

TI Audit and Compliance
Services S.c.a r.l.

Financial Statements
as at 31.12.2011

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Merger by incorporation of Telecom Italia Audit and Compliance Services S.c.a r.l. into Telecom Italia S.p.A.

On 31 August 2011, the Board of Directors of TI Audit and Compliance Services S.c.a r.l. (also known as “TI Audit”, the “Company” or the “Consortium Company”) prepared the plan for the merger by incorporation of the Consortium Company into Telecom Italia S.p.A., on the assumption that the latter, before the implementation of the merger, purchased the remaining portion of the share capital of TI Audit held by TI Media S.p.A.. The merger fitted with a logic of revising the control governance structures of the Telecom Italia Group, concentrating activities and expertise in the field of internal control in the Parent Company.

The plan was drawn up taking into account the reference financial position drawn up as at 30 June 2011 and was filed on 8 August 2011 with the Milan Business Register. Neither the report by the Directors nor the report by the experts specified respectively by article 2501-*quinquies* and 2501-*sexies* of the Civil Code were required, due to the application of article 2505 of the Civil Code.

With a resolution of the shareholders' meeting of 29 September 2011, TI Audit approved the merger. The resolution was filed with the Milan Business Register on 11 October 2011.

As specified in the plan, on 20 December 2011 the incorporating company purchased by notarised deed the shareholding of a nominal 500,000.00 euros held by Telecom Italia Media S.p.A.. Telecom Italia S.p.A. thus having become owner of the entire share capital of TI Audit, the deed of merger by incorporation was signed on the same day, to run for administrative and accounting purposes from 1 January 2012.

In view of the above, these draft financial statements have been drawn up by the Board of Directors and are submitted for the approval of the shareholders' meeting of the incorporating company Telecom Italia S.p.A.

Corporate Boards 31 December 2011

► Board of Directors

Without prejudice to the efficacy of the merger at 1 January 2012, the ordinary shareholders' meeting of the Consortium Company had on 30 March 2011 appointed the Board of Directors of TI Audit, consisting of five directors, with its original term in office running till the approval of the financial statements as at 31 December 2013.

On 19 July 2011 the Board of Directors proceeded to co-opt Aldo Minucci to replace Antonino Cusimano, who had resigned from the position on the same date, and to appoint the said Aldo Minucci Chairman of the Company, to replace Federico Maurizio d'Andrea, who assumed the position of Vice Chairman.

On 29 September 2011 the ordinary shareholders' meeting confirmed Aldo Minucci as a Director and Chairman of the Board of Directors.

Consequently, the Board of Directors of the Company at 31 December was composed as follows:

Chairman	Aldo Minucci
Vice Chairman and General Manager	Federico Maurizio D'Andrea
Directors	Sergio Duca (independent) Giovanni Stella Flavio Zappettini (independent)

All the members of the Board of Directors were domiciled for the purposes of office at the registered address of the Consortium Company at Via Gaetano Negri no. 1, Milan.

► Board of Auditors

The Board of Auditors of TI Audit and Compliance Services had been appointed by the shareholders' meeting on 30 March 2011 for financial years 2011-2013.

The composition of the Board of Auditors as at 31 December 2011 is stated below:

Chairman	Luigi Vannini
Standing Auditors	Roberto Capriata Marco Mencagli
Alternate Auditors	Antonio Santi Antonio Mastropasqua

► Independent Auditor

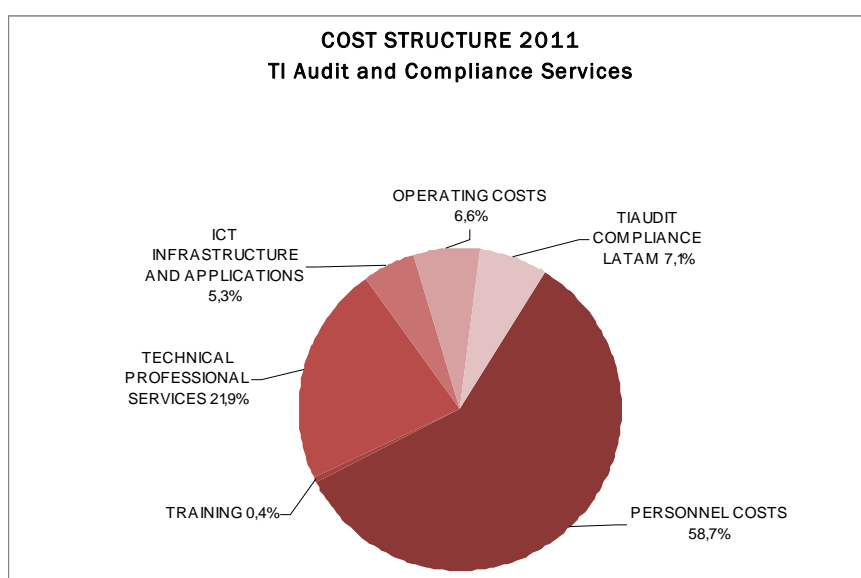
The shareholders' meeting held on April 14 2010 had appointed the audit firm of PricewaterhouseCoopers S.p.A. to audit the Consortium Company financial statements for the nine year period 2010-2018..

Report on Operations

Cost structure and breakdown of costs

The trend of the main economic and financial indicators in financial year 2011 can be summarised as set out below.

- The cost structure of the consortium company is substantially unchanged compared with the previous years; the predominant impact of the cost of professional services is confirmed, representing 81% of the entire budget (59% for the cost relating to internal professional resources and 22% for technical services rendered by third parties). 5% of the costs are connected with the technological infrastructure to support the performance of services and a further 7% is related to the operating costs of the company itself.
- The audit and compliance services provided by the Brazilian company TIAudit Compliance Latam represent a cost which has an impact of 7% on the total of the operating costs of the Consortium Company, regulated by a specific service contract whose valuation is based on the sharehold composition of the subsidiary company itself (70% in the case of TI Audit and Compliance Services and 30% for TIM Brasil Serviços e Participações S.A.).



- Revenues are represented by the amounts invoiced and recognised by the consortium shareholders for the "performance of activities and services by the consortium company, directed at and instrumental in verification of functionality and improvement of the internal control system and risk management, in relation to the companies in the consortium and those directly or indirectly subsidiaries thereof" (Art. 2 of the Consortium Regulations).

Organisation and professional elements

As a result of the resolutions of the Board of Directors of the Consortium Company, on 19 July 2011 Aldo Minucci was appointed Chairman of the Board of Directors and Federico Maurizio d'Andrea was confirmed as General Manager (being assigned in addition the position of Vice Chairman of the Company).

The Chairman was assigned the IT Risk & Security Governance function and Compliance Department; the Vice Chairman was assigned Audit Department, the Auditing Models and Programmes function and the Audit Consulting function.

At 31 December 2011 the workforce consisted of 119 staff, compared with 115 at the end of 2010. The average age was 44 years, with female representation at 48% and the percentage of graduates 74% (mainly in economics, followed by technical and jurisprudence degrees).

In 2011 the training areas of greatest importance concerned the maintenance of basic professional training, specialist audit courses on report techniques for internal auditing (report writing and conducting interviews), specialist courses at external bodies, managerial training courses, refresher courses on technical subjects, computer audit tools and language training courses.

Activities and use of resources

In the field of the **Audit Department**, 95 activities were performed, divided as follows:

- 74 audits;
- 14 ISA (Internal Security Assessment);
- 7 audit follow-ups.

In the field of the **Compliance Department** the figures were:

- 79 Normative and Finance Market Compliance actions carried out under the 2011 Plan (of which 3 were formalised in the first few days of 2012) and one still in progress;
- in terms of continuity, 28 SB information flow analyses carried out, and 11 Model 231 Compliance risks map checks under the 2011 Plan (of which one is in the course of officialisation);
- 60 Privacy and SAG compliance actions undertaken; 2 regulatory compliance actions under the 2011 Plan, and one extra-Plan compliance action under Law no. 136 of 13/08/2010 "Extraordinary plan against Mafia organisations" is in the course of officialisation;
- 443 commercial compliance actions at Dealers and 138 at Partners under the 2011 Plan.

In addition to the actions cited above there were activities of cross-department type carried out by the Audit Department with implementation monitoring of the action plans, and by the Compliance Department and IT Risk & Security Governance, for the simultaneous benefit of several areas of the organisation (more particularly, these were activities of regulatory supervision, internal training, methodological support, policy definition etc.).

