(65)	(273)
Movements in the reserve for remeasurements of employee defined benefit plans (IAS 19)	(39)	74
At the end of the year	17,729	20,537

## Cash flows

## Change in net financial debt

(millions of euros)	2012	2011	Change
EBITDA	8,433	8,936	(503)
Capital expenditures on an accrual basis	(3,005)	(4,122)	1,117
Change in net operating working capital:	174	(116)	290
<i>Change in inventories</i>	13	(13)	26
<i>Change in trade receivables and net amounts due from customers on construction contracts</i>	818	132	686
<i>Change in trade payables (*)</i>	(273)	(160)	(113)
<i>Other changes in operating receivables/payables</i>	(384)	(75)	(309)
Change in provisions for employees benefits	(232)	(158)	(74)
Change in operating provisions and Other changes	41	(43)	84
Net operating free cash flow	5,411	4,497	914
<i>% of Revenues</i>	32	25	
Sale of investments and other disposals flow	29	60	(31)
Financial investments flow	(61)	(42)	(19)
Dividends flow	(768)	(936)	168
Issue of equity instruments	—	—	—

Financial expenses, income taxes and other net non-operating requirements flow	(3,087)	(3,395)	308
Reduction (Increase) in net financial debt	1,524	184	1,340

(\* ) Includes the change in trade payables for amounts due to fixed asset suppliers.

Net operating free cash flow in 2012 is up by 914 million euros on 2011 due to lower requirements for capital expenditures (1,117 million euros, mainly due to the above-mentioned acquisition in 2011 of LTE frequency user rights) and the positive trend in net operating working capital, whose effects were partially offset by the reduction in EBITDA (-483 million euros).

In 2012 a number of disputes were settled with another operator which had no significant effect on the change in net operating working capital and on operating cash flows. This settlement led to a reduction in trade receivables of 350 million euros and trade payables of 432 million euros, and a reduction in other net operating receivables/payables of 55 million euros.

In addition to what has already been described with reference to EBITDA, net financial debt during 2012 was particularly impacted by the following items:

#### Capital expenditures on an accrual basis

Capital expenditures amount to 3,005 million euros (4,122 million euros in 2011), decreasing 1,117 million euros (-27.1%), which reflects the net effect of additions in tangible assets of 36 million euros and the decrease in capital expenditures on intangible assets of 1,153 million euros. Moreover, the 2011 figure took into account the acquisition of user rights for the 800, 1800 and 2600 MHz frequencies to be allocated to broadband mobile services totaling 1,223 million euros.

#### Sale of investments and other disposals flow

Sale of investments and other disposals flow amount to 29 million euros and is mainly generated by the consideration for the sale of the subsidiary Matrix (57 million euros), partially offset by the cash transferred to the SSC Information Technology business, later renamed Telecom Italia Information Technology.

#### Financial investments flow

Financial investment flow amounts to 61 million euros for payments made to subsidiaries and associates for share capital increases or replenishment of share capital and/or partial coverage of losses (20 million euros to Olivetti, 15 million euros to Matrix, 10 million euros to TI Information Technology, 10 million euros to Telecontact, 3 million euros to Tierra Argentea and 2 million euros to Consorzio CRIAI in liquidation).

#### Dividends flow

Dividends flow amounts to 768 million euros, which is the difference between dividends paid out (900 million euros) and dividends received (132 million euros).

#### Finance expenses, income taxes and other net non-operating requirements flow

Finance expenses, income taxes and other net non-operating requirements flow mainly includes the payment, during 2012, of income taxes (1,097 million euros), net finance expenses and the change in non-operating receivables and payables.

## Net financial debt

Net financial debt is 34,878 million euros, decreasing 1,524 million euros compared to 36,402 million euros at the end of 2011.

In addition to the usual indicator (renamed *Net financial debt carrying amount* ), another indicator is also presented called *Adjusted net financial debt* which excludes effects that are purely accounting and non-monetary in nature deriving from the fair value measurement of derivatives and related financial assets and liabilities.

The composition is the following:

(millions of euros)	12/31/2012	12/31/2011	Change
Non-current financial liabilities			
Bonds	15,138	13,131	2,007
Amounts due to banks, other financial payables and liabilities	18,591	20,510	(1,919)
Finance lease liabilities	1,158	1,300	(142)
	34,887	34,941	(54)
Current financial liabilities (1)			
Bonds	1,192	5,327	(4,135)
Amounts due to banks, other financial payables and liabilities	4,016	1,723	2,293
Finance lease liabilities	217	240	(23)
	5,425	7,290	(1,865)
Total Gross financial debt	40,312	42,231	(1,919)
Non-current financial assets			
Financial receivables and other non-current financial assets	(2,449)	(2,891)	442
	(2,449)	(2,891)	442
Current financial assets			
Securities other than investments	(363)	(864)	501
Financial receivables and other current financial assets	(476)	(479)	3
Cash and cash equivalents	(2,146)	(1,595)	(551)
	(2,985)	(2,938)	(47)
Total financial assets	(5,434)	(5,829)	395
Net financial debt carrying amount	34,878	36,402	(1,524)
Reversal of fair value measurement of derivatives and related financial assets/liabilities	(1,651)	(1,519)	(132)
Adjusted net financial debt	33,227	34,883	(1,656)
<i>Breakdown as follows:</i>			
Total adjusted gross financial debt	37,010	38,713	(1,703)
Total adjusted financial assets	(3,783)	(3,830)	47

(1) of which current portion of medium/long-term debt:

Bonds	1,192	5,327	(4,135)
Amounts due to banks, other financial payables and liabilities	2,301	681	1,620
Finance lease liabilities	217	240	(23)

The non-current portion of gross financial debt is 34,887 million euros (34,941 million euros at the end of 2011) and represents 87% of total gross financial debt.

In keeping with the Group's objectives in terms of debt composition and in accordance Guidelines adopted for the Management and control of financial risk, Telecom Italia S.p.A., in securing both third-party and intercompany loans, uses IRS and CCIRS derivative financial instruments to hedge its liabilities.

Derivative financial instruments are designated as fair value hedges for the management of exchange rate risk on financial instruments denominated in currencies other than euro and for the management of interest rate risk on fixed-rate loans. Derivative financial instruments are designated as cash flow hedges when the objective is to fix the exchange rate and interest rate of future variable contractual flows.

#### Sales of receivables to factoring companies

The sales of receivables to factoring companies finalized in 2012 resulted in a positive effect on net financial debt at December 31, 2012 of 1,183 million euros (1,291 million euros at December 31, 2011).

#### Bonds

Bonds at December 31, 2012 total 16,330 million euros (18,458 million euros at December 31, 2011). Their nominal repayment amount is 15,624 million euros, decreasing 1,965 million euros compared to December 31, 2011 (17,589 million euros), including the bond repayment of 2,500 million euros to the subsidiary Telecom Italia Finance S.A.

The change in bonds during 2012 is as follows:

(millions of original currency)	Currency	Amount	
New issues			Issue date
Telecom Italia S.p.A. 750 million euros 4.625% maturing 6/15/2015	Euro	750	6/15/ 2012
Telecom Italia S.p.A. 750 million euros 6.125% maturing 12/14/2018	Euro	750	6/15/ 2012
Telecom Italia S.p.A. 1,000 million euros 4.500% maturing 9/20/2017	Euro	1,000	9/20/ 2012
Telecom Italia S.p.A. 1,000 million euros 4.000% maturing 1/21/2020	Euro	1,000	12/21/ 2012
Repayments			Repayment date
Telecom Italia S.p.A. 1,222.5 million euros 6.250% <sup>(1)</sup>	Euro	1,222.5	2/1/ 2012
	Euro	1,000	12/6/ 2012

Telecom Italia S.p.A. 1,000 million euros 3-month  
Euribor + 0.53%

(1)

Net of buybacks by the Company of 27.5 million euros during 2011.

In 2012, Telecom Italia S.p.A. bought back the following bonds:

(millions of original currency)	Currency	Amount	Buyback periods
Buybacks			
Telecom Italia S.p.A. 432 million euros 6.750%			
maturing March 2013 <sup>(1)</sup>	Euro	212.9	July 2012
Telecom Italia S.p.A. 268 million euros 3-month Euribor + 0.63%			
maturing July 2013	Euro	232.3	July 2012
Telecom Italia S.p.A. 284 million euros 7.875%			
maturing January 2014	Euro	215.9	July 2012
Telecom Italia S.p.A. 557 million euros 4.750%			
maturing May 2014	Euro	116.2	July 2012

(1) In December 2011 the Company had already made a buyback on this bond for 5 million euros. As a result, the total amount bought back is 218 million euros.

In reference to the Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group, at December 31, 2012, the nominal amount is equal to 230 million euros and decreased by 36 million euros compared to December 31, 2011 (266 million euros).

## Revolving Credit Facility and Term Loan

The following table shows the composition and the draw down of the committed credit lines available at December 31, 2012:

(billions of euros)	12/31/2012		12/31/2011	
	Agreed	Drawn down	Agreed	Drawn down
Revolving Credit Facility expiring February 2013	1.25	-	1.25	0.25
Revolving Credit Facility expiring August 2014	8.0	1.5	8.0	2.0
Revolving Credit Facility - expiring December 2013	0.2	-	0.2	0.2
Total	9.45	1.5	9.45	2.45

On May 24, 2012, Telecom Italia signed a new contract to extend half of the Revolving Credit Facility (RCF) of 8 billion euros expiring August 2014. The extension was obtained through a Forward Start Facility of 4 billion euros which will come into effect in August 2014 (or at a prior date if Telecom Italia early cancels the commitments under the current RCF 2014) and will expire in May 2017.

On September 21 and 28, 2012 the Company repaid the draw downs of 200 million and 250 million euros on the Revolving Credit Facilities expiring December 2013 and February 2013, respectively.

On October 8, 2012 the drawdown of 500 million euros on the Revolving Credit Facility expiring August 2014 was repaid. As a result, the overall facility of 8 billion euros has currently been drawn down for a total of 1.5 billion euros.

Telecom Italia also has a bilateral stand-by credit line expiring August 3, 2016 for 100 million euros from Banca Regionale Europea, drawn down for the full amount.

## Maturities of financial liabilities

The average maturity of non-current financial liabilities is 7.20 years.

For details of the maturities of financial liabilities in terms of expected nominal repayment amounts, as contractually agreed, reference should be made to the Notes Financial Liabilities (current and non-current) and Financial Risk Management in the separate financial statements of Telecom Italia S.p.A. at December 31, 2012.

#### Financial assets

Financial assets total 5,434 million euros (5,829 million euros at December 31, 2011) of which 897 million euros relating to financial receivables from Group companies.

Moreover, 2,985 million euros (2,938 million euros at December 31, 2011) are classified as current financial assets. This level of current assets, together with unused committed credit lines of 7.95 billion euros, allows the Company to amply meet its repayment obligations.

#### In particular:

•

Cash and cash equivalents amount to 2,146 million euros (1,595 million euros at December 31, 2011). The different technical forms of investing available cash at December 31, 2012 can be analyzed as follows:

–

Maturities: investments have a maximum maturity of three months;

–

Counterpart risk: investments by the European companies are made with leading banking, financial and industrial institutions with high-credit-quality.

–

Country risk: investments are made mainly in major European financial markets.

•

Securities other than investments amount to 363 million euros (864 million euros at December 31, 2011): such forms of investment represent alternatives to the investment of liquidity with the aim of raising the return. They consist of Italian treasury bonds (358 million euros) and Treasury Credit Certificates (5 million euros assigned to Telecom Italia S.p.A. as the holder of trade receivables, as per Italian Ministry of the Economy and Finance Decree of December 3, 2012). The purchases of BTPs and CCTs, which, pursuant to Consob Communication DEM/11070007 of August 5, 2011, represent investments in Sovereign debt securities, have been purchased in accordance with the Guidelines for

the Management and control of financial risk adopted by the Telecom Italia Group in August 2012, in replacement of the previous policy in force since July 2009. For further details, reference should be made to the Note Financial risk management in the separate financial statements of Telecom Italia S.p.A. at December 31, 2012.

## Financial Statements - Telecom Italia S.p.A.

## Separate Income Statements

(millions of euros)	2012	2011 (Restated)	Change	
			amount	%
Revenues	16,940	18,045	(1,105)	(6.1)
Other income	241	247	(6)	(2.4)
Total operating revenues and other income	17,181	18,292	(1,111)	(6.1)
Acquisition of goods and services	(5,940)	(6,324)	384	(6.1)
Employee benefits expenses	(2,490)	(2,702)	212	(7.8)
Other operating expenses	(656)	(705)	49	(7.0)
Change in inventories	(13)	13	(26)	°
Internally generated assets	351	362	(11)	(3.0)
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	8,433	8,936	(503)	(5.6)
Depreciation and amortization	(3,492)	(3,793)	301	(7.9)
Gains (losses) on disposals of non-current assets	20	(9)	29	°
Impairment reversals (losses) on non-current assets	(4,017)	(5,380)	1,363	°
Operating profit (loss) (EBIT)	944	(246)	1,190	°
Income (expenses) from investments	36	(147)	183	°
Finance income	2,233	2,538	(305)	(12.0)
Finance expenses	(4,238)	(4,625)	387	(8.4)
Profit (loss) before tax	(1,025)	(2,480)	1,455	°
Income tax expense	(796)	(1,165)	369	31.7
Profit (loss) for the year	(1,821)	(3,645)	1,824	°

## Statements of Comprehensive Income

In accordance with IAS 1 (Presentation of Financial Statements), which came into effect on January 1, 2009, the following statements of comprehensive income include the profit (loss) for the year as shown in the separate consolidated income statements and all non-owner changes in equity.

(millions of euros)		2012	2011 (Restated)
Profit (loss) for the year	(a)	(1,821)	(3,645)
Other components of the Statements of Comprehensive Income			
Available-for-sale financial assets			
Profit (loss) from fair value adjustments		44	9
Net fiscal impact		(12)	(4)
	(b)	32	5
Hedging instruments			
Profit (loss) from fair value adjustments		(458)	(506)
Loss (profit) transferred to the Separate Income Statement		324	122
Net fiscal impact		37	106
	(c)	(97)	(278)
Remeasurements of employee defined benefit plans (IAS 19)			
Actuarial gains (losses)		(53)	102
Net fiscal impact		15	(28)
	(d)	(38)	74
Total	(e=b+c+d)	(103)	(199)
Total comprehensive income (loss) for the year	(a+e)	(1,924)	(3,844)

## Statements of Financial Position

(millions of euros)	12/31/2012	12/31/2011	Change	
	(a)	(b)	(a-b)	
Assets				
Non-current assets				
Intangible assets				
Goodwill	30,611	34,627	(4,016)	
Intangible assets with a finite useful life	4,726	4,865	(139)	
	35,337	39,492	(4,155)	
Tangible assets				
Property, plant and equipment owned	9,488	9,726	(238)	
Assets held under finance leases	1,005	1,091	(86)	
	10,493	10,817	(324)	
Other non-current assets				
Investments	9,330	9,416	(86)	
Non-current financial assets	2,449	2,891	(442)	
Miscellaneous receivables and other non-current assets	996	545	451	
Deferred tax assets	824	882	(58)	
	13,599	13,734	(135)	
Total Non-current assets	(a)	59,429	64,043	(4,614)
Current assets				
Inventories	112	125	(13)	
Trade and miscellaneous receivables and other current assets	4,189	5,047	(858)	
Current income tax receivables	55	–	55	
Current financial assets				
<i>Securities other than investments, financial receivables and other current financial assets</i>	839	1,343	(504)	
<i>Cash and cash equivalents</i>	2,146	1,595	551	
	2,985	2,938	47	
Total Current assets	(b)	7,341	8,110	(769)
Total Assets	(a+b)	66,770	72,153	(5,383)
Equity and liabilities				
Equity				
Share capital issued	10,694	10,694	–	
less: Treasury shares	(21)	(21)	–	
Share capital	10,673	10,673	–	
Paid-in capital	1,704	1,704	–	
Other reserves and retained earnings, including profit (loss) for the year	5,352	8,160	(2,808)	
Total Equity	(c)	17,729	20,537	(2,808)
Non-current liabilities				
Non-current financial liabilities	34,887	34,941	(54)	

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Employee benefits		728	741	(13)
Deferred tax liabilities		2	1	1
Provisions		478	468	10
Miscellaneous payables and other non-current liabilities		518	585	(67)
Total Non-current liabilities	(d)	36,613	36,736	(123)
Current liabilities				
Current financial liabilities		5,425	7,290	(1,865)
Trade and miscellaneous payables and other current liabilities		7,003	7,527	(524)
Current income tax payables		–	63	(63)
Total Current Liabilities	(e)	12,428	14,880	(2,452)
Total Liabilities	(f=d+e)	49,041	51,616	(2,575)
Total Equity and Liabilities	(c+f)	66,770	72,153	(5,383)

## Statements of Cash Flows

(millions of euros)	2012	2011 (Restated)
Cash flows from operating activities:		
Profit (loss) for the year	(1,821)	(3,645)
Adjustments for:		
Depreciation and amortization	3,492	3,793
Impairment losses (reversals) on non-current assets (including investments)	4,122	5,829
Net change in deferred tax assets and liabilities	99	110
Losses (gains) realized on disposals of non-current assets (including investments)	(29)	(31)
Change in employee benefits	(232)	(158)
Change in inventories	13	(13)
Change in trade receivables and net amounts due from customers on construction contracts	818	132
Change in trade payables	(571)	(196)
Net change in current income tax receivables/payables	(451)	29
Net change in miscellaneous receivables/payables and other assets/liabilities	(261)	(86)
Cash flows from (used in) operating activities	(a) 5,179	5,764
Cash flows from investing activities:		
Purchase of intangible assets on an accrual basis	(1,197)	(2,351)
Purchase of tangible assets on an accrual basis	(1,808)	(1,771)
Total purchase of intangible and tangible assets on an accrual basis	(3,005)	(4,122)
Change in amounts due to fixed asset suppliers	217	510
Total purchase of intangible and tangible assets on a cash basis	(2,788)	(3,612)
Acquisitions/disposals of control of subsidiaries or other businesses, net of cash acquired	57	–
Acquisitions/disposals of other investments	(60)	(42)
Change in financial receivables and other financial assets	943	(313)
Proceeds from sale/repayment of intangible, tangible and other non-current assets	29	60
Cash flows from (used in) investing activities	(b) (1,819)	(3,907)
Cash flows from financing activities:		
Change in current financial liabilities and other	(102)	788
Proceeds from non-current financial liabilities (including current portion)	3,940	4,083
Repayments of non-current financial liabilities (including current portion)	(6,670)	(6,391)
Share capital proceeds/reimbursements	–	–

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Dividends paid		(900)	(1,190)
Cash flows from (used in) financing activities	(c)	(3,732)	(2,710)
Aggregate cash flows	(d=a+b+c)	(372)	(853)
Net cash and cash equivalents at beginning of the year	(e)	1,283	2,136
Net cash and cash equivalents at end of the year	(f=d+e)	911	1,283

## Additional Cash Flow Information

(millions of euros)	2012	2011 (Restated)
Income taxes (paid)/received	(1,097)	(1,010)
Interest expense paid	(3,576)	(3,311)
Interest income received	1,717	1,440
Dividends received	132	254

## Analysis of Cash and Cash Equivalents

(thousands of euros)	2012	2011 (Restated)
Net cash and cash equivalents at beginning of the year:		
Cash and cash equivalents	1,595	2,763
Bank overdrafts repayable on demand	(312)	(627)
	1,283	2,136
Net cash and cash equivalents at the end of the year:		
Cash and cash equivalents	2,146	1,594
Bank overdrafts repayable on demand	(1,235)	(311)
	911	1,283

## Reconciliation of Consolidated Equity

(millions of euros)	Profit (loss) for the year		Equity at 12/31	
	2012	2011	2012	2011
Equity and Profit (Loss) for the year of Telecom Italia S.p.A.	(1,821)	(3,645)	17,729	20,537
Equity and Profit (Loss) for the year of consolidated companies, net of the share attributable to Non-controlling interests	816	1,107	18,912	19,727
Consolidation adjustments on the Equity and Profit (Loss) for the year attributable to owners of the Parent:				
elimination of carrying amount of consolidated investments	–	–	(30,723)	(31,899)
impairment losses of consolidated companies included in the results of parent companies	201	779	11,037	11,091
elimination of goodwill recognized in Parent financial statements	4,016	5,376	(30,611)	(34,627)
recognition of positive differences arising from purchase of investments, of which:				
- goodwill	(4,264)	(7,307)	32,172	36,651
- allocation of the purchase price to the net assets acquired and the liabilities assumed in the business combinations	(48)	(26)	236	322
effect of elimination of carrying amount of Parent's shares held by Telecom Italia Finance	–	1	(85)	(103)
valuation of investments using the equity method, net of dividends	(6)	(39)	16	22
intragroup dividends	(570)	(936)	–	–
adjustments of losses (gains) on disposals of investments	38	(119)	–	–
elimination of internal profits included in tangible and intangible assets	(2)	4	(36)	(23)

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measurement of hedging derivatives, from Group's view	5	44	705	801
other adjustments	8	(50)	26	291
Equity and Profit (Loss) for the year attributable to owners of the Parent	(1,627)	(4,811)	19,378	22,790
Equity and Profit (Loss) for the year attributable to Non-controlling interests	350	445	3,634	3,904
Equity and Profit (Loss) for the year in the consolidated financial statements	(1,277)	(4,366)	23,012	26,694

Corporate Boards at December 31, 2012

Board of Directors

The shareholders' meeting held on April 12, 2011 appointed the new board of directors of the Company, composed of 15 directors, with a three-year term of office (until the approval of the financial statements for the year ended December 31, 2013). On April 13, 2011, the board of directors thus appointed Franco Bernabè as Executive Chairman (Chairman of the Board and Chief Executive Officer), Aldo Minucci as Deputy Chairman and Marco Patuano as Managing Director and Chief Operating Officer.