Implementation of Legislative Decree no. 196/03

The checks carried out on the security measures adopted for the handling of personal data by the Consortium Company proved adequate with regard to the Group regulations and Legislative Decree 196/03.

In compliance with the provisions of Legislative Decree 196/03, the Consortium Company took steps to update the Data Security Planning Document (DPS). The DPS is intended, among other things, to identify risks, define tasks and distribute responsibilities in order to ensure an objective analysis of actual security of handling personal data.

Events after the end of the financial year

As indicated above, from 1 January 2012 TI Audit has been incorporated into Telecom Italia S.p.A. Please see the financial statements of Telecom Italia S.p.A. for further details.

Relations with Subsidiaries, Affiliated Companies, parent Companies and Companies subject to the control of the latter

The table below summarises the principal relationships. With regard to the composition of the entries, please refer to the detailed notes below.

Commercial relationships

(thousands of euros)	Financial year 2011			
	Financial relationships		Income relationships	
	Receivables	Payables	Revenues	Costs
Telecom Italia S.p.A.	2,508	625	19,053	2,002
TIAudit Compliance Latam S.A.	-	316	-	1,373
TI Media S.p.A.	39	-	369	-
S.S.C. S.r.l.	-	402	-	401
HR Services S.r.l.	-	20	-	8
Total	2,547	1,363	19,422	3,784

In detail please note the following:

- the receivables, which show a balance of 2,547 thousand euros, refer to the revenues from audit and compliance services to Telecom Italia S.p.A. for 2,508 thousand euros, while for TI Media S.p.A. the receivables amount to 39 thousand euros;
- the payables, for a total of 1,363 thousand euros, amount to 625 thousand euros for Telecom Italia S.p.A. and relate to electricity, water and gas, rent of premises, accessory services for staff (Assilt, insurance premiums), taxi coupons, the cost of seconded personnel (278 thousand euros), supply of telephone services, technical services and hardware and software infrastructure (347 thousand euros); for TIAudit Compliance Latam (316 thousand euros) they refer to the supply of audit and compliance services rendered by the Brazilian company; for S.S.C. (402 thousand euros) they refer to development and maintenance services for computer systems; for HR Services (20 thousand euros) they refer to personnel training and management services;
- the revenues derive, for the whole of the 19,422 thousand euros, from audit and compliance services performed for consortium shareholders;
- of the total of costs for services rendered by the Companies in the Group (3,784 thousand euros), 2,002 thousand euros refer to services performed by Telecom Italia S.p.A. and are due to rent of premises, maintenance of computer equipment, energy supply (1,244 thousand euros), supply of telephone services (408 thousand euros), management of infrastructure and computer services, administrative management, seconded personnel and accessory personnel costs, Facility Management and security service, and purchase of consumables (350 thousand euros). The costs for services rendered by TIAudit Compliance Latam relate to the supply of audit and compliance services (1,373 thousand euros), those rendered by S.S.C. (401 thousand euros) relate to development and maintenance services for information systems, while those supplied by HR Services (8 thousand euros) refer to other professional services.

Operations with related parties, when not dictated by specific regulatory conditions, have in all cases been regulated at market conditions

TI Audit Compliance Latam S.A.

TI Audit Compliance Latam S.A. is a joint-stock Company controlled by TI Audit and Compliance Services up to about 70% (the remaining 30% of the shares are held by TIM Brasil Serviços e Participações S.A.), with registered office in the city and state of Rio de Janeiro, Brazil.

The corporate object is the performance of services related to company administrative management, including consultancy on internal control systems.

As regards the economic aspect, the following is reported for financial year 2011:

- the year showed a profit of 108 thousand reais (46 thousand euros), against a turnover of 4,953 thousand reais (2,129 thousand euros);
- operating costs, of 4,821 thousand reais (2,072 thousand euros) are determined by personnel costs (3,856 thousand reais – 1,657 thousand euros), travelling costs (175 thousand reais – 75 thousand euros), telecommunications costs (128 thousand reais – 55 thousand euro), rent costs (250 thousand reais – 107 thousand euros) and other costs (412 thousand reais – 177 thousand euros);
- the balance of cash and cash-equivalents is positive at 1,886 thousand reais (811 thousand euros).

Further information

In compliance with the provisions of Article 2428 of the Civil Code on the contents of the Report on Operations, the following should be noted.

a) *Research and development activities:*

no activities of this type were performed.

b) *Number and par value both of treasury shares, and of shares or stocks in parent companies held by the company, including through trustee companies or nominees, with an indication of the corresponding proportion of the share capital:*

TI Audit does not hold treasury shares or stocks or shares in parent companies.

c) *Number and par value both of treasury shares, and of shares or stocks in parent companies purchased or disposed of by the company during the course of the financial period including through trustee companies or nominees, with an indication of the corresponding proportion of the share capital, the consideration and the reasons for the purchases and disposals:*

TI Audit has not purchased or disposed of treasury shares or stocks or shares in parent companies over the course of 2011.

d) *In relation to the use by the company of financial instruments and if significant for the evaluation of the financial position and the profit-and-loss results for the financial period:*

- the objectives and policies of the company in the matter of financial risk, including the policy on cover for each principal category of transactions envisaged;*
- the company's exposure to price risk, to credit risk, to liquidity risk and to risk of variation in financial flows.*

TI Audit has not used financial instruments; the Consortium Company manages its liquidity by means of a current account held with Telecom Italia S.p.A. on a cash pooling basis.

The Company has credits with Telecom Italia S.p.A. and TI Media S.p.A. and credit management therefore does not represent a critical issue; trade receivables, finally, fall due in less than 12 months.

e) *Secondary offices of the company:*

Corso d'Italia no. 41 – 00198 Rome;
Via Borgaro 21/27 – 10149 Turin.

Reclassified charts of financial position, income statement and cashflow statement

► Financial position

Assets

(thousands of euros)	31.12.2011	31.12.2010	Changes
	(a)	(b)	(a-b)
Non-current assets			
Intangible assets			
Goodwill			
Intangible assets with a finite useful life	1,106	1,130	(24)
	1,106	1,130	(24)
Tangible assets			
Property, plant and equipment owned	116	37	79
Goods held under financial leases			
	116	37	79
Other non-current assets			
Investments	312	312	-
Non-current financial assets	172	262	(90)
Miscellaneous receivables and other non-current assets	46	59	(13)
Deferred tax assets	19	-	19
	549	633	(84)
Total non-current assets	(a) 1,771	1,800	(29)
Current assets			
Inventories			
Trade and miscellaneous receivables and other current assets	2,828	9,609	(6,781)
Income tax receivables	16	-	16
Current financial assets	81	114	(33)
<i>Security other than investments, financial receivables and other current financial assets</i>			
<i>Cash and cash equivalents</i>	6,931	3	6,928
Total current assets	(b) 9,856	9,726	130
Total assets	(a+b) 11,627	11,526	101

Equity and Liabilities

(thousands of euros)	31.12.2011	31.12.2010	<i>Changes</i>
	(a)	(b)	(a-b)
Equity			
Capital issued	2,750	2,750	-
less: Treasury shares	-	-	-
Capital	2,750	2,750	-
Share premium reserve	-	-	-
Legal reserve	8	7	1
Other reserves	21	19	2
Accumulated profits (losses), including profit for the year	(115)	(132)	17
Total equity	(c) 2,664	2,644	20
Non-current liabilities			
Non-current financial liabilities	-	-	-
Provisions for employee benefits	1,991	1,987	4
Provision for deferred taxes	-	-	-
Provisions for risks and charges	-	-	-
Miscellaneous payables and other non-current liabilities	3	6	(3)
Total non-current liabilities	(d) 1,994	1,993	1
Current liabilities			
Current financial liabilities	1	33	(32)
Trade and miscellaneous payables and other current liabilities	6,968	6,832	136
Income tax payables	-	24	(24)
Total current liabilities	(e) 6,969	6,889	80
Total liabilities	(f=d+e) 8,963	8,882	81
Total Equity and liabilities	(c+f) 11,627	11,526	101