Subsequently, on May 15, 2012, the shareholders' meeting confirmed the appointment to the end of the three-year term of office of the directors Lucia Calvosa and Massimo Egidi, who were co-opted to replace, respectively, the resigning directors Ferdinando Falco Beccalli and Francesco Profumo.

At December 31, 2012 the board of directors is composed of the following members:

Executive Chairman Franco Bernabè

Deputy Chairman Aldo Minucci

Managing Director and Marco Patuano

Chief Operating

Officer

Directors César Alierta Izuel

Tarak Ben Ammar

Lucia Calvosa (independent)

Elio Cosimo Catania (independent)

Massimo Egidi (independent)

Jean Paul Fitoussi (independent)

Gabriele Galateri di Genola

Julio Linares López

Gaetano Micciché

Renato Pagliaro

Mauro Sentinelli (independent)

Luigi Zingales (independent)

Secretary to the Board Antonino Cusimano

All the board members are domiciled for the positions they hold in Telecom Italia at the registered offices of the Company in Milan, Piazza degli Affari 2.

On April 13, 2011, the board of directors set up the following board Committees, which are composed of the members below as of December 31, 2012:

•

Executive Committee - Executive Chairman, Deputy Chairman, Managing Director and Chief Operating Officer, Directors Elio Cosimo Catania, Julio Linares López, Renato Pagliaro and Mauro Sentinelli;

•

Committee for Internal Control and Corporate Governance (since December 6, 2012: Control and Risk Committee) – Directors Elio Cosimo Catania (Chairman of the Committee), Jean Paul Fitoussi, Lucia Calvosa, Mauro Sentinelli and Luigi Zingales;

•

Nomination and Remuneration Committee - Directors Elio Cosimo Catania (Chairman of the Committee), Jean Paul Fitoussi, Gabriele Galateri di Genola and Massimo Egidi.

The curricula vitae of the members of the board of directors can be consulted on the Company's website at the following address: [www.telecomitalia.com](http://www.telecomitalia.com).

#### Board of Statutory Auditors

The ordinary shareholders' meeting held on May 15, 2012 appointed the board of statutory auditors of the Company which will remain in office until the approval of the financial statements for the year 2014.

On September 18, 2012 the resigning Sabrina Bruno was replaced by Roberto Capone (formerly an Alternate Auditor drawn from the same list putting forth Professor Bruno's candidacy).

The board of statutory auditors is composed as follows at December 31, 2012:

Chairman	Enrico Maria Bignami
Acting Auditors	Roberto Capone Gianluca Ponzellini Salvatore Spiniello Ferdinando Superti Furga
Alternate Auditors	Ugo Rock Vittorio Mariani Franco Patti

The *curricula vitae* of the members of the board of statutory auditors can be consulted on the Company's website at the following address: [www.telecomitalia.com](http://www.telecomitalia.com).

#### Independent Auditors

The shareholders' meeting held on April 29, 2010 appointed the audit firm of PricewaterhouseCoopers S.p.A. to audit the Telecom Italia financial statements for the nine-year period 2010-2018.

#### Manager responsible for preparing the Company's financial reports

Piergiorgio Peluso (Head of the Group Administration, Finance and Control Function) is the manager responsible for preparing Telecom Italia's financial reports.

Macro-Organization Chart at December 31, 2012

(1)

Valerio Cavallo took over responsibility for the Compliance Department on February 13, 2013.

(2)

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

(3)

Rodrigo Modesto de Abreu will be replacing Andrea Mangoni as *Director Presidente* of Tim Participacoes from March 4, 2013.

(4)

On February 27, 2013 the board of directors of Telecom Argentina appointed Stefano De Angelis *Director General Ejecutivo* (CEO) of the Telecom Argentina Group.

## Footnotes

(1)

The average exchange rates used for the translation into euro (expressed in terms of units of local currency per 1 euro) are: for the Brazilian real, 2.50953 in 2012 and 2.32669 in 2011; and for the Argentine peso, 5.84408 in 2012 and 5.74419 in 2011. The effect of the change in exchange rates is calculated by applying, to the period under comparison, the foreign currency translation rates used for the current period.

(2)

In 2011 and until June 2012 this Business area was called TI Media – La7 and it included Corporate activities in addition to the TV business.

(3)

Agreement signed in March 2012 by twenty five heads of states and governments (except for the United Kingdom and the Czech Republic) which establishes the obligation to balance the budget – an obligation incorporated in the Italian Constitution – and sets severe penalties for non-compliance. In addition to this, the agreement outlines a process of forced steps to reduce the public debt. The Fiscal Compact dictates that any member states with a public debt to GDP ratio exceeding 60% must reduce the excess value above the threshold by one twentieth each year. To date, only twelve member states have ratified the pact (including Italy, with Finland being the most recent member state to ratify it), which is still a sufficient number to trigger its entry into force.

### Sustainability

#### Introduction

For the past 16 years, Telecom Italia has been publishing its own sustainability report, in which it analyses the Group's performance in respect of the main stakeholders with whom it interacts: Customers, Suppliers, The Environment, The Community, Human Resources and Shareholders.

As a confirmation of the importance attached to this subject, as of 2003, information and indicators regarding sustainability have been incorporated into the Report on Operations, consistent with the Group's intention to present financial and non-financial data together.

#### References and Governance

The Telecom Italia Group operates with the conviction that business activities must be conducted in a way that considers the expectations of stakeholders, in keeping with the principles established by internationally recognised standards. In defining and implementing its sustainability strategy and programmes, the Group is inspired by the guidelines issued by the main global guidance and standardisation organisations in the field of Corporate Responsibility.

In 2002, Telecom Italia subscribed to the principles of the main point of reference at the global level, that is, the Global Compact, which was launched in 2000 by the UN to promote the protection of the environment, respect for

human rights and working standards, and anti-corruption practices.

The System of Sustainability Management also takes into account the principal reference regulations and international standards:

•

European Commission directives, recommendations and communications;

•

the OCSE guidelines directed at multinational enterprises;

•

ISO 9000 and ISO 14000 quality and environmental management system certifications;

•

the principles of the Conventions of the International Labour Organisation (ILO) on respecting the fundamental rights of workers;

•

the Social AccountAbility 8000 standard (SA 8000), aimed at promoting respect for human rights and working conditions by companies and their supply chains;

•

AA1000 AccountAbility Principles Standard (APS 2008) drawn up by AccountAbility, an international organisation which promotes collaboration between stakeholders, and lays down standards and guidelines on matters of sustainability. The APS 2008 establishes the principles that a company must respect in order to define itself as accountable;

•

ISO 26000 guidelines for private and public organisations of all sizes.

The Group's Corporate Governance system is founded on the central role of the Board of Directors and the Independent Administrators, the transparency of management decisions, the effectiveness of the Internal Control System and on the strict regulations on potential conflicts of interest. The Internal Control System includes the Organisational Model pursuant to Legislative Decree No. 231 of June 8, 2001, aimed at preventing offences such as corruption, extortion and corporate offences.

Sustainability issues are subject to the supervision of the Control and Risk Committee, which performs guidance and control of sustainability activities in general, including projects conducted by the Telecom Italia Foundation, to ensure they are consistent with the Group's ethical values.

Placement in the indexes

Sustainability indexes are stock indexes in which securities are selected not only on the basis of economic-financial parameters but also in the light of social and environmental criteria. The selection process is carried out by specialised agencies that assess companies on the basis of publicly available information or questionnaires, taking account of opinions expressed by the media and stakeholders.

Inclusion in these indexes is of strategic importance to companies because of the positive effects on their reputation and because, in addition to the pension funds and ethical funds, an ever increasing number of investors favour sustainable companies, considering them to be less risky and more promising in the medium to long term.

Taking part in the process of evaluation is, moreover, a timely moment for reflection within the company on the results achieved. The suggestions of the rating agencies at the end of the process are taken into consideration when planning improvement actions in the future.

In 2012, Telecom Italia's place was confirmed, for the ninth year running, in both the Dow Jones Sustainability indexes:

- 

the Dow Jones Sustainability World Index (DJSI World), which includes 340 components;

- 

the Dow Jones Sustainability Europe index (DJSI Europe), consisting of 166 European components, and the respective Eurozone sub-index.

Since the inception of the Financial Times Stock Exchange for Good (FTSE4Good) series, Telecom Italia has been present in all the major indexes:

- 

FTSE4Good Global, consisting of 723 components;

- 

FTSE4Good Europe, consisting of 282 components;

- 

FTSE4Good Environmental Leaders Europe, which includes 40 components selected from the FTSE4Good Europe on the basis of the results achieved on matters of environmental protection.

Telecom Italia is also included in the following indexes:

- 

Vigeo:

-

World 120, consisting of 120 components;

-

Europe 120, consisting of 120 components.

•

Advanced Sustainable Performance Index (ASPI) Eurozone, consisting of 120 components;

•

Ethibel Sustainability Indexes (ESI):

-

Excellence Europe, comprising 199 components;

-

Excellence Euro, consisting of 114 components;

-

Excellence Global, comprising 110 components.

•

MSCI ESG Indexes:

-

MSCI WORLD ESG INDEX, consisting of 761 components;

-

MSCI WORLD formerly USA ESG INDEX, consisting of 452 components;

-

MSCI EAFE ESG INDEX, consisting of 413 components;

-

MSCI EUROPE ESG INDEX, consisting of 204 components.

•

ECPI Indexes:

-

ECPI Ethical Global Equity, consisting of 300 components;

-

Footnotes

ECPI Ethical Euro Equity, consisting of 150 components;

-

ECPI Ethical EMU Equity, consisting of 150 components.

Telecom Italia is also included in the FTSE-ECPI SRI Benchmark.

Telecom Italia is classified as "prime" in the OEKOM rating.

Tim Participações had its position confirmed in the ISE (Índice de Sustentabilidade Empresarial) index managed by BM&F Bovespa (the São Paulo Stock Exchange), together with the Brazilian Environment Ministry and other financial and sustainability organisations. The index consists of 37 components that have achieved the highest sustainability scores, selected on the basis of a questionnaire submitted to the 183 most traded companies on the BM&F Bovespa.

#### Communication of non-financial performance

In the context of the Alliance between the European Commission and companies launched in March 2006 with the aim of turning Europe into a centre of excellence in CSR, a "Sustainability and non-financial performance evaluation" laboratory has been set up, of which Telecom Italia has been a co-leader. Following a widespread consultation process involving companies, investors, academics,

representatives of the European Commission and stakeholders in Italy and abroad, the laboratory launched an advanced non-financial performance communication model. On the basis of the opinions expressed, the model identified six priority areas (human capital, customer relations, the community, innovation, the environment and corporate governance) in which companies and investors are both interested, and in respect of which, therefore, the high quality reporting of financial information by companies is valued by the financial markets and taken into consideration for the purpose of valuations. During 2012, the laboratory's work continued in the context of a project launched by CSR Europe and ABIS (Academy for Business in Society), in which Telecom Italia plays a leading role together with other big companies and international organisations.

The work is structured into 2 project categories with the following objectives:

- sharing the best practice used by companies to measure and manage non-financial performance;
- identifying a small number of concise sustainability performance indicators (superfactors), shared with the financial community (analysts, asset managers, banks, pension funds, etc.).

The preliminary results of the first set of projects were presented in Brussels on November, 29 last year.

## Reporting

### Scope and criteria

In accordance with the principle of materiality, unless otherwise stated (see the Human Resources chapter), only subsidiaries included in the consolidated accounts that have revenue greater than 300,000 euros and more than 40 employees, excluding discontinued companies and non-current assets held for sale, are taken into consideration in the sustainability reporting.

In accordance with the triple bottom line approach, the company's economic and financial data has to be analysed and represented together with the environmental and social results. Only an overall analysis of company performance including all three dimensions can provide stakeholders with comprehensive information and allow interests to be balanced in a way that guarantees the success and survival of the company in the medium and long term. For this reason, the Group has included sustainability data in the Consolidated Financial Statements since 2003, pre-empting the implementation of European Directive 51/2003, which was transposed in Italy by Legislative Decree no. 32 of February 2, 2007.

The Sustainability Report is based on a multi-stakeholder approach involving the joint analysis of actions taken in respect of the main stakeholders with whom the Company interacts. It is drawn up on the basis of a system of Key Performance Indicators (KPIs) relating to all the areas in which the Company has a major impact and measuring its capacity to respond as well as the degree to which it has achieved the established objectives.

The KPIs are defined on the basis of:

- 

the analysis of the Global Reporting Initiative (GRI), an international organisation which has developed universally applicable guidelines for drawing up the sustainability report, in order to facilitate comparisons between companies;

- 

the demands of stakeholders;

- 

the questionnaires sent out by the leading rating agencies for the purpose of admission to the stock market sustainability indexes;

- 

the experience gained over the 16 years during which the Company has performed this activity.

The KPIs are managed on the CPM system, a dedicated application, in a similar way to that in which financial reports are drawn up. Since 2008, Telecom Italia has had an A+ GRI Application Level for its sustainability reporting.

AccountAbility 1000 and Global Compact/GRI Cross reference Table

The Sustainability Report is based on the AA1000 AccountAbility Principles Standard (APS 2008), adopted as of the 2009 Financial Statements, and set out as below:

•

**inclusivity:** identification of the stakeholders and their expectations, and development of involvement strategies aimed at improving the Company's sustainability performance;

•

**materiality:** identification of the important issues for the organisation and its stakeholders;

•

**responsiveness:** a description of the initiatives carried out by the Company to meet the expectations of stakeholders.

The Telecom Italia Report's compliance with the AA1000 standard is verified by the auditing firm PricewaterhouseCoopers.

In accordance with the principle of materiality, the important themes have been identified, positioning them in the "materiality matrix" shown below, based on their impact on the expectations of stakeholders and the Group's activities.



## Economic value generated and distributed

The economic value generated and distributed to stakeholders is shown below<sup>(1)</sup>. Since 2008, the method of presentation recommended by the Global Reporting Initiative (GRI) has been adopted, with appropriate adaptation.

(million euros)	2012	2011
Direct economic value generated		
a) Total revenue and operating income	29,801	30,256
b) Interest payable and dividends paid	215	196
c) Net gains (losses) on disposals of non-current assets	53	3
d) Direct economic value generated (a+b+c)	30,069	30,455
Economic value distributed		
e) Operating costs	13,845	13,744
f) Employee costs	3,919	3,992
g) Shareholders and providers of capital	3,053	3,306
h) Taxes and duties	1,521	1,785
i) Economic value distributed (e+f+g+h)	22,338	22,827
Economic value retained (d-i)	7,731	7,628

(million euros)	2012	2011
Wages and salaries	2,793	2,788
Social security costs	971	993
Other expenses	155	211
Employee costs	3,919	3,992

(million euros)	2012	2011
Acquisition of external goods and services	12,948	12,859
Other operating costs <sup>(1)</sup>	1,490	1,510
Change in inventories	(12)	(56)
Internally generated assets	(581)	(569)
Operating costs	13,845	13,744

(1)

Mainly includes write-downs and charges connected to the management of non-financial credits of 548 million euros (533 million euros in 2011), accruals for risks of 214 million euros (128 million euros in 2011), and contributions and fees for the performance of Tlc activities of 621 million euros (675 million euros in 2011) net of Other taxes and duties of 391 million euros (349 million euros in 2011) included in the item Taxes and duties .

(million euros)	2012	2011
Dividends distributed	991	1,257
Interest payable	2,062	2,049
Shareholders and providers of capital	3,053	3,306

(million euros)	2012	2011
Income taxes	1,130	1,436
Indirect taxes and duties	391	349
Taxes and duties	1,521	1,785
regarding Italian activities	791	1,148
regarding activities abroad	730	637

Customers

Customer satisfaction

The customer listening system aimed at monitoring customer satisfaction covers the following areas:

- operational processes and events assessed on a "reactive" basis, i.e. immediately after a specific event (e.g. delivery, assurance, sale, sales support);
- customer contact channels (e.g. points of sale, customer care, web, billing);
- key products and services (e.g. fixed and mobile broadband, smartphones);
- life cycle monitored during the stages that characterise the customer's relationship with his/her operator;
- issues that have a cross-cutting impact on customer satisfaction (e.g. innovation);
- customer satisfaction assessed on a "reflective" basis, i.e. not in connection with a specific event, determined by the Customer Satisfaction Index - CSI - which adopts the international statistical survey standards (ACSI - American Customer Satisfaction Index model) to determine perceived quality in relation to the main satisfaction drivers for the various customer segments (fixed consumer, mobile consumer, fixed business, mobile business, top clients and public sector), particularly in comparison to similar services offered by the leading competitors. The CSI is certified in accordance with the UNI 11098:2003 standard (guidelines for determining customer satisfaction and for measuring the respective process indicators).

The CSI values of Telecom Italia by segment are shown below.

Customer segment<sup>(\*)</sup>

	2012	2011
CONSUMER	74.93	74.24
BUSINESS	64.59	62.97 <sup>( )</sup>
TOP CLIENTS AND PUBLIC SECTOR	70.88	69.14 <sup>( )</sup>
<b>TOTALS</b>	<b>71.98</b>	<b>70.84<sup>( )</sup></b>

(\*)

Average satisfaction is measured on a scale of 0-100, where 0 means not at all satisfied and 100 means completely satisfied .

( ) The 2011 result has been recalculated based on the new top clients and public sector and business "go to market" model.

The information in the following table refers to the average annual progressive value of total customer satisfaction with Telecom Italia's customer care service measured on a "reactive" basis.

Type of customer care customer

	Overall satisfaction <sup>(*)</sup>	
	2012	2011
187 consumer fixed telephony	8.46	8.32
119 consumer mobile telephony	8.69	8.56
191 business fixed telephony	8.10	7.06
191 business mobile telephony	8.22	7.13

(\*)

Average satisfaction measured on a scale of 1-10, where 1 means not at all satisfied and 10 means completely satisfied .

#### Customer satisfaction within the managerial incentives scheme

Telecom Italia's formal incentive systems include many targets associated with customer satisfaction, in keeping with the business plan for the current period. These targets are measured using customer satisfaction indexes monitored by means of periodic surveys: the overall CSI for the Company and the specific customer satisfaction indicators per customer segment.

Additional specific targets associated with quality parameters and consistent with the criteria established for corporate and segment customer satisfaction indexes have been established for particularly critical processes and activities (commercial and technical front-end).

Specific targets associated with customer satisfaction have also been established within the collective incentives scheme related to the employees of the Customer Operations and Open Access departments (canvass).

#### Suppliers

##### General matters

The selection, assessment and control of the Telecom Italia Group's suppliers, for high risk procurement markets, involve a pre-contractual qualification stage in which the economic/financial and technical/organisational characteristics are assessed. Verification of these characteristics leads to inclusion in the register of suppliers.

The Group requires every supplier to make a commitment, on behalf of the company in question and any authorised sub-contractors, collaborators and employees, to observe the principles of ethics and conduct contained in the Group's Code of Ethics.

Registered companies which have received purchase orders normally undergo checks during the supply period, including incoming quality control (a requirement for the acceptance and use of the purchased goods) and monitoring of the vendor rating (systematic assessment of the supply).