► **Income statement**

(thousands of euros)	Financial Year 2011	Financial Year 2010	<i>Changes</i>
Revenues	19,422	18,630	792
Other income	175	254	(79)
Total operating revenues and income	19,597	18,884	713
Purchases of materials and services	(8,430)	(7,595)	(835)
Personnel costs	(10,054)	(10,302)	248
Other operating costs	(80)	(116)	36
Change in inventories	-	-	-
Internally generated assets	-	-	-
Operating result before depreciation and amortisation, capital gains/(losses) and impairment reversals/(losses) on non-current assets (EBITDA)	1,033	871	162
Depreciation and amortisation	(534)	(334)	(200)
Capital gains/(losses) on disposal of non-current assets	-	-	-
Impairment reversals/(losses) of non-current assets	-	-	-
Operating result (EBIT)	499	537	(38)
Income (expenses) from investments	-	-	-
Finance income	5	1	4
Finance costs	(20)	(15)	(5)
Profits before tax	484	523	(39)
Income tax	(464)	(501)	37
Profit for the year	20	22	(2)

► Cash Flow statement

(thousands of euros)

	Financial Year 2011	Financial Year 2010
Cashflow from operating activities:		
Profit for the year	20	22
<i>Adjustments for:</i>		
Depreciation and amortisation	534	334
Impairment losses (reversal) of non-current assets (including investments)	-	-
Net change in assets (provision) for deferred tax assets (liabilities)	(19)	-
Losses (gains) from realisation of non-current assets (including investments)	-	-
Change in provision for employee benefits	4	133
Change in inventories	-	-
Change in trade receivables and net receivables for contract jobs	6,261	(1,569)
Changes in trade payables	525	(1,170)
Net change in receivables/payables for income taxes	(40)	-
Net change in miscellaneous receivables/payables and other assets/liabilities	(80)	(761)
Cash flow generated (absorbed) by operating activities	(a) 7,205	(3,011)
Cash flow from investment activities:		
<i>Purchases of intangible assets, reckoned on an accrual basis</i>	(472)	(836)
<i>Purchases of tangible assets, reckoned on an accrual basis</i>	(117)	(14)
Total purchases of intangible and tangible assets, reckoned on an accrual basis	(589)	(850)
<i>Change in payables for investment activities</i>	223	266
Total purchases of intangible and tangible assets for cash	(366)	(584)
Acquisition of subsidiaries and businesses, net of cash acquired	-	-
Acquisition of other shareholdings	-	-
Change in finance receivables and other financial assets	124	58
Payment collected/reimbursed by the sale of intangible or tangible assets and of other non-current assets	-	-
Cash Flow generated (absorbed) by investment activities	(b) (242)	(526)
Cash flow from financing activities:		
Change in current and other financial liabilities	(1)	(8)
Proceeds from non-current financial liabilities (including current portion)	(3)	(13)
Repayments of non-current financial liabilities (including current portion)	-	-
Consideration paid for purchase of equity instruments	-	-
Proceeds for increases/repayment of capital	-	-
Dividends paid	-	-
Cash Flow generated (absorbed) by financing activities	(c) (4)	(21)
Aggregate Cash Flows	(d=a+b+c) 6,959	(3,558)
Net cash and cash equivalents at the start of the year	(e) (28)	3,530
Net cash and cash equivalents at the end of the year	(f=d+e) 6,931	(28)

Additional information in Cash Flow Statement

(thousands of euros)	Financial Year 2011	Financial Year 2010
Income taxes (paid) received	(523)	(366)
Interest paid	-	-
Interest received	3	-
Dividends received	-	-

Analysis of net cash and cash equivalents

(thousands of euros)	Financial Year 2011	Financial year 2010
Net cash and cash equivalents at beginning of the year:		
Cash and cash equivalents	3	3,530
Current account overdrafts repayable on demand	(31)	
	(28)	3,530
Net cash and cash equivalents at the end of the year:		
Cash and cash equivalents	6,931	3
Current account overdrafts repayable on demand	-	(31)
	6,931	(28)

Financial position

Non-current assets

The reclassification of the balance sheet values shows non-current assets of 1,771 thousand euros, a reduction of 29 thousand euros compared with 1,800 thousand euros for 2010.

These assets consist of 1,106 thousand euros from intangible assets (down by 24 thousand euros compared with 1,130 thousand euros in 2010) and 116 thousand euros of tangible assets (an overall increase of 79 thousand euros compared with 37 thousand euros in 2010. The changes are due to investments, which are counterbalanced by depreciations for the period).

The other non-current assets amount to 549 thousand euros (a total reduction of 84 thousand euros compared with 633 thousand euros in 2010); in particular they are made up of 312 thousand euros from investments in subsidiaries (TIAudit Compliance Latam), 218 thousand euros (321 thousand euros in 2010) of loans issued to employees and income tax receivables for advance employee severance indemnities and deferred tax assets of 19 thousand euros (this entry was not present in the 2010 financial statements).

Current assets

The current assets are 9,856 thousand euros (an increase of 130 thousand euros compared with the 9,726 thousand euros of 2010) and include, among other entries, trade and miscellaneous receivables with a total value of 2,828 thousand euros (a reduction of 6,781 thousand euros compared with 9,609 thousand euros in 2010).

In particular the trade receivables amount to 2,547 thousand euros, of which 2,508 thousand euros are for invoices to be issued to Telecom Italia S.p.A. and 39 thousand euros for invoices to be issued to other companies in the Group (TI Media S.p.A.). There are miscellaneous receivables and other assets of 281 thousand euros (a reduction of 521 thousand euros compared with the 2010 Financial Statements, where the figure was 802 thousand euros). They consist of:

- receivables due from personnel for 30 thousand euros;
- receivables due from social security institutions for 22 thousand euros;
- receivables due from the Tax Authority for other taxes and duties for 24 thousand euros;
- other miscellaneous operating receivables of 205 thousand euros. This entry contains the receivable due from the parent Company for VAT for 196 thousand euros; the VAT credit due from the parent Company in 2010 amounted to 596 thousand euros;
- accrued income on property rentals: the balance is zero; in the 2010 Financial Statements the value was 47 thousand euros.

At 31 December 2011 the entry which states the income tax receivables shows 16 thousand euros, while in the previous period these receivables were not recorded.

Finance receivables are 81 thousand euros (reduced by 33 thousand euros compared with 2010 when this figure was 114 thousand euros) and consist of short-term loans to staff.

The item for cash and cash-equivalents for 6,931 thousand euros is up by 6,928 thousand euros compared with the 2010 Financial Statements, (where the figure was 3 thousand euros). It consists in its entirety of the value of the deposit held in the intercompany current account with the parent company.

Equity

The net equity amounts to 2,664 thousand euros. The increase of 20 thousand euros is attributable to the profit for the financial year 2011.

Non-current liabilities

The non-current liabilities amount to 1,994 thousand euros and are made up principally of the Employee Severance Fund (TFR) (1,991 thousand euros) which increases of 4 thousand euros compared with the corresponding figure in the 2010 Financial Statements of 1,987 thousand euros. This variation is due in part to the provision of the sum for the fixed and variable revaluation of the Employee Severance Fund (TFR) for the period, in part to the utilization of the provision, and in part to the transfer of Employee Severance Fund to the parent company following the moving of personnel.

The deferred income relating to medium and long-term loans to employees are 3 thousand euros; this item is 3 thousand euros less than in the 2010 Financial Statements.

Current liabilities

The current liabilities amount to 6,969 thousand euros (an increase of 80 thousand euros compared with 6889 thousand euros for 2010), and are made up essentially of 6,968 thousand euros of trade and miscellaneous payables (an increase of 136 thousand euros) compared with 6,832 thousand euros in 2010), and of 1 thousand euros of financial liabilities (33 thousand euros in 2010).

The item for income tax payables is not present, while in the financial period closed at 31 December 2010 it was worth 24 thousand euros. These income tax payables were paid during the course of 2011.

Income Statement

The reclassified **Income Statement** shows revenue and operating income of 19,597 thousand euros (18,884 thousand euros in 2010). The criteria for transferring costs in the course of 2011 are based on the direct attributability of the costs to the activities carried out for the individual consortium Shareholders.

The profit for the period is 20 thousand euros (22 thousand euros in 2010).

Purchases of materials and external services (8,430 thousand euros, an increase of 835 thousand euros compared with the 2010 value of 7,595 thousand euros), are made up of:

- raw materials (150 thousand euros);
- services (7,431 thousand euros);
- use of third parties' assets (849 thousand euros).

The cost of personnel amounts to 10,054 thousand euros, with a reduction of 248 thousand euros compared with the previous financial period (10,302 thousand euros), as a result substantially of the variation in the average amount paid in salary, due to a mix of factors such as: meritocratic and pay policies in decline, greater use of holidays, entry at various times during the course of the year of five staff members at clerical level. These reductions are counterbalanced by costs relating to a dispute, resolved during the course of the year.