##### Sustainability initiatives

The main initiatives implemented in 2012 are listed below.

- 

The implementation of the new process that defines the activities aimed at improving the Corporate Social Responsibility (CSR) of the supply chain continued with a more comprehensive system of elements used to assess the sustainability of suppliers during the qualification stages, incoming quality and vendor rating.

The most significant aspects of the process include:

–

the preparation of a self-assessment questionnaire to be given to new suppliers in the qualification phase and others annually. The questionnaire was developed according to the main requirements contained in the relevant standards for responsible corporate management relating to respect for ethical values and to safeguarding the environment

(including SA 8000, Global Compact and ISO 14000) and to the best industry practices;

-

the classification of suppliers based on the potential risks associated with their sustainability performance, using a specific method that considers the social-environmental and business continuity aspects of the procurement markets they operate in. These markets are in fact classified based on parameters such as the geographical areas of reference, the potential impact of the suppliers' activities and of the products/services supplied throughout their entire life cycle on the environment and on the society, as well as the impact on the reputation of Telecom Italia as a customer. Furthermore, a matrix has been constructed that relates spending in the specific purchase market to the risk index calculated on the basis of the parameters described. This allowed the division of the procurement markets into four categories, identifying the most critical ones in terms of sustainability;

-

suppliers belonging to the most at risk categories will undergo CSR audits carried out by staff from the company or specialised third party companies. These audits will be repeated periodically to monitor the implementation of corrective actions and, if the results are positive, in order to verify that the standard of performance found is being maintained.

•

In December 2012, the ISO 9001:2008 certificate of conformity of the Quality Management System was confirmed for all the Procurement departments under the responsibility of the Business Support Officer, with specific recognition for the initiatives taken in the field of sustainability. Furthermore, the ISO 14001 certification was confirmed for the service unit facility and real estate and infrastructure acquisitions activities.

#### Sustainability checks

CSR verification activities continued in respect of common suppliers and sub-suppliers, as required by the Memorandum of Understanding (MoU) signed by Telecom Italia S.p.A., France Telecom S.A. and Deutsche Telekom AG at the end of 2009. In 2011 Belgacom SA, KPN B.V., Swisscom Ltd. and Vodafone Group Services Limited, and in 2012 Telenor ASA and Teliasonera AB, signed up to the memorandum.

The objectives of the initiative known as Joint Audit Cooperation (JAC) are:

•

to verify the sustainability of the most important suppliers/sub-suppliers that are common to the members of the JAC, with production plants located in geographical areas with the greatest socio-environmental risk. The verification is carried out by means of specific audits conducted by third parties using a specific method developed by the JAC members themselves, who share the results of the verifications;

•

to contribute to the increased sustainability of suppliers/sub-suppliers involved by identifying and implementing corrective actions and ongoing improvement programmes, establishing a long-lasting cooperation with reciprocal benefits in terms of efficiency, productivity and risk reduction in the context of the supply chain.

Thanks to the increase in the number of members, JAC's area of influence now extends to 86 production sites (suppliers and sub-contractors) located in Asia, Central and South America, and Eastern Europe. During 2010/2012, 74 audits were carried out by specialised international companies, selected by competitive tender, covering approximately 360 thousand workers in total. The suppliers included in the audit campaign conducted in 2012 belong to the user devices and appliances, network appliances and IT equipment production sectors.

Specific corrective action plans were drawn up for all the non-conformities encountered, establishing the resolution procedures and timetables. The implementation of these plans is monitored on a constant basis by the JAC members.

In total, the work allowed 59% of orders to be verified in the main procurement markets considered to be those with the greatest socio-environmental risk.

#### Involvement initiatives

•

During the year the suppliers' portal (Vendors Hub), launched at the end of 2011 and created to improve communication and optimise operational processes, was consolidated by applying social networking systems to the business context.

Suppliers are able to access a private area to view important data and events connected to their relationship with Telecom Italia and manage all their own details, thus improving the smooth operation and transparency of the relationship. The portal also includes a public area containing information for potential suppliers.

Documentation is exchanged electronically (e.g. offers, purchase orders, contracts, qualification documentation, surveys), thus reducing the environmental impact resulting from the use of paper and transporting of documents.

•

For the sixth consecutive year, the Group's main suppliers have been involved in the survey on satisfaction with the Purchasing department and, more generally, with Telecom Italia. The overall assessment of the supply relationship with the Telecom Italia Group achieved a score of 75/100, 2 percentage points higher than that achieved in 2011.

•

The two e-communities set up in previous years for suppliers in the civil infrastructure and network operations sectors, aimed at improving dialogue mainly regarding social and environmental sustainability, remain active.

The activities of the e-communities mainly take place through a platform known as TelecHome . Developed in Web 2.0 logic, it contributes to the exchange of information and experiences in order to:

- integrate the best operational practices adopted in specific subject areas;
- publish the results obtained, in terms of the environmental/social certifications and achievements attained;
- support voting campaigns on various initiatives, for their assessment.

## The Environment

### Environmental performance

The information regarding environmental performance has been drawn from management data, some of which is estimated. The environmental performance data given below covers energy, GHG emissions to air, water consumption, paper, waste and electromagnetic emissions.

### Energy

Energy consumption by Telecom Italia S.p.A. and the TI Group is presented according to the guidelines proposed by the Global Reporting Initiative (GRI G3 Guidelines) regarding direct consumption for heating and transport (Scope1 according to the GreenHouse Gas Protocol<sup>(2)</sup>) and indirect consumption for the purchase and use of electricity (Scope2).

### Heating systems

		Telecom Italia S.p.A. 2012	2012 vs 2011	Change% 2012 vs 2010
Energy consumption of diesel fuel	MJ	103,416,900	(13.95)%	(11.26)%
Energy consumption of natural gas	MJ	451,776,000	3.31%	3.57%
Total energy for heating	MJ	555,192,900	(0.41)%	0.45%

### Heating systems

		TI Group breakdown by Business Unit (%)					
		TI Group 2012	Domestic	Brazil	Argentina	Media	Olivetti
Total energy for heating	MJ	662,762,399	88.83%	0%	2.67%	0.29%	8.21%

The data in the table relating to Telecom Italia S.p.A. show that consumption for heating purposes remained substantially unchanged compared to 2011 and 2010. We should point out that major cogeneration plants came into operation in a number of Data Processing Centres in 2009; these plants produce electricity and heat at the same time, resulting in a reduction in the purchase of fossil fuels used exclusively to heat working environments.

In Brazil, the climate makes it unnecessary to heat indoor premises and in Argentina heating is only switched on for short periods of time and primarily in the coldest areas of the Country.

## Vehicles

Telecom Italia S.p.A. 2012				Change %	
				2012	2012
				vs 2011	vs 2010
Unleaded petrol consumption	1	815,038	MJ	26,228,749	(60.84)% (78.86)%
Diesel consumption	1	17,817,062	MJ	635,374,233	1.66% (0.76)%
LPG consumption	1	212,989	MJ	6,383,286	(10.74)% (*)
CNG consumption	kg	12,981	MJ	631,562	( ) ( )
Total energy for transport <sup>( )</sup>			MJ	668,617,830	(4.37)% (12.52)%

(\*)

The amount of LPG used in 2010 was negligible and was not recorded.

( )

The amount of CNG (Compressed Natural Gas) for transport used in 2010 and 2011 was negligible and was not recorded.

( )

Represents conversion into MegaJoules of the consumption of unleaded petrol, diesel and LPG expressed in litres and CNG expressed in kg.

Number of vehicles and distance travelled<sup>(3)</sup>

Telecom Italia S.p.A. 2012			Change %	
			2012	2012
			vs 2011	vs 2010
Total number of company vehicles	no.	18,859	(2.00)%	(5.25)%
Number of low-emission vehicles <sup>(1)</sup>	no.	18,584	(2.02)%	(5.30)%
Total distance travelled	km	296,048,469	(3.48)%	(7.49)%

(1)

Euro4 or higher standard vehicles fuelled by unleaded petrol, diesel and LPG, electric vehicles or vehicles running on other fuels with comparable or lower emissions.

At Telecom Italia S.p.A., the significant containment of energy consumption for transport is due partly to the reduction in the distance travelled and partly to the greater efficiency achieved in managing the fleet of vehicles.

Number of vehicles and distance travelled<sup>(\*)</sup>

		TI Group breakdown by Business Unit (%)					
		TI Group	Domestic	Brazil	Argentina	Media	Olivetti
		2012					
Total number of vehicles	no.	23,538	80.97%	3.59%	14.15%	0.43%	0.86%
Total energy consumed	MJ	930,792,058	72.81%	5.08%	19.82%	0.90%	1.39%
Total distance travelled	km	376,255,742	79.61%	3.83%	14.47%	0.94%	1.15%

Consumption figures for electricity used to operate the telecommunication network and civil/industrial systems are shown below.

## Electricity procured and produced

		Telecom Italia S.p.A. 2012	2012 vs 2011	Change % 2012 vs 2010
Electricity from mixed sources <sup>(*)</sup>	kWh	1,876,520,483	(1.06)%	(7.27)%
Electricity from renewable sources	kWh	36,712,758	(0.86)%	(8.70)%
Total electricity	kWh	1,913,233,241	(1.06)%	(7.30)%

(\*)

Electricity purchased from mixed sources is equal to 1,793 GWh approximately. Self-produced electricity from mixed sources is equal to 83 GWh approximately and refers to the co-generation plants, with an associated consumption equal to 21 million m<sup>3</sup> of methane. The production of electricity from continuous diesel generators (not shown in the table) is estimated to be around 3 GWh.

## Electricity procured and produced

		TI Group breakdown by Business Unit (%)				
		TI Group	Domestic	Brazil	Argentina	Media Olivetti
		2012				
Total electricity	kWh	2,753,536,413	71.04%	13.25%	14.15%	0.94% 0.62%

There is a continuing downward trend in the amount of electricity procured and produced, despite the increase in traffic handled by the Group's transmission networks. The following section details the actions that continued or were undertaken to improve energy efficiency, primarily aimed at reducing/optimising the power consumption of transmission devices and air conditioning systems:

•

technological modernisation and streamlining of exchange and Radio Base Station (RBS) equipment, involving 877 power stations, 662 dedicated air conditioning systems and 2,450 batteries;

•

optimisation of existing system usage and replacement of obsolete equipment in telephone exchanges;

•

replacement of fluorescent lamps with low energy consumption LED<sup>(4)</sup> lamps in offices and industrial sites, which has so far involved around 300,000 lamps (including 200,000 replaced in 2012) resulting in significant energy savings for lighting purposes. Additional benefits of the project include the longer life of LED lamps and the resulting reduction in scheduled maintenance activities, as well as the lower environmental impact due to the disposal of spent fluorescent

tubes;

•

work in existing cogeneration plants to optimise operation and achieve optimum production potential;

•

installation of photovoltaic panels on 100 fixed network exchanges owned by the company;

•

remote powering of public telephone boxes from the telephone exchange: launched in October 2011, the project was completed in 2012, allowing around 24,000 power supply connections to be cut off. Remotely powered telephone boxes are lit by low energy consumption LED lamps controlled by motion detectors to vary the intensity of the lighting inside the box as a supplement to the courtesy light.

During 2012, Telecom Italia was awarded Energy Efficiency Credits (*EEC*) for 4 projects. These are the so-called "white certificates", introduced by the Ministerial Decree of July 20, 2004, issued by the *Autorità per l' Energia Elettrica e il Gas (AEEG)* (Italian energy regulator) to reward organisations that implement projects with quantifiable and measurable energy saving benefits.

#### Atmospheric emissions

Greenhouse gas emissions by Telecom Italia and the TI Group consist almost exclusively of carbon dioxide and are due to the use of fossil fuels for heating, transport, electricity generation, purchase of electricity produced by third parties and staff travel (for business trips and commuting between home and work).

In addition to these, dispersals of hydrochlorofluorocarbons and hydrofluorocarbons (HCFC and HFC) from air conditioning systems are also considered and converted into kg of CO<sub>2</sub> equivalent.

As with the classification of energy consumption for atmospheric emissions use is made of the Global Reporting Initiative - GRI Version 3 - guidelines, which refer to the definitions of the GHG Protocol, distinguishing between direct emissions (Scope1: use of fossil fuels for vehicles, heating, power generation), indirect emissions (Scope2: purchase of electricity for industrial and civil use) and other indirect emissions (Scope3).

Unless otherwise stated, the atmospheric emission figures given in this Report have been calculated based on the updated coefficients made available by the GHG Protocol<sup>(5)</sup>.

#### Atmospheric emissions

		Telecom Italia S.p.A. 2012	Change %	
			2012 vs 2011	2012 vs 2010
CO <sub>2</sub> emissions from transport	kg	49,912,911	(4.05)%	(12.14)%
CO <sub>2</sub> emissions from heating	kg	32,266,307	(1.44)%	(0.43)%
Emissions of CO <sub>2</sub> equivalents for HCFC/HFC <sup>(*)</sup> dispersals	kg	9,407,820	(56.26)%	(64.92)%
CO <sub>2</sub> emissions from electricity generation by cogeneration	kg	39,951,727	(2.50)%	32.80%
CO <sub>2</sub> emissions from electricity generation using diesel	kg	2,248,253	(0.57)%	(15.72)%
Total direct emissions of CO <sub>2</sub> -under Scope1 GRI	kg	133,787,018	(10.51)%	(10.08)%
CO <sub>2</sub> emissions from purchases of electricity generated by mixed sources	kg	693,036,043	(1.07)%	(8.49)%
Total indirect emissions of CO <sub>2</sub> -under Scope2 GRI	kg	693,036,043	(1.07)%	(8.49)%
CO <sub>2</sub> emissions from work-home commuting <sup>( )</sup>	kg	52,110,745	(6.68)%	(13.04)%
CO <sub>2</sub> emissions from air travel <sup>( )</sup>	kg	9,064,204	(8.83)%	(9.39)%
Total other indirect emissions of CO <sub>2</sub> -under Scope3 GRI	kg	61,174,949	(7.01)%	(12.52)%
Total CO <sub>2</sub> emissions	kg	887,998,010	(3.04)%	(9.02)%

(\*)

Hydrochlorofluorocarbons (HCFC) and hydrofluorocarbons (HFC), in terms of equivalent CO<sub>2</sub> emissions are determined by reference to specific Global Warming Potential (GWP) parameters for the two gases: the index is based on a relative scale that compares the gas considered with an equal mass of carbon dioxide with a GWP of 1. The GWP of HCFC used was 1,780 and that of HFC was 1,300.

( )

In determining the impact of home-work commuting, reference is made to statistical data produced on the company's personnel.

( )

Emissions due to air travel were calculated using the coefficients proposed by the GHG Protocol based on the number of journeys actually made, subdivided by the duration of each individual journey (short or long).

Atmospheric emissions by Telecom Italia S.p.A. are falling in overall terms. The following are a number of considerations on how individual items contributed to the achievement of the overall result:

•

reduction of emissions due to lower consumption by vehicles;

•

reduction of equivalent CO<sub>2</sub> emissions, relating to the dispersal of HCFC and HFC used in air conditioning systems, due to the adoption of more meticulous methods for preventing leaks and the replacement of these gases with lower environmental impact solutions;

•

increase in emissions attributable to cogeneration, resulting from the company's decision to invest more in this technology, with positive financial and environmental benefits. The increase is in any case offset by the lower amount of power purchased from the grid, which overall has led to a positive balance being achieved in terms of emissions;

- reduction of emissions from diesel electricity generators in situations where the electricity distribution network is unavailable;
- reduction of emissions resulting from reduced consumption of purchased electricity;
- reduction of emissions from business air travel by employees due to a reduction in the number of trips, resulting in particular from the greater use of video conferencing.

The following table shows the total CO<sub>2</sub> emissions of the Telecom Italia Group.

Atmospheric emissions

		TI Group breakdown by Business Unit (%)					
		TI Group 2012	Domestic	Brazil	Argentina	Media	Olivetti
Total CO <sub>2</sub> emissions	kg	160,489,454	84.97%	2.36%	9.70%	0.52%	2.45%
under Scope1 GRI							
Total CO <sub>2</sub> emissions	kg	955,054,662	74.30%	2.62%	21.83%	1.04%	0.21%
under Scope2 GRI							
Total other CO <sub>2</sub> emissions	kg	97,065,805	71.93%	8.84%	17.44%	0.84%	0.95%
under Scope3 GRI							
Total CO <sub>2</sub> emissions	kg	1,212,609,921	75.52%	3.08%	19.87%	0.96%	0.57%
Water							

Water consumption

		Telecom Italia S.p.A.	Change %
		2012	2012
		vs 2011	vs 2010
Consumption of water drawn from artesian wells	m <sup>3</sup>	50,000	(7.16)%
Consumption of water provided by water supply companies	m <sup>3</sup>	4,399,590	2.32%
Total water consumption	m <sup>3</sup>	4,449,590	2.20%
Water consumption			0.90%

TI Group breakdown by Business Unit (%)  
 TI Group Domestic Brazil Argentina Media Olivetti  
 2012

Consumption of water drawn from artesian wells	m <sup>3</sup>	973,384	5.14%	0%	0%	0.01%	94.85%
Consumption of water drawn from supply companies	m <sup>3</sup>	6,580,577	68.17%	3.15%	28.12%	0.34%	0.22%
Total water consumption <sup>(*)</sup>	m <sup>3</sup>	7,553,961	60.04%	2.74%	24.50%	0.30%	12.42%

(\*)

The significant impact of the Olivetti BU is due to drawings from artesian wells for industrial processes.

## Paper

## Paper purchased

		Telecom Italia S.p.A. 2012	2012 vs 2011	Change % 2012 vs 2010
Paper purchased for office use	kg	357,211	(13.63)%	(32.57)%
Paper purchased for commercial use	kg	1,466,234	(5.47)%	(10.78)%
Total paper purchased	kg	1,823,445	(7.19)%	(16.09)%

Purchases of paper for office and commercial use (telephone bills) continue to be directed at product types that meet the highest environmental standards based on the responsible management of forests according to the Forest Stewardship Council requirements.

With regard to the working environment, consumption has been rationalised by building awareness about the use of resources and by the "printing on demand" project, which provides for the use of shared high performance printers.

As regards paper purchased for commercial use, activities continued for the purpose of achieving an overall reduction in consumption, particularly by promoting the use of electronic invoices and statements among customers. This allowed around 85 tonnes of paper to be saved compared to 2011, as well as reducing the production of CO<sub>2</sub> associated with delivery of the packages.

## Paper for office use

		TI Group breakdown by Business Unit (%)					
		TI Group 2012	Domestic	Brazil	Argentina	Media	Olivetti
Non-recycled paper purchased	kg	148,025	0.95%	2.51%	96.54%	0%	0%
Recycled paper purchased	kg	53,043	0%	100%	0%	0%	0%
FSC certified paper purchased	kg	484,966	78.19%	1.30%	15.70%	2.75%	2.06%
Total paper purchased	kg	686,034	55.48%	9.19%	31.93%	1.94%	1.46%
Waste							

The data shown in the table refer to the quantity of waste consigned<sup>(6)</sup> and recorded by law<sup>(7)</sup>.

Waste consigned<sup>(1)</sup>

		Telecom Italia S.p.A. 2012	2012 vs 2011	Change % 2012 vs 2010
Hazardous waste	kg	5,286,859	(8.02)%	(2.27)%

## Footnotes

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Non-hazardous waste	kg	12,609,327	1.64%	14.12%
Total waste consigned	kg	17,896,186	(1.42)%	8.73%
Waste sent for recycling or recovery	kg	17,175,768	(0.98)%	14.03%
Ratio between the amount of waste recycled/recovered and the total waste	%	95.97%	0.45%	4.87%

(1)

The data does not include telephone poles because these are not disposed of as ordinary waste but under the framework agreement signed in 2003 with the Ministry of the Environment, the Ministry of Production Activities and the production and recovery companies, subject to the favourable opinion of the conference of State-Regions-Autonomous Provinces. In 2012, Telecom Italia decommissioned 173,329 poles weighing a total of 13,866,234 kg.

Waste consigned

TI Group breakdown by Business Unit (%)  
 TI Group Domestic Brazil Argentina Media Olivetti  
 2012

Total waste consigned <sup>(*)</sup>	kg	20,469,422	88.18%	3.20%	5.59%	0.62%	2.41%
--------------------------------------	----	------------	--------	-------	-------	-------	-------

(\*)

In order to allow a more accurate comparison to be made between the various BUs, the data for the Argentina BU does not include decommissioned telephone poles although these were consigned and are not managed separately from other waste.

Waste data varies over time according to the quantities and types delivered to the companies contracted to treat it. The most important item of data for Telecom Italia's purposes is the ratio between waste produced and sent for recycling/recovery, which has grown to a significant amount and has improved further compared to 2011.

Electromagnetic emissions

The actions of the Telecom Italia Group on the subject of electromagnetic emissions are essentially:

- careful management of its equipment during its entire life cycle and in compliance with current regulations and internal standards of efficiency and safety;
- deployment of, and constant research into, the latest technological instruments for checks and controls.

Systematic monitoring of the levels of electromagnetic emissions in the installations of La7, MTV and TI Media Broadcasting aims to ensure that legal limits are respected and high safety standards are maintained for workers and the general population. According to the checks carried out in Italy, the electromagnetic emissions generated by La7 and MTV are well within legal limits.

As part of the certification of mobile phones sold on the market under the TIM brand, TILab performs tests on all technologically innovative products to check the SAR (Specific Absorption Rate) declared by suppliers. This parameter estimates the quantity of electromagnetic energy per unit of body mass absorbed by the human body in the event of exposure to the electromagnetic field generated by mobile handsets. Telecom Italia certifies and sells through its sales network only mobile handsets with a SAR value lower than the limit set by European legislation. In determining the SAR compliance of mobile terminals Telecom Italia complies with the instructions given in the ICNIRP (International Commission on Non-Ionizing Radiation Protection) guidelines and subsequent declarations of conformity<sup>(8)</sup>. This qualification, which is carried out during the pre-marketing stage, when Telecom Italia does not often have the SAR value declared by the supplier, makes the test more valuable than a simple quality control check.

Joint activities are also taking place with a number of ARPAs (regional environmental protection agencies) to assess the electromagnetic fields generated by RBSs, considering the actual power transmitted based on traffic and power control mechanisms, in accordance with changes to the Prime Ministerial Decree of 8/7/2003 contained in the Decree Law on Growth 179/2012. Similar attention is paid to the emissions from mobile handsets using the frequency bands operated by Telecom Italia: GSM 900 MHz, DCS 1800MHz and UMTS.

Some of the GSM network traffic takes place in half rate mode, which allows a single radio resource to be used for two simultaneous conversations, thus reducing the overall power emitted as compared to the traditional voice coding system.

Telecom Argentina has signed an agreement with the Argentine Federation of Municipalities to respond to the growing need for information on ionising radiations. A continuous data monitoring and dissemination system has been inaugurated in 500 municipalities.

## The Community

The contribution made to the Community by the Telecom Italia Group, calculated according to the London Benchmarking Group (LBG) guidelines, amounted to 36.4 million euros in 2012 (30.7 million euros in 2011).

More than 100 major international companies subscribe to the LBG, which was founded in 1994 and is the global gold standard for the classification of voluntary contributions made by companies in favour of the Community.

In accordance with the LBG model, in order to measure and represent the Group's commitment to the Community, the contributions disbursed have been subdivided into three categories (Charity, Investments in the Community, Initiatives in the Community), adopting the customary pyramid-shaped representation, which places initiatives of a charitable nature at the top and initiatives which in addition to being of benefit to the Community are in the commercial interest of the Company at the bottom.

## Research and development

Research and development activities at Telecom Italia are carried out by the Information Technology, TILab and Innovation & Industry Relations departments, which oversee the analysis of new technologies and the development of the engineering activities supporting our offers to customers.

Activities to enhance and generate competitive advantage for the Group are of particular importance and are pursued through strategic management of the relationship between research, Intellectual Property Rights (IPR) and business, aimed at developing the company's patent portfolio. 14 new applications for patents were filed during 2012.

In order to support entrepreneurial and research projects in the Web 2.0 sector, Telecom Italia launched Working Capital in 2009, which has become a blueprint for initiatives to support innovation. The project intends to promote the development of a new generation of Italian entrepreneurs, providing them with financial support, skills, technologies and dedicated services. The plan for 2013 is to create 3 "accelerators" (one each in Milan, Rome and Catania), centres of excellence for innovation, providing places to study, test and implement projects.

At the end of 2012, the "Changemakers" project was launched to identify and support the development of 10 new entrepreneurial ideas presented by talented young people to improve the lives of at least 10 million citizens. The young people selected will be given the opportunity to join a management support process that will begin in March 2013 with an 8-week residential experience on a campus where participants will be shadowed by teachers and mentors with recognised expertise.



## Projects and initiatives

Projects and initiatives in this field can be divided into 4 macro-areas:

- 

New generation network

- 

Future Internet applications

- 

Positive environmental impacts

- 

Positive social impacts

*New generation network projects*

- 

Electromagnetic compatibility analyses continued on the new generation wireless LTE (Long Term Evolution) networks currently being designed. The tests focused in particular on the interference issues associated with the proximity in the 800 MHz band spectrum between LTE channels and digital TV (DVB-T) channels and the issues arising from compliance with legal restrictions regarding emissions from the electromagnetic fields of antenna sites.

- 

A technical specification was drawn up for the creation of Telecom Italia Sparkle's new Pan European Backbone. This is a long distance transport network (transmission backbone) created using the latest optical interface technologies that provide high transmission speeds (up to 100 Gbit/s) and flexibility of operation with transmission flow reconfiguration carried out inside the new network equipment (Reconfigurable Optical Add-Drop Multiplexer and OTN Cross Connect).

- 

Live TV broadcast of the Turin Marathon for RAI achieved with an innovative architecture that uses the LTE network to receive live video signals from motorbikes and remote controlled drones. The initiative allowed production costs to be reduced and avoided the use of helicopters for radio bridging and filming, with positive environmental impacts in terms of a reduction in fuel consumption and therefore atmospheric emissions.

- 

Continuation of the EARTH (Energy Aware Radio and NeTwork TecHnologies) project, which began in January 2010 and is scheduled to last two and a half years. Funded by the European Union, the project addresses broad themes including:

–  
the development of a new generation of devices and components, focusing in particular on mobile systems such as LTE and its evolutions (LTE-Advanced), while not excluding 3G technologies (UMTS, HSPA);

–  
the adoption of new network management system development strategies;

–  
the use of innovative algorithms for the efficient use of radio resources.

The project aims to reduce system energy use by a factor of more than 50%, with consequent benefits in terms of savings and lower emissions. A demonstrator was built at the Turin laboratories.

•  
During the last quarter of 2012, the METIS (Mobile and wireless communications Enablers for Twenty-twenty (2020) Information Society) project was launched, which will run for 30 months in total. European FP7 financing programme approved in the context of "Call 8". The project involves 29 partners, including the main equipment manufacturers, universities, research centres and operators, including Telecom Italia, with a significant amount of resources. The aim of the project is to set up the new radio system beyond LTE, working in a number of innovative design directions that focus in particular on communication between objects and equipment, with a view to achieving greater overall energy efficiency. As part of the Metis project, Telecom Italia is actively involved in establishing guidelines for designing the new system, as well as pursuing the specific subject of multi-node communication.

•  
The last quarter of 2012 also saw the launch of the iJOIN (interworking and JOINt Design of an Open Access and Backhaul Network Architecture for Small Cells based on Cloud Networks) project funded by the European Union and lasting 30 months. The project introduces the concept of RAN-as-a-Service (RANaaS), i.e. a mobile network in which radio functions are managed flexibly and in a centralised way through an open IT platform based on a cloud infrastructure, allowing greater energy efficiency to be achieved.

The project, in which Telecom is participating as the sole operator and with a leadership role in the coordination activities, will present solutions developed internally regarding the deployment of microcells with fibre backhauling and potential centralised control.

*Future Internet application projects*

•

Telecom Italia has confirmed itself as a protagonist in the development of NFC (Near Field Communications), the technology that allows electronic transactions to be performed with a mobile phone. When it was previewed in Milan, during the Mobile Money Summit event organised by GSMA, a group of over 1,000 people tested the new NFC services around the city while going about their usual everyday activities. In particular, the system allowed them to pay for bus, tram, underground and train tickets, make purchases from around a thousand different stores using the credit card on the smartphone SIM card, use coupons and discount vouchers, all in full compliance with the requirements for the security and privacy of transactions. NFC technology is also used by employees working at Telecom Italia's 3 sites to access the company's offices, pay for meals in the canteen, cafés, and make purchases from vending machines. It is also the basis for the "Share IT" service prototype for sustainable mobility, whereby an NFC smartphone can be used both to book a car and to access and use the car itself.

•

Over the past few years, the way in which we interact with the world around us and the objects within it has changed. The "Augmented Reality" project allows the outside world to be combined with digital information and content that is invisible to the human eye but visible to the watchful eye of the mobile phone. The technology used allows interactive objects to be superimposed on the screen, making reality "clickable and connected". There are dozens of potential applications: from searching for places of interest for tourism (including restaurants and museums) to social activities, "enhanced" reading of books/magazines, "seeing inside" objects and interacting with them, enhanced homes, 3D interaction and many more.

•

A number of young researchers working at the CNR institute for computing and high performance networks, who set up the Eco4Cloud company in 2010, have devised an Internet algorithm that allows an energy saving of up to around 35%, by observing the behaviour of ants. On average, only 30% of a computer's capacity is used. Rather than distributing the workload equally among all the computers connected to a network (1,000 computers used at 50% capacity use more energy than 500 used at 100% capacity) half of them could be switched off or put into low energy hibernation. In November 2012, the project won the Working Capital special award, with which Telecom Italia has enhanced and supported new business ideas, and last July the algorithm was tested on 32 computers at the company's data processing centre in Bari, confirming the specified energy saving.

*Projects with positive environmental impacts*

•

In July 2012, Telecom Italia, Enel Distribuzione, Indesit Company and Electrolux Appliances set up the non-profit-making and legally recognised Energy@home association with the aim of using new computer and electronic technologies to redesign homes as ecosystems of intercommunicating devices: meter and electricity system, domestic appliances and broadband telecommunication network. Communication allows these systems to integrate smartly, becoming nodes in the Internet of Things in order to reduce waste, increase the reliability and security of the domestic energy system, but above all give consumers more information and choice, educating them in the virtuous use of products and encouraging sustainable lifestyles. The Association is the result of a collaborative project launched in 2009, which has already helped to create a prototype currently being tested by 10 Italian households. The

Energy@home system allows power consumption to be monitored and displayed in real time remotely, producing cost information and detailed analysis reports for each individual domestic appliance.

•

In the field of sustainable mobility, Telecom Italia is working with the Fiat Research Centre in the context of the Connected Car project to develop solutions that allow mobile terminals to integrate with units installed in vehicles, exchange data and share audio and video resources, thus enabling new services for passengers and drivers. The collaboration has led to the creation of an initial prototype in the laboratory which, once connected to a vehicle, allows fuel consumption and the condition of the vehicle to be monitored using the mobile phone in the car. Again in the context of ICT solutions applied to the world of transport, Telecom Italia is a long-standing member of the main industry associations (ERTICO, TTS Italia, GSMA CCF) and has been active at European level in the development of ITS (Intelligent Transport Systems) architectures and solutions and standardisation activities (ETSI TC ITS) supporting European legislation for the sector, in line with the ITS Action Plan published by the European Commission and currently being transposed by EU Member States.

- As part of the activities devoted to developing new mobile access technologies, tests are being carried out on "Active Antenna Systems" technology, based on a type of antenna that includes active elements and is normally linked by optical fibre to the connected part at the foot of the radio station. This solution, which involves the use of innovative algorithms for efficient use of radio resources, also allows the energy efficiency of the Radio Base Stations (RBS) to be improved by replacing coaxial cables with optical fibres in the aerial cable. Additional benefits are also expected, again in terms of consumption, as a result of the introduction of appropriate beamforming technologies (generating specific radiation patterns).

- Work continued on the ECONET (low Energy Consumption NETWORKS) project lasting three years and officially launched in October 2010. Funded by the European Union, the project focuses on the energy used by systems constituting the fixed telecommunication network, for both operators and customers. ECONET, which brings together a consortium of 15 partners including industries, universities, research centres and SMEs from several European and non-European countries, aims to develop and test new integrated control technologies and mechanisms to enable energy saving by the dynamic adaptation of network capacity and resources according to the actual traffic load and requirements of users, while ensuring quality of service at the same time. The aim is to allow the energy requirement of equipment to be reduced by 50% in the short to medium term and 80% in the long term, based on an unchanged business scenario.

- Telecom Italia coordinated the specific activity relating to Common Power Supplies for fixed terminals in the context of the Home Gateway Initiative (HGI), the final document of which (published in April 2010) provided guidance for the transposition of this specification in the ETSI ATTM context. A number of single power supply prototypes were tested by TILab, which also carried out a comparative LCA (Life Cycle Assessment) of the HGI/ETSI solution compared to the power supplies previously used for the access gateways installed until 2009. With regard to common power supplies for mobile terminals, Telecom Italia worked with the ITU-T to review the L.1000 Recommendation regarding the Universal Mobile Charger, with the aim of reducing the cable and connector options as much as possible and thus converging towards a single power supply solution. For this purpose, the ITU-T issued a specific press release in which Telecom Italia is mentioned first in the list of companies involved in dealing with this issue.

*Projects with positive social impacts*

- Telecom Italia has contributed with technological support to supplying networks, services and tutors in the context of the Working Capital programme for a project implemented by Compagnia di San Paolo in the field of Social Housing. The project concerned a building used temporarily in the area of Porta Palazzo in Turin, which has offered temporary users (university students, workers under mobility procedure, employees with no job security, young couples, people leaving sheltered communities) and city users (tourists) 28 apartments since 2012 for a total of 50/60 users. The objective has been to allow temporary and city users to share accommodation, telecommunication and ICT services, as well as "social" services including entertainment, tourism, training, etc. The project is of great social importance and significance in the urban environment as it promotes interaction among the temporary users and their integration in the social context of the city.

- A social reading tool called SOCIETY (SOCIAL Ebook communiTY) was launched which provides a new way of teaching, promoting technological evolution in schools and integrating "traditional" teaching methods with the potential offered by new communication technologies. Social reading is an emerging technique for sharing the reading experience: the reader is no longer passive but becomes a contributor and to a certain extent the author of the book itself. In this new teaching context, new forms of learning can also develop: teachers can guide students in reading a passage, comment on it together with them, add notes, analyse them in class and set a reading/study task to be completed by students on their own at home.

- In the context of reading and social and collaborative teaching, Telecom Italia is also dealing with the subject of dyslexia, which is a growing phenomenon in schools (10-20% of the school age population have learning difficulties and in 2-5% of cases these are attributable to dyslexia-related disorders). The first stage of the project, carried out with the Turin-based Egò association, is intended to map the actual needs of the individual by means of interviews with the people involved (psychologists, speech therapists, teachers, parents and young people affected by dyslexia). A number of joint

initiatives are being launched at both European (EIT projects) and national level (e.g. projects with the ASPHI association and with the Universities of Modena and Reggio Emilia and Eastern Piedmont) to identify effective functions to support dyslexic people, both at school and at home, through an app installed on a tablet computer.

•

Testing of the HELP telemedicine project has been launched at the Polytechnic of Palermo for patients suffering from Parkinson's disease, with the aim of improving their quality of life. Through a capsule inserted in a dental prosthesis for the gradual release of drugs and using mobile phones connected to the TIM network, doctors can interact with the equipment and monitor the clinical parameters of patients remotely. HELP was named winner of the AAL (Ambient Assisted Living Joint Programme ) Award for 2012.

## Human Resources

### Headcount and Changes

Unless otherwise stated, the data shown in the tables contained in the Human Resources chapter relate to all the Telecom Italia Group companies.

Headcount as of December 31, 2012 is as follows:

#### Telecom Italia Group

(units)	12.31.2012	12.31.2011	Changes
Italy	54,380	56,838	(2,458)
Abroad	28,761	27,274	1,487
Total personnel on payroll	83,141	<b>84,112</b>	(971)
Agency contract workers	43	42	1
Total personnel	83,184	84,154	(970)
Non-current assets held for sale	-	-	-
<b>Total</b>	<b>83,184</b>	<b>84,154</b>	<b>(970)</b>

Excluding agency contract workers, the TI Group's headcount has decreased by 971 people compared to December 31, 2011.

The changes can be itemised as follows:

•

exit of the company Matrix S.p.A. from the consolidation scope (253 people);

•

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net turnover down by 718 people, as detailed below by individual Business Unit:

(units)	Recruited	Departed	Net change
Domestic	958	3,030	(2,072)
Brazil	5,793	4,710	1,083
Argentina	1,340	889	451
Olivetti, Media and others	130	310	(180)
Turnover	8,221	8,939	(718)

Telecom Italia S.p.A. (\*)

(units)	12.31.2012	12.31. 2011	Changes
Total personnel on payroll	44,606	47,801	(3,195)

(\*) In 2012, as in 2011, there were no agency contract workers.

As of December 31, 2012, Telecom Italia S.p.A. had 44,606 employees on its payroll.

Compared to December 31, 2011, an overall reduction of 3,195 units was recorded, due to:

- departure of 1,177 employees due to the transfer of the Information Technology business unit to the company SSC, renamed TI Information Technology;
- entry into the consolidation scope of 118 people due to the merger with TI Audit;
- balance of 29 departures due to inter-Group transfers;
- net turnover down by 2,107 people, as detailed below:

(units)	Recruited	Departed	Net change
Telecom Italia S.p.A. Turnover Tim Brasil Group	297	2,404	(2,107)

(units)	12.31.2012	31.12.2011	Changes
Total personnel on payroll	11,622	10,539	1,083

Footnotes

The headcount of Tim Brasil Group as of December 31st, 2012, was equal to 11,622 people.

Compared to December 31, 2011, an increase of 1,083 units was recorded, due to:

- 
- 17 incoming people from other Group companies;
- 

net turnover up by 1,066 people, as detailed below:

(units)	Recruited	Departed	Net change
Tim Brasil Group Turnover	5,776	4,710	1,066
Telecom Argentina Group			

(units)	12.31.2012	12.31.2011	Changes
Total personnel on payroll	16,800	16,349	451

Excluding agency contract workers, the headcount of the Telecom Argentina Group as of December 31, 2012 was 16,800 people.

Compared to December 31, 2011, an increase of 451 people was recorded due to:

- 
- net turnover up by 451 people as detailed below:

(units)	Recruited	Departed	Net change
Telecom Argentina Group Turnover	1,340	889	451

Characteristics of Telecom Italia Group personnel

Staff operating in the Telecom Italia Group, net of agency workers, have the following characteristics:

The geographical distribution and intake of personnel by the Group, excluding agency contract workers, are the following:



Gender balance

In 2012 the distribution of men and women in the Group was the following:

Distribution of men and women in Telecom Italia Group

(units)	12.31.2012	12.31.2011	Changes
Men	52,493	53,741	(1,248)
Women	30,648	30,371	277
Total	83,141	84,112	(971)

In 2012, the percentage of women holding senior management positions in the Telecom Italia Group was approximately 16% and, in middle management, the proportion of the total was 27%.

People Caring

Over the years, the Telecom Italia Group has developed several programmes and initiatives to support its employees, to improve the quality of their working lives and also to support those outside the Company.

People Caring is the structure created by Telecom Italia to respond to the expectations of employees regarding certain important issues, identified through active listening carried out both on line (Intranet, community, email) and through meetings and focus groups.

The main themes identified are:

- balance between working life and free time and support for the requirements of employees' families;

- support for volunteering initiatives by employees;

- promoting the forms of diversity that exist in the workplace through specific activities and projects.

#### Development

##### In Telecom Italia

Human Capital Development is the new development system designed for the purpose of:

- making the most of the energy and talent of people, regardless of their age and position in the organisation;

- providing everyone with constant feedback on the value of their performance;

- allowing direct involvement in the development of one's career within the Company.

The new system consists of 2 new tools:

- Individual Performance Feedback, is the new performance assessment tool aimed at promoting dialogue between manager and employee, more focused on feedback and qualitative assessment, with the aim of developing the person to improve his/her performance. The focus is on the employee's conduct, rather than the activities performed. Launched in mid-October, the process has involved over 49 thousand people in the Telecom Italia Group.