Other operating costs (80 thousand euros, down by 36 thousand euros compared with 2010), are made up of association dues and fees (2 thousand euros), of negative components of revenue relating to previous financial periods (47 thousand euros) and other sundry expenses (31 thousand euros).

EBITDA is positive at 1.033 thousand euros, an increase of 162 thousand euros compared with 2010 (871 thousand euros).

Depreciation and amortisation amount to 534 thousand euros, an increase of 200 thousand euros compared with the last financial period.

EBIT (operating result) is positive at 499 thousand euros, with a decrease of 38 thousand euros compared with the 537 thousand euros of 2010.

Financial incomes are 5 thousand euros (an increase of 4 thousand euros compared with 2010), while financial expenses are 20 thousand euros (15 thousand euros in 2010).

The result before taxes for the period is positive at 484 thousand euros, 39 thousand euros lower than in 2010 (523 thousand euros).

The profit for the period is 20 thousand euros, net of the effect of taxes, which amount in total to 464 thousand euros, including the current portion (490 thousand euros), the deferred tax assets (18 thousand euros) and the lower taxes relating to previous periods (8 thousand euros).

Cash Flow statement

The **cash flow statement** shows that in 2011 a total cash flow of 6,959 thousand euros was generated, which derives principally from the positive balance of operations management (7,205 thousand euros); investment activity absorbed a cash flow of 242 thousand euros, and financing activity absorbed 4 thousand euros.

Cash and cash equivalents amounted at the end of the period to a positive value of 6,931 thousand euros (against a negative value of 28 thousand euros at 31.12.2010).

Financial Statements
at 31 December 2011:
Balance Sheet and
Income Statement

BALANCE SHEET

		ASSETS	
Values in euros		31.12.2011	31.12.2010
A)	RECEIVABLES FROM SHAREHOLDERS FOR CAPITAL CONTRIBUTIONS	-	-
B)	FIXED ASSETS		
I)	INTANGIBLE FIXED ASSETS		
3)	.Industrial patent and intellectual property rights	729,712	347,118
6)	.Intangible assets in progress and on account	-	495,111
7)	.Others	376,038	287,738
	TOTAL	1,105,750	1,129,967
II)	TANGIBLE ASSETS		
2)	.Plant and machinery	80,726	4,650
3)	.Industrial and commercial equipment	1,127	3,380
4)	.Other assets	34,622	20,896
5)	.Fixed assets in progress and on account	-	7,610
	TOTAL	116,475	36,536
III)	FINANCIAL FIXED ASSETS		
1)	Investments in:		
a)	.Investments in subsidiaries	312,372	312,372
2)	Receivables:		
d.1)	.Other receivables due within the next financial year	80,650	113,760
d.2)	.Other receivables due after the next financial year	217,711	320,558
	TOTAL	610,733	746,690
	Total fixed assets	1,832,958	1,913,193
C)	CURRENT ASSETS		
II)	RECEIVABLES		
1)	From customers		
a)	.Within next year	-	141
4)	From parent companies		
a)	.Within next year	9,635,308	9,010,794
4bis)	.Tax		
a)	.Within next year	40,247	23,920
4ter)	Deferred tax assets		
a)	.Within next year	18,700	176
5)	From others		
a)	.From other TI Group Companies Within next year	38,795	397,000
b)	.From others Within next year	61,015	130,794
	TOTAL	9,794,065	9,562,825
IV)	CASH EQUIVALENTS		
3)	Cash and bills of exchange	-	3,000
	Total current assets	9,794,065	9,565,825
D)	ACCRUALS AND DEFERRALS	-	47,147
	Total Assets	11,627,023	11,526,165

BALANCE SHEET

		LIABILITIES	
Values in euros		31.12.2011	31.12.2010
A)	EQUITY		
I)	.Share Capital	2,750,000	2,750,000
IV)	.Legal reserve	8,044	6,931
VII)	.Other reserves		
1)	. Extraordinary Reserve	21,143	18,971
VIII)	.Profit (loss) carried forward	(135,167)	(154,138)
IX)	.Profit/(Loss) for the year	20,108	22,256
	TOTAL	2,664,128	2,644,020
B)	PROVISIONS FOR RISKS AND CHARGES	-	-
C)	EMPLOYEE SEVERANCE INDEMNITY	1,991,014	1,987,143
D)	PAYABLES		
7)	Payables due to suppliers		
a)	.Within next year	3,203,113	1,962,878
9)	Payables due to subsidiaries		
a)	.Within next year	315,916	457,536
11)	Payables due to parent companies		
a)	.Within next year	624,840	978,338
12)	Tax payables		
a)	.Within next year	338,021	327,723
13)	Payables due to Social Security institutions		
a)	.Within next year	539,383	507,252
14)	Other payables		
a)	.From other TI Group Companies		
	.Within next year	422,633	452,011
b)	.From others		
	.Within next year	1,523,346	2,201,360
	TOTAL	6,967,252	6,887,098
E)	ACCRUALS AND DEFERRALS	4,629	7,904
	Total liabilities	11,627,023	11,526,165
	GUARANTEES, COMMITMENTS AND OTHER MEMORANDUM ACCOUNTS	-	-

INCOME STATEMENT

Values in euros		2011	2010
A)	VALUE OF PRODUCTION		
1)	Revenues from sales and services	19,421,795	18,629,615
5)	Other revenues and income	150,352	254,965
	TOTAL A)	19,572,147	18,884,580
B)	PRODUCTION COSTS		
6)	For raw materials, subsidies, consumables and goods	129,689	68,364
7)	Cost of services	7,494,054	6,827,648
8)	Use of other parties' assets	896,844	805,228
9)	Personnel costs		
a)	.Wages and salaries	6,758,689	7,186,541
b)	.Social security costs	2,514,860	2,653,959
c)	.Employee Severance Indemnity	92,936	55,893
d)	.Other costs	571,653	251,079
		9,938,138	10,147,472
10)	Depreciation and amortization and writedowns		
a)	.Amortisation of intangible fixed assets	495,820	287,078
b)	.Depreciation of tangible fixed assets	38,601	46,597
c)	.Other writedowns of fixed assets	-	-
d)	.Writedowns of receivables, current assets and cash equivalents	-	-
		534,421	333,675
14)	Other operating costs	95,622	135,929
		95,622	135,929
	Production costs TOTAL B)	19,088,768	18,318,316
	Difference between value and costs of production (A-B)	483,379	566,264
C)	FINANCIAL INCOME AND EXPENSES		
16)	Other financial income		
a)	.From receivables classified as fixed assets	3,422	1,448
d)	.Income other than the above	-	-
17)	Interest and other financial expenses		
c)	.From parent companies	(19,186)	(9,647)
d)	.From others	(51)	(3,382)
17 bis)	Profit and losses on exchange rates	1,463	-
	Total financial income and expenses TOTAL C)	(14,352)	(11,581)
D)	ADJUSTMENTS TO VALUE OF FINANCIAL ASSETS	-	-
E)	EXTRAORDINARY INCOME AND EXPENSES		
20)	Income	37,437	21,831
21)	Expenses		
a)	.Taxes relating to previous years	(4,569)	(7,782)
b)	.Other	(10,100)	(31,287)
	Total of extraordinary items TOTAL E)	22,768	(17,238)
	Result before taxes	491,795	537,445
22)	INCOME TAX FOR THE YEAR		
a)	.Income tax for the period	(490,211)	(514,885)
b)	.Deferred taxes (on the income for the year)	18,524	(304)
23)	Profit/(Loss) for the year	20,108	22,256

Financial Statements
at 31 December 2011:
Notes to the Financial
Statements

Principles on which the Financial Statements are based

The Financial Statements for the period to 31 December 2011 have been drawn up in compliance with the provisions of the Civil Code, amended following the introduction of the reform of company law under Legislative Decree no. 6 of 17 January 2003 and subsequent amendments, and is made up of the balance sheet, the income statement and these notes to the financial statements. The cash flow statement, although presented within the framework of the Report on operations, constitutes an integral part of the Financial Statements for the period under Article 2423 subsection 3 of the Civil Code.

Sub-items with nil value are not indicated, unless there is a value in the previous period.

In the course of the 2011 financial period no exceptional cases occurred necessitating recourse to the derogations referred to in Article 2423 subsection 4 of the Civil Code.

The valuations of the items in the Financial Statements have been carried out in respect for the principle of prudence and on an accrual basis, consistently with those of previous financial periods, in the expectation that the activity of the business will continue.

The most significant valuation criteria, as well as the content and changes in the individual items, are shown below.

As regards the nature of the Company's activity, its relations with the parent company and the companies in the Group, as well as the significant events which have occurred during the course of the period, please refer to what is said in the Report on Operations.

The sums shown in the body of the notes to the financial statements, where not indicated otherwise, are all expressed in thousands of euros.

At 31.12.2011 the Company is 100% controlled by Telecom Italia S.p.A., which has its registered office in Italy and draws up the Consolidated Financial Statements, subjecting them to the statutory auditing of the accounts. TI Audit has therefore exercised its option of exemption from the obligation to draw up the Consolidated Financial Statements provided by Article 27, subsections 3 and 4 of Legislative Decree 127/91.

Accounting policies

Intangible assets

Intangible assets are entered in the Financial Statements at the cost of purchase inclusive of ancillary costs and are shown net of provision for amortisation and amortised systematically in proportion to their residual possibility of use. In the event that, independently of the depreciation that has already been accounted for, a lasting loss of value occurs, the asset is correspondingly written down; if in subsequent periods the grounds for the writedown no longer exist, the original value is restored.

Tangible assets

Tangible assets are entered in the Financial Statements at the cost of purchase inclusive of ancillary costs and are shown net of provision for depreciation. Depreciation is calculated on a straight line basis depending on the residual possibility of using the assets. The percentages for depreciation are shown in the notes to the Financial Statements under the heading "depreciation and impairment". In the event that, independently of the depreciation that has already been accounted for, a lasting loss of value occurs, the asset is correspondingly written down; if in subsequent periods the grounds for the writedown no longer exist, the original value is restored.

Investments

Investments are entered at the cost of purchase and/or subscription, inclusive of directly attributable ancillary costs. In the event of lasting losses, the carrying value of these investments is rectified by appropriate write downs; losses in value exceeding the corresponding carrying value are entered under Provision for risks and charges.

Receivables

Receivables, whether due from consortium shareholders or third parties, are entered according to the presumed value of realisation, determined on the basis of an analysis carried out at the end of the financial period.

Payables

Payables, whether due to consortium shareholders or to third parties, are shown at nominal value.

Accruals and deferrals

Accruals and deferrals are determined on an accrual basis.

Costs and revenues

Costs are entered in the Financial Statements according to the accrual principle based on the time when the service is performed. Revenues and income are entered on the basis of the costs allocated and invoiced to each shareholder. Revenues and income, like costs and expenses, are entered net of returns, discounts and rebates.

Employee Severance Indemnity

The procedures for accounting for TFR (Employee Severance Indemnity) take account of Legislative Decree no. 252/2005 and Law no. 296/2006 (2007 Finance Law), on the basis of which the sums accumulated since 2007 are assigned, as elected by the employees, either to the INPS (National Social Security Agency) Treasury Fund or to the complementary pension funds, thus taking on the nature of "social Security" contributions. Revaluations of the amounts held at the date of taking the option remain, however, accounted for as TFR.

Income tax

Income tax is determined on the basis of a realistic forecast of the amounts to be paid out in applying the current fiscal law. The relative payable is shown, net of advance payments, withholding suffered and tax credits, in the item "tax payables"; any net credit position is entered in the item "tax receivables" of current assets. Deferred taxes liabilities are determined on the basis of the temporary differences between the value assigned to the assets and liabilities, according to the criteria applied by the Civil Code, and the value assigned to the same assets and liabilities for fiscal purposes. Deferred taxes assets, including the benefit deriving from carrying fiscal losses forward, are entered in the item "deferred tax assets" within current assets, where there is a reasonable certainty of their realisation. Deferred tax assets and liabilities are offset, where the required conditions occur. Deferred taxes liabilities on reserves and funds with suspended tax liability are noted when it is expected that these reserves will be distributed or anyway used and their distribution or use will give rise to fiscal expenses.

Balance Sheet - Assets

Fixed Assets

(thousands of euros)	31.12.2011	31.12.2010
	1,833	1,913

► Intangible assets

(thousands of euros)	31.12.2011	31.12.2010
	1,106	1,130

The value of 1,106 thousand euros represents the net value of the fixed assets whose historic cost is as follows:

- 2,470 thousand euros for web-based applications, property of TI Audit and projects of Information Security;
- 867 thousand euros for capitalized ongoing costs, referring to projects connected with the activities of Information Security;
- 7 thousand euros for company incorporation costs;
- 34 thousand euros for software Licences.

The table below sums up the movements which have taken place in the period.

(thousands of euros)	2010			2011					Net value at 31.12
	Historic cost	Prov. For Amort. and dep.	Net value at 31.12	Reclass.	Invest.	Historic cost	Amort.	Prov. For Amort. and dep.	
Start-up and expansion costs	7	7	-	-	-	7	-	7	-
Indust. patent & intellectual property rights	34	34	-	-	-	34	-	34	-
Application software owned	1,727	1,380	347	495	248	2,470	360	1,740	730
Fixed assets in progress	495	-	495	(495)	-	-	-	-	-
Capitalized ongoing costs	643	355	288	-	224	867	136	491	376
Total	2,906	1,776	1,130	-	472	3,378	496	2,272	1,106

► Tangible assets

(thousands of euros)	31.12.2011	31.12.2010
	116	37

The value of 116 thousand euros represents the net value of fixed assets whose historic cost is made up predominantly of computer and telecommunications equipment and basic software.

The table below sums up the movements which have taken place in the period.

(thousands of euros)	2010			2011					
	Historic cost	Prov. For Amort. and dep.	Net value at 31.12	Reclass.	Invest.	Historic cost	Amort.	Prov. For Amort. and dep.	Net value at 31.12
Telephone systems	13	8	5	-	84	97	8	16	81
Industrial and commercial equipment	10	7	3	-	-	10	2	9	1
Hardware and basic software	130	109	21	8	33	171	28	137	34
Fixed assets in progress	8	-	8	(8)	-	-	-	-	-
Total	161	124	37	-	117	278	38	162	116

► Financial assets

(thousands of euros)	31.12.2011	31.12.2010
	611	747

Investments in subsidiaries

(thousands of euros)	31.12.2011	31.12.2010
	312	312

The value of 312 thousand euros represents the shareholding in TIAudit Compliance Latam. The percentage at the end of 2011 was 69.99% of the share capital of the subsidiary company.

The following table shows the comparison between the value of the shareholding possessed by TI Audit and the net equity of the subsidiary TIAudit Compliance Latam:

Company	Reg. office	Last approved financial statements	Assets value Net (thousands of Reais)	Assets value Net (thousands of euros)	Percentage of ownership	Pro-quota net equity (thousands of euros)	Carrying amount (thousands of euros)	Profits (Loss) 2011 (thousands of Reais)
TIAUDIT COMPLIANCE Latam S.A.	Rio de Janeiro – RJ (Brazil)	31.12.2011	2,397	992	69.99%	694	312	108

Contractual relations with the subsidiary company are governed in euros, therefore no exchange rate differences are generated.

► Receivables due from others

(thousands of euros)	31.12.2011	31.12.2010
	299	435

They represent:

- receivables from employees for loans over more than one year, for 253 thousand euros, of which 81 thousand euros are due within the next financial year; this type of receivable has, in part, a duration of over five financial years;
- tax credits for advance employee severance indemnities for 46 thousand euros.

As regards the receivables classified as financial fixed assets, the indication of the portion due within and beyond five years is highlighted in the attached statement no. 1.

Current assets

(thousands of euros)	31.12.2011	31.12.2010
	9,794	9,566

Composed of:

► Receivables

(thousands of euros)	31.12.2011	31.12.2010
	9,794	9,563

Composed of:

Receivables from parent companies

(thousands of euros)	31.12.2011	31.12.2010
	9,635	9,011

They refer to Telecom Italia S.p.A. and are distributed as follows:

- intercompany current account for 6,931 thousand euros, an increase of 6.962 thousand euros compared to the previous year which had a negative balance of 31 thousand euros and was, therefore, reclassified among the payables due to parent companies;
- trade receivables for the provision of audit and compliance services for 2,508 thousand euros, exclusively made up of invoices to be issued in relation to the parent company Telecom Italia S.p.A.; this value is down by 5,903 thousand euros compared to the corresponding value at 31.12.2010 (8,410 thousand euros);
- other non-trade receivables, for 196 thousand euros, wholly consisting of VAT credit for the month of December 2011; other receivables in 2010 amounted to 601 thousand euros.