- Participated Development, split into 4 sections:

–  
Talent Survey: each individual can name the colleagues and managers (including those working in other functions) they consider to be "talents", specifying characteristics by selecting distinctive forms of conduct observed in the field. The people identified as talents are then "certified" and involved in various kinds of activities to recognise their contribution;

–

Succession Survey : all managers will be able to identify which non-managers, in their opinion, can be assigned to managerial roles and which managers of the same grade can undertake more complex roles. Managerial characteristics can be specified by selecting distinctive forms of conduct observed in the field. The individuals identified will then be "certified" and put forward for development programmes;

–

Professional Identity : by completing their professional/personal profile on their personal Intranet page (as of January 2013) individuals can each present their skills, directly and without intermediaries, and make them available to the company;

–

Willingness to Change : individuals can each state their professional expectations and willingness to change job/workplace if actual opportunities should arise.

The Talent Survey, Succession Survey and Willingness to Change stages of Participated Development were launched experimentally in December and involved around 10 thousand people.

## Selection

### In Telecom Italia

The following projects are taking place:

•

"The Day Before" was launched in 2011, in agreement with the trade unions and under agreements signed with the relevant universities, with the aim of combining the achievement of a qualification with the start of a career for university students. The project provides for 200 graduates in technical and economic subjects to be recruited by the subsidiary Telecontac Center (TCC) and 200 graduates in technical subjects to be recruited by the Technology and Open Access department of Telecom Italia. Hired under an 18-month apprenticeship contract, the young people take part in a training programme run by the company to develop the skills needed to hold managerial posts in the future. At the end of the apprenticeship, Telecom Italia has undertaken to confirm the recruitment of 100 young people, who will be assigned to various different parts of the Group.

•

By funding 95 research doctorate scholarships in the most prestigious educational establishments in the country, Telecom Italia intends to contribute to maintaining a constructive and practical dialogue between the company and universities. 27 industrial research programmes have so far been launched with university partners and the contribution of 66 young doctorate students. During the second half of the year, the assignment of a further 20 research projects to new university partners was completed and the remaining 29 scholarships were granted. At the end of the three-year course, in addition to having achieved a prestigious PhD, the young research students will have an opportunity to gain employment with the Company.

•

The three Corporate Master courses for Engineers and Economists have entered the internship stage. They relate to:

–  
Innovation and ICT, with a specific focus on designing and managing new generation services and cloud computing, working with the Federico II University of Naples;

–  
Business Innovation & ICT Management at MIP, Polytechnic of Milan;

–  
Innovation in ICT networks and services, working with the Polytechnic of Turin, now in its 6th edition.

•  
Numerous partnerships continued with prestigious universities through scholarships and internships related to innovation, ICT systems, the world of telecommunication and the media, antitrust, security, general management and labour law issues. During 2012, around 187 young people from leading Italian universities began an internship within the Group.

#### In Brazil

The main selection programmes implemented in 2012 were:

•  
Young Apprentice (*Jovem Aprendiz*): this programme promotes the training of young people between the ages of 16 and 24 for potential employment throughout all areas of the Company. An administrative training course is provided for young people to prepare them to enter the world of work. The programme enrolled 268 participants in 2012.

•  
"Talents without frontiers" (*Talentos sem Fronteiras*): intended to scout the market for young graduates in order to create a talented team of people who can be trained and developed to build the company management team of the future. At the end of 2012, 18 young talented people were recruited in strategic areas of the business.

•  
Internships without frontiers (*Estágio sem Fronteiras*): intended to select talented interns with the aim of offering young university students an opportunity to develop in diverse ways and prepare for the labour market, as well as to increase their potential for finding permanent employment in the Company and possibly access the "Talents without frontiers" programme. TIM selected 256 young people in 2012.

#### Training

In 2012, over 2.2 million hours of training were carried out in the Group costing over 27 million euros in total. 75.5% of personnel participated in at least one training session. Summary data of the training provided by the Telecom Italia Group is shown below.

Training breakdown by job category

	Hours		Participations (no.)	Participants (no.)	Coverage (%)(**)
	Total hours (no.)	Hours per head			
TOTAL	2,276,006	27.4	356,858	62,760	75.5%
Senior managers	45,563	37.9	4,618	1,029	85.5%
Middle managers	151,305	23.3	16,266	4,482	69.0%
Office staff/workers	2,079,138	27.6	335,974	57,249	75.9%

(\*)

Shows the total number of participations in the various forms of training (classroom, online, on-the-job training).

(\*\*) Coverage refers to the percentage of participants compared to the total, i.e. the % of human resources who took part in at least one training session compared to the total number of human resources in each individual category (senior managers, middle managers, office staff/workers).

With the project "I care myself", Telecom Italia gives employees the opportunity to register free of charge for one of the degree courses offered by the faculties of law, economics, engineering, communication science, psychology and arts of the Uninettuno International Telematic University, with the aim of promoting non-work related knowledge and skills. Anyone obtaining at least 50% of the credits required by their curriculum is entitled to a refund of tuition fees for subsequent years as well. Agreed with the industry's main trade unions - SLC-CGIL, FISTel-CISL and UILCOM-UIL - the initiative was remarkably successful, with 2,050 active participants in 2012.

#### Internal communication

In Telecom Italia S.p.A.

During the first half of the year, the climate survey in Italy was completed using an online questionnaire delivered to all the Group's human resources. A number of focus groups met involving a sample of employees, aimed at discussing the main results of the survey. 67% of employees participated in the Italian climate survey, an increase of 60.5% on the 2010 survey, from all the Group's departments and companies. General satisfaction on a scale of 1 to 10 stood at 7.25, substantially confirming the figure of 7.23 recorded for 2010 (again on a scale of 1 to 10).

In addition to the existing ones, 8 new themed blogs were set up for individual functions, relating to projects open to all employees on subjects connected with the Company, testing, quality, research, photographic passion, social networks, diversity, long distance adoptions, giving blood and other subjects. These blogs were accessed 29,368 times by 2,920 single users.

In November, Telecom Italia received the best internal communication award for its People Caring activities, as part of the ninth Aretê Awards promoted by Nuvolaverde with Confindustria and ABI, and sponsored by numerous associations, foundations and institutions.

Telecom Italia also won the Employer Branding Award 2012 for having achieved second place in the ranking drawn up by Lundquist, the company that assesses online employer branding communication in Italy and Europe, analysing over 100 of the biggest listed and unlisted companies.

## In Argentina

NEO TV, a channel of multimedia content, broadcasts in streaming mode in all the company's offices on subjects including health, presentation of work teams and developments in the company's business.

During 2012, 3 new programmes were produced:

- 

Leaders in Action (*Líderes en Acción*), a programme about leadership, culture and communication;

- 

Channel , the news magazine programme about human resources, containing a monthly round-up of activities in the sector;

- 

Our people (*Nuestra gente*) a docu-reality show starring the company's employees with information about their hobbies and leisure activities.

Tecotwitt, a tool similar to Twitter, has continued to be developed to allow all employees to take part in discussions on issues of interest. WikiTeco, a 2.0 application similar to Wikipedia was developed, with original digital content of interest to the Group.

## Health and Safety

Among the main activities launched in 2012 in Telecom Italia there are:

- 

assessment of work-related stress: the method used was updated and the involvement of the parties concerned was extended. Subsequently, the second preliminary assessment was carried out of uniform groups of workers. This showed that, in the majority of organisational contexts, risk levels are low, with the exception of Consumer and Business Customer Care staff and Technology technical staff, where medium risk situations were encountered. A new assessment was carried out in these specific areas, based on the latest INAIL procedure and with an even more extensive involvement of the parties concerned, including a coordinating doctor and all the workers' safety representatives working in the relevant organisational contexts.

- 

"Safety, now" (*Sicuri, adesso*): aimed at all Telecom Italia S.p.A. employees, was launched to disseminate knowledge and increase awareness of the subject. The campaign will run until the first quarter of 2013 and will include a number of different initiatives, some of them involving the family members of employees, given the importance of this matter in private life. The main activities implemented included:

- 

a survey involving 25,000 colleagues to determine the level of initial awareness and possibly adjust future initiatives;

-

a day dedicated to emergency evacuation drills, conducted in 9 company offices across the country, with the involvement of managers based in these offices;

-

various sessions of the safe driving course, involving the employees who use company cars most for work-related purposes (engineers and sales staff);

-

child care courses, which are also open to employees' families;

-

a new version of "Safety in your pocket" (*La sicurezza in tasca*), a safety handbook for employees which has been simplified since the 2008 edition and enhanced with a section on work-related stress.

#### Accidents

The Group continues to pay constant attention to the issue of safety in the workplace, mainly by verifying implementation of risk control measures and providing training aimed at disseminating a logic of respect and protection for oneself and others. Similar attention is paid to providing training for the operation and maintenance of Tlc systems that involve overhead work (poles, ladders and pylons) in order to ensure that people acquire sufficient knowledge on how to behave correctly during work-related activities. Additional education/training was provided in safe driving techniques. In 2012, this involved around 650 employees, thus raising the total number of employees trained in this field to over 3,000.

The accidents at work data for Telecom Italia S.p.A. are shown below:

	12.31.2012	12.31.2011
Number of accidents (excluding commuting)	577	657
Severity index <sup>(*)</sup>	0.15	0.29
Frequency rate <sup>(*)</sup>	8.10	8.99
Average duration in hours	97.46	114.14
Unproductivity index <sup>(*)</sup>	0.94	1.25
Accidents per 100 workers	1.23	1.35

(\*) The severity, frequency and unproductivity indexes are respectively:

-

the number of conventional working days lost due to accident per thousand hours worked

-

the number of accidents per million hours worked

-

the number of hours lost due to accidents per thousand hours worked

The Group's focus on this subject resulted in a general improvement in the rate of accidents compared to the previous year.

#### Industrial relations

##### In Telecom Italia

On February 1<sup>th</sup>, 2013, ASSTEL and the contracting Trade Unions signed a draft agreement for the renewal - applicable to the three-year period 2012-2014 - of the National Collective Labour Agreement for the employees of telecommunication service companies. The agreement will come into force after it has been approved by the workers' meetings, that is after the signatory unions have put aside their reservations.

On December 31<sup>st</sup>, 2011, the National Collective Labour Agreement for employees of telecommunication service operating companies expired. During the first half of 2012, negotiations were launched for the renewal of this contract, coordinated by the trade association ASSTEL.

During January, the minutes of the joint examination of changes to shifts in the Fixed Customer Operations Consumer - 187 Commercial Service were signed with the most representative trade unions. The agreed working hours, which include a number of improvements to benefit operators, are consistent with the caring model of the 187 commercial service aimed at improving customer satisfaction. During the same meeting, the parties signed an important agreement regarding well-being in call centres, aimed at people working in the Fixed Consumer Customer Operations department - 187 Commercial Service. The parties planned a series of significant actions regarding the best use of resources, training staff and refreshing their knowledge, the work-life balance, the working environment and the organisation and pace of work. Specific attention was also paid to the needs of pregnant women, who will be granted more flexible working hours. The Company also gave these employees the chance to benefit from parental leave (made up at a later date), raising the age limit of children to 11 (from the current 8).

Both agreements were reached following wide-ranging and detailed discussions, some of them held by specific joint committees, in which the Company and unions performed a broad assessment of the relevant proposals and initiatives which were subsequently agreed upon.

During the first half of 2012, numerous agreements were reached and signed with trade unions for training programmes. Training plays a constant and crucial role in the process of teaching new skills and preventing professional obsolescence and is a constant feature in the application of the guidelines established by the agreement of August 4<sup>th</sup>, 2010.

As part of "The Day Before" initiative launched last year, aimed at fostering a closer relationship between the world of work and that of academia, an agreement with the Trade Unions was signed on February 15<sup>th</sup> to extend the project to Florence and Pisa universities.

In March, an agreement was reached for the creation and operation of new trade union representations and the appointment of workers' safety representatives at Telecom Italia S.p.A.. By agreement, the parties identified 25 production units, using the organisational structure of Telecom Italia S.p.A. as a reference, consisting of local operational structures and multi-regional staff structures.

On December 31<sup>st</sup>, 2011, the performance bonus agreement expired. Since no negotiations could be held for the new premium while negotiations were under way for the first level collective labour agreement, Telecom Italia decided to recognise the contribution made by employees to the economic and productive performance of the company by disbursing a fixed amount for each contract level for the period January, 1<sup>st</sup> - June, 30<sup>th</sup> 2012.

In this respect, a specific agreement was reached with trade union representatives in June.

Also in June, during a specific meeting organised for this purpose, the Senior Executives presented the trade unions with the guidelines for Telecom Italia Domestic's 2012-14 business plan.

The content of the presentation was then discussed in detail. Telecom Italia will continue implementing its cost control policy in 2013 and 2014, focusing on improving efficiency, setting up discussion meetings with the trade unions. It will also be working with the Unions to verify that the Government creates the conditions for completion of the social safety net plan required by the agreement signed with the Ministry of Economic Development and the Ministry of Labour on August 4<sup>th</sup>, 2010.

In accordance with current legislation regarding company transfers, Telecom Italia S.p.A. carried out the required procedure with the trade union representatives (RSUs) regarding the transfer of its business unit exclusively to Shared Service Center S.r.l. with regard to "Information Technology" and the Human Resources and Organization Information Technology department, effective as of November 1<sup>st</sup>, 2012. Employment contracts were transferred directly from TI S.p.A. to Telecom Italia Information Technology S.r.l. (following the change of name of SSC).

Telecom Italia made a specific commitment to protect workers who left the company before December 31<sup>st</sup>, 2012 under mobility procedure (on a voluntary basis and according to the non-opposition criterion under existing agreements) if, following legislative changes, they found themselves unable to qualify for a pension; the guarantees offered by the Company provide that, at the end of the redeployment period, these workers will be hired on fixed-term contracts, under the same financial conditions and job categories they had at the time of their termination, for the period needed to qualify for a pension according to current legal provisions. In this respect, important agreements were signed in October with the most representative trade unions according to Telecom Italia S.p.A., Telecom Italia Sparkle S.p.A. and Shared Services Center S.r.l..

For information on industrial relations relating to Telecontact Center, TI Sparkle, TI Media, Olivetti, Brazil and Argentina, go to the sustainability section of the [telecomitalia.com](http://telecomitalia.com) website.

Remuneration policy

The Group's remuneration policy is based on an individual pay packet structure that aims to ensure a proper balance between the fixed and variable components, based on the company's strategic objectives and risk management policy. The structure is intended to safeguard the identity and integration of the Group (unity) as well as to respect the diversity of the relevant markets (differentiation), so as to sustain the Company's competitiveness and performance and ensure staff involvement, honesty and internal fairness.

The fixed remuneration component reflects the breadth and strategic nature of the role performed (measured using a job assessment system that uses internationally recognised and certified methods), as well as the individual characteristics and skills of the employee.

The short term variable remuneration aims to support the achievement of annual corporate objectives. The targets are fixed according to qualitative and quantitative indicators that represent and are consistent with the strategic priorities and business plan, measured according to pre-established and objective criteria.

The guidelines for application of the 2012 meritocratic policy provided for:

- the freezing of fixed remuneration, except for employees with key skills and cases in which the remuneration is significantly lower than standard market rates;
- focus on one-off instruments, according to increasingly selective systems;
- a significant review of short-term variable incentive policies (MBO), which covered both the operational mechanisms and the identification of recipients. As of 2012, a new incentive scheme was introduced alongside the MBO for professional staff, with the aim of pursuing greater alignment with the overall performance of the Company.

In 2012, in line with the long term rolling incentive structure launched in 2011, Telecom Italia launched a new Long Term Incentive (LTI) cycle, extended to Top Management and so-called selected executives, excluding Senior Executives, which was approved by the Shareholders' Meeting on May 15th, 2012.

Shareholders

Financial Communication

In 2012, the Company organised quarterly conference calls, road shows abroad and meetings in the Group's corporate centres (reverse road shows) as well as attending industry conferences. During these events, the Company met over 300 investors. In addition to these there are the direct contacts and telephone conversations that the Investor Relations team has on a daily basis.

The responses given by the Group to the financial market are based on criteria of relevance, information sensitivity, consistency and topicality in respect of the Group's structure and the actions undertaken to achieve the targets of the strategic plan.

Financial communication also takes into consideration the needs of investors linked to Socially Responsible Investing (SRI), which favours companies that pay attention to ethical, social and environmental factors as well as financial aspects.

Communication with this particular category of investors, which is jointly administered with the Group

Sustainability structure, is developed through individual contacts and participation in dedicated events.

As regards relations with individual (retail) shareholders - there are currently 450,000 holders of ordinary shares - Telecom Italia's strategy aims to increase communication channels in order to respond quickly and effectively to queries regarding the performance of shares and the Group as a whole. The messages and ideas that emerge from dialogue with retail investors are collected and reported to top management.

The TI Alw@ys ON Shareholders' Club ([telecomitaliaclub.it](http://telecomitaliaclub.it)) was launched in 2006 as a virtual meeting place between the Company and its individual investors. However, the Club is also open to people who do not own shares in the Group and registration provides access to the same free services that are reserved for shareholders, that is:

- SMS alert, which provides a daily report of the closing price and percentage variations of Telecom Italia's ordinary and savings shares compared to the previous day, as well as the daily percentage variations in the FTSE/Mib index.

- Weekly stock exchange report, sent on Monday mornings, summarises performance during the week ending the previous Friday.

- Quarterly Newsletter, which contains the main announcements taken from the press releases published at the time the Group's results for the period were released.

In addition to these services, Telecom Italia offers shareholders the Guide to the individual shareholder, an in-depth document about the Group, available on request and on the website, as well as constant updates through the press releases (institutional, concerning products, financial).

With regard to on line financial communication, the [telecomitalia.com](http://telecomitalia.com) website is constantly updated and innovated. Telecom Italia achieved first place overall in the Italian and European KWD Webranking 2012 rankings produced by KWD, the digital division of Hallvarsson & Halvarsson, a Swedish company that assesses and rewards listed companies that are most attentive to online corporate and financial communication.

## Footnotes

1(\*)

The value distributed to the Community stakeholder is not shown in the table. Please see the respective chapter.

(2)

The GHG Protocol (Greenhouse Gas Protocol Initiative), established in 1998 by the World Resources Institute and the World Business Council for Sustainable Development, develops calculation methods and studies aimed at promoting innovation and assuming responsibility for climate change.

(3)

The data shown in the tables and graphs relating to transport refer to all the TI Group's vehicles (industrial, commercial, used by executives/managers/sales people), both owned and hired. The vehicles, consumption and distance travelled of vehicles owned or used by the sales force of TIM Brasil and Telecom Argentina have been included only where usage is significant and continuous.

(4)

LED stands for Light Emitting Diode, a solid state device that replaces conventional light sources, like standard incandescent filament or neon lamps, ensuring high luminous efficiency and reliability as well as low energy consumption.

(5)

Emissions relating to the consumption of electricity purchased in the Italian market have been calculated by using the latest coefficient (2009) calculated by the GHG Protocol - which considers the national energy mix - equal to 386 grams of CO<sub>2</sub>/kWh. For Argentina, the latest coefficient has been used (2011), as calculated and published by the Secretaría de Energía de la Nación Argentina (Ministry of Energy), of 539 grams of CO<sub>2</sub>/kWh approximately. For Brazil, the average coefficient for 2012 has been used, as calculated and published by the Ministério da Ciência, Tecnologia e Inovação (Ministry of Science, Technology and Innovation), of 69 grams of CO<sub>2</sub>/kWh approximately.

6(\*)

"Waste consigned" refers to the waste delivered to carriers for recycling or reclamation or disposal.

(7)

Slight variations compared to the situation on December 31 may occur until the end of March, because the source of the data is the records of waste loaded and unloaded, which are consolidated once the actual weight at destination has been verified. The information is supplied to the producer of the waste within 3 months of consignment, which is the reason for the potential variations in the data.

(8)

Guidelines for Limiting Exposure to Time-Varying Electric, Magnetic, and Electromagnetic Fields (up to 300 GHz). Health Physics 74(4):494-522; 1998; Statement on the "Guidelines for limiting exposure to time-varying electric, magnetic and electromagnetic fields (up to 300 GHz)". Health Physics 97(3):257-259; 2009.