Tax receivables

(thousands of euros)	31.12.2011	31.12.2010
	40	24

Receivables from the Tax Authorities were up by 16 thousand euros compared to the value at 31.12.2010 equal to 24 thousand euros.

They consist in part of VAT credit (24 thousand euros) arising from the VAT credit on vehicles already highlighted in previous financial years by submitting an application for the reimbursement of 23

thousand euros to the Tax Authority, for which the reimbursement has yet to be made; the item also includes a VAT credit from abroad for 1 thousand euros.

There are also receivables from the Tax Authority (16 thousand euros) following the calculation of income taxes in the 2011 Financial Statements, specifically the advance payments of corporation tax and regional tax (IRES and IRAP) exceeded the taxes for the year respectively by 3 thousand euros (IRES) and 13 thousand euros (IRAP).

Deferred tax assets

(thousands of euros)	31.12.2011	31.12.2010
	19	-

This item, up by 19 thousand euros compared to the 2010 Financial Statements in which it was practically reduced to zero, concerns the tax effect on the temporary IRES differences.

Receivables due from other TI Group Companies

(thousands of euros)	31.12.2011	31.12.2010
	39	397

The item, amounting to 39 thousand euros, is wholly comprised of receivables from TI Media S.p.A. for invoices to be issued in relation to audit and compliance services (397 thousand euros in 2010).

Receivables due from others

(thousands of euros)	31.12.2011	31.12.2010
	61	131

Consist of:

- receivables from employees, for various deductions, for 30 thousand euros (98 thousand euros in 2010).
- miscellaneous receivables, for other items, amount to 9 thousand euros (18 thousand euros in 2010).
- receivables from INPS/INAIL amount to 22 thousand euros (15 thousand euros in 2010).

► Cash Equivalents

(thousands of euros)	31.12.2011	31.12.2010
	-	3

The unclaimed petty cash fund at the various registered offices was closed by the close of the financial year in anticipation of the merger by incorporation into Telecom Italia, by means of a payment on the intercompany current account held with the parent company for the remaining part. This item came to 3 thousand euros at 31.12.2010.

Accruals and Deferrals

(thousands of euros)	31.12.2011	31.12.2010
	-	47

This item was completely reduced to zero during the year, while in the financial statements at 31.12.2010 it came to 47 thousand euros.

Balance Sheet - Liabilities

Equity

(thousands of euros)	31.12.2011	31.12.2010
	2,664	2,644

► Share Capital

(thousands of euros)	31.12.2011	31.12.2010
	2,750	2,750

The share capital at 31.12.2011 was fully paid up and distributed as follows:

Shareholders	thousands of euros	Percentage %
Telecom Italia S.p.A.	2,750	100.00%

In the 2010 Financial Statements the share capital was divided between Telecom Italia S.p.A. for 81.82% and Telecom Italia Media S.p.A. for 18.18%.

► Legal Reserve

(thousands of euros)	31.12.2011	31.12.2010
	8	7

This item shows a value of 8 thousand euros (7 thousand euros at 31.12.2010).

► Other reserves

(thousands of euros)	31.12.2011	31.12.2010
	21	19

They are entirely composed of the Extraordinary Reserve and show a value of 21 thousand euros.

Compared to 2010 this reserve was used as a result of the resolution of the Shareholders' Meeting of March 2011 as follows:

- decreased by 19 thousand euros for allocation to cover the losses of previous financial years;
- increased by 21 thousand euros for allocation of part of the profits of the financial year 2010.

► Profit (loss) carried forward

(thousands of euros)	31.12.2011	31.12.2010
	(135)	(154)

With the amendment to Article 25 of the Bylaws, which occurred in the second half of 2003, there is no longer an obligation on TI Audit to balance the accounts for the year. The value shown includes the residual losses for the years 2003-2005, reduced by 19 thousand euros compared to the previous financial year following the aforementioned use of the extraordinary reserve.

► Profit (Loss) for the year

(thousands of euros)	31.12.2011	31.12.2010
	20	22

Represents the results for the financial year 2011 equal to a profit of 20 thousand euros, down by 2 thousand euros compared to the Financial Statements closed at 31 December 2010.
There follows an analysis of the changes in the net equity items (Article 2427 no. 4 and Article 2427 no. 7-bis of the Italian Civil Code).

(thousands of euros)	Share Capital	Legal Reserve	Extraordinary Reserve	Loss coverage	Losses from Previous Financial Years	Results for the financial year	Total
At the start of the previous financial year (1.1.2010)	2,750	6	113	-	(267)	20	2,622
Allocation of the results for the financial year		1	19			(20)	-
Other changes:							
Coverage of previous losses			(113)		113		-
Results for the previous financial year						22	22
At the end of the previous financial year (31.12.2010)	2,750	7	19	-	(154)	22	2,644
Allocation of the results for the financial year		1	21			(22)	-
Other changes:							
Coverage of previous losses			(19)		19		-
Results for the current financial year						20	20
At the end of the current financial year	2,750	8	21	-	(135)	20	2,664

There follows an analysis of the changes in the net equity items (Article 2427 no. 4 and Article 2427 no. 7-bis of the Italian Civil Code).

Summary pursuant to Article 2427, no. 7-bis

Nature/description	Amount	Potential utilisation	Amount available	Summary of the utilisations made in the three previous financial years	
				for loss coverage Total	for other reasons Total
(thousands of euros)					
Capital	2,750			-	-
Capital reserves:					
Legal reserve	8	B		-	-
Profit reserves:					
Other reserves	21	A,B,C		(132)	-
Profits carried forward	(135)	A,B,C		132	-
Total	2,664			-	-
Percentage not distributable	2,664			-	-
Residual distributable percentage				-	-

Key:

A = for increases in capital;

B = for loss coverage;

C = for distribution to shareholders.

Risks and contingent liabilities

Note all the risks and contingent liabilities are shown in the Financial Statements.

Employee Severance Indemnity

(thousands of euros)	31.12.2011	31.12.2010
	1,991	1,987

The following changes occurred in the period:

(thousands of euros)	
Amount at 31.12.2010	1,987
Provision for employees severance indemnity	93
Amount transferred to Telecom Italia (personnel transfers)	(73)
Amount transferred by Telecom Italia (personnel transfers)	33
Amount transferred by/to other companies in the group (personnel transfers)	-
Indemnity paid to personnel no longer employed	(49)
Amount at 31.12.2011	1,991

Payables

(thousands of euros)	31.12.2011	31.12.2010
	6,967	6,887

The payables were all due within the next financial year and were composed of:

► Payables due to suppliers

(thousands of euros)	31.12.2011	31.12.2010
	3,203	1,963

Increased by 1,240 thousand euros compared to 31 December 2010 and were composed of the following trade payables:

(thousands of euros)		31.12.2011	31.12.2010
Suppliers			
Value Team	EDP Professional Services	272	253
Between	EDP Professional Services	457	239
Ernst&Young financial business	EDP Professional Services	411	292
KPMG Advisory	EDP Professional Services	312	19
Business-e	EDP Professional Services	20	36
Deloitte	EDP Professional Services	183	84
Reply	EDP Professional Services	-	19
Almaviva	EDP Professional Services	415	194
The European House Ambrosetti	EDP Professional Services	174	-
Det Norske Italia	EDP Professional Services	28	-
LeasePlan Italia	Vehicle hire	21	17
Altran Italia	EDP Professional Services	8	8
Hewlett Packard Italia	Software	12	-
Business Integration Partners	EDP Professional Services	119	-
Miscellaneous	Travel tickets, payroll and miscellaneous	771	802
Total		3,203	1,963

The payables due to other TI Group Companies were reclassified in the item Other Payables for 422 thousand euros (452 in 2010) (see other Payables due to other TI Group Companies).

► Payables due to subsidiaries

(thousands of euros)	31.12.2011	31.12.2010
	316	458

This item fully refers to the accrued costs for the purchase of services from the subsidiary TIAudit Compliance Latam (458 thousand euros in 2010).

► Payables due to parent companies

(thousands of euros)	31.12.2011	31.12.2010
	625	978

Comprised of trade payables due to Telecom Italia S.p.A. (mainly for the management of computer equipment, exchanges and plants, rent of premises, logistics and furniture, bookkeeping, fixed and mobile telephony) for 625 thousand euros (947 thousand euros in 2010);

In the Financial Statements closed at 31.12.2011 the financial payables are not shown (in 2010 they were shown for 31 thousand euros relative to the intercompany current account).