Consolidated Financial Statements at

December 31, 2012

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## Consolidated Statements of Financial Position

## Assets

(millions of euros)		<i>note</i> 12/31/2012		<i>of</i> 12/31/2011	
			<i>which</i> <i>related</i> <i>parties</i>		<i>which</i> <i>related</i> <i>parties</i>
Non-current assets					
Intangible assets					
Goodwill	4)	32,410		36,902	
Other intangible assets	5)	7,927		8,637	
		40,337		45,539	
Tangible assets	6)				
Property, plant and equipment owned		14,465		14,899	
Assets held under finance leases		1,014		1,094	
		15,479		15,993	
Other non-current assets					
Investments in associates and joint ventures accounted for using the equity method	7)	65		47	
Other investments	8)	39		38	
Non-current financial assets	9)	2,496	265	2,949	269
Miscellaneous receivables and other non-current assets	10)	1,496		1,128	
Deferred tax assets	11)	1,432		1,637	
		5,528		5,799	
Total Non-current assets	(a)	61,344		67,331	
Current assets					
Inventories	12)	436		447	
Trade and miscellaneous receivables and other current assets	13)	7,006	235	7,770	257
Current income tax receivables	11)	77		155	
Current financial assets	9)				
Securities other than investments, financial receivables and other current financial assets		1,256	12	1,469	36
Cash and cash equivalents		7,436	279	6,714	278
		8,692		8,183	
Current assets sub-total		16,211		16,555	
Discontinued operations/Non-current assets held for sale					
of a financial nature		-		-	
of a non-financial nature		-		-	
		-		-	
Total Current assets	(b)	16,211		16,555	

## Footnotes

Total Assets	(a+b)	77,555	83,886
--------------	-------	--------	--------

## Equity and Liabilities

(millions of euros)		<i>note</i> 12/31/2012		<i>of</i> 12/31/2011	<i>of</i>
			<i>which</i>	<i>of</i>	<i>which</i>
			<i>related</i>	<i>related</i>	<i>related</i>
			<i>parties</i>	<i>parties</i>	<i>parties</i>
Equity	14)				
Share capital issued		10,693		10,693	
less: treasury shares		(89)		(89)	
Share capital		10,604		10,604	
Paid-in capital		1,704		1,704	
Other reserves and retained earnings (accumulated losses), including profit (loss) for the year		7,070		10,482	
Equity attributable to owners of the Parent		19,378		22,790	
Non-controlling interests		3,634		3,904	
Total Equity	(c)	23,012		26,694	
Non-current liabilities					
Non-current financial liabilities	15)	34,091	476	35,860	483
Employee benefits	20)	872		850	
Deferred tax liabilities	11)	848		1,084	
Provisions	21)	863		831	
Miscellaneous payables and other non-current liabilities	22)	1,053	2	1,156	3
Total Non-current liabilities	(d)	37,727		39,781	
Current liabilities					
Current financial liabilities	15)	6,150	178	6,091	192
Trade and miscellaneous payables and other current liabilities	23)	10,542	327	10,984	252
Current income tax payables	11)	124		336	
Current liabilities sub-total		16,816		17,411	
Liabilities directly associated with Discontinued operations/Non-current assets held for sale					
of a financial nature		—		—	
of a non-financial nature		—		—	
		—		—	
Total Current liabilities	(e)	16,816		17,411	
Total liabilities	(f=d+e)	54,543		57,192	
Total Equity and Liabilities	(c+f)	77,555		83,886	



## Separate Consolidated Income Statements

(millions of euros)	<i>note</i>	Year 2012	<i>of which related parties</i>	Year 2011	<i>of which related parties</i>
				(Restated)	
Revenues	25)	29,503	1,025	29,957	1,100
Other income	26)	298	3	299	2
Total operating revenues and other income		29,801		30,256	
Acquisition of goods and services	27)	(12,948)	(745)	(12,859)	(729)
Employee benefits expenses	28)	(3,919)	(104)	(3,992)	(113)
Other operating expenses	29)	(1,882)		(1,859)	
Changes in inventories		12		56	
Internally generated assets	30)	581		569	
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)		11,645		12,171	
<i>of which: impact of non-recurring items</i>	41)	(71)		(24)	
Depreciation and amortization	31)	(5,340)		(5,496)	
Gains (losses) on disposals of non-current assets	32)	53		3	
Impairment reversals (losses) on non-current assets	33)	(4,432)		(7,358)	
Operating profit (loss) (EBIT)		1,926		(680)	
<i>of which: impact of non-recurring items</i>	41)	(4,429)		(7,353)	
Share of profits (losses) of associates and joint ventures accounted for using the equity method	7)	(6)		(39)	
Other income (expenses) from investments	34)	2		16	
Finance income	35)	2,082	45	2,464	127
Finance expenses	35)	(4,048)	(83)	(4,504)	(93)
Profit (loss) before tax from continuing operations		(44)		(2,743)	
<i>of which: impact of non-recurring items</i>	41)	(4,478)		(7,337)	
Income tax expense		(1,235)		(1,610)	
Profit (loss) from continuing operations		(1,279)		(4,353)	
Profit (loss) from Discontinued operations/Non-current assets held for sale		2		(13)	
Profit (loss) for the year	36)	(1,277)		(4,366)	
<i>of which: impact of non-recurring items</i>	41)	(4,111)		(7,345)	
Attributable to:					

Footnotes

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Owners of the Parent	(1,627)	(4,811)
Non-controlling interests	350	445

(euro)	Year	Year
	2012	2011
		(Restated)

Earnings per share:

Basic and Diluted Earnings Per Share (EPS)(\*) 37)

Ordinary Share	(0.08)	(0.25)
----------------	--------	--------

Savings Share	(0.08)	(0.25)
---------------	--------	--------

*of which:*

from Continuing operations

ordinary share	(0.08)	(0.25)
----------------	--------	--------

savings share	(0.08)	(0.25)
---------------	--------	--------

from Discontinued operations/Non-current assets

held for sale

ordinary share	—	—
----------------	---	---

savings share	—	—
---------------	---	---

(\*) Basic EPS is equal to Diluted EPS.

## Consolidated Statements of Comprehensive Income

## Note 14

(millions of euros)		Year 2012	Year 2011 (Restated)
Profit (loss) for the year	(a)	(1,277)	(4,366)
Other components of the Statements of Comprehensive Income:			
Available-for-sale financial assets:			
Profit (loss) from fair value adjustments		57	5
Loss (profit) transferred to the Separate Consolidated Income Statement		1	2
Net fiscal impact		(11)	(4)
	(b)	47	3
Hedging instruments:			
Profit (loss) from fair value adjustments		(702)	523
Loss (profit) transferred to the Separate Consolidated Income Statement		272	(230)
Net fiscal impact		121	(83)
	(c)	(309)	210
Exchange differences on translating foreign operations:			
Profit (loss) on translating foreign operations		(1,068)	(612)
Loss (profit) on translating foreign operations transferred to the Separate Consolidated Income Statement		–	75
Net fiscal impact		–	–
	(d)	(1,068)	(537)
Remeasurements of employee defined benefit plans (IAS 19):			
Actuarial gains (losses)		(56)	117
Net fiscal impact		14	(33)
	(e)	(42)	84
Share of other profits (losses) of associates and joint ventures accounted for using the equity method:			
Profit (loss)		–	–
Loss (profit) transferred to the Separate Consolidated Income Statement		–	–

## Footnotes

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Net fiscal impact		-	-
	(f)	-	-
Total	(g=b+c+d+e+f)	(1,372)	(240)
Comprehensive income (loss) for the year	(a+g)	(2,649)	(4,606)
Attributable to:			
Owners of the Parent		(2,516)	(4,826)
Non-controlling interests		(133)	220

## Consolidated Statements of Changes in Equity

## Changes in Equity in 2011

(millions of euros)	Equity attributable to owners of the Parent							Share of otherreserves and retained earnings, including profit (loss) for the year	Noncontrolling interests	Total equity	
	Share capital	Paid-in capital available-for-sale	Reserve for financial assets	Reserve for cash hedges	Reserve for exchange differences on translating foreign operations	Reserve for employee benefit plans (IAS 19) (*)	Share of comprehensive income of associates				
Balance at December 31, 2010	10,600	1,697	(7)	(284)	1,401	112	(1)	15,301	28,819	3,736	32,555
Changes in equity during the year:											
Dividends approved								(1,184)	(1,184)	(118)	(1,302)
Comprehensive income (loss) for the year			3	210	(312)	84		(4,811)	(4,826)	220	(4,606)
Grant of equity instruments	4	7						(4)	7		7
Effect of increase in economic stake in Argentina BU								(57)	(57)	(153)	(210)
Effect of capital operations of Brazil BU companies								19	19	221	240
Other changes								12	12	(2)	10
Balance at December 31, 2011	10,604	1,704	(4)	(74)	1,089	196	(1)	9,276	22,790	3,904	26,694

(\*) The Reserve is presented as a result of the early adoption of revised IAS 19. The recognition of this Reserve led to the reduction, for the same amount, of the opening balance of Other reserves and retained earnings (accumulated losses), including profit (loss) for the year .



## Changes in Equity in 2012 Note 14

(millions of euros)	Share Paid-in capital	Paid-in capital	Equity attributable to owners of the Parent					Share of other comprehensive income (loss) of associates	Other reserves and retained earnings, including profit (loss) for the year	Total Non-current assets
			Reserve for available-for-sale financial assets	Reserve for cash hedges	Reserve for exchange differences on translating foreign operations	Remeasurements of employee defined benefit plans (IAS 19) (*)				
Balance at December 31, 2011	10,604	1,704	(4)	(74)	1,089	196	(1)	9,276	22,790	
Changes in equity during the year:										
Dividends approved								(895)	(895)	
Comprehensive income (loss) for the year			47	(309)	(585)	(42)		(1,627)	(2,516)	
Grant of equity instruments								2	2	
Other changes								(3)	(3)	
Balance at December 31, 2012	10,604	1,704	43	(383)	504	154	(1)	6,753	19,378	

(\*) The Reserve is presented as a result of the early adoption of revised IAS 19. The recognition of this Reserve led to the reduction, for the same amount, of the opening balance of Other reserves and retained earnings (accumulated losses), including profit (loss) for the year .

## Consolidated Statements of Cash Flows

(millions of euros)	note	Year 2012	Year 2011 (Restated)
Cash flows from operating activities:			
Profit (loss) from continuing operations		(1,279)	(4,353)
Adjustments for:			
Depreciation and amortization		5,340	5,496
Impairment losses (reversals) on non-current assets (including investments)		4,434	7,365
Net change in deferred tax assets and liabilities		79	156
Losses (gains) realized on disposals of non-current assets (including investments)		(54)	(18)
Share of losses (profits) of associates and joint ventures accounted for using the equity method		6	39
Change in provisions for employees benefits		(221)	(175)
Change in inventories		12	(36)
Change in trade receivables and net amounts due from customers on construction contracts		851	3
Change in trade payables		(139)	(164)
Net change in current income tax receivables/payables		(473)	90
Net change in miscellaneous receivables/payables and other assets/liabilities		(35)	109
Cash flows from (used in) operating activities	(a)	8,521	8,512
Cash flows from investing activities:			
Purchase of intangible assets on an accrual basis	5)	(1,995)	(3,066)
Purchase of tangible assets on an accrual basis	6)	(3,201)	(3,029)
Total purchase of intangible and tangible assets on an accrual basis (*)		(5,196)	(6,095)
Change in amounts due to fixed asset suppliers		(113)	557
Total purchase of intangible and tangible assets on a cash basis		(5,309)	(5,538)
Acquisition of control of subsidiaries or other businesses, net of cash acquired		(7)	(668)
Acquisitions/disposals of other investments	8)	(3)	(1)
Change in financial receivables and other financial assets		519	(580)
		40	51
Footnotes			243

Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of			
Proceeds from sale/repayment of intangible, tangible and other non-current assets		77	435
Cash flows from (used in) investing activities	(b)	(4,683)	(6,301)
Cash flows from financing activities:			
Change in current financial liabilities and other		(796)	1,351
Proceeds from non-current financial liabilities (including current portion)		4,624	4,523
Repayments of non-current financial liabilities (including current portion)		(5,659)	(5,290)
Share capital proceeds/reimbursements (including subsidiaries)		(2)	240
Dividends paid (*)		(1,031)	(1,326)
Changes in ownership interests in consolidated subsidiaries		–	(211)
Cash flows from (used in) financing activities	(c)	(2,864)	(713)
Cash flows from (used in) Discontinued operations/Non-current assets held for sale	(d)	–	–
Aggregate cash flows	(e=a+b+c+d)	974	1,498
Net cash and cash equivalents at beginning of the year	(f)	6,670	5,282
Net foreign exchange differences on net cash and cash equivalents	(g)	(247)	(110)
Net cash and cash equivalents at end of the year	(h=e+f+g)	7,397	6,670

(\*) of which related parties:

Total purchase of intangible and tangible assets on an accrual basis		127	166
Dividends paid		139	192

#### Additional Cash Flow Information

(millions of euros)		Year	Year
		2012	2011
			(Restated)
Income taxes (paid) received		(1,522)	(1,381)
Interest expense paid		(3,518)	(3,044)
Interest income received		1,687	1,332
Dividends received		2	2

#### Analysis of Net Cash and Cash Equivalents

(millions of euros)		Year	Year
		2012	2011
			(Restated)

Net cash and cash equivalents at beginning of the year:

Cash and cash equivalents - from continuing operations	6,714	5,526
Bank overdrafts repayable on demand from continuing operations	(44)	(244)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale	–	–
Bank overdrafts repayable on demand – from Discontinued operations/Non-current assets held for sale	–	–
	6,670	5,282
Net cash and cash equivalents at the end of the year:		
Cash and cash equivalents - from continuing operations	7,436	6,714
Bank overdrafts repayable on demand – from continuing operations	(39)	(44)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale	–	–
Bank overdrafts repayable on demand – from Discontinued operations/Non-current assets held for sale	–	–
	7,397	6,670

Note 1

Form, content and other general information

Form and content

Telecom Italia (the “Parent”) and its subsidiaries form the “Telecom Italia Group” or the “Group”. Telecom Italia is a joint-stock company (S.p.A.) organized under the laws of the Republic of Italy.

The registered offices of the Parent are located in Milan at Piazza degli Affari 2, Italy.

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

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

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

The Telecom Italia Group consolidated financial statements for the year ended December 31, 2012 have been prepared on a going concern basis (for further details see the Note Accounting policies ) and in accordance with the *International Financial Reporting Standards* issued by the *International Accounting Standards Board* and approved by the European Union (designated as IFRS ), as well as the laws and regulations in force in Italy (particularly the measures enacted implementing art. 9 of Legislative Decree 38 of February 28, 2005).

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

•

the early adoption, starting from the first half of 2012, of the revised version of IAS 19 (Employee Benefits) whose effects are described in Note Accounting Policies . The early adoption of such amendments resulted in the restatement of the 2011 separate consolidated income statements and consolidated statements of comprehensive income ( Restated );

•

the new standards and interpretations adopted by the Group since January 1, 2012, that, however, did not have any effect on the consolidated financial statements at December 31, 2012.

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets held for trading and derivative financial instruments which have been measured at fair value. The carrying amounts of hedged assets and liabilities have been adjusted to reflect the changes in fair value of the hedged risks (*fair value hedge*).

In accordance with IAS 1 (Presentation of Financial Statements) comparative information included in the consolidated financial statements is, unless otherwise indicated, that of the preceding year.

The Telecom Italia Group consolidated financial statements are expressed in euro (rounded to the nearest million, unless otherwise indicated).

Publication of the Telecom Italia Group consolidated financial statements for the year ended December 31, 2012 was approved by resolution of the board of directors meeting held on March 7, 2013.

Financial statement formats

The financial statement formats adopted are consistent with those indicated in IAS 1. In particular:

•

the consolidated statement of financial position has been prepared by classifying assets and liabilities according to the current and non-current criterion;

•

the separate consolidated income statement has been prepared by classifying operating expenses by nature of expense as this form of presentation is considered more appropriate and representative of the specific business of the Group, conforms to internal reporting and is in line with the industrial sector of reference.

In addition to EBIT or Operating profit (loss), the separate consolidated income statement includes the alternative performance measure of EBITDA or Operating profit (loss) before depreciation and amortization, Capital gains (losses) and Impairment reversals (losses) on non-current assets.

In particular, besides EBIT, EBITDA is used by Telecom Italia as the financial target in internal presentations (business plans) and in external presentations (to analysts and investors). It represents a useful unit of measurement for the evaluation of the operating performance of the Group (as a whole and at the Business Unit level). EBIT and EBITDA are calculated as follows:

Profit (loss) before tax from continuing operations

+	Finance expenses
-	Finance income
+/-	Other expenses (income) from investments
+/-	Share of losses (profits) of associates and joint ventures accounted for using the equity method

EBIT- Operating profit (loss)

+/-	Impairment losses (reversals) on non-current assets
+/-	Losses (gains) on disposals of non-current assets
+	Depreciation and amortization

EBITDA- Operating profit (loss) before depreciation and amortization, Capital gains (losses) and Impairment reversals (losses) on non-current assets

•

the consolidated statement of comprehensive income includes the profit (loss) for the year as shown in the separate consolidated income statement and all other non-owner changes in equity;

•

the consolidated statement of cash flows has been prepared by presenting cash flows from operating activities according to the indirect method, as permitted by IAS 7 (Statement of Cash Flows).

Furthermore, as required by Consob Resolution 15519 of July 27, 2006, in the separate consolidated income statement, income and expenses relating to non-recurring transactions or events have been specifically identified and their relative impact has been shown separately at the main intermediate result levels. Non-recurring events and transactions have been identified mainly according to the nature of the transactions. Specifically, non-recurring income (expenses) include events or transactions which by their very nature do not occur continuously during the normal course of business operations, for instance: income/expenses arising from the sale of properties, business segments and investments included under non-current assets, income/expenses stemming from corporate-related reorganizations, income/expenses arising from fines levied by regulatory agencies and impairment losses on goodwill.

Also in reference to the above Consob resolution, the amounts of the balances or transactions with related parties have been shown separately in the consolidated statements of financial position, the separate consolidated income statements and the consolidated statements of cash flows.

### Segment Reporting

An operating segment is a component of an entity:

- 

that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);

- 

whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources (for Telecom Italia the Board of Directors) to be allocated to the segment and assess its performance; and

- 

for which discrete financial information is available.

In particular, the operating segments of the Telecom Italia Group are organized according to the relative geographical localization for the telecommunications business (Domestic, Brazil and Argentina) and according to the specific businesses for the other segments.

The term *operating segment* is considered synonymous with *Business Unit*. The operating segments of the Telecom Italia Group are as follows:

•

**Domestic:** includes operations in Italy for voice and data services on fixed and mobile networks for final customers (retail) and other operators (wholesale), the operations of the Telecom Italia Sparkle group (International wholesale) as well as the relative support activities;

•

**Brazil:** includes mobile (TIM Celular) and fixed (TIM Celular and Intelig) telecommunications operations in Brazil;

•

**Argentina:** includes fixed (Telecom Argentina) and mobile (Telecom Personal in Argentina and Núcleo in Paraguay) telecommunications operations;

•

**Media:** includes television network operations and management;

•

**Olivetti:** includes manufacturing operations for products and services for Information Technology. It carries out Solution Provider activities to automate processes and business activities for small and medium-size enterprises, large corporations and vertical markets;

•

**Other Operations:** includes finance companies and other minor companies not strictly related to the core business of the Telecom Italia Group.

#### Scope of consolidation

The changes in the scope of consolidation at December 31, 2012 compared to December 31, 2011 are listed below.

Entry of companies in the scope of consolidation:

Company	Business Unit Month		
La7 S.r.l.	new company	Media	May 2012

Exit of companies from the scope of consolidation:

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Company	Business Unit Month		
Matrix S.p.A.	sold	Other Operations	October 2012
Olivetti Holding B.V.	liquidated	Other operations	October 2012
Latin American Nautilus Mexico S.A.	liquidated	Domestic	May 2012
Teco Soft Argentina S.A.	liquidated	Other operations	March 2012

Merger of subsidiaries:

Company	Business Unit	Month
4G Holding S.p.A.	merged in 4G Retail S.r.l.	Domestic November 2012
Mediterranean Nautilus B V.	merged in Lan Med Nautilus Ltd	Domestic November 2012
Saiat Società Attività Intermedie Ausiliarie TLC S.p.A.	merged in Telecom Italia S.p.A.	Other operations November 2012
Tim Fiber SP Ltda	merged in Tim Cellular S.A.	Brazil August 2012
Tim Fiber RJ S.A.		
Telecom Italia Audit and Compliance Services Scarl	merged in Telecom Italia S.p.A.	Domestic January 2012

The breakdown by number of subsidiaries, associates and joint ventures of the Telecom Italia Group at December 31, 2012 and December 31, 2011 is as follows:

Companies:	12/31/2012		Total
	Italy	Outside Italy	
subsidiaries consolidated line-by-line	42	61	103
joint ventures accounted for using the equity method	1	-	1
associates accounted for using the equity method	15	-	15
Total companies	58	61	119

Companies:	12/31/2011	
	Italy	Total

		Outside Italy	
subsidiaries consolidated line-by-line	45	67	112
joint ventures accounted for using the equity method	1	-	1
associates accounted for using the equity method	15	-	15
Total companies	61	67	128

Further details are provided in the Note List of companies of the Telecom Italia Group .

Note 2

Accounting policies

Going concern

The consolidated financial statements for the year ended December 31, 2012 have been prepared on a going concern basis as there is the reasonable expectation that Telecom Italia will continue its operational activities in the foreseeable future (and in any event with a time horizon of at least twelve months).

In particular, consideration has been given to the following factors which Management believes, at this time, are not such as to generate doubts as to the Group's ability to continue as a going concern:

•

the main risks and uncertainties (that are for the most part of an external nature) to which the Group and the various activities of the Telecom Italia Group are exposed:

-

changes in the general macroeconomic condition in the Italian, European and South American markets;

-

variations in business conditions;

-

changes to laws and regulations (price and rate variations);

-

outcomes of disputes and litigations with regulatory authorities, competitors and other parties;

-

financial risks (interest rate and/or exchange rate trends);

•

the mix between equity and debt capital considered optimal as well as the policy for the remuneration of equity, described in the paragraph Share capital information under the Note Equity ;

•

the policy for financial risk management (market risk, credit risk and liquidity risk) described in the Note Financial risk management .

Principles of consolidation

Footnotes

The consolidated financial statements include the financial statements of all subsidiaries from when control over such subsidiaries commences until the date that control ceases.

The statement of financial position date of all the subsidiaries' financial statements coincides with that of the Parent.

Control exists when the Parent, directly or indirectly, has the majority of voting rights or has the power, also through contractual agreements, to determine the financial and operating policies of an enterprise in order to obtain benefits from its activities.

In the preparation of the consolidated financial statements, the assets, liabilities, revenues and expenses of the consolidated companies are consolidated on a line-by-line basis, and non-controlling interests in equity and profit (loss) for the year are disclosed separately under appropriate captions, respectively, in the consolidated statement of financial position, the separate consolidated income statement and the consolidated statement of comprehensive income.

Under IAS 27, the total comprehensive loss (including the profit or loss for the year) is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intragroup balances and transactions and any gains and losses arising from intragroup transactions are eliminated in consolidation.

The carrying amount of the investment in each subsidiary is eliminated against the corresponding share of equity in each subsidiary, after any adjustment to fair value at the acquisition date of control. At that date, goodwill is recorded as an intangible asset, as described below, whereas any gain from a bargain purchase or negative goodwill is recognized in the separate consolidated income statement.

Assets and liabilities of foreign consolidated subsidiaries expressed in currencies other than euro are translated using the exchange rates in effect at the statement of financial position date (the current method), whereas income and expenses are translated at the average exchange rates for the year. Exchange differences resulting from the application of this method are classified under equity until the

entire disposal of the investment or upon loss of control of the foreign subsidiary. Upon partial disposal, without losing control, the proportionate share of the cumulative amount of exchange differences related to the disposed interest is recognized in non-controlling interests.

The cash flows of foreign consolidated subsidiaries expressed in currencies other than the euro included in the consolidated statement of cash flows are translated into euro at the average exchange rates for the year.

Goodwill and fair value adjustments arising from the allocation of the purchase price of a foreign entity are recorded in the relevant foreign currency and are translated using the year-end exchange rate.

In the consolidated financial statements, investments in associates and joint ventures are accounted for using the equity method, as provided, respectively, by IAS 28 (Investments in Associates) and IAS 31 (Interests in Joint Ventures). Associates are enterprises in which the Group holds at least 20% of the voting rights or exercises a significant influence, but no control or joint control over the financial and operating policies.

In particular, under the equity method the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

The consolidated financial statements include the Group's share of profits (losses) of associates and joint ventures accounted for using the equity method from the date that significant influence or joint control commences until the date such circumstances cease. If the Group's share of losses of an associate or a joint venture exceeds the carrying amount of the investment on the Group's statement of financial position, the carrying amount of the investment is reduced to zero and the share of further losses is not recognized except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Gains and losses arising from transactions with associates or joint ventures are eliminated to the extent of the Group's interest in those entities.

Under IAS 27, changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Parent.

Intangible assets

Goodwill

Under IFRS 3 (Business Combinations), goodwill is recognized as of the acquisition date of control and measured as the excess of (a) over (b) below:

a)

the aggregate of:

-

the consideration transferred (measured in accordance with IFRS 3; generally recognized on the basis of the acquisition date fair value);

-

the amount of any non-controlling interest in the acquiree measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets;

-

in a business combination achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree.

b)

the acquisition date fair value of the identifiable assets acquired, net of the identifiable liabilities assumed measured at the acquisition date of control.

IFRS 3 requires, inter alia, the following:

•

incidental costs incurred in connection with a business combination are charged to the separate consolidated income statement;

•

in a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its fair value at the acquisition date of control and recognize any resulting gain or loss in the separate consolidated income statement.

Goodwill is classified in the statement of financial position as an intangible asset with an indefinite useful life.

Goodwill initially recorded is subsequently reduced only for impairment losses. Further details are provided in the accounting policy Impairment of tangible and intangible assets - Goodwill , reported below. In case of loss of control of a subsidiary, the relative amount of goodwill is taken into account in calculating the gain or loss on disposal.

Upon IFRS first-time adoption, the Group elected not to apply IFRS 3 (Business Combinations) retrospectively to those business combinations which had arisen before January 1, 2004. As a consequence, goodwill on acquisitions before the date of transition to IFRS was brought forward at the previous Italian GAAP amounts, and was tested for impairment at that date.

Other intangible assets with an indefinite useful life

Intangible assets with an indefinite useful life are not amortized systematically. Instead, they undergo impairment testing at least annually.

Development costs

Costs incurred internally for the development of new products and services represent either intangible assets (mainly costs for software development) or tangible assets produced internally. Such costs are capitalized only when all the following conditions are satisfied: i) the cost attributable to the development phase of the asset can be measured reliably, ii) there is the intention, the availability of financial resources, and the technical ability to complete the asset and make it available for use or sale and iii) it can be demonstrated that the asset will be able to generate future economic benefits.

Capitalized development costs only include expenditures that can be attributed directly to the development process and are amortized systematically over the estimated product or service life so that the amortization method reflects the way the asset's future economic benefits are expected to be consumed by the entity.

Other intangible assets with a finite useful life

Other purchased or internally-generated assets with a finite useful life are recognized as assets, in accordance with IAS 38 (*Intangible Assets*), where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be measured reliably.

Such assets are recorded at purchase or production cost and amortized on a straight-line basis over their estimated useful lives. The amortization rates are reviewed annually and revised if the current estimated useful life is different from the previous estimate. The effect of such changes is recognized prospectively in the separate consolidated income statement.

For a small portion of mobile and broadband offerings, the Group capitalizes directly attributable subscriber acquisition costs (consisting of commissions for the sales network and subsidies for the purchase of handsets) when the following conditions are met:

•

the capitalized costs can be measured reliably;

•

there is a contract binding the customer for a specific period of time;

•

it is probable that the amount of the capitalized costs will be recovered through the revenues generated by the services contractually provided, or, where the customer withdraws from the contract in advance, through the collection of the penalty.

Capitalized subscriber acquisition costs are amortized on a straight-line basis over the minimum period established in the underlying contract (between 12 and 24 months).

In all other cases, subscriber acquisition costs are expensed when incurred.

#### Tangible assets

##### Property, plant and equipment owned

Property, plant and equipment owned is stated at acquisition or production cost. Subsequent expenditures are capitalized only if they increase the future economic benefits embodied in the related item of property, plant and equipment. All other expenditures are expensed as incurred.

Cost also includes the expected costs of dismantling the asset and restoring the site if a legal or constructive obligation exists. The corresponding liability is recognized, when the obligation arises, in the statement of financial position under provisions at its present value. These capitalized costs are depreciated and charged to the separate consolidated income statement over the useful life of the related tangible assets.

The estimates for dismantling costs, discount rates and the dates in which such costs are expected to be incurred are recalculated annually, at each financial year-end. Changes in this liability must be recognized as an increase or decrease of the cost of the relative asset, and the amount deducted from the cost of the asset must not exceed its carrying amount. Any excess must be recorded immediately in the separate consolidated income statement, conventionally under the line item Depreciation.

Depreciation of property, plant and equipment owned is calculated on a straight-line basis over the estimated useful life of the assets.

The depreciation rates are reviewed annually and revised if the current estimated useful life is different from the previous estimate. The effect of such changes is recognized in the separate consolidated income statement prospectively.

Land, including land pertaining to buildings, is not depreciated.

Assets held under finance leases

Assets held under finance leases, in which substantially all the risks and rewards of ownership are transferred to the Group, are initially recognized as assets of the Group at fair value or, if lower, at the present value of the minimum lease payments, including bargain purchase options. The corresponding liability due to the lessor is included in the statement of financial position under financial liabilities.

Lease payments are apportioned between interest (recognized in the separate consolidated income statement) and principal (recognized as a deduction from liabilities). This split is made so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Furthermore, gains realized on sale and leaseback transactions that are recorded under finance lease contracts are deferred over the lease term.

The depreciation policy for depreciable assets held under finance leases is consistent with the policy for owned depreciable assets. If there is no reasonable certainty over the acquisition of the ownership of the asset at the end of the lease period, assets held under finance leases are depreciated over the shorter of the lease term and their useful lives.

Leases where the lessor retains substantially all the risks and rewards of ownership of the assets are accounted for as operating leases. Operating lease rentals are charged to the separate consolidated income statement on a straight-line basis over the lease term.

#### Capitalized borrowing costs

Under IAS 23 (*Borrowing Costs*), the Group capitalizes borrowing costs only if they are directly attributable to the acquisition, construction or production of a qualifying asset, that is an asset that takes a substantial period of time (conventionally more than 12 months) to get ready for its intended use or sale.

Capitalized borrowing costs are recorded in the separate consolidated income statement and deducted from the finance expense line item to which they relate.

#### Impairment of intangible and tangible assets

##### Goodwill

Goodwill is tested for impairment at least annually or more frequently whenever events or changes in circumstances indicate that goodwill may be impaired, as set forth in IAS 36 (*Impairment of Assets*); however, when the conditions that gave rise to an impairment loss no longer exist, the original amount of goodwill is not reinstated.

The test is generally conducted at the end of every year so the date of testing is the year-end closing date of the financial statements. Goodwill acquired and allocated during the year is tested for impairment at the end of the year in which the acquisition and allocation took place.

To test for impairment, goodwill is allocated, at the date of acquisition, to each cash-generating unit or group of cash-generating units which is expected to benefit from the acquisition.

If the carrying amount of the cash-generating unit (or group of cash-generating units) exceeds the recoverable amount, an impairment loss is recognized in the separate consolidated income statement. The impairment loss is first recognized as a reduction of the carrying amount of goodwill allocated to the cash-generating unit (or group of cash-generating units) and then only applied to the other assets of the cash-generating unit in proportion to their carrying amount, up to the recoverable amount of the assets with a finite useful life. The recoverable amount of a cash-generating unit (or group of cash-generating units) to which goodwill is allocated is the higher of fair value less costs to sell and its value in use.

In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The future cash flows are those arising from an explicit time horizon of three years as well as those extrapolated to estimate the terminal value. The long-term growth rate used to estimate the terminal value of the cash-generating unit (or group of cash-generating units) is assumed not to be higher than the average long-term growth rate of the segment, country or market in which the cash-generating unit (or group of cash-generating units) operates.

The value in use of cash-generating units which operate in a foreign currency is estimated in the local currency by discounting cash flows to present value on the basis of an appropriate rate for that currency. The present value

obtained is translated to Euro at the spot rate on the date of the impairment test (for the Telecom Italia Group, the date of the financial statements).

Future cash flows are estimated by referring to the current operating conditions of the cash generating unit (or group of cash-generating units) and, therefore, do not include either benefits originating from future restructuring for which the entity is not yet committed, or future investments for the improvement or optimization of the cash-generating unit.

To calculate impairment, the carrying amount of the cash-generating unit is established based on the same criteria used to determine the recoverable amount of the cash generating unit, excluding surplus assets (i.e., financial assets, deferred tax assets and net non-current assets held for sale) and includes the goodwill attributable to non-controlling interests.

After conducting the goodwill impairment test for the cash-generating unit (or groups of cash-generating units), a second level of impairment testing is carried out which includes the corporate assets which do not generate positive cash flows and which cannot be allocated by a reasonable and consistent criterion to the single units. At this second level, the total recoverable amount of all cash-generating units (or groups of cash-generating units) is compared to the carrying amount of all cash-generating units (or groups of cash-generating units), also including the cash-generating units to which no goodwill was allocated, and the corporate assets.

#### Intangible and tangible assets with a finite useful life

At each closing date, the Group assesses whether there are any indications of impairment of intangible and tangible assets with a finite useful life. Both internal and external sources of information are used for this purpose. Internal sources include obsolescence or physical damage, and significant changes in the use of the asset and the economic performance of the asset compared to estimated performance. External sources include the market value of the asset, changes in technology, markets or laws, increases in market interest rates and the cost of capital used to evaluate investments, and an excess of the carrying amount of the net assets of the Group over market capitalization.

When indicators of impairment exist, the carrying amount of the assets is reduced to the recoverable amount. The recoverable amount of an asset is the higher of fair value less costs to sell and its value in use. In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment losses are recognized in the separate consolidated income statement.

When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, up to the carrying amount that would have been recorded had no impairment loss been recognized. The reversal of an impairment loss is recognized as income in the separate consolidated income statement.

#### Financial instruments

##### Other investments

Other investments (other than those in subsidiaries, associates and joint ventures) are classified as non-current or current assets according to whether they are to be kept in the Group's portfolio for a period of more or less than 12 months.

Upon acquisition, investments are classified in the following categories:

- available-for-sale financial assets, as non-current or current assets;
-

financial assets at fair value through profit or loss , as current assets held for trading.

Other investments classified as available-for-sale financial assets are measured at fair value; changes in the fair value of these investments are recognized in a specific equity reserve (Reserve for available-for-sale financial assets) until the financial asset is disposed of or impaired, at which time the equity reserve is released to the separate consolidated income statement.

Other unlisted investments classified as available-for-sale financial assets, whose fair value cannot be measured reliably, are measured at cost adjusted by any impairment losses which are recognized in the separate consolidated income statement, as required by IAS 39.

Impairment losses recognized on other investments classified as available-for-sale financial assets are not reversed.

Changes in the value of other investments classified as financial assets at fair value through profit or loss are recognized directly in the separate consolidated income statement.

#### Securities other than investments

Securities other than investments classified as non-current assets are those held to maturity. The assets are recorded on the trade date and are stated at acquisition cost, including transaction costs, on initial recognition, and subsequently measured at amortized cost.

Amortized cost represents the initial cost of the financial instrument net of principal repayments received, adjusted (up or down) by the amortization of any differences between the initial amount and the maturity amount using the effective interest method, less any write-down for impairment or uncollectibility.

Securities other than investments classified as current assets are those that, by decision of the directors, are intended to be kept in the Group's portfolio for a period of not more than 12 months, and are included in the following categories:

- held to maturity (originally more than 3 months but less than 12 months, or, with an original maturity of more than 12 months but the remaining maturity at the date of purchase is more than 3 months but less than 12 months) and measured at amortized cost;
- held for trading and measured at fair value through profit or loss;
- available-for-sale and measured at fair value with a contra-entry to an equity reserve.

Changes in the value of securities other than investments classified as available-for-sale are recognized in an equity reserve (Reserve for available-for-sale financial assets) until the financial asset is disposed of or impaired, at which time the equity reserve is reversed to the separate consolidated income statement.

When the conditions that gave rise to impairment losses on securities other than investments held to maturity or classified as available-for-sale financial assets no longer exist, the impairment losses are reversed.

#### Receivables and loans

Receivables and loans classified as either non-current or current assets are initially recognized at fair value and subsequently measured at amortized cost.

#### Cash and cash equivalents

Cash and cash equivalents are recorded, according to their nature, at nominal value or amortized cost.

Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash, subject to an insignificant risk of change in value and their original maturity or the remaining maturity at the date of purchase does not exceed 3 months.

### Impairment of financial assets

At every closing date, assessments are made as to whether there is any objective evidence that a financial asset or a group of financial assets may be impaired. If any such evidence exists, an impairment loss is recognized in the separate consolidated income statement for financial assets measured at cost or amortized cost; for available-for-sale financial assets reference should be made to the accounting policy reported above.

### Financial liabilities

Financial liabilities comprise financial debt, including advances received on the assignment of accounts receivable and other financial liabilities such as derivatives and finance lease obligations.

In accordance with IAS 39, they also include trade and other payables.

Financial liabilities other than derivatives are initially recognized at fair value and subsequently measured at amortized cost. Amortized cost represents the initial amount net of principal repayments made, adjusted (up or down) by the amortization of any differences between the initial amount and the maturity amount using the effective interest method.

Financial liabilities hedged by derivative instruments designed to manage exposure to changes in fair value of the liabilities (fair value hedge derivatives) are measured at fair value in accordance with the hedge accounting principles of IAS 39. Gains and losses arising from re-measurement at fair value, to the extent of the hedged component, are recognized in the separate consolidated income statement and are offset by the effective portion of the gain or loss arising from re-measurement at fair value of the hedging instrument.

Financial liabilities hedged by derivative instruments designed to manage exposure to variability in cash flows (*cash flow hedge* derivatives) are measured at amortized cost in accordance with the hedge accounting principles of IAS 39.

### Derivatives

Derivatives are used by the Telecom Italia Group to manage its exposure to exchange rate and interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to within pre-established operational limits.

In accordance with IAS 39, derivative financial instruments qualify for hedge accounting only when:

- a)  
at the inception of the hedge, the hedging relationship is formally designated and documented;
- b)  
the hedge is expected to be highly effective;
- c)  
its effectiveness can be reliably measured;

d)

the hedge is highly effective throughout the financial reporting periods for which it is designated.

All derivative financial instruments are measured at fair value in accordance with IAS 39.

When derivative financial instruments qualify for hedge accounting, the following accounting treatment applies:

- 

*Fair value hedge* Where a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of an asset or liability due to a particular risk, the gain or loss from re-measuring the hedging instrument at fair value is recognized in the separate consolidated income statement. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in the separate consolidated income statement.

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*Cash flow hedge* Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows of an asset or liability or a highly probable forecasted transaction, the effective portion of any gain or loss on the derivative financial instrument is recognized directly in a specific equity reserve (Reserve for cash flow hedges). The cumulative gain or loss is removed from equity and recognized in the separate consolidated income statement at the same time the hedged transaction affects the separate consolidated income statement. The gain or loss associated with the ineffective portion of a hedge is recognized in the separate consolidated income statement immediately. If the hedged transaction is no longer probable, the cumulative gains or losses included in the equity reserve are immediately recognized in the separate consolidated income statement.

If hedge accounting is not appropriate, gains or losses arising from the measurement of the fair value of derivative financial instruments are recognized directly in the separate consolidated income statement.

#### Sales of receivables

The Telecom Italia Group carries out sales of receivables under factoring arrangements in accordance with Law 52/1991. These sales, in the majority of cases, are characterized by the transfer of substantially all the risks and rewards of ownership of the receivables to third parties, meeting IFRS requirements for derecognition. Specific servicing contracts, through which the buyer institutions conferred a mandate to Telecom Italia S.p.A. for the collection and management of the receivables, leave the current Company/customer relationship unaffected.

#### Amounts due from customers on construction contracts

Amounts due from customers on construction contracts, regardless of the duration of the contracts, are recognized according to the percentage of completion method and classified under current assets.

Any losses on such contracts are recorded in full in the separate consolidated income statement when they become known.

#### Inventories

Inventories are measured at the lower of purchase and production cost and estimated realizable value; cost is determined on a weighted average basis. Provisions are made for obsolete and slow-moving inventories based on their expected future use and estimated realizable value.

#### Non-current assets held for sale/Discontinued operations

Non-current assets (or disposal groups) whose carrying amount will mainly be recovered through sale, rather than through ongoing use, are classified as held for sale and shown separately from other assets and liabilities in the statement of financial position. The corresponding amounts for the previous period are not reclassified.

An operating asset sold (*Discontinued Operations*) is a component of an entity that has been divested or classified as held for sale and:

- 

represents a major line of business or geographical area of operations;

- 

is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations;

or

•  
is a subsidiary acquired exclusively with a view to resale.