► Tax payables

(thousands of euros)

	31.12.2011	31.12.2010
	338	328

Overall the item increased by 10 thousand euros and is made up of the withheld income tax (IRPEF) of employees and professionals to be paid to the Tax Authority for 338 thousand euros (304 thousand euros in 2010).

The values of receivables from the Tax Authority are not shown in the Financial Statements closed at 31.12.2011, while the previous Financial Statements show the IRAP (regional tax) payables for 26 thousand euros and IRES receivables (corporation tax) for 2 thousand euros.

► Payables to social security institutions

(thousands of euros)

	31.12.2011	31.12.2010
	539	507

The item concerns accrued contributions still to be paid - mainly INPS, TELEMACO and FONTEDIR - for 539 thousand euros, an increase of 32 thousand euros compared to the value of the 2010 Financial Statements.

► Other payables due to other TI Group Companies

(thousands of euros)

	31.12.2011	31.12.2010
	422	452

This item includes, from the current financial year, the payables due to the other TI Group Companies. Consequently, the values for the year 2010 have been reclassified here by the item Payables due to Suppliers.

The item is comprised of payables due to:

- S.S.C for 402 thousand euros (441 in 2010);
- HR Services for 20 thousand euros (not present in 2010 - 11 thousand of euros were due to Teleleasing).

► Other Payables

(thousands of euros)

	31.12.2011	31.12.2010
	1,524	2,201

Mainly composed of payables due to:

- personnel for 1,416 thousand euros, for remuneration to be disbursed in the subsequent financial year as accrued liabilities for holidays, additional monthly salary payments and miscellaneous expenses (2,070 thousand euros in 2010);
- directors and auditors, for remuneration and costs incurred in performing their assignments for a total of 88 thousand euros (88 thousand euros in 2010);
- other payables due to corporate establishments (Cralt, Assilt, Assida) and due to others for 20 thousand euros (43 thousand euros in 2010).

Accruals and deferrals

(thousands of euros)

	31.12.2011	31.12.2010
	5	8

The amount is entirely comprised of deferred financial income relative to interest on short-, medium-, long-term loans granted to personnel (managers and non-managers). This item is down by 3 thousand euros compared to the last financial year (8 thousand euros at December 2010).

As concerns the report on the geographic area relative to the receivables and payables, note that the receivables and payables mainly relate to Italian suppliers and customers, with the exception of payables due to the subsidiary TI Audit Compliance Latam, amounting to 316 thousand euros, previously mentioned and fully referred to the accrued costs for the purchase of audit and compliance services provided by the subsidiary company. There were no expenses in foreign currency present at 31 December 2011.

Income Statement

Value of production

(thousands of euros)	2011	2010
	19,572	18,885

Increased by 687 thousand euros compared to the financial year 2010, and were composed as follows:

► Revenues from sales and services

(thousands of euros)	2011	2010
	19,422	18,630

The item represented the value of the audit and compliance services provided to the Shareholders and was broken down as follows:

- Telecom Italia S.p.A. for 19,053 thousand euros (18,233 thousand euros in 2010);
- TI Media S.p.A. for 369 thousand euros (397 thousand euros in 2010).

The revenue amount exceeds the 2010 value of 792 thousand euros. The contracts signed with the consortium Shareholders were completed at market conditions on the basis of the actual costs incurred by the Company in providing the audit and compliance activities, as defined by Article 2427 no. 22-bis of the Italian Civil Code.

The breakdown of the revenues by geographic area is not applicable as it involves services provided in Italy.

► Other revenues and income

(thousands of euros)	2011	2010
	150	255

The amount of this item was mainly made up of unbilled charges for 123 thousand euros. The contingent assets mainly refer to the reversal of accruals (training, professional technical services and IT equipment) of previous financial years that were not invoiced from suppliers. There are also recoveries for charges to personnel for 17 thousand euros and for the contribution of employees' mobile phones for 10 thousand euros. This item is down overall by 105 thousand euros compared to the previous year (in 2010 it came to 255 thousand euros).

Income Statement

Production Costs

(thousands of euros)	2011	2010
	19,089	18,318

Increased by 771 thousand euros compared to 2010 and composed as follows:

► Raw materials, subsidies, consumables and goods

Composed of:

(thousands of euros)	2011	2010
Fuel for vehicles	40	30
Miscellaneous office materials	30	17
Material for TLC	2	7
EDP hardware and software material	58	14
Total	130	68

► Services

Subdivided into:

(thousands of euros)	2011	2010
Legal advice	18	-
Professional technical services/EDP/miscellaneous	3,813	3,153
Maintenance services	347	260
Other operating costs (fixed and mobile telephony, electricity, typography, etc.)	500	512
Directors and Auditors	88	88
Travel and accommodation	634	783
Others, of which:	2,094	2,032
Audit services by TIAUDIT COMPLIANCE LATAM	1,373	1,227
Meal vouchers	121	108
Training	68	55
Administrative outsourcing	80	80
IT systems outsourcing	58	71
Payroll	46	47
Other	348	444
Total	7,494	6,828

The services costs have increased overall compared to the previous financial year. Primarily the increases relate to EDP services, subsidiary company audit services, maintenance costs for video conferencing systems and IT systems, the facility and the utilities linked to the updating of real estate rental contracts.

Whereas telephony, travel and accommodation costs have decreased (in the wake of a cost containment policy that encouraged the use of audio and video conferencing).

► Use of other parties' assets

Composed of:

(thousands of euros)	2011	2010
Real estate rental expenses	724	630
Vehicle hire	168	167
Lease payments	5	8
Total	897	805

► Employees

Decreased by 209 thousand euros compared to 2010, and composed as follows:

(thousands of euros)	2011	2010
Personnel costs		
Wages and salaries	6,759	7,186
Social security costs	2,515	2,654
Employee Severance Indemnity	93	56
Other costs connected with employed personnel	571	251
Total	9,938	10,147

The reduction of personnel costs is essentially due to the change in the average amount paid in salary, due to a mix of factors such as: the turnover of resources, meritocratic and pay policies in decline, greater use of holidays, entry at various times during the course of the year of five staff members at clerical level.

The breakdown by category of the number of personnel is as follows:

(number of units)	2011	2010
Executives	14	15
Middle managers	35	35
Workers	70	65
Labourers		-
Personnel on payroll	119	115
		-
Total actual personnel*	118	114

*The calculation of the actual number does not include a resource belonging to the category Middle Managers seconded to TIAudit Compliance Latam since 2007.

► Depreciation and amortisation and writedowns

During the year the ordinary rates applied to calculate the depreciation and amortization were as follows:

(thousands of euros)	2011	2010
Intangible assets - software	33.00%	33.00%
Capitalized ongoing costs	20.00%	20.00%
Tangible assets	33.33%-40.00%	33.33%
- of which industrial and commercial equipment	25.00%	25.00%

Increase by 200 thousand euros compared to 2010, and composed as follows:

(thousands of euros)	2011	2010
Application software owned	360	188
Capitalized ongoing costs	136	99
Electronic office machinery and EDP systems	30	46
Telephone systems	8	1
Total	534	334

► Other operating costs

Include:

(thousands of euros)	2011	2010
Duties and taxes	18	18
Membership fees	2	12
Books, newspapers and magazines	20	22
Ordinary contingent liabilities	47	75
Other miscellaneous expenses	9	9
Total	96	136

Financial income and expenses

(thousands of euros)	2011	2010
	(14)	(12)

► Other finance income

Composed of:

(thousands of euros)	2011	2010
Interest on loans to personnel entered in the financial assets	3	-
ISTAT revaluation of the tax credit on advance employee severance indemnities	-	1
	3	1

The interest income relative to loans to personnel during 2011 generated revenues of 3 thousand euros.

► Interest and other financial expenses

Composed of:

(thousands of euros)	2011	2010
Interest on the current account held with Telecom Italia S.p.A.	17	10
Interests on trade items due to the Parent Company	2	-
Other financial expenses on loans to employees	-	3
	19	13

The financial expenses on loans to employees is reduced to zero; in 2010 it amounted to 3 thousand euros.

► Profit and losses on exchange rates

(thousands of euros)	2011	2010
	2	-

It involves income on exchange generated by a payment in dollars to a foreign supplier for a quality assessment activity.