The results arising from Discontinued Operations – whether disposed of or classified as held for sale – are shown separately in the separate consolidated income statement, net of tax effects. The corresponding values for the previous periods, where present, are reclassified and reported separately in the separate consolidated income statement, net of tax effects, for comparative purposes.

Non-current assets (or disposal groups) classified as held for sale are first recognized in compliance with the appropriate IFRS applicable to the specific assets and liabilities and subsequently measured at the lower of the carrying amount and the fair value, less costs to sell. Any subsequent impairment losses are recognized as a direct adjustment to the non-current assets (or disposal groups) classified as held for sale and expensed in the separate consolidated income statement.

An entity shall recognize a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized.

#### Employee benefits

##### Provision for employee severance indemnities

Employee severance indemnities, mandatory for Italian companies pursuant to art. 2120 of the Italian Civil Code, is deferred compensation and is based on the employees' years of service and the compensation earned by the employee during the service period.

Under IAS 19 (*Employee Benefits*), the employee severance indemnity as calculated is considered a Defined benefit plan and the related liability recognized in the statement of financial position (*Provision for employee severance indemnities*) is determined by actuarial calculations.

Following the early adoption of the revised version of IAS 19 (*Employee Benefits*), starting from the first half of 2012, the remeasurements of actuarial gains and losses are recognized in other components of other comprehensive income. Interest expenses related to the *time value* component of the actuarial calculations, are recognized in the separate consolidated income statement as finance expenses.

Starting from January 1, 2007, Italian Law introduced for employees the choice to direct their accruing indemnity either to supplementary pension funds or leave the indemnity as an obligation of the company. Companies that employ at least 50 employees must transfer the employee severance indemnity to the Treasury fund managed by INPS, the Italian Social Security Institute.

Consequently, the Group's obligation to INPS and the contributions to supplementary pension funds take the form, under IAS 19, of a Defined contribution plan whereas the amounts recorded in the provision for employee severance indemnities retain the nature of a Defined benefit plan.

#### Equity compensation plans

The companies of the Group provide additional benefits to certain managers of the Group through equity compensation plans (stock options and long-term incentive plans). These plans are recognized in accordance with IFRS 2 (*Share-Based Payment*).

In accordance with IFRS 2, such plans represent a component of the beneficiaries' compensation. Therefore, for plans that provide for compensation in equity instruments, the cost is represented by the fair value of such instruments at the grant date, and is recognized in the separate consolidated income statement in *Employee benefits expenses* over the period between the grant date and vesting date with a contra-entry to an equity reserve denominated *Other equity instruments*. Changes in the fair value subsequent to the grant date do not affect the initial measurement. At the end of each year, adjustments are made to the estimate of the number of rights that will vest up to expiry. The impact of the change in estimate is deducted from *Other equity instruments* with a contra-entry to *Employee benefits expenses*.

For the portion of the plans that provide for the payment of compensation in cash, the amount is recognized in liabilities as a contra-entry to Employee benefits expenses ; at the end of each year this liability is measured at fair value.

#### Provisions

The Group records provisions for risks and charges when it has a present obligation, legal or constructive, to a third party, as a result of a past event, when it is probable that an outflow of Group resources will be required to satisfy the obligation and when the amount of the obligation can be estimated reliably.

If the effect of the time value is material, and the payment date of the obligations can be reasonably estimated, provisions to be made are the present value of the expected cash flows, taking into account the risks associated with the obligation. The increase in the provision due to the passage of time is recognized as Finance expenses .

#### Treasury shares

Treasury shares are recognized as a deduction from equity. In particular, the nominal amount of treasury shares is reported as a deduction from the share capital issued while the excess cost of acquisition over the nominal amount is presented as a deduction from Other reserves and retained earnings (accumulated losses), including profit (loss) for the year .

#### Foreign currency transactions

Transactions in foreign currencies are recorded at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate at the statement of financial position date. Exchange differences arising from the settlement of monetary items or from their conversion at rates different from those at which they were initially recorded during the year or at the end of the prior year, are recognized in the separate consolidated income statement.

#### Revenues

Revenues include only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenues.

Revenues are recognized to the extent that it is probable that economic benefits will flow to the Group and their amount can be measured reliably. Revenues are stated net of discounts, allowances, and returns.

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#### Revenues from services rendered

Revenues from services rendered are recognized in the separate consolidated income statement according to the stage of completion of the service and only when the outcome of the service rendered can be estimated reliably. Traffic

revenues from interconnection and roaming are reported gross of the amounts due to other TLC operators. Revenues for delivering information or other content are recognized on the basis of the amount invoiced to the customer, when the service is rendered directly by the Group. Where the Group is acting as agent (for example non-geographic numbers) only the commission received from the content provider is recognized as revenue.

Revenues from the activation of telephone services (as well as the related costs) are deferred over the expected duration of the relationship with the customer (generally 8 years for retail customers and 3 years for wholesale customers). In particular, costs from the activation of telephone services are deferred also taking into account the reasonable expectations of cash flows arising from these services.

Revenues from prepaid traffic are recorded on the basis of the minutes used at the contract price per minute. Deferred revenues for unused minutes are recorded in Trade and miscellaneous payables and other current liabilities in the statement of financial position.

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Revenues from sales and bundled offerings

Revenues from sales (telephone and other equipment) are recognized when the significant risks and rewards of ownership are transferred to the buyer.

For offerings which include the sale of mobile handsets and service contracts, the Telecom Italia Group recognizes revenues related to the sale of the handset when it is delivered to the final customer, whereas traffic revenues are recorded on the basis of the minutes used. The related subscriber acquisition costs, including handset subsidies and sales commissions, are expensed as incurred. The revenues allocated to the handset sale are limited to the contract amount that is not contingent upon the rendering of telecommunication services, i.e. the remaining amount paid by the customer exceeding the services value.

A small portion of the offerings in the mobile and broadband businesses are contracts with a minimum contractual period between 12 and 24 months which include an enforced termination penalty. For these contracts, the subscriber acquisition costs are capitalized under Intangible assets with a finite useful life if the conditions for capitalization as described in the related accounting policy are met.

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Revenues on construction contracts

Revenues on construction contracts are recognized based on the stage of completion (percentage of completion method).

Research costs and advertising expenses

Research costs and advertising expenses are charged directly to the separate consolidated income statement in the year in which they are incurred.

Finance income and expenses

Finance income and expenses are recognized on an accrual basis and include interest accrued on the related financial assets and liabilities using the effective interest rate method; changes in fair value of derivatives and other financial instruments measured at fair value through profit or loss; and gains and losses on foreign exchange and financial

instruments (including derivatives).

#### Dividends

Dividends received from companies other than subsidiaries, associates and joint ventures are recognized in the separate consolidated income statement in the year in which they become receivable, following the approval by the shareholders' meeting for the distribution of dividends of the investee companies.

Dividends payable to third parties are reported as a change in equity in the year in which they are approved by the shareholders' meeting.

## Taxes

Income taxes include all taxes calculated on the basis of the taxable income of the companies of the Group.

Income taxes are recognized in the separate consolidated income statement, except to the extent that they relate to items directly charged or credited to equity, in which case the related tax is recognized in the relevant equity reserves. In the statement of comprehensive income the amount of income taxes relating to each item included as Other components of the Statement of comprehensive income is indicated.

The income tax expense that could arise on the remittance of a subsidiary's retained earnings is only recognized where there is the actual intention to remit such earnings.

Deferred tax liabilities/assets are recognized using the Balance sheet liability method. They are calculated on all temporary differences that arise between the tax base of an asset or liability and the carrying amounts in the consolidated financial statements, except for non tax-deductible goodwill and for these differences related to investments in subsidiaries which will not reverse in the foreseeable future. Deferred tax assets relating to unused tax loss carryforwards are recognized to the extent that it is probable that future taxable income will be available against which they can be utilized. Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same tax authority and there is a legally enforceable right of offset. Deferred tax assets and liabilities are determined based on enacted tax rates in the respective jurisdictions in which the Group operates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Taxes, other than income taxes, are included in Other operating expenses.

## Earnings per share

Basic earnings per ordinary share is calculated by dividing the Group's profit attributable to ordinary shares by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares. Similarly, basic earnings per savings share is calculated by dividing the Group's profit attributable to savings shares by the weighted average number of savings shares outstanding during the year. For diluted earnings per ordinary share, the weighted average number of shares outstanding is adjusted by all dilutive potential shares (for example, the exercise of rights on shares with dilutive effects). The Group profit is also adjusted to reflect the impact of these transactions net of the related tax effects.

## Use of estimates

The preparation of consolidated financial statements and related disclosure in conformity with IFRS requires management to make estimates and assumptions based also on subjective judgments, past experience and scenarios considered reasonable and realistic in relation to the information known at the time of the estimate. Such estimates have an effect on the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the amount of revenues and costs during the year. Actual results could differ, even significantly, from those estimates owing to possible changes in the factors considered in the determination of such estimates. Estimates are reviewed periodically.

## Footnotes

The most important accounting estimates which require a high degree of subjective assumptions and judgments are addressed below:

Financial statement

Accounting estimates

line item/area

Goodwill

The impairment test on goodwill is carried out by comparing the carrying amount of cash-generating units and their recoverable amount. The recoverable amount of a cash-generating unit is the higher of fair value, less costs to sell, and its value in use. This complex valuation process entails the use of methods such as the discounted cash flow method which uses assumptions to estimate cash flows. The recoverable amount depends significantly on the discount rate used in the discounted cash flow model, as well as the expected future cash flows and the growth rate used for the extrapolation. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are detailed in the Note Goodwill .

Business combinations

The recognition of business combinations requires that assets and liabilities of the acquiree be recorded at their fair value at the acquisition date of control, as well as the possible recognition of goodwill, through the use of a complex process in determining such values.

Bad debt provision

The recoverability of receivables is measured by considering the uncollectibility of receivables, their age and losses on receivables recognized in the past by type of similar receivables.

Depreciation and amortization expense

Changes in the economic conditions of the markets, technology and competitive forces could significantly affect the estimated useful lives of tangible and intangible non-current assets and may lead to a difference in the timing and amount of depreciation and amortization expense.

Accruals, contingent liabilities and employee benefits

As regards the provisions for restoration costs, the estimate of future costs to dismantle tangible assets and restore the site is a complex process that requires an assessment of the liability arising from such obligations which seldom are entirely defined by law, administrative regulations or contract clauses and which normally are to be complied with after an interval of several years.

The accruals related to legal, arbitration and tax disputes are the result of a complex estimation process based upon the probability of an unfavorable outcome.

Employee benefits, especially the provision for employee severance indemnities, are calculated using actuarial assumptions; changes in such assumptions could have a material impact on such liabilities.

Revenues

Revenue recognition is influenced by:

the expected duration of the relationship with the customer for revenues from telephone service activations (as well as the related costs);

the estimate of the amount of discounts, allowances and returns to be recorded as a direct deduction from revenues.

Income taxes

Income taxes (current and deferred) are calculated in each country in which the Group operates according to a prudent interpretation of the tax laws in effect. This process sometimes involves complex estimates to determine taxable income and deductible and taxable temporary differences between the carrying amounts and the taxable amounts. In particular, deferred tax assets are recognized to the extent that future taxable income will be available against which they can be utilized. The measurement of the recoverability of deferred tax assets, recognized based on both unused tax loss carryforwards to future years and deductible differences, takes into account the estimate of future taxable income and is based on conservative tax planning.

Derivative instruments and equity instruments

The fair value of derivative instruments and equity instruments is determined on the basis of either prices in regulated markets or quoted prices provided by financial counterparts, or using valuation models which also take into account subjective measurements such as, for example, cash flow estimates, expected volatility of prices, etc.

As required by IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*), section 10, in the absence of a Standard or an Interpretation that specifically applies to a particular transaction, management carefully considers subjective valuation techniques and uses its judgment as to the accounting methods to adopt with a view to providing financial statements which faithfully represent the financial position, the results of operations and the cash flows of the Group, which reflect the economic substance of the transactions, are neutral, prepared on a prudent basis and complete in all material respects.

New Standards and Interpretations endorsed by EU in force from January 1, 2012

As required by IAS 8, the application of amendments to IAS 12 (*Income Taxes*) and to IFRS 7 (*Disclosures-Transfers of Financial Assets*), in force from January 1, 2012, did not have an impact on the consolidated financial statements at December 31, 2012.

New Standards and Interpretations endorsed by EU, not yet in force and early adopted

#### IAS 19 (2011) (Employee benefits)

In June 2012, Commission Regulation EU No. 475-2012 was issued adopting the revised version of IAS 19 (*Employee Benefits*) which is applicable retrospectively, starting from January 1, 2013, in accordance with IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*). As permitted, Telecom Italia decided to early adopt the amendments to IAS 19 starting from the Half-year Financial Report at June 30, 2012 in order to reduce the volatility of the values recognized in the separate consolidated income statement. In particular, under the amended IAS 19 (2011), with reference to the employee defined benefit plans (e.g. employee severance indemnity), remeasurements of actuarial gains and losses are recognized in other components of other comprehensive income. Therefore, other options previously provided were deleted (including the option adopted by the Telecom Italia Group whereby these components had been recorded in employee benefits expenses in the separate consolidated income statement). Service costs, as well as interest expenses related to the time value component of the actuarial calculations (the latter reclassified to Finance expenses), are still recognized in the separate consolidated income statement. The early adoption of such amendments resulted in the restatement of the 2010 and 2011 separate consolidated income statements and consolidated statements of comprehensive income (Restated), and had no impact on Equity other than the reclassification of certain reserves, as detailed in the note *Equity*.

#### Separate Consolidated Income Statements

	Year	Year
	2011	2010
(millions of euros)		
Employee benefits expenses reversal of actuarial Gains	(117)	(4)
Employee benefits expenses reclassification of the interest component	42	44
Finance expenses - reclassification of the interest component	(42)	(44)
Income tax expense	33	1
Impact on Profit (loss) for the year	(84)	(3)

These changes had no impact on both the basic and diluted earnings per share for 2010, while, for 2011, the aforementioned changes had a negative impact of 0.01 euros.

#### Consolidated Statements of Comprehensive Income

	Year	Year
	2011	2010
(millions of euros)		

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Impact on Profit (loss) for the year	(84)	(3)
Remeasurements of employee defined benefit plans (IAS 19 ):		
Actuarial gains	84	3
Net fiscal impact	117	4
	(33)	(1)
Impact on comprehensive income (loss) for the year	-	-

### Consolidated Statements of Cash Flows

The early application of the revised IAS 19 had no effect on Aggregate cash flows in the consolidated statements of cash flows and in particular on the Cash flows from (used in) operating activities .

### Consolidated Statements of financial position

The early application of IAS 19 (2011) had no impact on the Consolidated Statements of financial position.

### New Standards and Interpretations endorsed by EU not yet in force

During the year 2012 the following standards were endorsed at EU level:

	Mandatory application:
	annual periods
	beginning on or after
Amendments to IAS 1 (Presentation of Financial Statements)	January 1, 2013
Amendments to IFRS 7 (Disclosures Offsetting Financial Assets and Financial Liabilities)	January 1, 2013
IFRS 13 (Fair value measurement)	January 1, 2013
IAS 27 (Separate Financial Statements)	January 1, 2014
IAS 28 (Investments in associates and joint ventures)	January 1, 2014
IAS 10 (Consolidated financial statements)	January 1, 2014
IFRS 11 (Joint Arrangements)	January 1, 2014
IFRS 12 (Disclosure of interests in other entities)	January 1, 2014
Amendments to IAS 32 (Financial instruments: Presentation - Offsetting Financial Assets and Financial Liabilities)	January 1, 2014

The potential impacts arising from their application on the consolidated financial statements are currently being assessed.



## Note 3

## Business combinations

## 2011 - Acquisition of the 4G Holding group (4G)

On July 27, 2011, Telecom Italia, after having received authorization from the Antitrust Authority, finalized the acquisition of a 71% interest in the company 4G Holding S.p.A., which in turn held a 100% interest in 4G Retail S.r.l. The acquisition involved an outlay of about 8.6 million euros (including incidental expenses). The transaction was carried out through TLC Commercial Services S.r.l., a wholly-owned subsidiary of the Parent.

4G Holding S.p.A. and 4G Retail S.r.l. were merged in 2012.

In view of the reciprocal commitments already undertaken by the Telecom Italia Group and the current sole minority shareholder, Gir S.r.l., as regards the future transfer of the shares held by the latter, the accounting effects of the business combination have been calculated based on an economic interest of 100% and, as set forth in IFRS 3, can be summarized as follows:

•

the measurement of the interest acquired is equal to 16 million euros and is inclusive of the measurement of the future acquisition of the interest held by the minority shareholder;

•

all the assets acquired and the liabilities assumed of the acquired group have been measured for their recognition at fair value.

Following the measurement of the Assets acquired and Liabilities assumed by 4G for their recognition at fair value, the amounts originally determined were confirmed and are shown below:

(millions of euros)	Final fair value	
		amount
Measurement of consideration	(a)	16
Value of assets acquired	(b)	67
Value of liabilities assumed	(c)	(67)
Goodwill	(a b-c)	16

In addition, the most important acquisition-date amounts of the assets and liabilities of the 4G group are summarized as follows:

## 4G group acquisition-date amounts

(millions of euros)		Final fair value	Carrying amounts
		amounts	
Goodwill arising from business combinations		16	-
Other non-current assets		22	29
Current assets		45	45
Total assets	(a)	83	74
Total non-current liabilities		12	5
Total current liabilities		55	55
Total liabilities	(b)	67	60
Net assets	(a-b)	16	14

## 2011 - Acquisition of Tim Fiber SP and Tim Fiber RJ

On October 31, 2011, the acquisition, through the subsidiary Tim Celular S.A., of telecommunications infrastructure operators in the states of São Paulo and Rio de Janeiro from Companhia Brasileira de Energia was finalized and the companies were renamed Tim Fiber SP and Tim Fiber RJ. The acquisition involved an outlay of approximately 656 million euros (including incidental expenses).

As a result of the above transaction, a 100% interest has been acquired in the company Tim Fiber SP and a 98.3% interest, subsequently increased to 100%, in the company Tim Fiber RJ.

The accounting effects of the business combination have been calculated based on 100% ownership, as required by IFRS 3, and can be summarized as follows on a provisional basis:

•

the measurement of the consideration for both companies is equal to 657 million euros and is inclusive of the non-controlling interest acquired after October 31, 2011;

•

all the assets acquired and the liabilities assumed of the acquired group have been measured for their recognition at fair value. During the course of 2012 and in any case within 12 months of acquisition the provisional amounts of the assets and liabilities recorded at the acquisition date have been adjusted with retroactive effect to take into account their acquisition-date fair value with the consequent recalculation of goodwill. In addition to the amounts of the assets acquired and liabilities assumed, overall final goodwill of 499 million euros was recognized, calculated as illustrated in the following table:

(millions of euros)		Tim Fiber SP +	Tim Fiber SP +	Change
		Tim Fiber RJ	Tim Fiber RJ	
		Final fair value	Provisional fair value	
		amount	amount	
Measurement of consideration	(a)	657	657	-
Net assets acquired	(b)	158	101	57
Goodwill	(a-b)	499	556	(57)

The most important acquisition-date amounts of the assets and liabilities of the companies Tim Fiber SP and Tim Fiber RJ are summarized as follows:

Tim Fiber SP and Tim Fiber RJ acquisition-date amounts

(millions of euros)	Tim Fiber SP + Tim Fiber RJ		Carrying amounts	Change (a-b)
	Final fair value amount (a)	Provisional Fair value amount (b)		
Goodwill arising from the business combinations	499	556	-	(57)
Other non-current assets	218	131	131	87
Current assets	39	39	39	
Total assets (a)	756	726	170	30
Total non-current liabilities	72	42	42	30
Total current liabilities	27	27	27	
Total liabilities (b)	99	69	69	30
Net assets (a-b)	657	657	101	

The final allocation of the consideration paid led to a higher loss for the year of 1 million euros in the 2011 separate consolidated income statement.

In addition, the changes shown in the table above were subject to other changes, mainly due to exchange rates fluctuations.

Note 4  
Goodwill

Goodwill shows the following breakdown and changes during 2011 and 2012:

(millions of euros)	12/31/2010	Increase	Decrease	Impairments	Exchange	12/31/2011
					differences	
Domestic	41,947	16	(10)	(7,307)		34,646
Core Domestic	41,532	16	(10)	(7,307)		34,231
International						
Wholesale						