Extraordinary income and expenses

(thousands of euros)	2011	2010
	(23)	(17)

► Extraordinary income

Composed of:

(thousands of euros)	2011	2010
Minor IRAP/IRES amounts in previous years	12	22
Labour Costs differences in previous years	25	-
	37	22

The item is partly composed of minor amounts for IRES/IRAP deriving from previous years (for a total of 12 thousand euros) reduced by 10 thousand euros compared to 2010 and representing IRAP pertaining to the previous year following the presentation of the "Modello Unico"; and partly of the differences relating to previous years for personnel costs for 25 thousand euros, not present in the previous Financial Statements.

► Extraordinary expenses

Composed of:

(thousands of euros)	2011	2010
Expenses under Law no. 58/92	5	29
Larger taxes for IRES/IRAP in previous years	4	8
Administrative tax penalties	5	2
	14	39

Expenses under Law 58/92 are almost entirely comprised of expenses relative to the capital portion of 5 thousand euros.

The item for larger taxes for IRES/IRAP in previous years for a total of 5 thousand euros represents the part of IRES relating to the previous year following the submission of the "Modello Unico".

The item that concerns the administrative tax penalties for 5 thousand euros, relative to the government concession tax on radiomobile equipment for the previous years, increased by 3 thousand euros compared to the value at 31.12.2010.

► Income tax for the year

(thousands of euros)	2011	2010
	472	515

Current taxes

(thousands of euros)	2011	2010
	490	515

Composed of IRES for 168 thousand euros (168 thousand euros at December 2010) and IRAP for 322 thousand euros (347 thousand euros at December 2010).

Deferred tax assets and liabilities

(thousands of euros)

	2011	2010
	(18)	-

This item refers to the deferred tax assets almost completely made up of IRES for 18 thousand euros, while in the Financial Statements closed at 31.12.2010 the item was practically reduced to zero insofar as the residual values were less than one thousand euros. The values refer to the difference between the costs suspended for tax purposes in this financial year and the costs suspended for tax purposes in the coming financial year, relative to directors' fees not settled in the year of accrual.

Finally we report the reconciliation between the theoretical taxes, arising from the application of the par rate, and the actual taxes to Income Statement:

	IRES	%	IRAP	%	TOTAL	%
Result before taxes	492		(*)	(**)		
Taxes calculated with the theoretical rate	135	27.50	322	4.22	457	
Tax effect on permanent differences:						
- on permanent changes in growth	68		-		68	
- on permanent changes in reduction	(35)		-		(35)	
Deferred tax assets	(18)		-		(18)	
Total of actual taxes to income statement	150	30.55	322	65.44	472	95.99

(*) IRAP calculated as follows:

Difference between Value of production and Net Production Costs	10,421
Significant costs for IRAP purposes	(2,791)
IRAP Tax base	7,630

(**) The rate value was determined by the weighted average calculation of the applicable rates in the various regions in which TI Audit operates.

Other information

► Directors' and Auditors' remuneration

(thousands of euros)	2011	2010
Directors' Fees	68	68
Auditors' Fees	20	20
Total	88	88

► Fees of Auditing Firm

The following summary details the total fees due to PricewaterhouseCoopers S.p.A. ("PwC") and the other entities in the PwC network for auditing the financial statements and the consolidating reporting package for the financial year 2011, as well as the fees for the financial year 2011 for the other auditing/verification services, tax advisory services and other services not concerning auditing provided to TI Audit and Compliance Services S.c.a r.l. by PwC and other entities belonging to the PwC network. This also includes the out-of-pocket expenses incurred in 2011 in relation to said services.

TI AUDIT and COMPLIANCE SERVICES S.c.a r.l.

(euros)	PwC S.p.A.	Other entities from the PwC network	Total PwC network
Audit services:	5,752	-	5,752
statutory audit of the financial statements	5,238	-	5,238
others (Reporting Package audit)	514	-	514
Audit services with the issue of certification	-	-	-
Tax advisory services	-	-	-
Other services	-	-	-
Total fees in 2011 to the PwC network for auditing and other services	5,752	-	5,752
Out-of-pocket expenses	460	-	460
Total	6,212	-	6,212

► Related Parties Transactions

Refer to the Relations with Subsidiaries, Affiliated Companies, Parent Companies and Companies subject to the control of the latter.

► Management and coordination

It should be remembered that the company TI Audit and Compliance Services S.c.a r.l. was established to provide audit and compliance services as well as to hold the role of Head of Internal Control at the consortium shareholders.

The merger of the Company into Telecom Italia was carried out throughout 2011, as described at the beginning of this report on operations, for the purposes of concentrating activities and expertise in the field of internal control in the parent company.

► Assets allocated to specific business

With reference to Article 2447-bis of the Italian Civil Code note the absence of assets allocated to a specific business.

Summary no. 1

RECEIVABLES AND PREPAID EXPENSES/ACCRUED INCOME DISTINGUISHED BY DUE DATE AND NATURE

(thousands of euros)	31.12.2011				31.12.2010			
	Amounts due				Amounts due			
	Within next year	From 2 to 5 years	Beyond 5 years	Total	Within next year	From 2 to 5 years	Beyond 5 years	Total
Financial assets receivables								
due from subsidiaries	-	-	-	-	-	-	-	-
due from affiliated companies	-	-	-	-	-	-	-	-
due from parent companies	-	-	-	-	-	-	-	-
due from others:								
- Employees	81	167	5	253	114	241	21	376
- Guarantee deposits	-	-	-	-	-	-	-	-
Advance tax on employment severance indemnity (TFR)	-	46	-	46	-	59	-	59
- Other items due from third parties	-	-	-	-	-	-	-	-
Total financial assets receivables	81	213	5	299	114	300	21	435
Receivables of working capital								
<u>Trade receivables:</u>								
due from customers:	-	-	-	-	-	-	-	-
bad debt provision	-	-	-	-	-	-	-	-
due from parent companies	2,508	-	-	2,508	8,410	-	-	8,410
due from others:	39	-	-	39	397	-	-	397
	2,547	-	-	2,547	8,807	-	-	8,807
<u>Financial receivables</u>								
due from parent companies	6,931	-	-	6,931	-	-	-	-
	6,931			6,931				
<u>Miscellaneous receivables</u>								
due from parent companies	196	-	-	196	601	-	-	601
due from others:								
- employed personnel	61	-	-	61	131	-	-	131
- financial administration	40	-	-	40	24	-	-	24
- deferred taxes assets/liabilities	19	-	-	19	-	-	-	-
- miscellaneous	-	-	-	-	-	-	-	-
	316	-	-	316	756	-	-	756
Total receivables of working capital	9,794	-	-	9,794	9,563	-	-	9,563
<u>Accrued income</u>								
due from parent companies	-	-	-	-	47	-	-	47



**AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 14 OF LEGISLATIVE
DECREE NO. 39 OF 27 JANUARY 2010**

To the shareholders of
Telecom Italia SpA

1. We have audited the financial statements of Telecom Italia Audit & Compliance Services Scarl as of 31 December 2011. The directors of Telecom Italia SpA are responsible for the preparation of these financial statements in compliance with the laws governing the criteria for their preparation. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards issued by the the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili) and recommended by Consob, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain the necessary assurance about whether the financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the financial statements of the prior year, which are presented for comparative purposes as required by law, reference is made to our report dated 7 march 2012.
3. In our opinion, the financial statements of Telecom Italia Audit & Compliance Services Scarl as of 31 December 2011 comply with the laws governing the criteria for their preparation; accordingly, they have been prepared clearly and give a true and fair view of the financial position and result of operations of Telecom Italia Audit & Compliance Services Scarl.
4. As disclosed by the directors in the notes to the financial statements, Telecom Italia Audit & Compliance Services Scarl was merged into Telecom Italia SpA on 1° January 2012.

PricewaterhouseCoopers SpA

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5. The directors of Telecom Italia SpA are responsible for the preparation of the report on operations in compliance with the applicable laws. Our responsibility is to express an opinion on the consistency of the report on operations with the financial statements, as required by law. For this purpose, we have performed the procedures required under Italian Auditing Standard 1 issued by Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili and recommended by Consob. In our opinion, the report on operations is consistent with the financial statements of Telecom Italia Audit & Compliance Services Scarl SpA as of 31 December 2011.

Milan, 12 April 2012

PricewaterhouseCoopers SpA

Signed by
Paolo Caccini

This report has been translated into the English language from the original, which was issued in Italian, solely for the convenience of international readers.